South Wales Police and Crime Commissioner
Comisiynydd yr Heddlu a Throseddu De Cymru

MEDIUM TERM FINANCIAL STRATEGY

2014 - 2018

Incorporating

REVENUE BUDGET 2014/15

REVENUE FORECASTS 2015 - 2018

CAPITAL STRATEGY 2014 - 2018

&

VALUE FOR MONEY PLAN 2014 - 2018

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POLICE AND CRIME PANEL MEETING
20 JANUARY, 2014

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SUMMARY AND PURPOSE OF REPORT

To set out the Medium Term Financial implications of the Police and Crime Reduction Plan and the government settlement for police funding in respect of both the Revenue and Capital Accounts for the financial years 2014 to 2018.

To facilitate the determination of a balanced budget and the resulting police precept on Council Tax for 2014/15.

PROPOSAL	**That the Police and Crime Panel considers the precept proposal in respect 2014/15. The Commissioner is in ongoing discussions with regard to the relative impact of the police precept on the overall council tax increase at this time and is mindful of the cumulative impact on the local tax payer. Whilst the current strategy is predicated on a 5% police precept the Commissioner will present final options at the Police and Crime Panel meeting.** **A 5% increase to the Police precept results in a £190.34 council tax on a Band D property. This gives a total precept requirement of £89,243,181 which would be precepted on the relevant billing Authority in accordance with Appendix 7.** **On this basis the resulting Net Revenue Budget Requirement for 2014/15 would be £258,443,767 and this reflects the Capital and Value For Money Plans.**

A INTRODUCTION

1.1 The Police Reform and Social Responsibility Act 2011 on the 22nd of November 2012 established two corporations sole for South Wales as the Police and Crime Commissioner for South Wales and the Chief Constable for South Wales. Both corporations sole have complementary responsibilities and a shared responsibility to provide effective financial and budget planning for the short, medium and long term.

The Police and Crime Commissioner and the Chief Constable are duty bound to secure Value for Money which is independently examined by the Wales Audit Office (WAO) and by Her Majesty's Inspectorate of Constabulary (HMIC).

The Police and Crime Commissioner for South Wales is required in consultation with the Chief Constable to prepare:

- A Police and Crime Reduction Plan that reflects his priorities developed after public consultation and the resources available to him and which has regard to the requirements of the Strategic Policing Requirement.
- Risk Management Strategy
- A Medium Term Financial Strategy (Financial Strategy)
- South Wales Police Treasury Management Strategy
- Asset Management Strategy
- Capital Programme
- Annual Revenue Budget

The Commissioner must also propose a precept level for the forthcoming year. These plans are subject to review by the Police and Crime Panel for South Wales.

This report sets out the key issues to be considered in determining an appropriate level of budget and resulting precept necessary to provide an efficient and effective police service to all the citizens across South Wales.

B GOVERNANCE AND ACCOUNTABILITY ARRANGEMENTS

2.1 The Police Reform and Social Responsibility Act 2011 together with the Policing Protocol Order 2011 and the Financial Management Code of Practice (as revised in 2013) set out the revised governance arrangement for policing with effect from 22nd November 2012. The Act established the Police and Crime Commissioner and the Chief Constable each as a corporation sole. A Police and Crime Panel has been established to scrutinise the actions and decisions of the Police and Crime Commissioner for the area. The following provides an overview of the main governance and accountability arrangements that are in place in South Wales.

2.2 The Police and Crime Commissioner

The Police and Crime Commissioner has a statutory duty and electoral mandate to ensure an efficient and effective police service and to hold the Chief Constable to account on behalf of the public with respect to delivery of policing service.

The Commissioner has a strategic role in leading and developing partnership working with local government and other key partners such as health and the voluntary sector and has demonstrated this commitment through a series of consultations with partners to date.

The Commissioner is the recipient of funding relating to policing and crime reduction, including government grant and precept and other sources of income. How this money is allocated is a matter for the Commissioner in consultation with the Chief Constable, or in accordance with any grant terms. The statutory officers of the Commissioner and the Chief Constable will provide professional advice and recommendations.

2.3 The Chief Constable

The Chief Constable is responsible for maintaining the Queen's Peace, and has direction and control over the force's officers and staff. The Chief Constable holds office under the Crown, but is appointed by the Police and Crime Commissioner. The Chief Constable is accountable to the law for the exercise of police powers, and to the Commissioner for the delivery of efficient and effective policing, management of resources and expenditure by the police force. At all times the Chief Constable, his officers and staff, remain operationally independent in the service of the public.

2.4 The Police and Crime Panel

The Police and Crime Panel consists of ten local councillors representing the seven local authorities in South Wales and two co-opted independent members. The Panel meets quarterly with the remit to hold the Commissioner to account for:

- The implementation of the priorities within the Police and Crime Reduction Plan;
- The relevance and content of the Plan.

The Panel also has the remit to scrutinise the Commissioner's precept proposal and the appointment of a Chief Constable. The Panel has powers to veto the precept proposal and require the Commissioner to make an alternative proposal. The Panel can veto the appointment of a Chief Constable and require the Commissioner to propose a reserve candidate.

2.5 **The Chief Finance Officers to the Police and Crime Commissioner and Chief Constable**

Both the Police and Crime Commissioner and the Chief Constable are each required to appoint a person to be responsible for the proper administration of their financial affairs. Each Chief Finance Officer has a personal fiduciary duty by virtue of their appointment as the person responsible for proper financial administration under the Police Reform and Social Responsibility Act 2011 and the Local Government Finance Act 1988. This includes requirements and formal powers to safeguard lawfulness and propriety in expenditure.

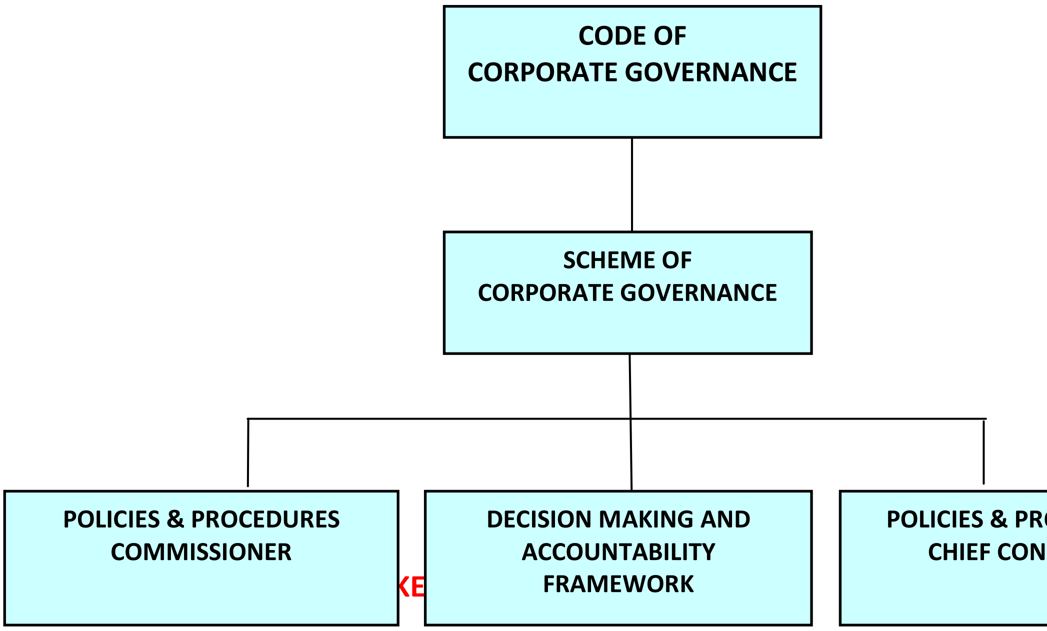
2.6 **The Chief Executive (Chief of Staff) to the Police and Crime Commissioner**

The Police and Crime Commissioner is required to appoint a Chief Executive. The Chief Executive is designated as Monitoring Officer for the purposes of the Local Government and Housing Act 1989 with responsibility for ensuring the legality of the actions of the Police and Crime Commissioner and his staff and acts as the „proper officer' for the recording of all decisions made by the Police and Crime Commissioner.

2.7 **Manual of Corporate Governance**

The corporate governance framework within which both corporations sole will govern, both jointly and separately consists of:

- Code of corporate governance – statutory framework which sets out how the core principles will be implemented.
- Manual of Corporate Governance – defines the parameters within which the corporations sole will conduct their business. This includes delegations/consents from the Commissioner, financial regulations and standing orders relating to contracts.
- Separate policy and procedures for each corporations sole , with protocols where they operate jointly.



2.8 **Strategic Board**

The Commissioner's Strategic Board is the key vehicle to co-ordinate the activities of both corporations sole. The Board is attended by both the Commissioner's and Chief Constable's management teams. The purpose of the Board is to ensure a strategic approach to the development and delivery of the Police and Crime Reduction Plan and to other areas of strategic importance.

2.9 Annual Governance Statement

The Police and Crime Commissioner and the Chief Constable are each required to produce and sign an Annual Governance Statement. Each Statement is a key document which describes the governance arrangements, reviews their effectiveness and highlights significant governance issues. The Statements follow the CIPFA/SOLACE Framework *"Delivering Good Governance in Local Government"* and are published as part of the Statement(s) of Accounts.

2.10 Joint Audit Committee

The Police and Crime Commissioner and the Chief Constable have established a Joint Audit Committee. The Committee comprises five members who are independent of both the Commissioner and the Force. The Committee considers internal and external audit reports. The Committee advises the Commissioner and Chief Constable according to good governance principles and reviews the appropriateness of risk management arrangements in accordance with proper practices and the provisions of the Financial Management Code of Practice.

2.11 Internal Audit

Both the Police and Crime Commissioner and the Chief Constable are required to maintain an effective internal audit of their affairs. In addition to the statutory requirement, Internal Audit is needed:

- To satisfy the Commissioner and the Chief Constable that effective internal control systems are in place; and
- To satisfy the external auditor that financial systems and internal controls are effective and that the Police Fund is managed so as to secure Value For Money.

Internal audit services are provided jointly to the Commissioner and Chief Constable currently by Deloitte. Deloitte attend and report to the Joint Audit Committee.

2.12 External Audit

The Auditor General for Wales is responsible for the appointment of external auditors. Wales Audit Office are the appointed auditors for the Police and Crime Commissioner and the Chief Constable. The external auditor must satisfy themselves that:

- The annual accounting statements have been prepared in accordance with the Accounts and Audit (Wales) Regulations;

- They comply with all relevant regulations;

- Proper practices have been observed when the accounts were compiled; and

- The audited body has made proper arrangements to secure effectiveness, efficiency and economy in use of resources.

Wales Audit Office (WAO) attend and report to the Joint Audit Committee. In addition the WAO provides statutory review of the governance arrangements and the key messages within the 2013 Annual Audit Letter were (the full letter is attached at Appendix 9):

- The Commissioner's and Chief Constable's 2012-13 accounts were properly prepared and materially accurate;

- The Commissioner and Chief Constable met their revenue budgets for 2012-13, and continue to be well placed to deliver the response to the significant financial challenges ahead;

- The Commissioner and Chief Constable have an effective internal control environment to reduce the risk of material misstatement to the financial statements;

- The Commissioner's and Chief Constable's significant financial systems were appropriately controlled and operated as intended to produce materially accurate accounts;

- The Commissioner and Chief Constable had proper arrangements in place during 2012-13 to help them achieve economy, efficiency and effectiveness in their use of resources;

- Appropriate arrangements are in place to manage financial pressures and there is a framework to support sustainable policing for the public.

2.13 **Her Majesty's Inspectorate of Constabulary**

Her Majesty's Inspectorate of Constabulary (HMIC) independently assesses police forces and policing. HMIC is independent of Government and the police. HM Inspectors of Constabulary are appointed by the Crown. HM Chief Inspector of Constabulary reports to Parliament on the efficiency and effectiveness of police forces in England and Wales. HM Inspectors have powers to seek information from police forces and to access their premises. HMIC decides on the depth, frequency and areas to inspect based on their assessment of risk to the public. HMIC's annual inspection programme is subject to the approval of the Home Secretary in accordance with the Police Reform and Social Responsibility Act 2011. The Police and Crime Commissioner has to provide a response to any HMIC report to the Home Secretary. The HMIC has conducted a number of Value for Money inspections over the last three years and has commented favourably on the Medium Term Financial Strategy and the approach taken to meet the austerity cuts.

During 2013 The Chief Inspector of Constabulary attended a meeting with the Commissioner and the Chief Constable following a presentation on the use of technology. He confirmed that South Wales Police were in his opinion the leading force in the use of technology in the operational environment. The Financial Strategy reflects a continuation of investment in this area under Project Fusion.

C STRATEGIC CONTEXT – PLANNING CONSIDERATIONS

3.0 THE POLICE AND CRIME REDUCTION PLAN

3.1 The Police and Crime Reduction Plan is tabled as a separate document to be considered alongside this Medium Term Financial Strategy. In summary, the Commissioner and the Chief Constable have established the following key priorities within the Police and Crime Reduction Plan:

Police

- Crime reduction and prevention
- Making it easier for the public to communicate with the police
- Making the public feel safer

Development

- Understanding and addressing the needs of older people
- Online safety

Criminal Justice

- A more effective criminal justice system
- Youth justice opportunities

Partners

- Strong, swift response to anti-social behaviour
- Putting victims at the heart of our work
- Tackling violence against women and girls
- Working with partners on the causes of crime
- Road safety
- Equality, diversity and poverty

3.2 These are the priorities for the Commissioner's term in office and include a mix of direct initiatives and research projects that will help inform future initiatives. Overarching all of these priorities is the fundamental principle:

'To be tough on crime and the causes of crime, tackling and preventing crime by promoting an evidence-based, partnership approach to identify "what works" and how I can add value.'

3.3 The Financial Strategy supports the Police and Crime Reduction Plan. It sets out the Commissioner's financial plans and how resources will be provided to deliver the Police and Crime Reduction Plan. Crucially, it also sets out how the Commissioner will set a balanced budget for the forthcoming financial year and the Value for Money Plan to continue to set balanced budgets over the medium term. The Net Revenue Budget of £258M comprises £4.5M in respect of determinations by the Commissioner and the balance £253.5M is expended on policing activities undertaken by the Chief Constable. Consequently the overall budget and the financial plans have been developed in full consultation with the Chief Constable and his staff.

3.4 The Financial Strategy includes the Commissioner's precept proposal for 2014/15 and an outline of his proposals for the years beyond. The Police and Crime Panel must review the Commissioner's proposed precept and report on it. The Panel has power to veto the precept. In that event, the Commissioner will need to bring forward an alternative proposal.

3.5 The Commissioner and the Chief Constable have established an effective governance process to ensure the delivery of the Police and Crime Reduction Plan and to develop an effective risk management process to address emerging threats to such delivery. These are detailed below.

4.0 JOINT RISK REGISTER

4.1 Over the last few years South Wales Police has developed a robust risk management framework and supporting business process which drive resource decisions to mitigate the identified risk and capitalise on opportunity. This process has been independently examined (by the independent audit functions) and deemed to be fit for purpose. The Joint Risk Register has also been considered by the Joint Audit Committee to ensure risk management processes are applied effectively.

4.2 This Financial Strategy has considered the resource implications arising out of the Police and Crime Reduction Plan which has considered the wider threats to service delivery to the public of South Wales.

4.3 In relation to the Financial Strategy the risk register has identified a number of threats linked to the present economic circumstances which are well documented within this report. There are also resource implications arising from the identified risks and opportunities as follows:

- The Home Secretary has established a Police Innovation Fund by top-slicing from the core police fund. The Commissioner and the Chief Constable have made a substantial Bid to the Police Innovation Fund and a decision on this is awaited, however the Financial Strategy has assumed that the Bids will be successful. The Police Innovation Fund requires match funding and this has been reflected in the resource requirements as follows:

    - Reducing offending and re-offending amongst 18-25 age groups working in partnership with Local Authorities- £0.4M match funding over three years is underwritten from the partnership fund with £1.2M anticipated from the Police Innovation Fund and other partners.

    - Tackling Violence Against Women and Girls working in partnership with Local Authorities - £0.1M match funding over three years is underwritten from the partnership fund with £0.3M anticipated from the Police Innovation Fund and other partners.

    - Tackling Violent crime including domestic abuse and sexual violence working in partnership with Local Authorities - £0.5M match funding over three years is underwritten from the partnership fund with £0.8M anticipated from the Police Innovation Fund and other partners.

    - Project Fusion - £2.2M match funding over three years with £3.3M anticipated from the Police Innovation Fund. This is reflected within the Capital Programme and will transform productivity and quality of service by integrating resource demand and intelligence functions.

- The development of the new National Crime Agency and the implications on the Strategic Policing Requirement are being assessed together with the establishment of a Regional Organised Crime Unit (ROCU) to be on consistent basis across England and Wales, this will have implications on the collaboration budgets with potentially additional contributions required.

- Over the medium term, a replacement for the current secure Emergency Services communications network (Airwave 2018) will be necessary and plans to ensure continuity of equipment and service are being developed.

- The establishment of the College of Policing and devolution of training to local institutions will have a significant impact on costs of training. The introduction of the Certificate of Knowledge in Policing is however an opportunity to reshape the pathways to police officer recruitment and from April 2014 South Wales Police will implement an accredited Certificate of Knowledge in policing for both internal and external applicants to police officer roles. This over the medium term will facilitate more effective succession planning and improved ability to maintain police officers closer to the budgeted establishment.

- The College of Policing has expressed its wish to have as part of its structure a network of regional hubs. This creates opportunity and potential for Wales to become a regional hub. A joint bid to scope and develop the project has been submitted and recently been approved to build upon and significantly develop the collaborative work of the Universities' Police Science Institute (UPSI), broadening and deepening the partnership to provide a platform for transitioning to a regional hub of the College of Policing for Wales in the near future. This bid will also look to utilise existing facilities within both policing and academic establishments within the region, providing an opportunity for evidence-based research to become operational practice.

- The removal of the Employers' Contracted-out National Insurance rate in respect of employment costs is expected to have a £5M cost impact per annum from 2016 and this is reflected within the Medium Term Revenue Forecasts.

4.4 The overall condition of the police estate requires a significant investment that is no longer funded from either direct capital grant allocation or supported PFI funding. The investment requirement could be as much as £30M and this remains an outstanding risk. These issues continue to be risk managed going forward particularly as the protracted austerity measurers are increasing the risk in other critical infrastructure areas. Therefore the risk to the investment in the estate will remain for the foreseeable future.

4.5 In addition, the reductions in staffing locally and nationally bring a risk of resilience at the various levels. The critical mass for police officer numbers in South Wales Police has been assessed at 3,000 full time equivalent officers. This was following a detailed review by the Organisational Review Department which examined demand for policing services and the availability of resources particularly during major events and national support obligations. However, as a consequence of the cuts in funding in the CSR2010 and beyond, the police officer establishment is anticipated to be 200 officers short of this critical mass. On the basis of the Chief Constables operational advice, the stated aim of the Commissioner and the Chief Constable is to seek to increase numbers when circumstances permit.

4.6 The economic environment could present a threat to the Commissioner's commitment to develop a partnership approach to deal with crime and the causes of crime. Both the Commissioner and Local Government partners have taken the view that in a time of severe cuts in public services, their public duty requires public bodies to do more through partnership and collaboration rather than retreat into separate silos.

4.7 The cuts facing public bodies are now however, more wide spread and there is a risk of organisations seeking to re-trench in their core statutory functions. In particular, there is a real risk that preventative measures could suffer in such an environment. The Commissioner proposes to sustain Community Safety funding (to be renamed as Crime and Disorder Reduction Fund) at the 2012-13 level to demonstrate his commitment to partnership working. The Partnership Fund was established in 2012-13 and will be maintained at its existing level of £1M to enable partnership opportunities to be developed and provide a ready source of match-funding for government initiatives, such as the Police Innovation Fund.

5.0 STRATEGIC CONTEXT - OPERATIONAL CONSIDERATIONS

5.1 South Wales Police provides a policing service to 1.3 million people covering 42% of the total Welsh population with around 48% of the total crime in Wales. The Force area includes 63 of the 100 most deprived communities in Wales (and indeed Europe). The policing area is diverse with urban and rural policing challenges including two of the largest cities in Wales, Cardiff and Swansea. The Capital City of Wales presents some additional policing challenges which receive no special recognition within the funding formula. In 2012/13, South Wales Police received more emergency and priority calls per 1000 population and dealt with more crime per 1000 population than any other forces. The scale and complexity of incidents routinely dealt with by the force and the additional issues involved in policing a Capital City make it unique within Wales.

5.2 South Wales Police has shown itself to be highly effective in improving policing services to the public and has delivered a sustained reduction in overall crime which has continued against the backdrop of funding reductions.

- The level of crime is now at a 30 year low
- Crimes detection levels have increased from 25% to 33%.
- Victim satisfaction has improved from being the worst performing to being in the top 10 best performing in 5 satisfaction areas.
- The measure of Public Confidence has improved by 50%
- Ant-isocial Behaviour incidents have reduced by 66,000.
- We are cited as a beacon force for use of mobile technology.

This improvement has brought the service from South Wales Police to a level that the public of South Wales deserve. The Commissioner and Chief Constable are committed to continuing with this impressive level of improvement.

5.3 South Wales Police is also recognised as the lead regional force on Serious and Organised Crime and receives specific ring fenced funding for an all Wales Extremism and Counter Terrorism Unit (WECTU), and a Regional Organised Crime Unit (ROCU) which encompasses Regional Intelligence Unit (RIU), a Regional Asset Recovery Team (RART) and has established through collaborative funding a Regional Task Force (RTF) along with a number of other initiatives to tackle cross border issues with other police forces in Wales and England.

5.4 Chief Constables across Wales continue to provide substantial commitment to combating criminality operating at regional and national level which not only benefits the communities of the South Wales Police force area but also those in our neighbouring forces.

5.5 Tarian is our joint operations unit (with Gwent and Dyfed Powys Police) for serious and organised crime. The unit receives contribution from the Welsh Government and the continued financial and political support recognising this threat to the communities in Wales is essential. Further collaboration opportunities established in the areas of Forensic Services, Specialist Crime and Firearms, will bolster the operational capabilities and effectiveness of regional resources.

In this context of local and regional policing requirements, the impact of the largest reduction in police funding in a generation with strong indications of a protracted period of further austerity measures presents a significant challenge to maintain an effective police service and continue to dramatically improve performance.

6.0 STRATEGIC FINANCIAL CONTEXT – THE NATIONAL POSITION

6.1 The Comprehensive Spending Review 2010 (CSR2010) set out the proposed police funding levels from 2011 to 2015 and was acknowledged as the most financially challenging funding settlement for policing in a generation (HMIC). HMIC stated that the police service could manage a target of 12% cash releasing efficiencies over the four years without affecting the frontline services.

6.2 This initial announcement translated into a real terms reduction of 20% (after taking into account inflation). However this reduction has been added to over each successive year resulting in a real terms reduction now of 25% which is more than twice the HMIC assessed manageable level. The forward projections indicate further reductions still and these are detailed below.

6.3 The 2010 Comprehensive Spending Review (CSR2010) announcement covered the central government funding allocations for the four years 2011/12 to 2014/15. On the 20th of October 2010, the Chancellor of the Exchequer, George Osborne MP set out the Government's spending plans for this period, heralding a prolonged period of financial contraction in public service finances. The Chancellor announced that departmental spending would fall by 19% over the next four years, in order to save £81B. This was in keeping with the Government's policy to remove the „structural' budget deficit by 2014/15 primarily by cutting spending, rather than increasing taxes.

6.4 As a consequence the central government police funding would reduce by 20% in real terms by 2014/15. The Home Office's (HO) departmental budget would reduce by 33% in real terms over the same period. The HO has stated that it would manage the reductions by focusing spending where it matters most – protecting the public, and ensuring the security of our borders. The counter-terrorism specific policing would be protected with a smaller percentage cut (10%) compared to the general police funding allocations.

6.5 In the November 2011 Autumn Statement the Chancellor announced a reduction to all Departmental Expenditure Limits (DEL) to reflect the public sector pay restraint policy.

6.6 On the 26th June 2013 the Chancellor announced the outcome of the 2013 Spending Review; the main announcement to impact on the police was a cash reduction of 3.3% for 2014/15 and a further reduction of 3.2% in 2015/16.

6.7 The 2013 Autumn Statement by the Chancellor included a further 1.1% cut to the Home Office DEL in respect of 2014/15 and 2015/16 and the Policing Minister, Damian Green MP, published a written ministerial statement on the 18th of December 2013 that included details of revenue allocations and capital allocations for 2014/15 only.

6.8 The reduction in the police settlement for the CSR period to 2014/15 is shown below and reflects the change in percentage of the cash allocations. Whilst there have been no detailed announcements in respect of 2016 to 2018 the 2015/16 announcements are expected to reduce further in line with the Chancellors 2.2% DEL reductions as applied to the Home Office in December 2013 on top of the 3.2% reduction announced in June 2013..

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total

	£M	£M	£M	£M	£M	£M	£M	£M
Actual Percentage Reduction	-3.8%	-5.5%	-1.9%	-4.8%				-16.0%
Forecasted Percentage Reduction					-5.2%	-2.9%	-2.4%	-10.5%

6.9 The Police Funding Announcement (18th December 2013) confirmed that the total revenue provision for policing across England and Wales to be supported by grant in 2014/15 will be £8,479M. This represents a 3.3% overall cash reduction in line with the 2013 Spending Review announcement.

However, this position disguises a number of top-slicing to fund specific initiatives by the Home Office and therefore the core funding to local police services is a reduction of 4.8% for 2014/15.

A summary of the Police revenue funding announcement for 2014/15 is as follows:

	2014/15 £M
Total Formula Funding Comprising:	
Police Core settlement	**4,583**
of which Home Office Police Main Grant	*4,407*
of which National, International and Capital City Grant *(MOPAC only)*	*176*
DCLG	**2,949**
of which formula funding	2,924
of which Ordnance Survey	2
of which Legacy Council Tax Freeze	23
Welsh Government	140
Total Home Office Specific Grants Comprising:	
Welsh Top-up	13
Counter Terrorism Specific Grant	564
Police Innovation Fund	50
National Police Co-ordination Centre	2
Independent Police Complaints Commission	18
College Of Policing	3
City Of London Capital City Grant	2
HMIC regular Inspections	9
Legacy Council Tax Freeze Grants**	
of which Council Tax (11/12)Freeze Grant	59
of which Council Tax (13/14) Freeze Grant	7
PFI Grant	60
Total Government Funding*	**8,660***
% cash change in Total Government Funding***	**-3.3%**

** - includes a small contingency funding not shown in table*
*** - The Police will separately receive £434.4M in Local Council Tax Support Grant. This will be paid by the Home Office.*
****- **This is the difference in total central Government funding to the police compared to 2013/14 which included additional funding for Police & Crime Commissioner elections. The reduction in core Government funding (i.e. funding that is damped) is 4.8%.***

6.10 The Policing Minister has continued to apply a damping level to the Home Office Police Core Settlement in respect of 2014/15 in line with previous announcements. The damping factor has been set at the level of the average cash reduction of 4.8%. This means that every force will receive the same percentage reduction in their cash funding compared to 2013/14. To reflect this in Wales, the Home Office provides an additional cash sum of £13M to be shared by North Wales, Dyfed Powys and Gwent Police forces at the same time it also cuts the South Wales Police Grant by £8M for redistribution amongst the other three forces in Wales.

6.11 Formula damping has now been in place for nearly a decade and the cumulative effect of this for South Wales police is a denial of £36M to date with a strong likelihood of a continuation in the application of formula damping resulting in a denial of a further £35M to 2018.

Whilst no formal announcement has been made in respect of 2015/16 the 2013 Spending review announced a further 3.2% cash cut and it is highly probable that top slicing will continue and indeed increase (IPCC establishment will take three years).

It is also probable that whilst the Home Secretary has committed to absorbing some of the 2.2% additional cuts to the Home Office in 2014/15, it is unlikely to maintain this protection during 2015/16 (as it is a recurrent reduction). Therefore a further reduction in Police cash funding of at least 5.0% is highly likely.

6.12 **SPECIFIC GRANTS**

The Home Office has also published allocations for a number of specific grants. The details of which are set out below. The number of specific grants and resulting top-slicing has significantly added to the funding crises facing local policing.

Top-slices
Top slicing of over £100M to the core settlement for policing has been made as follows:

		Announced	Estimated
		2014-15	2015-16
		£m	£m
Police Innovation Fund	New	50.0	50.0
IPCC Transfer – Revenue	New	18.0	60.0
IPCC Transfer Capital	New	10.0	10.0
HMIC – Force Inspections	New	9.4	10.0
Direct Entry Scheme – New	New	2.8	3.0
City of London Capital City Grant	New	2.5	2.5
National Police Coordination Centre	New	2.0	2.0
National Police .Air Service- Capital		10.0	10.0
Total top-slicing*		104.7	147.5

„* Top slicing introduced in 2014/15 is £94.7M

IPCC Transfer
The Home Secretary has made a transfer of resources to the Independent Police Complaints Commission (IPCC) to deal with a higher proportion serious and sensitive cases involving the police. The force will still have to maintain a Professional Standards Department to address other cases.

Force Inspections
A new annual programme of all force inspections by HMIC with proposals that the government states are intended to enable the public to see whether their force is

performing „well or badly' when it comes to cutting crime and providing value for money.

Direct Entry Schemes
Direct entry schemes to the police at Inspector and Superintendent level will cover the initial salaries of officers and their course. Top slicing will affect all forces however South Wales Police will not be a beneficiary.

Capital City Grant – (For London but not Cardiff)
A direct Capital City Grant for the City of London. This follows a bid from the City. The grant covers the additional policing demands that arise through planned and unplanned events plus functions that the City carries out where there is a national interest, such as policing the Old Bailey. In previous years the grant has been funded from Counter Terrorism budgets. However, the Home Office have confirmed that Ministers are clear that any such funding should be now found from the police settlement. The effect of this top slicing is that all police forces in England and Wales are now being made to fund a previous Home Office responsibility.

National Police Coordination Centre
The police settlement for 2014/15 continues to include funding for the National Police Coordination Centre (NPoCC), which was set up in response to the August 2011 riots. Funding from the police settlement totals £2M in 2014/15.

Counter Terrorism Specific Grant
At least £564M has been allocated to Counter Terrorism in 2014/15. However the Home Office has previously indicated that policing should be prepared for the publication of allocations to be delayed again.

Private Finance Initiatives Grant
Specific funding will be given to cover the costs of Police Private Finance Initiative (PFI) projects which are currently operational. This funding was added to the police settlement for this specific purpose.

Legacy Council Tax Grant
Funding is to be paid in each of the four years of the Spending Review period to all English Local Policing Bodies who froze the police precept component of council tax.

Community Safety Fund
The vast majority of drugs, crime and community safety funding that the Home Office use to provide to a range of partners ceased at the end of 2013. Instead, Police and Crime Commissioners received a ring fenced Community Safety Fund worth £90M. This funding has now been rolled into Police Main Grant in 2014/15 and has been subjected to both the cash reductions and top slicing consequences culminating in an effective 4.8% reduction.

Police Capital Grant

Capital allocations were as announced in the Written Ministerial Statement laid in January 2012. A portion of capital will continue to be top sliced to fund the National Police Air Service in 2014/15.

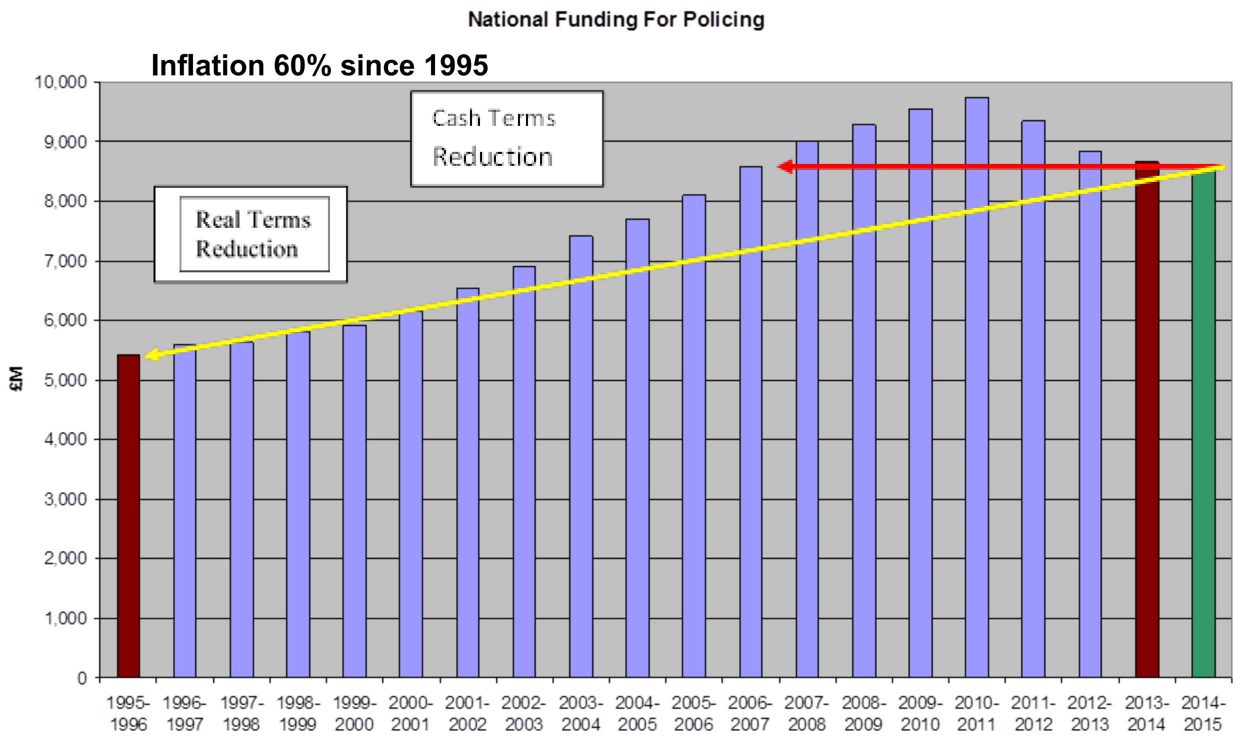
6.13 Beyond 2014/15

The Home Office has confirmed that the Home Secretary „will be commissioning a fundamental review of the Police Funding Formula once Police and Crime Commissioners are established in their roles and able to engage fully in the review processes'. This was expected to begin in early 2013; the latest indications are now that any new arrangements are unlikely to be in place before 2016. The Commissioner has formally requested that the Funding Formula review give due consideration to the policing consequences of Cardiff as a Capital City.

In the Autumn Statement (5th December 2013), the Chancellor announced further reductions in Departmental Expenditure Limits including the Home Office until 2015/16, and the Office of Budget Responsibility continues to project further reductions in Public Expenditure to 2018/19. Indeed the Chancellor in his New Year speech in January 2014 has outlined an even further cut in public expenditure of around £25 Billion over the period 2018-2018 of which half will fall on departmental expenditure. A permanently smaller government is the stated aim.

Given the over 30% reduction in real terms to date and no positive indication of an improvement in the settlement before 2020, it is vital that appropriate decisions on funding are taken to ensure an effective sustainable police service over the medium term.

6.14 The long term consequences of this reduction is yet to be fully realised. A note of concern is that the HMIC has identified that crime trends in some forces are now beginning to reverse and acquisitive crime is on the increase. **The Commissioner and the Chief Constable take the view that we cannot allow such trends to develop in South Wales.** Efforts must be made with our Partners to squeeze out every last drop in crime reduction in order to create some headroom in future years for both the police service and our partners.



6.15 The overall impact of the reductions to police funding resulting from the CSR2010 are illustrated above. The graph shows the police cash allocations by the Home Office since 1995/96 (blue bars) and whilst the cuts implemented under CSR2010, in cash terms, are equivalent to same level of funding as 2005/06 (red arrow), the real term reduction (yellow arrow) presents a much different picture. Taking inflation into account which has risen by 60% since 1995 this means that in real terms we are now receiving less funding than in 1995/96.

6.16 Therefore virtually two decades of growth in police funding has been removed within a very short period.

7.0 EXTERNAL FUNDING - SOUTH WALES POLICE GRANT POSITION

7.1 The financial year 2014/15 represents the fourth consecutive year of reductions in funding and the allocations for South Wales Police have been confirmed as a reduction of £8.5M compared to 2013/14 which is cash reduction of £33.5M since 2011/12. This is the highest percentage and cash reduction in Wales compared with other centrally funded public services. Whilst the overall settlement for policing in 2015/16 was announced earlier in the year the situation is compounded by a further cut in the Home Office Budget announced in the Autumn Statement and the key issue is to what extent the Home Office is able off-set the estimated further £88M reduction announced late in December 2013, it would be prudent to assume that this further cut and continued expansion in top slicing is likely to result in a higher reduction in 2015/16.

7.2 The allocations for 2016/17 and 2017/18 remain provisional and assume the Office of Budget Responsibility projections on Departmental expenditure for the years 2016/17 and 2017/18. It is assumed at this stage that this further reduction in grant funding will be 2.9% for 2016/17 and 2.4% for 2017/18. Although 2015 represents an election year any new government is unlikely to address the consequences of the cumulative national debt and therefore it is prudent to assume further reductions in funding until 2018. The resulting analysis over this period is set out in the following table.

			Indicative		
Source of Funding	**2013/14 £M**	**2014/15 £M**	**2015/16 £M**	**2016/17 £M**	**2017/18 £M**
Police Grant	97.560	95.844	87.018	82.381	78.654
Revenue Support Grant	42.038	42.806	42.806	42.806	42.806
Non-Domestic Rates	34.592	30.551	30.551	30.551	30.551
Total Formula Based Grant	**174.190**	**169.201**	**160.375**	**155.738**	**152.011**
Community Safety Grant	3.476				
Comparable Funding	**177.666**	**169.201**	**160.375**	**155.738**	**152.011**
Percentage Reduction		-4.8%	-5.2%*	-2.9%*	-2.4%*

* these percentage levels are considered to be the minimum level expected
- the reality, given the trend to date, is probably that higher cuts than these will be realised.

7.3 In relation to specific grants, the ring fenced funding in respect of the Community Safety Grant £3.5M has now been consolidated into the Funding Formula and the whole settlement including this sum has been subjected to a 4.8% reduction. The Commissioner has determined that in order to secure partnership participation in the community safety agenda that this sum will be protected and consequently £3.476M will continue to be ring fenced for crime and disorder reduction initiatives in respect of 2014/15. This when combined with the £3.3M of Police Innovation Fund Bids and Partnership Fund contributions is a significant investment by the Commissioner in furthering key priorities within the Police and Crime Reduction Plan.

7.4 The Policing Minister has continued to apply damping in respect of 2014/15 and this is set to continue to 2015/16. The formula allocation (based on need) would actually result in an increase of grant funding for South Wales Police. However, as a consequence of the Home Secretary's decision that no police force should receive a grant reduction of more than 4.8% (and the resulting equalisation process) £8.7M is removed from SWP for redistribution to the other three Welsh Forces, which is similar to the adjustments in England. A new Funding Formula is anticipated for 2016 which will also require some form of damped implementation and consequently the „Rule 1' floor funding adjustment is anticipated to continue for the foreseeable future at around £9M per annum and this a major factor in the funding inequities affecting South Wales Police.

			Indicative		
Source of Funding	**2013/14 £M**	**2014/15 £M**	**2015/16 £M**	**2016/17 £M**	**2017/18 £M**
Rule 1 Floor Funding Adjustment	(8.809)	(8.707)	(8.707)	(8.707)	(8.707)

8.0 FUNDING INEQUITIES AFFECTING SOUTH WALES POLICE

The Financial Strategy has cited a number of areas where the South Wales Police is significantly disadvantaged in terms of funding and these issues remain unresolved due mainly to the failure to address the funding formula anomalies. It is important that with the planned review of the Funding Formula that every effort is made to seek long term redress of the issues detailed below.

8.1 Funding Mechanism

The 43 police forces across England and Wales are funded through a combination of Central Government Grants and Police Precept (which is decided locally). The Government determines a total sum of money for Central Grants and this is then distributed through the application of a needs based formula.

The current formula used for distributing the Home Office Police Main Grant divides funds between the different activities that the police undertake. These activities, or workloads, can be broken down into five key areas:

- Crime (of which there are seven sub-categories)
- Incidents (e.g. public disorder)
- Traffic (e.g. assistance at road traffic accidents)
- Fear of Crime (e.g. public reassurance)
- Special Events (e.g. football matches).

A portion of total funding is also distributed according to population sparsity, to address the specific needs of rural forces. South Wales Police is detrimentally affected by some specific issues within the current funding mechanism in the following areas:

- Area Cost Adjustment
- Formula Allocation - Floor Funding Mechanism and Precept Yield.
- Capital Expenditure Funding
- Lack of recognition of Cardiff as the Capital City of Wales for funding purposes.

8.2 Area Cost Adjustment (ACA)

The Area Cost Adjustment was introduced to recognise the costs of public services in different geographical parts of the country. The application of which raises concerns on a number of grounds for the police service, namely:

- The police officer pay is nationally determined and except for specific issues around London this is consistent across the country.

- Similarly the police staff pay increases are determined nationally and are broadly similar except in cases of market forces and this could be argued more for London.

- The remainder of non-pay expenditure (20%) is subject to a variety of procurement routes including national frameworks.

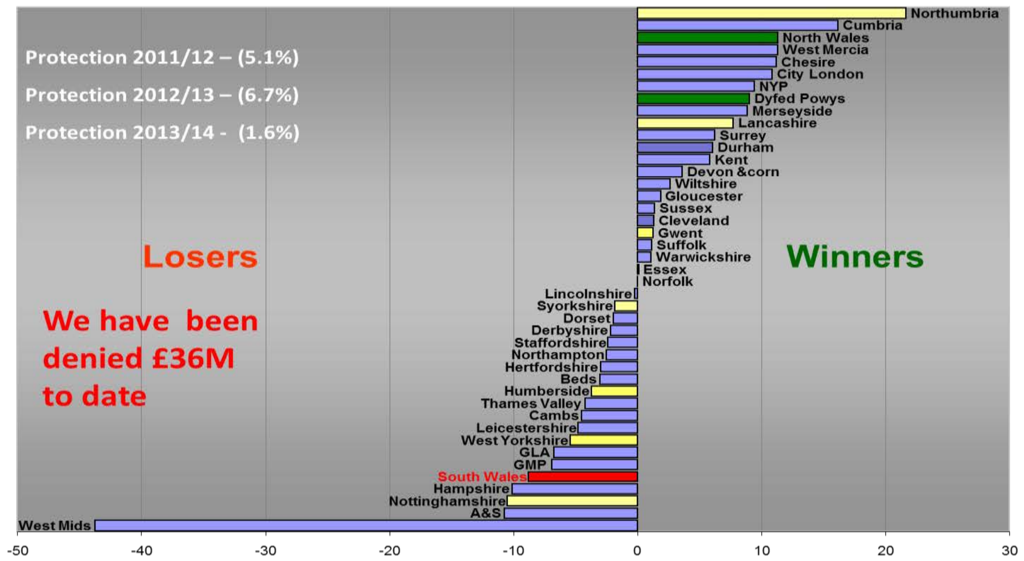
- Therefore, only a limited argument could be made for local variation. Yet the Area Cost Adjustment is applied to the whole of the Formula Allocation as the final reallocation adjustment.

- The expansion of Area Cost Adjustment across the country is now significantly distorting the formula grant allocation and has expanded over a wider area over the last decade as shown above and the blue shading reflects the expansion from London to the South east and beyond.

Whilst it is understandable to apply the ACA to a restricted area in the South East region this should be constrained to those elements of policing costs that are directly affected by geographic price variations. It is clear from the above that the ACA goes much wider than the South East of England. In addition, the Area Cost Adjustment ignores Wales as a country completely and yet the areas of South and North Wales are not dissimilar in economic terms to some of the areas where the ACA currently applies.

8.3 Formula Allocation, Floor Funding Mechanism and Precept Yield

In addition to the disparities caused by the ACA we are concerned that there is no progress on an alternative mechanism to address the floor funding deductions. South Wales Police is currently contributing around £9M annually towards the Floor Funding mechanism and is the 5th highest floor funding contributor. The analysis shows that the floor funding mechanism takes no account of the totality of funding available to a police force including precept or the precept yield per head of population. There are clear disparities where a potential reallocation of grant funding from deprived areas to less deprived areas is taking place as a result of floor funding.



The allocations would be different if a more sophisticated approach was taken. However, it would be far more preferable that additional funding is found to protect those forces below the floor until such time as the funding formula is properly reviewed. The denial of funding to date is £36M with a further £35M anticipated. The continued application of damping in this way is a mockery of any funding mechanism.

8.4 Capital Funding

The continued reduction in capital funding reduces the capacity to address legacy issues of an obsolete estate and increases the risks on health and safety considerations. The current funding requirement to address property condition surveys exceeds available funding by a factor of 10. An alternative mechanism to address capital estate funding is long overdue particularly as PFI funding is no longer accessible to the Police Service in Wales. The Home Office has confirmed that Barnett consequentials for financing Police PFI have been made and our assessment shows a year on year under-allocation of this to policing in Wales. Whilst not seeking a PFI as a solution the supported borrowing will allow us to address some acute critical infrastructure issues.

8.5 Capital City

It is a fact that whilst the present funding formula does make some provision for major events, this is only a nominal universal sum multiplied by a population factor. In essence the formula gives the same relative recognition to Norfolk as to South Wales Police, where as the potential for major events is significantly more diverse.

It is important to recognise that the impact of policing Cardiff extends to the whole of the Force area given the flow of resources to address the number of Capital City related events. In a typical year South Wales Police manages 186 major events which is complete contrast to the likes of Norfolk or Wiltshire.

Cardiff is unique because it is the largest urban conurbation in Wales with an infrastructure that is both conducive and attractive to both event attendees and organisers. However, this desirable circumstance requires a commensurate effective affordable policing strategy and whilst we are addressing this, it comes at the expense of the wider policing requirements across South Wales.

South Wales Police has responsibility for 42% of the Welsh population and 48% of the total crime in Wales. Cardiff has 30% of the population of the force area and attracts 12 million visitors per annum. Our conservative estimate of the policing demands associated with the Capital City status only is £2.6 Million due to the following factors:

Economy

Cardiff has had the highest growth of all the UK Core Cities in private sector employment over the last 10 years. Cardiff City Council made a commitment to increase the competitiveness of Cardiff as a leading International Capital City by 2012. There are a number of developments recently completed including the new St David's 2 Shopping Centre, International Conference Village, new Cardiff City Football Stadium and International Conference Centre.

Cardiff has the highest number of licensed premises per square mile than any other city within the UK and it continues to grow. Approximately 50,000-70,000 people visit during the weekends and this night time economy inevitably has heavy policing demands.

Tourism

Cardiff attracts 12 million visitors a year and is now in the top ten tourist destinations in the UK. Recent regeneration includes the £1.8 billion Bay development of Cardiff and the £102M development of the new Wales Millennium Centre, Wales' most visited attraction.

Events

In an average year the force will plan for between 400 and 500 events of varying scale in Cardiff alone. These range from the local to international with iconic events in iconic locations bringing added counter terrorism threats.

Security

Cardiff as the seat of Welsh Government attracts increasing number of demonstrations against regional and national policy.

Serious and Organised Crime

There is evidence that Cardiff is being used as a base for non-indigenous organised criminal groups (OCGs) with connections with groups in London, Bristol and Manchester. „Operation Hurricane' has been established to identify and interrupt the estimated 38 OCGs. Cardiff is recognised as a main distribution centre for drugs gangs in South East Wales. The recent Operation Texas seized 17.5kg of heroin and 300kg of cannabis resin as well a quantity of firearms. This was the 10th highest drugs seizure by a police force across Europe and the single largest in the history of Welsh Policing.

Social Deprivation

The Welsh Government's vision for economic prosperity across some of Wales' and the UK's most deprived communities is dependent on a strong and sustainable Capital. The Wales Index of Multiple Deprivation 2005 placed a number of areas within Cardiff amongst Wales' highest 10% most deprived category, notably parts of Butetown and Riverside.

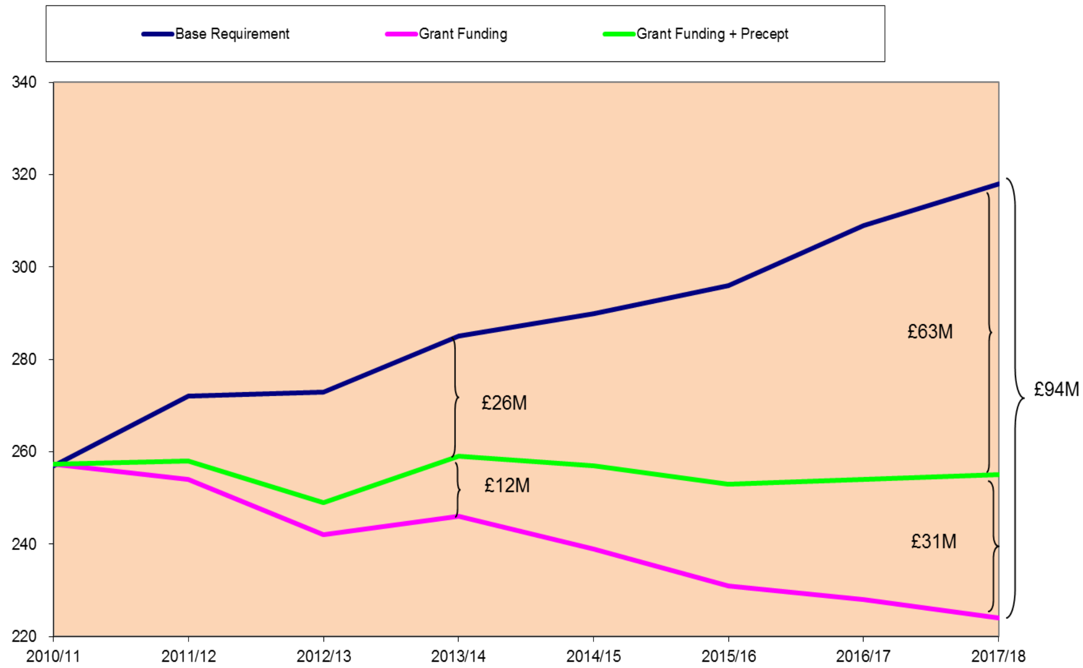
It is arguable that these circumstances are arising across the country but we argue that the combination is unique and relates to the status of the city, which no generic funding formula is capable of addressing and just like Edinburgh and London requires a specific solution outside a formula.

It is important to note that the Policing Minister has recognised these issues in respect of City of London Police by providing extra top sliced funding and therefore Cardiff should now also be recognised as having a similar special status.

9.0 REVENUE BUDGET 2014/15 AND REVENUE FORECAST TO 2015/18

9.1 The Revenue Account projections throughout the CSR 2010 period have been highly accurate and consistent. The Initial projections over the CSR period indicated a net budget gap of £47M by the end of 2014/15. The current position reflecting the latest funding and expenditure requirements shows a resource gap of £48M by the end of 2014/15. Similarly the Value for Money Plan will have delivered Cash Releasing efficiency savings of £26M by the end of 2013/14, which when combined with the precept strategy of £12M over the same period has enabled £38M of the £48M gap to be addressed to date. A further £10M is now required to be addressed in respect of 2014/15.

9.2 Given the indications of the National funding position and expenditure projection, a further budget gap beyond 2014/15 covering the three year period 2015-2018 of £44M is forecast and this results in total gap since the present austerity measures were introduced of £94M which is effectively a reduction of over a 1/3rd over the period and this is illustrated below.



9.3 The current Financial Strategy to bridge this gap is a combination of cash releasing efficiency savings and measured increases in police precept. The £94M forecasted resource gap to 2017/18 cannot be delivered through efficiency measures alone. The updated Value for Money Plan has identified a potential £43M of efficiency savings to 2017/18 leaving a residual gap of £51M. It is also recognised that the gap cannot be bridged through precept alone and 5% per annum precept strategy yields £31M of funds which still leaves £20M of deficit to be addressed over the next three years following 2014/15. This is detailed further under the Value for Money section.

9.4 The detailed medium term financial projections 2014 to 2018 are shown at Appendix 1 and are summarised below in broad income and expenditure classifications:

SUMMARY REVENUE ACCOUNT	CSR 10 2013/14 £M	CSR 10 2014/15 £M	2015/16 £M	2016/17 £M	2017/18 £M
Employees	234.5	234.2	237.9	250.7	258.1
Indirect Staff	1.8	1.9	1.9	2.0	2.1
Premises	9.0	9.4	9.7	9.9	10.3
Transport	7.3	7.6	7.9	8.1	8.3
Supplies and Services	23.1	24.0	24.7	25.5	26.3
Agency Services	8.8	9.2	9.5	9.8	10.0
Capital Financing Costs	5.1	4.9	4.9	4.9	4.9
Gross Expenditure	**289.6**	**291.2**	**296.5**	**310.9**	**320.0**
Less income & specific grants	(28.7)	(27.5)	(27.5)	(28.6)	(28.6)
Net Expenditure	**260.9**	**263.7**	**269.0**	**282.3**	**291.4**
External grants	(174.2)	(169.2)	(160.4)	(155.7)	(152.0)
Precept based on 7% 13/4 (5% thereafter)	(84.4)	(89.2)	(93.7)	(98.4)	(103.3)
Total Resources	**(258.6)**	**(258.4)**	**(254.1)**	**(254.1)**	**(255.3)**
Cumulative Unfunded Expenditure 2014/15 onwards	**2.3**	**5.3**	**14.9**	**28.1**	**36.1**
Value For Money Plan Achieved	(2.3)				
Revised Unfunded Expenditure	**0.0**	**5.3**	**14.9**	**28.1**	**36.1**

9.5 A comprehensive reconciliation of the requirements between the two financial years 2013/14 and 2014/15 is detailed at Appendix 2 with further analysis of the revenue budget changes in Appendix 3. This shows a shortfall in funding on a standstill basis of £10.1M (before the application of further Value for Money Plan savings and precept increase) and reflects the following assumptions.

a) Pay Awards and Inflation

Pay awards for 2014/15 have been uplifted in accordance with the Chancellors Autumn Statement in November 2011 which sets out that public sector pay awards would average at 1% for the last two years of the spending review and the further budget statement in March 2013 that extended this pay restraint for a further year beyond the CSR2010 into 2015/16. The increment freeze on police officer pay ends on April 1st 2014 and the revised pay scales affecting police officer pay up to the rank of Chief Superintendent have also been reflected within the projections. Given the protracted period of public sector pay restraint and the erosion of pay through inflation a prudent assumption on pay increases being in line with inflation from 2016 has been reflected within the forecasts for 2016/17 and 2017/18.

	2010/11 %	2011/12 %	2012/13 %	2013/14 %	**2014/15 %**	**2015/16 %**	**2016/17 %**	**2017/18 %**
Police Officers	2.55	1.1	0	0.58	1.0%	1.0%	2.5%	2.5%
Police	2.55	1.1	0	0.58	1.0%	1.0%	2.5%	2.5%

Staff								

The budget requirement for 2014/15 recognises the specific inflationary requirements especially in relation to utility costs that have again seen significant price increases in excess of 10%. In addition suitable contractual uplifts have been recognised along with a general inflationary uplift of 2.5%.

b) Pensions & National Insurance

The employers' contribution rate for police officer pensions is assumed to remain at 24.2% for 2014/15 however the Government Actuary is currently carrying out a review and this may lead to changes in contribution levels for 2014/15 and beyond.

The Local Government Pension Scheme (LGPS) triennial actuarial review was undertaken in 2013 which may revise the basis for the calculation of employer contribution rate. Whilst the outcome of the review is awaited, the Financial Strategy has assumed the current employer's contribution will be maintained.

In addition, the government has announced a simplification of the State Pension Scheme and plans to introduce a single „flat rate' state pension from April 2017. In effect this will remove the lower contracted out National Insurance contribution rate for the both the employees and employers. Initial assessment indicates an increase in the Employers National Insurance costs for South Wales Police of approximately £5M from 2016 and this has been factored into the projections.

In terms of current National Insurance rates there have been minor changes to earnings thresholds resulting in a £0.2M decrease in employer's contributions. This will take effect for 6 April 2014.

c) Establishment Police Officers and Staff

The proposed budgets for 2014/15 reflect a zero-base budget for all staff drawing a salary. The zero-base ensures appropriate budget provision for each individual based on their specific entitlements including increments and cost savings from individuals who leave the organisation.

Using the revised base budgets, all calculations on potential savings resulting from a reduction in staffing levels are undertaken on real costs to ensure budget accuracy.

d) Winsor Phase 1 and 2

The Home Secretary agreed to accept in full the recommendations of the Police Arbitration Tribunal to apply the negotiated Winsor review of police pay and conditions. The Financial Strategy reflects the implications of the recommendations and the overall impact is an increase in the pay bill over the longer term. The non-recurrent savings arising from the freeze in awards and incremental pay will cease from April 2014

e) Office of the Police and Crime Commissioner

The Ministry of Justice are transferring responsibility for commissioning victims services to Police and Crime Commissioners from October 2014. Police and Crime Commissioners will also have enhanced resources to commission restorative justice services. In total, additional funding of £689,000 is anticipated next year. This sum is anticipated to increase to £1.385M the following year. However, no detailed assessment has yet been undertaken to establish the actual resource need to deliver effective victim support services and the funding may well prove to be insufficient.

Funding for Community Safety will cease to be a specific grant from 2014-15, when it is subsumed within the main Police Grant. As such, the grant has suffered the same percentage cut as the Police Grant but the Commissioner has determined that the Community Safety budget will be maintained at its 2013-14 level.

Expenditure on the Commissioner's office has been budgeted at £922,000, which is the same budget as the Police Authority, when operating at full establishment. The cost of the Police and Crime Commissioner's office remains amongst the lowest in Wales and England.

10.0 CAPITAL PROGRAMME

CAPITAL STRATEGY

10.1 The Capital programme is based comprehensive medium term Estate, Transport and Information Systems and Technology Strategies which are regularly refreshed and which have been prioritised to maximise the limited resources available to maintain the capital infrastructure upon which effective policing services are hugely dependent.

Given the prudential regime, it is important to prepare a statement and approve a Capital Strategy. The statement is intended to describe how the Police and Crime Commissioner and the Chief Constable collectively determine the programme of capital investments including how key priorities are identified. The Capital Strategy is important because:-

a) It promotes the most effective use of capital resources by ensuring that the capital investment programme is closely aligned to key priorities;

b) Its assessment by HMIC and External Audit contributes to both the financial and operational management of the police service.

10.2 The Capital Strategy is informed by the policing priorities within the context of the agreed financial framework of sustainable policing through effective infrastructure management.

10.3 The detailed requirements are further informed by:

- An Asset Management Plan
- Capital Programme Monitoring
- Appropriate Planning Seminars
- The Performance Management regime and;
- The Risk Management Strategies.

The force has a ten year asset replacement programme and annually reviews its requirements against the asset base and changing operational need. The ten year estate strategy is half through implementation and will be refreshed following wide consultation on the future policing model.

11.0 APPROVED INVESTMENTS 2014 TO 2018

11.1 The medium term Capital Programme has been developed in accordance with approved strategies for Estates, ICT and Fleet. A fully costed programme in line with these strategies is included in summary form at Appendix 4 and summarised below:

	2013/14 £M	2014/15 £M	2015/16 £M	2016/17 £M	2017/18 £M	Total £M
Estates	21,752	5,052	1,266	1,886	*21,500	51,456
ICT/ Communications	4,172	5,690	4,586	1,904	1,376	17,728
Vehicles & Other	1,876	2,028	2,025	2,045	2,117	10,091
Total	**27,800**	**12,770**	**7,877**	**5,835**	**24,993**	**79,275**

„* It is important to note that the 2017/18 requirement is currently not fully funded.

11.2 The above Capital Programme is currently not fully funded and existing sources including capital grants, revenue contributions, capital reserves, capital receipts, and prudential borrowing are planned to contribute £32M of the total £51M requirement. The remaining shortfall of £19M reflects the estimated funding requirement for the possible refurbishment of Cardiff Central and the significant requirements of the Property Condition Survey assessment with potentially a further £10M of property refurbishment beyond the current strategy period.

Available funding for 2013/14 to 2016/17 comprises the following:

- The Home Office has confirmed general capital funding in 2014/15 of £2.25M net of the reduction relating to the National Police Air Support (NPAS) top slice.

- It is important to note that this level of funding does not provide enough capital to maintain the infrastructure requirements of the force and barely covers the vehicle replacement programme. Therefore, Property and ICT related investment is funded through a combination of borrowing and Revenue Account. The estimated annual revenue contribution will be approximately £1.9M per annum.

- Prudential recurrent borrowing of £1.7M per year.

- Capital reserves/ receipts of £5.7M.

12.0 TREASURY MANAGEMENT POLICY AND PRUDENTIAL BORROWING

12.1 South Wales Police borrowing requirements are determined by the application of the Prudential Code which is designed to ensure that any borrowing is affordable and sustainable.

12.2 The prudential indicators are summarised below and the detail is contained within the Treasury Management Policy (attached at Appendix 8)

No.	PRUDENTIAL INDICATORS FOR PRUDENCE	2013/14 Estimated £M	2014/15 Estimated £M	2015/16 Estimated £M	2016/17 Estimated £M	2017/18 Estimated £M
1	Estimates of Capital Expenditure	27,800	12,770	7,877	5,835	24,993
2	Capital Financing Requirement (CFR) (as at 31 March)	26,610	27,733	28,913	30,151	31,452
3	External Borrowing	20,916	20,462	20,077	19,715	19,400

12.3 The Capital Financing Requirement measures the underlying need to borrow for capital purposes and is linked to asset values and proposed capital expenditure. In accordance with best practice there is no association between individual loans and particular types of expenditure. External borrowing arises as a result of both capital and indirectly, revenue expenditure and funding. Therefore, the Capital Financing Requirement and actual external borrowing can be very different. The revenue budget requirement proposed for the medium term includes appropriate provision to meet repayments with regard to all existing borrowings.

13.0 FINANCIAL STANDING 2014 - 2018

13.1 There is an obligation on the Police and Crime Commissioner to have proper regard to the totality of the settlement when considering the approach to the budget for 2014/15 and subsequent years, including an assessment of the contingency reserve.

13.2 There is a requirement to maintain a prudent level of balances in line with the sound financial management principles and guidelines. It is even more important in times of austerity (when budget flexibility is severely constrained) that an adequate level of contingency reserves is maintained to avoid adverse impact on policing plans in the event of a critical incident.

13.3 Sound financial principles would therefore advocate a provision of at least 1% for major incidents, 1% for day to day operating cashflow risk and 1% for other unknown events. This would suggest that a General Reserve should be maintained at a level of 3% of the gross operating expenditure. This would result in maintaining a General Reserve of £8.8M.

13.4 The table below shows the balance in our Reserves at the end of March 2013 together with a forecast estimate of the reserves and provisions at the end of the 2013/14 financial year against the target level and shows a shortfall in contingency reserves of £22M.

Reserves and Provisions	Balances 01/04/2013 £M	Forecast 2013/14 £M	Estimated Need 2013/14 £M	Shortfall In Estimated Need 2013/14 £M
Unallocated Reserves				
General Reserve	8.2	9.0	9.0	0.0
Change Management Reserve	1.0	4.3	7.0	2.7
Earmarked Reserves				
Icelandic Banks Impairment	1.7	0.9	0.9	0.0
Specific Events	3.9	3.9	3.9	0.0
POCA Reserve	0.7	0.7	0.7	0.0
Partnership Fund	0.0	0.8	0.8	0.0
Capital Reserve	26.3	5.7	24.9	19.2
Provisions				
Insurance Liabilities	2.9	3.6	4.1	0.5
Other Provisions	0.7	1.2	1.2	0.0
Total	**45.4**	**30.0**	**52.4**	**22.3**

13.5 The level of general reserves is anticipated to be at the target level by the end 2013/14 mainly as a result of ongoing repayments from Icelandic bank investments. This represents a considerable achievement over the past five years and reflects positively on the financial standing of the force. Given the experienced and future austere environment, a risk assessed reserve is vital to maintain an effective service.

13.6 The specific provisions above are necessary to address known liabilities and the current forecasted level of provisions will need to be reassessed at the year end.

13.7 The material cause for concern continues to be the Capital Reserve shortfall with increasing health and safety concerns resulting from the property condition survey assessment as well as the need to maintain critical infrastructure in communications and mobile technology.

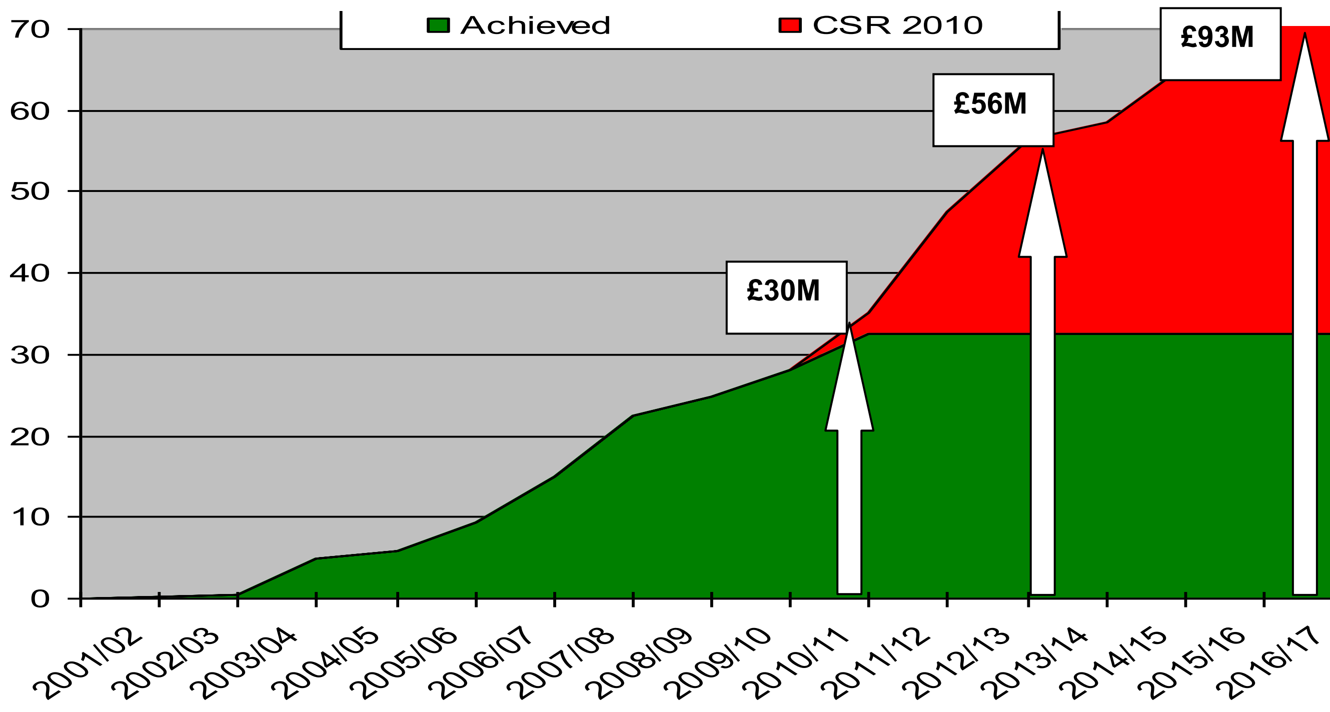
14.0 VALUE FOR MONEY

14.1 The confirmation of the fourth year settlement of CSR2010 continues to highlight the on-going importance of effective forward planning and development of efficiencies measures to meet resource pressures for the Police Service.

14.2 The requirement to develop annual efficiency plans in the police service was introduced in 1999/2000 and has accelerated the efficiency targets year on year. The police service is unique in demonstrating year on year compliance with the efficiency agenda. It is also important to note that due to the historic under funding and the inequities of the formula South Wales Police has had to exceed the national targets to achieve a balanced budget, which in latter years have been achieved through budget cuts.

	Efficiency Targets Journey		
	Cash Releasing	Productivity Improvements	Total
1999/00	1.0%	1.0%	2.0%
2000/01	1.0%	1.0%	2.0%
2001/02	1.0%	1.0%	2.0%
2002/03	1.0%	1.0%	2.0%
2003/04	1.0%	1.0%	2.0%
2004/05	1.0%	1.0%	2.0%
2005/06	1.5%	1.5%	3.0%
2006/07	1.5%	1.5%	3.0%
2007/08	1.5%	1.5%	3.0%
2008/09	1.6%	1.5%	3.1%
2009/10	1.9%	1.8%	3.6%
2010/11	1.9%	1.8%	3.6%
2011/12	5.1%	0.0%	5.1%
2012/13	6.7%	0.0%	6.7%
2013/14	1.6%	0.0%	1.6%
2014/15	4.8%	0.0%	4.8%
2015/16	5.2%	0.0%	5.2%
2016/17	2.9%	0.0%	2.9%
2017/18	2.4%	0.0%	2.4%
	44.6%	15.6%	60.0%

14.3 The graph below outlines both the achieved cashable efficiencies and those required to address the CSR2010 funding reductions as well as the period to 2017/18. In context, it is worth noting that during the period 2001 to 2011 the Force achieved over £30M of cashable efficiencies. A further £26M of efficiencies have been achieved from 2011 to 2014. An estimated additional £36M of cost reduction/efficiency savings are needed to be delivered by 2017/18.



14.4 The cumulative productivity and planned cash releasing gains results in a total efficiency improvement of nearly £100M or 33% of gross expenditure.

14.5 The latest announcements by the Chancellor the Home Office and the Office of Budget Responsibility all confirm a continued reduction in public expenditure until 2018/19. Some of the policy decisions underpinning the Chancellor's budget have already being implemented and a further £25Billion of cuts is expected for the financial years 2016 to 2018. This is predicated on the national structural budget deficit being addressed by 2018, however based on the performance to date the national deficit reduction target has already slipped from 2015 to 2018 and there is every likelihood that the revised 2018 date will not be met which suggests austerity extending to 2020.

14.6 Given the national economic circumstance a sustained efficiency drive is necessary for the foreseeable future. The South Wales Police Financial Strategy has enabled a year on year balanced budget but this has been a challenging process and whilst some difficult decisions have had to be taken to deliver an effective police service with declining resources the continued austerity programme now provides a tangible threat to the police service over the planning horizon.

14.7 The Financial Strategy sets out the scale of the task arising from the funding reductions imposed by CSR2010. The detailed plan (Appendix 5) continues to reflect reductions in both pay and non-pay budgets. Given that over 80% of the Revenue budget is pay related it is inevitable given the scale of funding cuts that the majority of the required savings have been and will continue to be required through a reduction in pay budgets. However, every effort will be made to reduce non-pay budgets whilst ensuring an adequate infrastructure support.

14.8 Despite every effort to maintain the staff levels on which the force depends a reduction in police staff establishment equivalent to an additional 59 posts on top of some 300 posts disestablished since the CSR 2010 is the likely consequence of the

Plan.. A reconciliation of the proposed establishment changes is detailed at Appendix 6.

14.9 The plan also assumes a further reduction in police numbers from 2815 in 2013/14 to 2800. However our detailed work on force resilience has established a police officer requirement of 3000 full time equivalent posts but given the funding circumstance a budgeted establishment of 2800 has been reflected within the Financial Strategy. The pre austerity establishment was 3244 and therefore 444 police officer posts will be have been lost by the end of 2015. The Chief Constable has a stated aim of seeking to return the police officer establishment to 3000 as soon as circumstances permit. The HMIC has already confirmed South Wales Police to be the busiest Force in the country in terms of emergency and priority incidents.

14.10 Following the consolidation of the Neighbourhood Policing Fund (which underpinned the Police Community Support Officers establishment), the overall funding has been subjected to further reduction and will continue to be reduced by 15% in cash terms over the Financial Strategy period (over 20% in real terms after taking into account inflation). Consequently it is not feasible to sustain the Home Office Funded establishment of 300 going forward. The Financial Strategy therefore reflects a reduction in the PCSO establishment by 100 full time equivalent (FTE) posts. This reduction whilst difficult will still enable an element of match funding to the 206 Full time equivalent posts funded by the Welsh Government resulting in 406 PCOS's or 100 PCSO's per Basic Command Unit (BCU). Detailed operational assessments are being undertaken to minimise the community impact arising from the reduction. Our investment in officer and PCSO tracking and tasking has already shown a 20% increase in the visibility of PCSO's in the community and we are unique in being able to demonstrate PCSO activity across the force. The impact of this is shown in the following table:

Full Time Equivalents	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Home Office Funded	325	300	300	200	200	200	200
Welsh Government Funded	0	135	206	206	206	206	206
Total	325	435	506	406	406	406	406

14.11 The annual turnover of over 100 police officer retirements and leavers per annum and the current pool of applications from PCSO's to become Police Officers makes us very confident that none of the reductions will actually result in a redundancy and the PCSO's will transfer over into vacant Police Officer posts following the successful conclusion of the training and selection procedures. This transition will be undertaken during 2014/15.

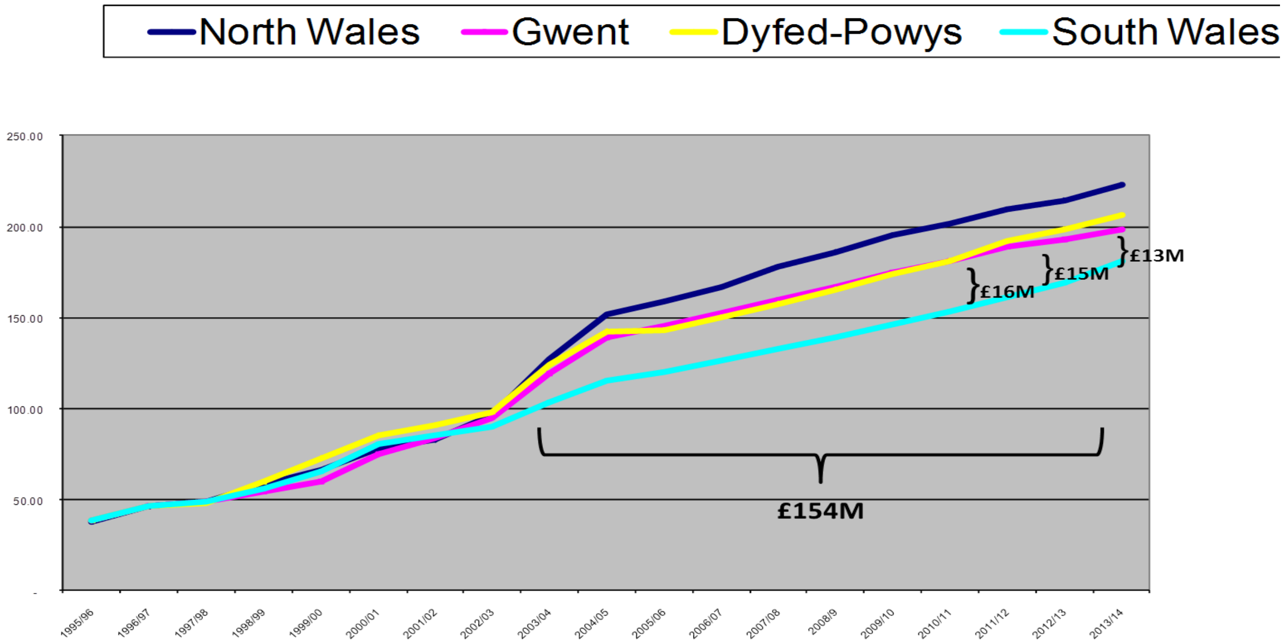
14.12 It is evident from the above that the cuts now having to be made on top of over a decade of efficiency targets and funding inequities will impact on the frontline which we have sought to protect. Unfortunately the scale of cuts identified suggest further savings are still required and the current Value for Money Plan is insufficient to address the additional budget gap imposed by government. Whilst the 2014/15 budget can be balanced through a combination of cuts above and precept increases the 2015/16 budget remains unbalanced and work will need to continue at pace to address this over the next 12 months.

14.13 There is, therefore, a considerable operational risk if the Financial Strategy is not implemented fully (i.e. combination of efficiencies and modest precept increases). Each 1% increase in police precept has a £3M funding stream consequence over the medium term, which equates to 60 police officers or 120 police staff. These further reductions would materially threaten resilience.

15.0 POLICE PRECEPT AND BUDGET REQUIREMENT FOR 2014/15

15.1 Set out below is the history and context of police precept levels (based on a Band D property) since 1995 across police forces in Wales.

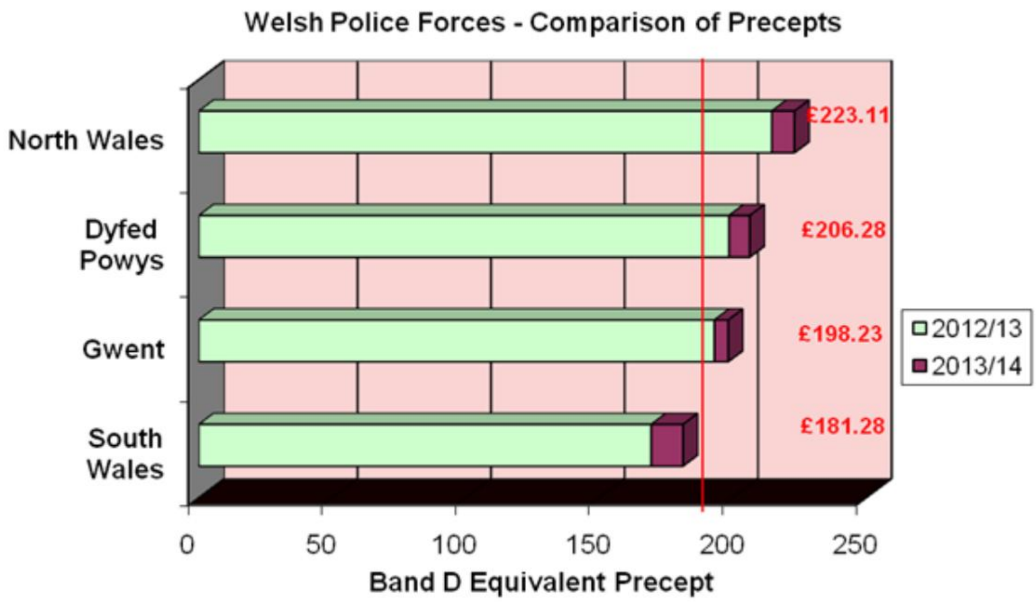
15.2 It has been acknowledged by ministers that police forces with lower levels of police precept as a proportion of their total budgets will face a greater financial challenge as the cuts are in central grant funding only. The chart shows that South Wales Police has the lowest level of police precept in Wales and this has been the case over the last decade.



15.3 It is important to note that the £13M differential in local funding coupled with the other funding inequities disadvantages South Wales Police by £30M per annum as shown below.

Funding Inequities Impacting on South wales Police	£Million
Police Precept Differnetial Wales	13.0
Funding Formula Damping	9.0
Area Cost Adjustment	4.0
Capital City Requirements	2.6
Capital Infrastructure Funding	1.6
Total Impact of Funding Inequities	**30.2**

15.5 The 2013/14 average level of Police Precepts in Wales, including that of South Wales Police is £202.22. South Wales Police precept is currently £181.28 or £20.95 below the average which is equivalent to annual additional investment of £13M which is equivalent to 260 police officers.



15.6 With £8.8M of formula allocation that is redistributed away from South Wales Police as part of the floor funding guarantee, this amounts to a loss in funding of almost £32M over the four years. It is also important to note that the floor funding guarantee takes no account of local police precept levels and the clear differentials shown above.

15.7 The level of precept in 2013/14 for each constituent Welsh force is:

Force	2013/14 £	Potential Impact of a 1% increase £
North Wales	223.11	2.23
Dyfed Powys	206.28	2.06
Gwent	198.23	1.98
South Wales	181.28	1.81

15.8 In essence the higher the current precept base the greater the amount of local income that can be generated for the same percentage increase. For example, a 1% increase for North Wales Police (£2.23) would require a 1.2% increase in South Wales Police to achieve the same cash increase. Therefore a 5% Band D increase in North Wales would result in a cash increase of £11.16 which is the same as a 6% increase for South Wales Band D property (total additional income of £0.85M per annum).

15.9 The Commissioner and the Police and Crime Panel have considered the medium term financial implications in briefings and seminars during the current 2014/15 planning process, as such, members of the Panel will be conversant with issues concerning the poor financial position facing South Wales Police and the potential for major shortfalls in funding over the medium term.

15.10 Whilst recognising the pressures to comply with government guidance on council tax increases there are a limited number of alternative options to bridge the budget gap:

- Generating additional cash releasing efficiencies
- Phasing development requirements in line with delivery of efficiencies
- Increasing borrowing for long life assets
- Minimising developmental expenditure
- Making service cuts
- Raising additional income through police precept/grants.

15.11 In preparing the detailed budget, all the above factors have had to be considered and addressed. Cash releasing efficiencies of £26M over three years are unprecedented in the history of South Wales Police. Previous plans have already delivered some unpalatable reductions through police officer numbers and realignment of ranks, BCU mergers, overtime reductions and changes in traffic management and Project Reform. The Value for Money Plan (section 14) has documented the value for money compliance and independent scrutiny has provided further assurance on the successful delivery of value for money.

15.12 The determination on the level of police precept is a combination of operational need, judgments on affordability and Welsh Government powers to limit increases if deemed by ministers to be excessive. Whilst there is no expectation that the historic differential in police precepts can be bridged over the medium term or indeed longer term, the strategy of modest increases in precept alongside efficiency cuts is sound.

15.13 It is important to recognise that the Financial Strategy matches every £1 increase in police precept with £2 of cash releasing efficiency savings thus clearly demonstrating the balanced approach taken to provide an effective service within the given circumstance and recognise the implications of the wider economic downturn.

15.14 South Wales Police has seen its grant allocation reduced by nearly £8.5M in cash terms for next year. If the Force had to absorb all this cut in one year, there would be a significant detriment to the ability to deal with crime and the causes of crime in South Wales.

The proposal is to increase the Police precept by 5%, which will raise nearly £5M. This will still mean that South Wales Police will have to deal with an overall cash reduction in excess of £8.5M. In real terms, this reduction is nearer ***£10.0M ("The Gap").***

15.15 *A 5%* increase in the police precept will enable the Chief Constable to sustain Police Officer numbers at the target level of 2,800. Further budget savings will still be required from Police staff numbers and from non-staff costs.

The financial implication of a 5% police precept are outlined below and detailed at Appendix 7.

Proposed Precept Implications	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**

Band D Precept	£181.28	£190.34	£199.86	£209.85	£220.34
Annual Increase in Precept	£11.86	£9.06	£9.52	£9.99	£10.49
Weekly Increase in Precept	£0.23	£0.17	£0.18	£0.19	£0.20
Percentage increase	7%	5%	5%	5%	5%

15.16 A 5% increase would add £9.06 to the annual Band D precept which equates to an increase of 17p per week. However, the Council Tax Property analysis shows that 65% of the residents in the South Wales Police Area are below Band D and the majority would pay between 11p and 15p extra per week if they are not in receipt of any council discounts or benefits.

Precept modelling of 3% to 7% is shown at Appendix 7, within this a 6% increase would add £10.87 to the annual Band D precept which equates to an increase of 21p per week. A 7% increase would add £12.69 to the annual Band D precept which equates to an increase of 24p per week.

15.17 **It is important to note that under each of the scenarios South Wales Police will continue to have the lowest cost of policing for the tax payer in Wales.**

16.0 CAPPING CONSIDERATION

16.1 Under devolution arrangements the power to determine capping levels on the council tax are administered by the Welsh Government. The current arrangements for capping are set out below.

16.2 There are two forms of capping – designation and nomination. The Welsh Government may designate or nominate an Authority for capping its precept if in their opinion its budget requirement is excessive. Designation requires an Authority to reduce its budget requirement and re–bill the Council Tax payers (through the Unitary Authorities). Nomination effectively puts an Authority on notice that the Welsh Government will stipulate a budget limit for the following year. The Welsh Government is responsible for determining the criteria (the principles) for capping for all Local Authorities and Police Forces in Wales. The principles must include a comparison between the calculated budget requirement with that calculated for a previous financial year. Ministers are free to include in the principles any other matters they consider relevant. Effective communications have been maintained with Welsh Government including the impact of the unprecedented cuts being faced by the police service which are considerably greater than the cuts being faced by many other public bodies in Wales.

17.0 COUNCIL TAX BASE

17.1 The Council Tax to be paid has to be allocated to the billing councils on the basis of the relevant tax bases notified by them. The tax base is calculated from the number of properties in each area allocated to each property band and discounted for single occupancy, non–payers, etc. The tax base is expressed as a “Band D” equivalent as follows:–

	Band D Equivalent Properties		Change	%
Councils	**2013/14**	**2014/15**		
Cardiff County Council	137,979.00	138,759.00	780.00	0.6%
City & County of Swansea	87,519.00	88,367.00	848.00	1.0%
Bridgend County Borough	50,075.92	50,566.20	490.28	1.0%
Merthyr Tydfil County Borough	17,323.67	17,629.02	305.35	1.8%
Neath Port Talbot County Borough	45,715.29	45,912.56	197.27	0.4%
Rhondda Cynon Taff County Borough	72,409.07	72,557.42	148.35	0.2%
The Vale of Glamorgan Council	54,375.00	55,070.00	695.00	1.3%
Total Properties	**465,396.95**	**468,861.20**	**3,464.25**	**0.7%**

17.2 The localisation of Council Tax Benefit has caused turbulence in Councils' Tax bases. A national approach was agreed within Wales based on a maximum eligibility of 90% of Council Tax bills. The move from a fully funded scheme increased the potential for non-payment and many councils adjusted their Council Tax bases downwards accordingly. Relatively late in the 2013-14 budget cycle, Welsh government reverted to a scheme with a maximum 100% eligibility. This happened too late for councils to adjust their tax bases back up for 2013-14 but several have done so for 2014-15. This has contributed to the 0.7% increase in the overall tax base for South Wales.

17.3 Using the above tax base the impact of the police precept on property bandings for each local authority area is detailed at Appendix 7. Additional details are provided at Appendices 8 and 9 in relation to the options outlined in Section 15.

17.4 The Force precept will be added to the figures for the Unitary Authorities and will form part of the overall Council Tax demand bills. Under the regulations, the billing authority must determine a schedule of instalments for payments to precepting authorities. The agreement is that the Unitary Authorities will pay the Force in 12 instalments on or before the last working day of each month.

18.0 TREASURER'S COMMENTS (CHIEF FINANCIAL OFFICER TO COMMISSIONER)

18.1 The Local Government Act 2003, Part 2 Section 25, requires additional statements by the CFO to be included in the budget report. The CFO is required to report to the Police and Crime Commissioner on the robustness of the estimates, which underpin the budget requirement, and the adequacy of the proposed financial reserves. The Panel is required to have regard to this report when considering the budget.

18.2 The proposed budget presented in this report is based upon robust figures, prepared by the CFO CC and his team and being the fourth year of CSR2010 come as no surprise. The confirmation of the very bleak public finances is a testament of the forward planning undertaken within Force and has been properly highlighted in previous planning seminars and financial reports. Members will also be aware of the tough actions taken to achieve a balanced budget £26M of efficiencies over the past three years, the largest reduction in expenditure since the 1995/96. This is more impressive in the context of year on year efficiency improvements delivered in previous years. South Wales Police can evidence cumulative efficiency savings of nearly £100M for the period to 2018.

18.3 The detailed estimates have been prepared on a realistic basis. A wide range of Senior Officers have been involved in the budget process. Proper provision has been made for pay and price increases, achievable levels of income and deliverable efficiency savings.

18.4 There is a detailed monthly budget monitoring system in place involving all budget holders and reports are provided to the Performance Management Group. The Wales Audit Office have commented favourably on the financial arrangements within South Wales Police in the Annual Audit Management Letter. The most recent report reflects positively on the approach taken by South Wales Police on tackling the funding cuts and the effectiveness of the measures in place to achieve a balanced budget. Members will also be aware that from an independent examination by the HMIC and Wales Audit Office that South Wales Police has adopted a successful Financial Strategy which puts it in a more favourable position than a number of other forces.

18.5 As predicted the economic circumstance continues to worsen and we are still faced with tough choices of balancing our duty to deliver an efficient and effective police service against a climate where individuals across the police force area are facing cost of living pressures.

18.6 The Strategy on addressing the adequacy of General Reserve has proven to be successful and organisation is finally on course to deliver its General Reserve Target within the Financial Strategy cycle.

18.7 South Wales Police progress in addressing the impact of CSR2010 has been commendable, a fact acknowledged by the HMIC, however the financial challenge remains significant for the foreseeable future and presents a considerable risk to the delivery of the Police and Crime reduction Plan.

18.8 Similarly the robust approach on risk management has enabled critical infrastructure developments and ensure a sustainable police service, however the Estate condition continues to be a cause for concern.

18.9 The comprehensive Value for Money plan is the sensible and measured way to reduce expenditure in a controlled and structured manner. It is recognised however, that the Value for Money Plan carries a higher risk than the budget in terms of attainment. The Value for Money Plan for 2015/16 and beyond is already being reinvigorated to ensure a range of savings options can be considered and consulted upon in time for the 2015/16 budget round and to inform the future development of the Police and Crime Reduction Plan.

It is important to note that given the history of austerity and efficiency targets there are no easy choices and all further reductions will have significant consequences for delivery.

19.0 LOCAL GOVERNMENT ACT 2003 – "SECTION 25" STATEMENT

19.1 When setting the Budget and Capital Programme for the forthcoming year the Police and Crime Commissioner must be satisfied that adequate consideration has been given to the following:

a) Government policy on police spending, as applied to the Police.
b) The medium term implications of the Budget and Capital Programme
c) The CIPFA Prudential Code
d) The size and adequacy of general and specific earmarked balances
e) Whether the proposals represent a balanced budget for the year
f) The impact on the Council Tax
g) The threat or risk of capping
h) The prevailing pressure for service development and associated risk to performance.

This Financial Strategy has fully considered and documented the requirements above.

Geoff Petty – Treasurer to the Police and Crime Commissioner South Wales Police

20.0 CONCLUSION

20.1 Whilst the current national economic climate has a significant bearing on the acceptability in level of police precept to be levied on local taxpayers it is also recognised that in times of economic decline the requirements for an efficient and effective police service rise considerably.

20.2 This Financial Strategy has attempted to balance the difficult equation of risk, demand, affordability and the threat of capping. The need to make £5.3M of further cuts on top of the £26M delivered in 2011 to 2014 is unprecedented.

20.3 The Force Change Management Programme has made a significant contribution to both operational performance and Value for Money and needs to remain as a continuous improvement programme over the next CSR. It is important to note that the VFM plan is insufficient to deliver the anticipated further reduction in central funding and precept considerations remain the only flexibility going forwards.

21.0 PROPOSAL

That the Police and Crime Panel considers:

The precept proposal in respect 2014/15. The Commissioner is in ongoing discussions with regard to the relative impact of the police precept on the overall council tax increase at this time and is mindful of the cumulative impact on the local tax payer. Whilst the current strategy is predicated on a 5% police precept the Commissioner will present final options at the Police and Crime Panel meeting.

A 5% increase to the Police precept results in a £190.34 council tax on a Band D property. This gives a total precept requirement of £89,243,181 which would be precepted on the relevant billing Authority in accordance with Appendix 7.

On this basis the Resulting Net Revenue Budget Requirement for 2014/15 would be £258,443,767 and this reflects the Capital and Value for Money Plans.

D. LEGAL

The Commissioner is required to set a balanced budget, determine the rate of Council Tax and issue a precept in accordance with the Local Government Finance Act 1988 and the Police Act 1996.

Under the Police Reform and Social Responsibility Act 2011 the Commissioner may only issue a precept after consultation with the Police and Crime Panel.

E. PERSONNEL, EQUAL OPPORTUNITIES AND DIVERSITY ISSUES AND HUMAN RIGHTS CONSIDERATIONS

South Wales Police has a comprehensive Community and Equalities Impact Assessment process that is embedded within the change management programme. Each workstream will consider the wider service implications and undertake an equalities and Human Rights impact assessment in the planning phase.

F. REVIEW ARRANGEMENTS

There will be regular monitoring of the 2014/15 Revenue Budget, Capital Programme and Value for Money by the Commissioner and Police and Crime Panel.

G. RISKS

1. The risk of capping has been mitigated through discussions with Welsh Government and a 5% precept is not expected to initiate capping action.

2. The main uncontrolled risk relates to the long term estate issues and these are reviewed regularly to ensure legislative compliance is not compromised.

3. The VFM plan is by its nature a fluid process and will need careful monitoring to achieve the targeted level of savings.

H. LIST OF BACKGROUND PAPERS

Local Government Finance Report 2014 to 2015 (National Assembly for Wales)
Police Grant Report England and Wales 2014 to 2015 (Draft)

Schedule of Appendices

Appendix 1	South Wales Police Budget Summary 2014/15 to 2017/18
Appendix 2	Reconciliation of Changes on Revenue Budget 2013/14 to 2014/15
Appendix 3	Detailed Analysis of Revenue Budget Changes 2013/14 to 2014/15
Appendix 4	Summary Capital Programme and Financing Arrangements 2014/15 to 2017/18
Appendix 5	Reconciliation of Establishment Changes
Appendix 6	Value for Money Plan 2014/15 to 2017/18
Appendix 7	Police Precept Modelling 2014/15
Appendix 8	Treasury Management Strategy
Appendix 9	Wales Audit Office Annual Management Letter

SOUTH WALES POLICE					
DRAFT REVENUE BUDGET					APPENDIX 1
2014/15 - 2017/18					
	Actual Budget	Budget	Forecast Budget	Forecast Budget	Forecast Budget
	2013/14	2014/15	2015/16	2016/17	2017/18
	£000	£000	£000	£000	£000
Employees					
Police Officers	131,046	129,594	132,440	139,724	143,732
Police Staff	71,136	74,620	75,121	78,999	81,474
Police Pensions (net)	29,999	29,949	30,329	31,997	32,915
Total Employee Costs	232,181	234,163	237,890	250,720	258,121
Running Exps					
Non Pay to be split below		Nominal Split			
Indirect Staff	1,802	1,878	1,935	1,993	2,052
Premises Costs	9,004	9,386	9,667	9,957	10,256
Transport Costs	7,323	7,634	7,863	8,098	8,341
Supplies and Services	23,055	24,033	24,754	25,496	26,260
Agency and Contracted Services	8,818	9,192	9,468	9,751	10,044
Total Running Expenses	50,002	52,124	53,688	55,298	56,957
Capital Financing Costs	5,136	4,956	4,888	4,875	4,941
Total Expenditure	**287,319**	**291,243**	**296,465**	**310,893**	**320,019**
Income					
Specific Grants	(21,351)	(19,651)	(19,651)	(21,162)	(21,162)
Other Income	(7,412)	(7,817)	(7,817)	(7,468)	(7,468)
Total Income	**(28,763)**	**(27,468)**	**(27,468)**	**(28,630)**	**(28,630)**
TOTAL NET REVENUE EXPENDITURE	**258,556**	**263,775**	**268,997**	**282,263**	**291,389**
Grants and Precepts					
Police Grant	(106,369)	(104,551)	(104,551)	(96,429)	(92,628)
NNDR/RSG	(76,630)	(73,357)	(73,357)	(73,357)	(73,357)
Rule 1 - Formula Damping Adjustment	8,809	8,707	8,707	8,707	8,707
IPCC 'Top Slice' Est £70M Nationally (SWP 2.2%)			704	1,540	1,540
Anticipated Reduction in Funding			8,122	3,801	3,727
Total External Support	(174,190)	(169,201)	(160,375)	(155,738)	(152,010)
Precepts on Billing Authorities	(84,366)	(89,243)	(93,705)	(98,391)	(103,310)
TOTAL RESOURCES	**(258,556)**	**(258,444)**	**(254,081)**	**(254,128)**	**(255,321)**
Cumulative Unfunded Expenditure	0	5,331	14,917	28,134	36,068
Value For Money Plan Savings	0	(5,331)	(12,068)	(13,468)	(14,668)
Residual Budget Gap	**0**	**(0)**	**2,849**	**14,666**	**21,400**
TAXBASE	**465,396.95**	**468,861.20**	**468,861.20**	**468,861.20**	**468,861.20**
BAND D PRECEPT AT 5% INCREASE	**£181.28**	**£190.34**	**£199.86**	**£209.85**	**£220.34**

APPENDIX 2

REVENUE BUDGET 2014/15
RECONCILIATION OF CHANGES 2013/14 to 2014/15

Increases in Budget above 2013/14

	Expenditure		Band D Equivalent Tax Net of External Funding as per settlement	
Unavoidable Costs	£000	%	£	%
Pay Inflation and Incremental Changes(inc Winsor)	1,855	0.72%	3.96	2.2%
Other Inflation	1,190	0.46%	2.54	1.4%
Base Budget Adjustments and Re-allocations	481	0.19%	1.03	0.6%
Specific Grant Allocations	(1,782)	(0.69)%	(3.80)	(2.1)%
Cut In Central Police Funding	8,465	3.27%	18.05	10.0%
Tax Base Increase	(628)	(0.24)%	(1.34)	(0.7)%
Standstill Budget Requirement	**9,581**	**3.7%**	**20.43**	**11.3%**
Budget Balance Actions				
Additional Value For Money Plan Savings	(5,331)	(2.06)%	(11.37)	(6.3)%
Balance of Funding from Police Precept Increase	(4,250)	(1.64)%	(9.06)	(5.0)%
Residual Balance	-			

SOUTH WALES POLICE **APPENDIX 3**

ANALYSIS OF REVENUE BUDGET MOVEMENTS

Main changes between 2013/14 and 2014/15

		TOTAL
Pay & Pensions Inflation and Incremental Drift	£'000	£'000
Police Officers		
Pay Award	790	
National Insurance	(127)	
Rank structure and negative incremental drift	(925)	
Winsor - Pay changes	(616)	
Net changes in externally funded posts	150	
Overheads & Allowances		
Housing, Rent, CRTP & Allowances	(807)	
Overtime	51	
		(1,484)
Police Staff		
Value For Money Plan rolled forward	745	
Pay Award / National Insurance / Pension / Increments	869	
National Insurance	(77)	
Collaboration	137	
Public Service Centre	428	
Pension Lump Sum	200	
Net changes Office of Police & Crime Commissioner Structure	46	
Changes in Externally Funded Posts (incl WG funded PCSOs)	991	
		3,339
Sub - Total Pay & Pensions Inflation and Incremental Drift		**1,855**
Other Inflation		
Inflation, Contracts & Utilities	1,307	
Inflationary Increases on Income	(117)	
Sub - Total Other Inflation		**1,190**
Base Budget Adjustments and Re-allocations		
Net Base Budget Adjustments	176	
External Forensics Reduction 13-14	(100)	
Capital Financing	(179)	
Carbon Reduction Scheme	155	
Changes in External Funding	429	
Sub - Total Base Budget Adjustments and Re-allocations		**481**
Specific & General Grant		
Misc Changes in Specific External Funding	(1,782)	
Cut in Police Grant/RSG/NNDR - CSR 2010	8,465	
Sub - Total Specific & General Grant		**6,683**
Tax Base Increase		(628)
Total Standstill Budget Requirement		**9,581**
5% Precept Increase		(4,250)
Total Unfunded Expenditure		**5,331**

Capital Programme 2014/15 and forecast to 2018 APPENDIX 4

Description	2013/14 Final £'000	Budget Profile 2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	4 year Future Total £'000
Estates - Recurrent Schemes	1,536	1,172	1,265	1,886	21,500	25,823
Estates - Projects	20,217	3,880	0	0	0	3,880
Vehicle Replacement Programme	1,861	2,018	2,015	2,035	2,107	8,175
IS - Projects	2,637	3,440	3,250	0	0	6,690
IS - Infrastructure Development	1,535	2,250	1,336	1,904	1,376	6,866
Other Capital Expenditure	15	10	10	10	10	40
TOTAL Capital Programme	**27,800**	**12,770**	**7,877**	**5,835**	**24,993**	**51,474**

Summary of Funding - Revised Programme	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	4 year Future Total £'000
Capital Grants	2,250	2,250	2,250	2,250	2,250	9,000
Additional Grants - Home Office Project Fusion £3.3M (subject to bid	495	1,650	1,650	0	0	3,300
Additional Contribution - Safety Camera Partnership	428	0	0	0	0	0
Revenue Contribution	1,808	1,914	1,914	1,914	1,914	7,656
Additional Revenue Contribution / external funding	83	0	0	0	0	0
Usable Capital Receipts - Misc	424	0	0	0	0	0
Bridewell	14,242	0	0	0	0	0
Unsupported Borrowing	1,671	1,671	1,671	1,671	1,671	6,684
Earmarked Capital Reserve	12,076	5,677	392	0	0	5,677
Total Funding Available	**33,477**	**13,162**	**7,877**	**5,835**	**5,835**	**32,317**
Capital Reserve BalanceC/fwd	**5,677**	**392**	**0**	**0**	**0**	
Funding Shortfall	**0**	**0**	**0**	**0**	**(19,158)**	**(19,158)**

Efficiency Project Name	Lead Dept	Chief Officer	Original Plan 2011/12 to 2014/15	2011/12 to 2013/14				2014/15 to 2017/18				Comments
				2011/12 Plan	2012/13 Plan	2013/14 Plan	Cumulative 2011/12 to 2013/14	2014/15 Plan	2015/16 Plan	2016/17 Plan	2017/18 Plan	
				£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Value For Money Financial Gap			**31,824**	**14,792**	**5,239**	**2,296**	**26,574**	**5,331**	**14,917**	**28,134**	**36,068**	Annual 5% precept assumption
Gross Revenue Expenditure				**272,117**	**272,596**	**287,403**		**291,243**	**296,465**	**310,893**	**320,019**	
Cumulative efficiency % of Revenue Expenditure				5.4%	8.6%	9.6%		11.0%	14.0%	17.6%	19.6%	
Cashable Savings - Achieved												
Cash releasing savings and post reductions	FABS	FD	2,600	2,600			2,600					
Review of Ranks and Acting Up (Officers)	Reform	DCC	1,000	500			2,636					
Fleet rationalisation	FABS	FD	1,000	500	500		1,000					
Procurement Savings	FABS	FD	1,500	500	634		1,000					
Traffic Management	FABS	FD	783	783			783					
Airport	Ops	ACC	1,230	1,230			1,030					
Workforce Transformation	Reform	DCC	500	500								
Learning Development Services - Officers	HR	DHR	1,250	1,250								
Learning Development Services - Staff	HR	DHR	250	250								
Learning Development Services- Non Pay	HR	DHR					493					
UPSI	LSD	DLS	300		150		150					
Central Services	FABS	FD	500	500	105		500					
Cardiff Bay	FABS	FD	300	300			300					
Police Staff Changes	Reform	DCC	1,925	1,800			5,301					
PCSO - Vacancy management	TP	ACC- Kirby	679	679			679					
Change Programme 2014/15 - 2017/18												
Impact of Winsor Review	HR	DHR	5,000					559	559	559	559	Awaiting final confirmation in Police Regulations
Workstreams: Staff	ORD	DCC	7,000	500	1,000	1,875	1,800	1,443	3,558	3,558	3,558	Work in Progress
Workstream: Non-Staff	ORD	DCC						1,209	1,689	1,689	1,689	Work in Progress
Officer Overtime	ORD	DCC						400	400	400	400	
Estates Strategy	FABS	FD							800	1,000	1,200	Reduction in Estates running costs through rationalisation
Income Generation	FABS	FD			100		100	150	491	491	491	Achieved as part of Medium Term Financial Plan
Review of Neighbourhood Policing	TP	ACC- Lewis						1,000	3,000	3,000	3,000	
Police Establishment	ORD	DCC	10,000	2,900	2,750	1,500	8,206	570	570	570	570	
Transport	FABS	FD								200	200	Grey fleet
Collaboration	ORD	DCC								1,000	2,000	Further Colaborative Opportunities being scoped
Contribution to Capital	FABS	FD							1,000	1,000	1,000	Review Capital Infrastructure Requirements
Total Planned Savings			**35,817**	**14,792**	**5,239**	**3,375**	**26,578**	**5,331**	**12,068**	**13,468**	**14,668**	
Revised balance - Deficit /(Surplus)			**(3,993)**	**0**	**0**	**(1,079)**	**(4)**	**(0)**	**2,849**	**14,666**	**21,400**	

SOUTH WALES POLICE **APPENDIX 6**
2014/15 BUDGET
ESTABLISHMENT MOVEMENTS FTE

	Officers	Projected		Total Funded
	FTE	FTE	FTE	FTE
2010/11 year end establishment	3,021			
Value For Money Plan Changes				
2011/12	114	2,907		
2012/13	62	2,845		
2013/14	30	2,815		
2014/15	15	**2800***		
2015/16	0	2,800		
2016/17	-	2,800		
	221			
Police Officer Establishment 2014/15				
Police Officer Establishment 2013/14			2,912	
movements				
Regional Organised Crime Unit			10	
WECTU - Counter Terrorism Intelligence Unit			1	
Seconded Officers			3	
All Wales Schools Programme			(2)	
			2,924	
Planned Efficiency Reductions				
Efficiency Plan			(15)	
Total Planned Police Officer Reductions			**(15)**	
Total Police Officers Funded Establishment in 2014/15			**2,909**	**2,909**
Of which External Funded Officers are		109		
SWP Funded Police Officer Establishment		2,800		
PCSO Establishment 2014/15		300		
Welsh Government Funded		206		
Review of Neighbourhood Policing		(100)		
Total PCSO Establishment 2014/15			**406**	**406**
Total Uniformed Resources 2014/15			**3,315**	
2010/11 yr end SWP establishment	1,997			
Value For Money Plan Changes**				
2011/12	167	1,830		
2012/13	125	1,705		
2013/14	60	1,645		
2014/15	(41)	**1,686**		
2015/16	80	1,606		
2016/17		1,606		
	391			
Police Staff Establishment 2013/14			**1,645**	
Externally funded and collaboration posts			21	
Rolled forward VFM and additions			59	
Projected Police Staff Establishment 2014/15			**1,725**	**1,725**
TOTAL FUNDED ESTABLISHMENT 2014/15				**5,040**

* Whilst the plan reflects a reduction the aspiration is to return the police officer establishment to 3000 when circumstances permit

** The Value For Money Plan reflects the implications of these changes but the aspiration is to reduce in areas of non-pay in the first instance.

SOUTH WALES POLICE
REVENUE BUDGET 2014/15
PRECEPT @ 3%, 4%, 5%, 6% & 7% ILLUSTRATIVE INCREASES

APPENDIX 7

A	BUDGET AND COUNCIL TAX REQUIREMENT			£	£	£	£	£
	% INCREASE			**3%**	**4%**	**5%**	**6%**	**7%**
	TOTAL BUDGET			276,395,185	277,245,136	278,095,041	278,944,993	279,794,945
	LESS: Specific Grants			19,651,274	19,651,274	19,651,274	19,651,274	19,651,274
	BUDGET REQUIREMENT			256,743,911	257,593,862	258,443,767	259,293,719	260,143,671
	LESS: Revenue Support Grant			42,806,008	42,806,008	42,806,008	42,806,008	42,806,008
	NNDR			30,551,187	30,551,187	30,551,187	30,551,187	30,551,187
	Police Specific Grant			95,843,391	95,843,391	95,843,391	95,843,391	95,843,391
	SOUTH WALES POLICE AUTHORITY PRECEPT			**87,543,325**	**88,393,276**	**89,243,181**	**90,093,133**	**90,943,085**
B	SWPA ELEMENT OF COUNCIL TAX BY PROPERTY		Proportion of Band D	Council Tax £	Council Tax £	Council Tax £	Council Tax £	Council Tax £
	Band A		6/9	124.48	125.69	126.89	128.10	129.31
	Band B		7/9	145.22	146.63	148.04	149.45	150.86
	Band C		8/9	165.97	167.58	169.19	170.80	172.41
	Band D		**9/9**	**186.71**	**188.53**	**190.34**	**192.15**	**193.97**
	Band E		11/9	228.21	230.42	232.64	234.85	237.07
	Band F		13/9	269.70	272.32	274.94	277.55	280.17
	Band G		15/9	254.61	257.08	259.55	262.03	264.50
	Band H		18/9	373.43	377.06	380.68	384.31	387.93
	Band I		21/9	435.67	439.90	444.13	448.36	452.59
C	PRECEPTS ON UNITARY AUTHORITIES	No. of Band D Equivalent Properties		Precept £	Precept £	Precept £	Precept £	Precept £
	Cardiff County Council	138,759.00		25,908,359	26,159,901	26,411,430	26,662,972	26,914,514
	City & County of Swansea	88,367.00		16,499,427	16,659,618	16,819,801	16,979,993	17,140,185
	Bridgend County Borough	50,566.20		9,441,458	9,533,124	9,624,786	9,716,452	9,808,118
	Merthyr Tydfil County Borough	17,629.02		3,291,599	3,323,557	3,355,513	3,387,471	3,419,429
	Neath Port Talbot County Borough	45,912.56		8,572,554	8,655,785	8,739,010	8,822,241	8,905,471
	Rhondda Cynon Taff County Borough	72,557.42		13,547,544	13,679,076	13,810,601	13,942,133	14,073,665
	The Vale of Glamorgan Council	55,070.00		10,282,384	10,382,215	10,482,040	10,581,871	10,681,702
		468,861.20		87,543,325	88,393,277	89,243,181	90,093,133	90,943,085

APPENDIX 8

SUBJECT	**TREASURY MANAGEMENT STRATEGY & PRUDENTIAL INDICATORS 2014/15**
REPORT BY	**GEOFF PETTY TREASURER** **UMAR HUSSAIN, CHIEF FINANCIAL OFFICER** **TELEPHONE: (01656 869204)**
CONTACT OFFICER	**GWYN WILLIAMS, ASSISTANT DIRECTOR OF FINANCE - TELEPHONE: (01656 869299)**
SUMMARY AND PURPOSE OF REPORT To consider the recommended Treasury Management Strategy & Prudential Indicators for 2014/15	
RECOMMENDATIONS	1. Adopt the Treasury Management Strategy for 2014/15 2. Adopt the Investment Strategy and counterparty criteria contained in the Treasury Management Strategy for 2014/15 3. Approve the Prudential Indicators and Limits for 2013/14 to 2017/18 4. Approve the Minimum Revenue Provision (MRP) Statement.

INTRODUCTION

1.1 This report updates the annual investment strategy which was previously considered in February 2013. All assets and liabilities, including investments, bank deposits and borrowings transferred from the former Police Authority to **the Police and Crime Commissioner for South Wales** effective 22nd November 2012, on a continuing basis under provisions of the Police Reform and Social Responsibility Act 2011.

1.2 The Prudential Code, under provisions of the Local Government Act 2003, requires certain local bodies, including **the Police and Crime Commissioner for South Wales in consultation with the Chief Constable** to set, on an annual basis, a number of Prudential Indicators. These are set in consideration of the Treasury Management Strategy and the impact of capital borrowings considered as part of the capital programme, revenue budget and police precept. The report incorporates the indicators determined for the next four financial years. Appendix A provides background information on the Prudential Code.

1.3 On behalf of **the Police and Crime Commissioner for South Wales in consultation with the Chief Constable,** South Wales Police Corporate Finance Department undertakes the treasury management function continuing the arrangement on behalf of the former Police Authority. Responsibilities are defined in the Manual of Corporate Governance, with references to Chief Financial Officer (to the Police and Crime Commissioner) and Chief Financial Officer (to the Chief Constable).

1.4 The current year's investment performance to December 2013 is included at Appendix B.

1.5 Banking services for the Police and Crime Commissioner for South Wales are currently provided by the Co-operative Bank. This contract is due for renewal and will be re-tendered during the spring of 2014.

2 TREASURY MANAGEMENT CONSULTANCY AND INVESTMENT BROKERS

2.1 A contract is agreed on an annual fee basis with Sector Treasury Services Limited to provide advice and information services. During September 2013, its parent company Capita plc changed the branding name to Capita Asset Services – Treasury Solutions. The name of the legal entity will remain Sector Treasury Services Limited, so this is essentially a change of brand rather than a more fundamental change in ownership and it will be supported by a continuing programme of service enhancement. It is considered prudent to retain these services. Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with **the Police and Crime Commissioner for South Wales**.

2.2 Investment and deposit dealings are undertaken via brokers, who are intermediaries with wholesale financial markets facilitating the trading activities of its clients, in particular commercial and investment banks. They are reimbursed on a commission basis. Investments and deposits are also made directly with counterparties on a more retail/ business banking basis.

Current Brokers:
Garban Intercapital Europe Limited
Tullet Prebon (Europe) Limited
King & Shaxson (including a dealing and custodian service for Deposit Certificates (CDs), treasury bills, gilts, Corporate Bonds, Floating Rate Notes, Supranational bonds and other securities - further details are outlined at Appendix C. No use has been made of this service/ brokerage to date. An annual fee is charged by the broker if their services are utilised.

3 CURRENT ECONOMIC OUTLOOK

3.1 On behalf of **the Police and Crime Commissioner for South Wales and the Chief Constable,** South Wales Police Corporate Finance Department receives regular advice and information on the economic outlook from its Treasury Management consultants and other sources.

3.2 The following is an extract from October 2013 commentary by Capita Asset Services/ Sector, incorporating a bank rate increase in **2016:**

The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently weighted to the upside after five months of robust good news on the economy. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The forecast in this report for Bank Rate not to start increasing until quarter 3 of 2016 is based on a slow reduction of unemployment, (in line with the Bank of England's forecast), and contrary to the prevalent market view where rates are indicating that Bank Rate is expected to start going up in early 2015.

Capita Asset Services Interest Rate View	Now	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Capita Asset Services Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%
3 Month LIBID	0.39%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.70%	0.90%	1.00%
6 Month LIBID	0.47%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.70%	0.80%	1.00%	1.20%	1.40%
12 Month LIBID	0.75%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	0.90%	1.00%	1.20%	1.40%	1.60%	1.80%	2.00%
5yr PWLB Rate	2.38%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%
10yr PWLB Rate	3.52%	3.70%	3.70%	3.70%	3.80%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
25yr PWLB Rate	4.29%	4.40%	4.40%	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.20%
50yr PWLB Rate	4.33%	4.40%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.30%
Bank Rate															
Capita Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-	-	-	-	-
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
5yr PWLB Rate															
Capita Asset Services	2.38%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%
UBS	2.38%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	2.38%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.50%	2.90%	3.30%	-	-	-	-	-
10yr PWLB Rate															
Capita Asset Services	3.52%	3.70%	3.70%	3.70%	3.80%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
UBS	3.52%	3.90%	4.00%	4.00%	4.10%	4.10%	-	-	-	-	-	-	-	-	-
Capital Economics	3.52%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.80%	-	-	-	-	-
25yr PWLB Rate															
Capita Asset Services	4.29%	4.40%	4.40%	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.20%
UBS	4.29%	4.40%	4.50%	4.50%	4.60%	4.60%	-	-	-	-	-	-	-	-	-
Capital Economics	4.29%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.35%	-	-	-	-	-
50yr PWLB Rate															
Capita Asset Services	4.33%	4.40%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.30%
UBS	4.33%	4.50%	4.50%	4.60%	4.60%	4.70%	-	-	-	-	-	-	-	-	-
Capital Economics	4.33%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.50%	-	-	-	-	-

3.3 An alternative forecast for Bank Rates has been made by brokers, the following is an extract from ICAPs weekly newsletter 2 January 2014, which has bank rate going up **earlier in 2015**. Further commentary and forecasts for interest rates are included in Appendix D.

Interest Rate Estimates*

	Now	2012	2013	2014	2015	2016	2017
Bank Rate	0.5	0.5	0.5	0.5	0.7	2.0	3.5
10-yr Gilt	3.0	2.2	2.2	3.3	3.7	4.2	4.5
20-yr Gilt	3.5	3.0	3.0	3.8	4.2	4.7	5.0

* Estimates of annual averages. Note: these are not firm forecasts.

4 TREASURY MANAGEMENT OVERVIEW

4.1 Treasury Management is defined, as: "the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of the optimum performance consistent with those risks". This definition is intended to apply to all public sector organisations in their use of capital and project financings, borrowings and investments.

4.2 The Code applies to all organisations that have adopted it as part of their standing orders, financial regulations or other formal policy documents appropriate to their circumstances.

4.3 The portfolio of investments as at the 31st March 2013 totalled **£36.458M**, which included **£9.176M** of liquid bank and cash equivalent deposits. Investment deposits held are due to the temporary positive cash flow position and are of a short-term nature and currently include positive capital and revenue reserves.

The portfolio of fixed rate PWLB loan, for capital purposes, as at 31st March 2013 totalled **£21.423M** with an average capital interest rate of **4.13%.**

4.4 Policy Statement

4.4.1 **The Police and Crime Commissioner for South Wales in consultation with the Chief Constable** regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of the treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

4.4.2 This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

4.4.3 The approved activities of the Treasury Management operation are as follows:

(a) Cash Flow (short and longer term forecasting)
(b) Investing surplus funds in Approved Investments (including short and long term investments)
(c) Borrowing to finance cash deficits, if applicable
(d) Funding of capital payments through grants, contributions, capital receipts, and borrowing

(e) Management of debt (including rescheduling and/ or monitoring for an even maturity profile)
(f) Interest rate exposure management
(g) Dealing procedures with brokers, banks, treasury advisors, UK Government Departments and Agencies including Debt Management Office and Public Works Loans Board
(h) Use of external management for temporary investment of funds.

5 TREASURY MANAGEMENT STRATEGY

5.1 Objectives for Borrowing and Investments

The major objectives to be followed in 2014/15 are:

5.1.1 Borrowing

- To minimise the revenue costs of debt
- To manage the debt maturity profile i.e. to leave no one future year with a high level of repayments that could cause problems in repayment or re-borrowing.
- To effect borrowing in any one year at the cheapest cost commensurate with future risk.
- To forecast average future interest rates and borrow accordingly
- To monitor and review the level of fixed and variable interest rate loans in order to take advantage of interest rate movements.
- To reschedule debt in order to take advantage of potential savings as interest rates change.

5.1.2 Investment

- To maintain capital security, then liquidity then yield
- To maintain policy flexibility.
- To achieve a level of return greater than would be secured by defaulting internal investment.

5.2 Treasury Management Strategy

5.2.1 Capital Finance

To achieve the optimum funding structure for the Capital Programme, maximising the use of capital grants, prudently using capital receipts and utilising borrowing and other financing options.

5.2.2 Borrowing

To maintain a flexible approach, based on advice from Sector.

5.2.3 Temporary Investments

To effectively manage the use of temporary investments to maintain flexibility, and where borrowing is made in advance of requirements.

5.2.4 Debt Rescheduling

To review the possibility of debt rescheduling as and when the opportunity arises, but not to proceed unless the appropriate discounted cash flow calculations are favourable.

5.3 Annual Investment Strategy

5.3.1 This organisation has regard to the Welsh Government's Guidance on Local Government Investments and CIPFA's Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code").

5.3.2 The key requirements of both the Code and the investment guidance are to identify and approve the following:

- The strategy guidelines for decision making on investments
- The principles to be used to determine the maximum periods for which funds can be committed
- Specified investments that the organisation will use. These are high security and high liquidity investments in sterling and with a maturity of no more than a year. These would include investments which would not be defined as capital expenditure with:
  - The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
  - Supranational bonds of less than one year's duration.
  - Corporate Bonds
  - Other securities
  - A local authority, parish council or community council.
  - Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.

- Non-specified investments, clarifying the greater risk implications, identifying the general types of investments that may be used and a limit to the overall amount of various categories that can be held at any one time.

5.3.3 Investment priorities are:
(a) the security of capital
(b) liquidity of its investments
(c) the yield of the funds.

5.3.4 The investment strategy's primary objectives are firstly to safeguard the re-payment of the principal and interest of its investments on time, secondly to ensure adequate liquidity with the investment yield being a third objective.

5.3.5 Following the economic background above, the current investment climate has one over-riding risk consideration that of counterparty security risk. Aim is to achieve the optimum yield on investments commensurate with the proper levels of security and liquidity.

5.3.6 The general policy objective is the prudent investment of its treasury balances. Balances include monies borrowed for the purpose of expenditure in the reasonably near future (i.e. borrowed 12-18 months in advance of need).

5.3.7 The Welsh Government maintains that the borrowing of monies purely to invest or on-lend and make a return is unlawful and this organisation will not engage in such activity.

5.3.8 The revised code requires consideration of the benchmarking and monitoring of Security, Liquidity and Yield in the Investment Service. Yield is currently benchmarked and further consideration should be given to the development of benchmarking in respect of security and liquidity.

5.3.9 Yield is currently benchmarked to assess investment performance against the following measures:

- Investments – Internal returns above the 7 day LIBID rate

- Investments – External fund managers - returns 10% above 7 day compounded LIBID.

5.3.10 Security and liquidity benchmarks are intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators. However, they have not previously been separately and explicitly set out. In the other investment categories appropriate benchmarks may be used where available. Whilst it is possible to develop numerical analysis, the interpretation of the results are very subjective and further review may be required. Benchmarks are guides and so may be breached from time to time.

5.4 **Investment Counterparty Strategy - Criteria and proposed amendments**

5.4.1 The primary principle governing the organisation's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the organisation will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to prudential indicators covering the maximum principal sums invested.

5.4.2 The organisation will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them for approval as necessary. This criteria is separate to that which chooses Specified and Non-Specified investments as it provides an overall pool of counterparties considered „high quality' that maybe used rather than defining what its investments are.

5.4.3 The rating criteria use the lowest common denominator (LCD) method of selecting counterparties and applying limits. This means that the application of minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

5.4.4 Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance a negative rating watch applying to a counterparty at the minimum criteria will be suspended from use, with all others being reviewed in light of market conditions. Similarly if a counterparty is upgraded following suitable consultation, so that it fulfils the criteria, it will be included in the Counterparty List.

5.4.5 This organisation relies on credit ratings published by Fitch Ratings, Moody's Investors Service or Standard & Poor's to establish the credit quality of counterparties (issuers and issues) and investment schemes. The organisation has also determined the minimum long-term and short-term and other credit ratings it deems to be "high" for each category of investment.

5.4.6 Additional requirements under the Code of Practice now require the organisation to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps), negative rating watches/ outlooks) will be applied to compare the relative security of differing investment counterparties. Credit Default Swaps (CDS) are currently considered more responsive of market factors than rating changes, with the lower the measure the lower the perceived risk.

5.4.7 The criteria for providing a pool of high credit quality investment counterparties (both Specified and Non-specified investments) are considered further. This table sets out the authorised deposit takers and details the proposed organisational limit for each category:

	Deposits and other investments	**Specified or Non specified Indicator**	**Current Limit £m**	**Proposed Limit £m**	**change***
A	UK clearing banks and their wholly-owned subsidiaries **Including** those with a very high likelihood of UK Govt Support **(tier1)** (see below consideration)	Specified Non specified if non rated subsidiary or > 1 year	10	10	
B	Other banks i.e. major non-clearing banks	Specified	10	10	
B	Other banks i.e. smaller banks **Including** those with a high likelihood of UK Govt Support **(tier2**) (see below consideration)	Specified	10	10	
C	Merchant banks		3	3	
D	Oversees banks (note- currently restricted due to current market conditions)		3	3	
E	Building Societies - within top 30 of Asset Size Rankings> £281m (BS guide 2013) compared to £271m (BS guide 2012). • Top 10 Rated Building Societies • Top 10 Unrated - (term 6 months) • 11-25 Unrated (term 6 months) • 26-30 Unrated (term 3 months)	Specified Non specified Non specified Non specified	10 5 3 2	10 5 0 0	 * *
F	Local Authorities – **(proposed increased limit and time period, non specified > 1 year added-** increased scope)	Specified Non specified if > 1 year	5 -	10 10	* *
G	Nationalised industries and public corporations		3	3	
H	UK Debt Management Office – Executive Agency of HM Treasury (incl. deposit, Treasury bills, gilts and other securities)	Specified Non specified if > 1 year	No Limit	No Limit	
I	Call account with **Authority**'s bankers **(tier1+2)**	Non specified	10	10	
J	Callable Accounts **(tier 1+2)** (In addition to above fixed term deposit limits)		10	10	
K	External Fund Managers/ Money Market Funds (Cash and Government)	Specified	25	25	

5.4.8 In further consideration of the above limits and continued advice from Treasury Management Consultants, Sector, the organisation will use, as a minimum banks which have at least the following Fitch, Moody's and Standard and Poor's ratings (where rated):

	Core credit criteria	Current	Proposed
	Short Term	F1	F1
	Long Term	A	A
	Viability	BBB	BBB
	Support	3	3

5.4.9 Advice is generally accepted, although this policy further restricts the above by limiting the bodies approved to those with a „high credit quality'. High is defined as:

- Short term quality, for investments of up to say 6 months of Fitch **F1** (Highest credit quality) or its equivalent from other rating agencies, including Moody's and Standard and Poor's i.e. **P-1/ A-1,** for Banks and Building Societies. Allow the use of the organisation's own banker if it falls below the above criteria.
- Longer term quality, which would be applicable for the „mid term', say 6-12 months of **A** (High Credit quality). The organisation will only use banks/ building societies which are:
  UK Banks; and/ or
  Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AA+.
- Longer term quality, applicable beyond 364 days of **AA-** (Very high credit quality).
- Deposits may include current account and notice period direct dealing opportunities.
- Deposits with Building Societies.
- Local Authority investments, having the backing of funding from UK government.
- Deposits with the UK Debt Management Office, an agency of the UK Government/ Bank of England and UK Government gilts.
- Deposits with Nationalised Banks or Banks/ Building Societies covered by UK Government guarantees
- **AAA** (Highest credit quality) rating for Money Market Funds.
- Counterparty limits maybe exceeded by 10% as an option following approval by the Chief Financial Officer.
- non-UK and domiciled in a country which has a minimum Sovereign long term rating of **AA+.**
- Due care will be taken to consider the country, group and sector exposure of investments. In part the country selection will be chosen by the credit rating of the Sovereign state. In addition:
  - no more than say 20%, will be placed with any non-UK country at any time;
  - limits in place above will apply to Group companies;
  - Sector limits will be monitored regularly for appropriateness.

5.4.10 Investments within the above rated criteria are defined "specified investments". These investments include those in sterling, or of not more than one-year maturity or which could be for longer but where the organisation has the right to be repaid within 12 months if it wishes. These are considered low risk assets.

5.4.11 **Tier 1 - Tier 3 Banks and Building Societies (BS)**

Deposits with unrated Banks and Building Societies are classed as non-specified investments and are permitted. Not all Building Societies require or have chosen to be rated. In every other respect the security of the society would match similarly sized societies with ratings. However, following review by the UK Government, effective October 2008, a number of these institutions received the backing of the 2008 Credit Guarantee Scheme. Whilst this scheme is somewhat out of date, it allows certain high street institutions to be included who would otherwise fail on an individual rating. This avenue would provide the organisation a useful tool for investing relatively small amounts of money for short periods of time. **The policy narrows**

the scope of investments to include only the top 10 rated and unrated Building Societies, with appropriate proposed limits and maximum investment periods.

The rating downgrades by Moody's in October 2011 position the ratings of UK financial institutions into three groups or tiers:
Tier 1) Banks with a very high likelihood of support: two to three notches of systemic uplift.
Tier 2) Banks with a moderate or high likelihood of support: one notch of systemic uplift.
Tier 3) Institutions with a low or no likelihood of support: no systemic uplift.

The above proposed limits allow for more funds to be deposited in tier 1 and tier 2 banks in view of the increased likelihood of continued Government support.

Extract from 7.10.11 Sector Credit rating update
Tier 3-Institutions with a low or no likelihood of support: no systemic uplift. Moody's considers that there is insufficient certainty surrounding the likelihood and extent of support available over the medium-term to the senior creditors of rated building societies. Therefore, there is no rating uplift incorporated for systemic support from their respective standalone credit strength ratings. Moody's believes that the government is likely to continue to provide some level of support to systemically important financial institutions, which continue to incorporate up to three notches of uplift, i.e. tier 2 and 1. However, it is more likely now to allow smaller institutions to fail if they become financially troubled.

5.4.12 The above policy reflects the exclusion of tier 3 Institutions, i.e. those which Moody's advise as having a low or no likelihood of UK Govt support being applicable to smaller rated BS and by 'default' equally applying to unrated BS, there being no other formally assessed credit assessment, to apply. The above criteria does reflect Moody's advice to include tier 2 and tier 1banks, which are suggested as having a **high and very high likelihood of UK Govt Support**..

5.4.13 Other Investments may include the following, which is an extract from definitions used by the UK Governments Department for Communities and Local Government. Assuming further contact with Investment brokers it is proposed to consider the following investment types:

Securities
- HM Treasury Bills
- CDs issued by Banks in UK
- CDs issued by Building Societies in UK
- British Government Securities
- Other Securities

Loans
- Other financial intermediaries
- Public Corporations
- Local Government
- Other

5.4.14 Giving due consideration to the organisation's level of balances over the next 3 years, the need for liquidity, its spending commitments and provisioning for contingencies, it is currently determined that no more than **£10m** of overall fund balances can be prudently committed to longer term investments (i.e. those with a maturity exceeding one year). Currently, this amount is **nil** and given the scope of financing over the medium term, this is likely to continue to be the case.

5.4.15 All other investments that have lower or no credit ratings or longer than 364 days are defined as Non-Specified Investments and may be entered into following advice from the Treasury Management Consultants. Earlier reference is made to the upper limit for investments longer than 364 days as being a total of **£10m**. With regard to Non-specified investments for lower or no credit ratings, which would include unrated building societies, considered above, a limit of **£50m** is proposed. (This is equal to the current limit.) The total limit for non specified investments would therefore be **£60m**.

5.4.16 Based on its current cash flow, the organisation anticipates its fund balances in 2014/15 to range between **£10m** and **£75m**. The latter takes into account a significant grant advance, normally each July. The minimum amount of its overall balance in short-term investments is **nil**.

5.5 Approved Methods and Sources of Raising Capital Finance

5.5.1 The following list specifies which borrowing instruments can be adopted and other sources of finance available:

Borrowing Instruments	Fixed Borrowing	Variable Borrowing
PWLB	✓	✓
Market Long Term	✓	✓
Market Temporary	✓	✓
European Investment Bank	✓	✓
Local Bonds	✓	
Overdraft		✓
Negotiable Bonds	✓	✓
Stock issues	✓	✓
Commercial Paper	✓	
Medium Term Notes	✓	
Bills	✓	
Other Sources of Finance		
Revenue budget contributions		
Capital Receipts		
Leasing – Operating and Finance Leases		
Deferred Purchases		
Grants		
Lottery Monies		
Joint Arrangements		
PFI		

5.5.2 **The Police and Crime Commissioner for South Wales** has no policy to restrict the type of borrowing instruments required and all the above are available to the Chief Financial Officer when considered appropriate. It is, however anticipated that in practice borrowing will be confined to-

(a) PWLB
(b) Market temporary
(c) Market Long Term
(d) Overdraft
(e) Leasing

5.5.3. There continues to be no supported borrowing, which was a decision of the UK Government and the Home Office in the 2011/12 settlement. Consequently, the funding required is now considered unsupported in that it no longer features in the distribution of RSG, although this had not affected the total of RSG. The principles of the Prudential Code will be applied to all borrowing.

	2013/14	2014/15	2015/16	2016/17	2017/18
	Estimate £M	Estimate £M	Estimate £M	Estimate £M	Estimate £M
New borrowing- annual sum	1.671	1.671	1.671	1.671	1.671
Replacement borrowing (option to be kept under review)	-	-	-	-	-
TOTAL	1.671	1.671	1.671	1.671	1.671

5.6 **The Sensitivity to Interest Rate Movements**

5.6.1 Future reports will be required to disclose the impact of risks on the treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% increase/ decrease in all interest rates to treasury management costs/ income for next year. That element of the debt and investment portfolios, which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

	2014/15 Estimated	2014/15 Estimated +1%	2014/15 Estimated -1%
Revenue budgets:			
Interest on Borrowing	£1.0m	Long term fixed	Long term fixed
Investment income	£0.5m	+£0.4m	-£0.4m

6. PRUDENTIAL INDICATORS

6.1 The following Prudential Indicators are required to be set and approved by **The Police and Crime Commissioner for South Wales in consultation with the Chief Constable** in accordance with the Prudential Code.

6.2 These are based on the suggested Capital Programme of January 2014, which outlines actual capital expenditure prior to 2013/14 and estimates of capital expenditure to be incurred.

No.	PRUDENTIAL INDICATORS FOR PRUDENCE	2013/14	2014/15	2015/16	2016/17	2017/18
		Estimated	Estimated	Estimated	Estimated	Estimated
		£M	£M	£M	£M	£M
1	Estimates of Capital Expenditure	27,800	12,770	7,877	5,835	24,993
2	Capital Financing Requirement (CFR) (as at 31 March)	26,610	27,733	28,913	30,151	31,452
3	External Borrowing	20,916	20,462	20,077	19,715	19,400

6.3 Capital Financing Requirement

6.3.1 The Capital Financing Requirement measures the underlying need to borrow for capital purposes and is linked to Asset Values and proposed capital expenditure. In accordance with best practice there is no association between individual loans and particular types of expenditure. External Borrowing arises as a result of both capital and indirectly revenue expenditure and funding. Therefore, the Capital Financing Requirement and actual external borrowing can be very different.

6.3.2 The revenue budget requirement proposed for 2014/15, includes appropriate provision to meet additional repayments with regard to all estimated borrowings.

6.3.3 One of the Prudential Indicators for Prudence, called the Net Borrowing and Capital Financing Requirement requires that:

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years." This indicator is anticipated to be met.

6.4 Minimum Revenue Provision (MRP)

6.4.1 The organisation is required to pay off an element of its Capital Finance Requirement each year through a revenue charge or Minimum Revenue Provision (MRP). That element is set by regulation and is currently 4% of an adjusted CFR. The organisation is also allowed to charge additional voluntary payments (VRP). In order that repayments are funded by Police Grant and Precept, it is necessary that MRP and VRP charges to the Revenue Account equals the actual and estimated values for debt repayments.

6.4.2 Regulations require **the Police and Crime Commissioner for South Wales** to approve **an MRP Statement** in advance of each year. Revised regulations came into force on 31 March 2008, replacing the former legislative basis. Whilst the regulations revoke former MRP requirements, authorities are allowed to continue historical accounting practice. A variety of options are provided to authorities to replace the existing Regulations, so long as there is a prudent provision.

6.4.3 It is recommended to approve the following MRP Statement, which is unchanged from last year:

6.4.4 For capital expenditure incurred before 1 April 2008, or which in the future will be funded by Supported Borrowing, the MRP policy will be:

Existing practice - MRP will follow the existing practice outlined in former Regulations

For all prudential borrowing after April 2008, the MRP policy will be:

Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction).

6.4.5 The proposal to draw down further prudential borrowing to finance capital expenditure requires consideration of the increased amount of MRP and VRP. It is proposed that such financing is earmarked according to estimated asset lives linked to property or other schemes as appropriate. Given that MRP and VRP equal the total and thereby funded by grants and precept in totality, there is no unfunded implication.

6.5 Prudential Indicators for Affordability

No.	PRUDENTIAL INDICATORS FOR AFFORDABILITY	2013/14	2014/15	2015/16	2016/17	2017/18
		Estimated	Estimated	Estimated	Estimated	Estimated
4	Ratio of Financing Costs to Net Revenue Stream	5.93%	5.85%	5.77%	5.70%	5.67%

Impact of Capital Investment Decisions on Council Tax

5	Increase in Band D Council Tax as per Capital Programme (incl. prudential Borrowing)	**£5.54**	**£5.48**	**£5.48**	**£5.48**	**£5.48**
6	Increase in Band D Council Tax – Desirable Schemes	-	-	-	-	-

6.5.1 The estimates of Financing Costs include current commitments as outlined in the current capital programme. Financing Costs include external interest, the Minimum Revenue Provision and Voluntary Revenue Provision of debt repayments charged to the Consolidated Revenue Account. This is necessary to finance the total of revenue repayments from police grant and precept. The Net Revenue Stream is the Budget Requirement of organisation.

6.5.2 The estimate of the incremental impact of capital investment decisions on Council Tax (No. 5) is the future effect of the suggested Capital Programme on levels of Council Tax (Band D charge). This includes estimates for borrowing repayments, interest financing costs and the budgeted revenue contribution.

6.6 Prudential Indicators for Treasury Management

No.	PRUDENTIAL INDICATORS FOR TREASURY MANAGEMENT	2013/14	2014/15	2015/16	2016/17	2017/18
		Estimated	Estimated	Estimated	Estimated	Estimated
		£M	£M	£M	£M	£M
7	**Authorised limit for external debt -**					
	Borrowing	23.9	23.5	23.1	22.7	22.5
	Other long term liabilities	-	-	-	-	-
	TOTAL	23.9	23.5	23.1	22.7	22.5
8	**Operational boundary -**					
	Borrowing	21.9	21.5	21.1	20.7	20.5
	Other long term liabilities	-	-	-	-	-
	TOTAL	21.9	21.5	21.1	20.7	20.5
9	**Upper limit for fixed interest rate exposure**					
	Net principal re fixed rate borrowing / investments	100%	100%	100%	100%	100%
10	**Upper limit for variable rate exposure**					
	Net principal re variable rate borrowing / investments	25%	25%	25%	25%	25%
11	**Upper limit for total principal sums invested for over 364 days**(per maturity date)	10.0	10.0	10.0	10.0	10.0

6.6.1 The Authorised Limit for External Debt and Operational Boundary separately identifies borrowing from other Long Term Liabilities such as finance leases. The limits are consistent with the organisation's current commitments, existing plans, approved revenue and capital budgets, and approved Treasury Management Policy. They also have regard to risk management strategies, estimates of capital expenditure, capital financing requirements and cash flow projections.

6.6.2 The Operational Boundary is based on the estimate of most likely, prudent but not worst case scenario and represents a key management tool for in year monitoring. The Authorised Limit includes additional headroom to allow for unusual cash movements.

6.6.3 **The Police and Crime Commissioner for South Wales** is asked to approve these limits and to delegate authority to the Chief Financial Officer to effect movement between the separate agreed annual limits for borrowing and other long term liabilities in accordance with option appraisal and value for money.

- The Authorised Limit for each year will be the statutory limit determined under Section 3(1) of the Local Government Act 2003.

- Upper limits for fixed interest rate exposures have been set for each year as 100% of outstanding principal sums.

- Upper limits for variable interest rate exposures have been set for each year as 25% of outstanding principal sums.

- This means that the Chief Financial Officer will manage fixed interest rate exposures between 100% and 75% and variable rate exposures between 25% and 0% for each year.

- The amount of projected borrowing that is fixed rate, maturing in each period as a percentage of total projected fixed rate borrowing is:

13	**Maturity structure of new fixed rate borrowing**	upper limit	lower limit
	under 12 months	20%	0%
	12 months and within 24 months	20%	0%
	24 months and within 5 years	40%	0%
	5 years and within 10 years	50%	0%
	10 years and above	40%	0%

7 DELEGATED POWERS

The following are extracts from the Manual of Guidance, referring to „Treasury Management':

1.1.4 **The Police and Crime Commissioner for South Wales** is responsible for approving the policy framework and budget, monitoring financial outcomes and the approval of medium term financial plans in consultation with the Chief Constable. He is responsible for approving the overall framework of accountability and control, and monitoring compliance. This includes:

- Medium term financial strategy
- Treasury management strategy, including the annual investment strategy

DELEGATIONS TO THE CHIEF FINANCE OFFICER (Police and Crime Commissioner)

5.3 To be responsible for the investment of the Police and Crime Commissioner's money and borrowing of money as necessary in accordance with the Treasury Management Strategy approved by the Police and Crime Commissioner.

DELEGATIONS TO THE CHIEF FINANCE OFFICER (Chief Constable)

8.1 To ensure the day to day financial management of the Force within the framework of any agreed budget allocation, the levels of authorisation and any objectives/ conditions specified by the Police and Crime Commissioner in respect of the same.

8.2 To take all appropriate steps to ensure that the capital programme is implemented (in accordance with any conditions specified by the Police and Crime Commissioner).

In practice members of the Corporate Finance Department carry out most of the day to day work, a summary of the roles of the staff concerned is contained in Appendix E.

8 RECOMMENDATIONS

8.1 Adopt the Treasury Management Strategy for 2014/15

8.2 Adopt the Investment Strategy and counterparty criteria contained in the Treasury Management Strategy for 2014/15

8.3 Approve the Prudential Indicators and Limits for 2013/14 to 2017/18

8.4 Approve the Minimum Revenue Provision (MRP) Statement

9 LEGAL AND HUMAN RIGHTS CONSIDERATIONS

The report forms part of the monitoring and control of the Police Fund as the local policing body is responsible under Section 14 (Police Act 1996), as amended by the PRS Act 2011.

10 PERSONNEL, EQUAL OPPORTUNITIES AND DIVERSITY ISSUES

There are no personnel, equal opportunities or diversity issues arising from this report.

11 LIST OF BACKGROUND PAPERS

Treasury Management Policy Statement Report February 2013.

APPENDIX A

PRUDENTIAL CODE

1. **Background**

1.1 The complex system of capital controls, introduced by the Local Government and Housing Act 1989, was replaced in April 2004 by a system of self-regulation. Local Authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003. The basic principle of which is that local authorities will be free to invest so long as their capital spending plans are affordable, prudent and sustainable. The compliance framework being *The Prudential Code for Capital Finance in Local Authorities* developed by CIPFA. A fully revised second edition (**the Prudential Code**) has been updated following consultation on its original implementation and following the fall-out of the Icelandic Banks crisis.

2. The Prudential Code

2.1 The objectives of the Code are to:
- ensure that local authority capital programmes are affordable
- keep local authority borrowing and credit within prudent and sustainable levels
- take treasury management decisions in accordance with professional good practice.

2.2 In taking decisions about these three key objectives local authorities must make sure that they are accountable by providing a clear and transparent framework. That framework must be consistent with and support:
- local strategic planning
- local asset management planning
- proper option appraisal

2.3 The Code aims to do this by requiring local authorities to prepare reports setting out a series of "prudential indicators" for submission to their budget-making body, at budget setting meetings.

Main Requirements of Codes

1st Code (2002)
- affordability - for example implications for the council tax
- prudence and sustainability - for example implications for borrowing
- financing costs
- value for money
- the need to provide for the cost of looking after its assets
- its objectives
- practicality

2nd Revised Code (2009)
- increased emphasis on capital/ strategic planning…
- service objectives e.g. strategic planning
- stewardship of assets e.g. asset management planning
- value for money e.g. option appraisal
- prudence and sustainability e.g. implications for external borrowing and whole life costing
- affordability e.g. implications for council tax
- practicality e.g. achievability of the foreward plan

subject to subsequent annual amendments/ addendum's of a technical nature.

APPENDIX B

6 Review of Treasury Management Performance 2013/14 - to period 9

6.1 In line with the approved Treasury Management Policy, surplus monies were invested with authorised deposit takers during the 9 month period April to December 2013 resulting in interest income totalling £201K, although total interest of £260K has been received, which includes interest received from investments made in last financial year and interest received from callable accounts.

6.2 In terms of current and on-going investments, the UK Government/ Bank of England bank base rates continue to be held at 0.5% together with on-going quantitative easing and other measures, which will restrict future investment returns until there are changes in the economic climate.

6.3 For illustrative purposes an analysis of investments made up to 31stDecember 2013 is shown in the following table which gives a broad indication of the level and spread of investment activity undertaken to date. In total 19 investments (£79M) have been made with 7 institutions (average investment of £4.2M).

Analysis of 2013/14 Treasury Management Investments (Fixed Term Deposits)

Investments made from 1st April 2013 up to and including : 31/12/2013

(excludes investments made in 2012/13 maturing in 2013/14 and Callable Accounts)

BORROWER	Total Invested £m	No. of Investments	Average Investment £m	Average Days Invested	Average Interest Rate	Total Interest £
Bank of Scotland	23.0	7	3.3	101	0.75	48,390
Royal Bank of Scotland	20.0	4	5.0	119	0.95	61,945
Clydesdale Bank	8.0	2	4.0	168	0.48	17,675
Nationwide Building Society	10.0	2	5.0	171	0.50	23,513
Barclays Bank	10.0	2	5.0	135	0.49	18,284
Lancashire County Council	3.0	1	3.0	364	0.60	17,951
Glasgow County Council	5.0	1	5.0	179.0	0.55	13,486
Grand Total	**79.0**	**19**	**4.2**	**141**	**0.69**	**201,245**

6.4 This interest achieved up to 31st December 2013 is equivalent to an average return of 0.69% (excluding investments made in 2012/13 maturing in 2013/14), which is +0.19% above the average bank base rate of 0.5% for that same period. The existing Treasury Management Policy further limits the investment opportunities to a small number of counterparties and therefore limits the scope on returns.

6.5 During the period April to December 2013, the following volume use has been made :

	No. of Transactions
GarbanIntercapital Europe Limited	3
TulletPrebon (Europe) Limited	2
Direct with Investor	14
Direct with UK Debt Management Office	0
Total	**19**
Direct with Callable Accounts	30

7 Icelandic Update

7.1 In terms of the Icelandic deposits, all monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors will be determined by the administrators / receivers. Up to 31st December 2013 principal repayments of £5.3M, approximately 76%, has been secured to date.

7.2 A further instalment of £0.7M has been received from the UK subsidiary Heritable Bank plc in August 2013. This is higher than the forecast by CIPFA/ LAAP issued in May. This increases the total repayment received to £3.8M or 94% of the £4M invested, exceeding the forecast of 88%. A recent CIPFA/ LAAP bulletin has suggested that there is no evidence to suggest that there will be any further dividends in amounts that might be considered material. The reduced balance of £240k is now the estimated impairment recognised and funding is retained in earmarked reserves to cover this amount.

7.3 The former Authority also had £3M deposited with its parent Icelandic bank Landsbanki. A first distribution of £0.9M plus interest was received in February 2012, a second distribution of £0.3M in May 2012, a third distribution of £0.2M in October 2012 and more recently £0.2M in September 2013. This increases the total repayment to £1.6M providing a repayment to date of 52% of the £3M invested. It is still expected that the majority of the investment will be repaid but that it could take a number of years, possibly up to 2018 to fully resolve. Consideration is currently being given to a potential sale of the outstanding debt for a pre-determined minimum level of return. The advantage being that this would release the investment earlier and give certainty over exposure to timing and exchange rate risks. This is being managed nationally through the Local Government Association and the appointed legal advisors Bevan Brittan.

8 Borrowing

8.1 The Prudential Code permits the Commissioner to determine his own borrowing requirements provided this is affordable and sustainable. The Commissioner budgeted to borrow sums to partly finance capital expenditure over long term repayment terms. An annual loan requirement of £1.7M is budgeted within the approved Capital Programme for 2013/14.

APPENDIX C

BROKER – KING & SHAXSON

This broker is a registered financial institution that is regulated by the Financial Services Authority and offers the following services:

Cash Fixed term deposits

Certificates of Deposits (CDs), including dealing and custodian facilities

These are similar to deposits, receiving a fixed rate of interest for a fixed period, in exchange for a certificate. These certificates are tradable as investments and may be sold before maturity to gain access to the funds. An important critical difference is that the broker is offering to advise with regard to the Daily monitoring of securities to pinpoint possible switching opportunities to maximize yield.

Treasury Bills

These are short term securities issued by HM Treasury on a discount basis. They are very liquid, very secure and an alternative to bank counterparties and gilts.

Government Gilts

Simplest form of government Bond, which guarantees to repay a fixed flow of interest every 6 months and a fixed capital repayment on maturity.

Corporate Bonds

From April 2012, local authorities will be able to buy corporate bonds without them being considered capital expenditure, under powers granted under the Localism Act 2011. There may be some advantage of some UK and or foreign government agencies, most of which are AA or AAA rated and are therefore worth serious consideration. Maturities are currently offered for 1 to 3 years.

Floating Rate Notes

These are a money market instruments normally issued in the form of a Eurobond but with floating/ variable rate of interest. The maturity is normally between 1 and 5 years, some are issued for 10 years. The value of an FRN is judged by its „discount margin' which represents the spread over LIBOR.

Supranationals

These are organisations of which the share capital is owned and guaranteed by the leading developed nations, offering more guarantee than a single country e.g. EEC, European Investment Bank (EIB), the World Bank. They issue fixed rate bonds similar to gilts, normally offered at a small premium to gilts, but less liquidity.

APPENDIX D

Prospects for Interest Rates (Extract from Forecasts October 2013)

Treasury advice and information is provided to assist clients to formulate a view on future interest rates and their strategies. The following table gives the Capita Asset Services interest rate view after considering a number of city forecasts for short term (Bank Rate) and longer PWLB borrowing rates.

Capita Asset Services Interest Rate View	Now	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Capita Asset Services Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%
3 Month LIBID	0.39%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.70%	0.90%	1.00%
6 Month LIBID	0.47%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.70%	0.80%	1.00%	1.20%	1.40%
12 Month LIBID	0.75%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	0.90%	1.00%	1.20%	1.40%	1.60%	1.80%	2.00%
5yr PWLB Rate	2.38%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%
10yr PWLB Rate	3.52%	3.70%	3.70%	3.70%	3.80%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
25yr PWLB Rate	4.29%	4.40%	4.40%	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.20%
50yr PWLB Rate	4.33%	4.40%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.30%
Bank Rate															
Capita Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-	-	-	-	-
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
5yr PWLB Rate															
Capita Asset Services	2.38%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%
UBS	2.38%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	2.38%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.50%	2.90%	3.30%	-	-	-	-	-
10yr PWLB Rate															
Capita Asset Services	3.52%	3.70%	3.70%	3.70%	3.80%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
UBS	3.52%	3.90%	4.00%	4.00%	4.10%	4.10%	-	-	-	-	-	-	-	-	-
Capital Economics	3.52%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.80%	-	-	-	-	-
25yr PWLB Rate															
Capita Asset Services	4.29%	4.40%	4.40%	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.20%
UBS	4.29%	4.40%	4.50%	4.50%	4.60%	4.60%	-	-	-	-	-	-	-	-	-
Capital Economics	4.29%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.35%	-	-	-	-	-
50yr PWLB Rate															
Capita Asset Services	4.33%	4.40%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.30%
UBS	4.33%	4.50%	4.50%	4.60%	4.60%	4.70%	-	-	-	-	-	-	-	-	-
Capital Economics	4.33%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.50%	-	-	-	-	-

Suggested TMSS Extract - October 2013 -

Economic Background

THE GLOBAL ECONOMY

The Eurozone. The sovereign debt crisis has eased during 2013 which has been a year of comparative calm after the hiatus of the Cyprus bailout in the spring. The EZ finally escaped from seven quarters of recession in quarter 2 of 2013 but growth is likely to remain weak and so will dampen UK growth. The ECB’s pledge to buy unlimited amounts of bonds of countries which ask for a bail out, has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2012 figures) of 176% Greece, Italy 131%, Portugal 124%, Ireland 123% and Cyprus 110%, remain a cause of concern, especially as many of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are continuing to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US. Greece remains particularly vulnerable and continues to struggle to meet EZ targets for fiscal correction. Many commentators still view a Greek exit from the Euro as inevitable and there are concerns that austerity measures in Cyprus could also end up in forcing an exit. The question remains as to how much damage an exit by one country would do and whether contagion would spread to other countries. However, the longer a Greek exit is delayed, the less are likely to be the repercussions beyond Greece on other countries and on EU banks.

Sentiment in financial markets has improved considerably during 2013 as a result of firm Eurozone commitment to support struggling countries and to keep the Eurozone intact. However, the foundations to this current “solution” to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries like Greece and Spain which have unemployment rates of over 26% and unemployment among younger people of over 50%. The Italian political situation is also fraught with difficulties in getting a viable coalition which will implement an EZ imposed austerity programme and undertake overdue reforms to government and the economy.

USA. The economy has managed to return to reasonable growth in Q2 2013 of 2.5% y/y in spite of the fiscal cliff induced sharp cuts in federal expenditure that kicked in on 1 March, and increases in taxation. The Federal Reserve has continued to provide huge stimulus to the economy through its $85bn per month asset purchases programme of quantitative easing. However, it is expected that this level of support will start to be tapered down by the end of 2013. It has also pledged not to increase the central rate until unemployment falls to 6.5%; this is probably unlikely to happen until early 2015. Consumer, investor and business confidence levels have improved markedly in 2013. The housing market has turned a corner and house sales and increases in house prices have returned to healthy levels. Many house owners have therefore been helped to escape from negative equity and banks have also largely repaired their damaged balance sheets so that they can resume healthy levels of lending. All this portends well for a reasonable growth rate looking forward.

China. Concerns that Chinese growth could be heading downwards have been allayed by recent stronger statistics. There are still concerns around an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also increasing concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

Japan. The initial euphoria generated by “Abenomics”, the huge QE operation instituted by the Japanese government to buy Japanese debt, has tempered as the follow through of measures to reform the financial system and introduce other economic reforms, appears to have stalled. However, at long last, Japan has seen strong growth of 4% in the first two quarters of 2013 which portends well for the hopes that Japan can escape from the bog of stagnation and help support world growth. The fiscal challenges though are huge; the gross debt to GDP ratio is about 245% in 2013 while the government is currently running an annual fiscal deficit of around 50% of total government expenditure. Within two years, the central bank will end up purchasing about Y190 trillion (£1,200 billion) of government debt. In addition, the population is ageing due to a low birth rate and will fall from 128m to 100m by 2050.

THE UK ECONOMY

Economic growth. Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth rebounded in quarter 1 (+0.3%) and 2 (+0.7%) of 2013 to surpass all expectations as all three main sectors, services, manufacturing and construction contributed to this strong upturn. The August 2013 Bank of England Inflation Report consequently upgraded growth forecasts for 2013 from 1.2% to 1.4% and for 2014 from 1.7% to 2.5%. However, Bank Governor Mark Carney put this into perspective by describing this welcome increase as not yet being “escape velocity” to ensure we return to strong AND sustainable growth. So very encouraging - yes, but, still a long way to go! However, growth is expected to be strong for the immediate future. One downside is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth.

Forward guidance. The Bank of England also issued forward guidance with this Inflation Report which said that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey / ILO i.e. not the claimant count measure) has fallen to 7% or below. This would require the creation of about 750,000 jobs and was forecast to take three years. The UK unemployment rate currently stands at 2.5 million i.e. 7.7 % on the LFS / ILO measure. The

Bank's guidance is subject to three provisos, mainly around inflation; breaching any of them would sever the link between interest rates and unemployment levels. This actually makes forecasting Bank Rate much more complex given the lack of available reliable forecasts by economists over a three year plus horizon. The recession since 2007 was notable for how unemployment did NOT rise to the levels that would normally be expected in a major recession and the latest Inflation Report noted that productivity had sunk to 2005 levels. There has therefore been a significant level of retention of labour, which will mean that a significant amount of GDP growth can be accommodated without a major reduction in unemployment. The forecast in this report for Bank Rate not to start increasing until quarter 3 of 2016 is based on a slow reduction of unemployment, (in line with the Bank of England's forecast), and contrary to the prevalent market view where rates are indicating that Bank Rate is expected to start going up in early 2015.

Credit conditions. While Bank Rate has remained unchanged at 0.5% and quantitative easing has remained unchanged at £375bn in 2013, the Funding for Lending Scheme (FLS), aimed at encouraging banks to expand lending to small and medium size enterprises, has been extended. The FLS certainly seems to be having a positive effect in terms of encouraging house purchases (though levels are still far below the pre-crisis level), FLS is also due to be bolstered by the second phase of Help to Buy aimed to support purchasing of second hand properties, which is now due to start in October 2013. While there have been concerns that these schemes are creating a bubble in the housing market, the housing market remains weak outside of London and the south-east with a significant increase in house prices either being entirely absent or minimal. However, bank lending to small and medium enterprises continues to remain weak and inhibited by banks still repairing their balance sheets and anticipating tightening of regulatory requirements.

Inflation. Inflation has fallen from a peak of 3.1% in June 2013 to 2.7% in September. It is expected to fall back to reach the 2% target level within the two year horizon.

AAA rating. The UK has lost its AAA rating from Fitch and Moody's but that caused little market reaction.

Capita Asset Services forward view

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely during the remainder of 2013/14 as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

Near-term, there is some residual risk of further QE - if there is a dip in strong growth or if the MPC takes action to do more QE in order to reverse the rapid increase in market rates, especially in gilt yields and interest rates up to 10 years. This could cause shorter-dated gilt yields and PWLB rates over the next year or two to significantly undershoot the forecasts in the table below. The failure in the US, (at the time of writing), over passing a Federal budget for the new financial year starting on 1 October, and the expected tension over raising the debt ceiling in mid October, could also see bond yields temporarily dip until any binding agreement is reached between the opposing Republican and Democrat sides. Conversely, the eventual start of tapering by the Fed could cause bond yields to rise.

The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently weighted to the upside after five months of robust good news on the economy. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

Downside risks currently include:

- The conflict in the UK between market expectations of how quickly unemployment will fall as opposed to the Bank of England's forecasts
- Prolonged political disagreement over the US Federal Budget and raising the debt ceiling
- A return to weak economic growth in the US, UK and China causing major disappointment to investor and market expectations.
- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is frail and unstable.
- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.
- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds

The potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- A sharp upturn in investor confidence that sustainable robust world economic growth is firmly expected, causing a surge in the flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
- Further downgrading by credit rating agencies of the creditworthiness and credit rating of UK Government debt, consequent upon repeated failure to achieve fiscal correction targets and sustained recovery of economic growth which could result in the ratio of total government debt to GDP to rise to levels that undermine investor confidence in the UK and UK debt.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
- In the longer term – an earlier than currently expected reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.

Extract Sector advice 06 January 2014 – morning bulletin

INVESTMENTS: Special tranche rates continue to offer enhancement over the market and, given the expectation that interest rates will remain low for some time, there is value in longer dated investments with the stronger rated counterparties.

Extract weekly newsletter 2 January 2014 - ICAP

Preview

Government bond yields are likely to trend higher as the combination of reduced official support and heavy issuance calendars deter investors. The interest rate estimates outlined on page 3 point towards a continued return to more normal levels in the years ahead. This will not be a straight line progression and there will be occasional falls in yields. But the era of ultra-cheap long-term credit is behind us.

Interest Rate Estimates*

	Now	2012	2013	2014	2015	2016	2017
Bank Rate	0.5	0.5	0.5	0.5	0.7	2.0	3.5
10-yr Gilt	3.0	2.2	2.2	3.3	3.7	4.2	4.5
20-yr Gilt	3.5	3.0	3.0	3.8	4.2	4.7	5.0

* Estimates of annual averages. Note: these are not firm forecasts.

APPENDIX E

ROLES OF CORPORATE FINANCE DEPARTMENT STAFF RELATING TO TREASURY MANAGEMENT

CHIEF FINANCIAL OFFICER(S) (Police and Crime Commissioner) and (Chief Constable)

1. Ensure policy documents are adhered to, and that they are regularly reviewed.
2. Ensure that a review of the Treasury Management function and its performance is undertaken once a year.
3. Report to **the Police and Crime Commissioner for South Wales** on performance and activities of Treasury Management in accordance with the Treasury Management Policy Statement.
4. Ensure that there is a clear written statement of the responsibilities delegated to each post and arrangements for absence cover.

ASSISTANT DIRECTOR OF FINANCE

1. Deputise for the Chief Financial Officer in the performance of Treasury Management as required.
2. Review the Treasury Policy Statement, assure it is complied with, and that this statement complies with the law.

HEAD OF ACCOUNTANCY SERVICES

1. Review the Treasury Policy Statement and ensure that it is complied with.
2. Ensure that Treasury Management Practices exist and are complied with.
3. Review performance of the Treasury Management function at least once a year and prepare monitoring reports and annual reports as required.
4. Ensure all persons engaged in Treasury Management activities receive appropriate training.
5. Ensure the organisation of the Treasury Management function is adequate to meet current requirements.
6. Ensure that there is adequate internal checking and division of duties.

HEAD OF FINANCIAL ACCOUNTANCY

1. Manage the overall Treasury function.
2. Prepare the Treasury Management Policy Statement.
3. Prepare and implement the Treasury Management Practices.
4. Ensure that the systems and procedures laid down in the Treasury Management Practices are complied with, and that prescribed limits are not breached.
5. Ensure appropriate division of duties in this section.
6. Ensure credit worthiness of investment counter-parties.
7. Assess and appoint brokers, and monitor the performance of brokers employed.
8. Review all loan transactions, cash flow actuals and projections and level of debt/investment on a routine basis.
9. Assist in the preparation of the Treasury Policy Statement.

ACCOUNTANT – FINANCIAL ACCOUNTANCY

1. Implement the Treasury Policy Statement
2. Prepare Cash Flow projections
3. Make daily decisions on funding, lending, acceptability of treasury instruments, and consider legality of proposed action.
4. Dealing and initial record of deal
5. Transmission procedures
6. Provide the Head of Financial Accountancy with routine reports on: transactions made, cash flow actuals and projectIons and level of debt/ investment.