

# POLICE AND CRIME COMMISSIONER FOR NORTHUMBRIA

## Key Decisions

### Title and Reference

Approval for the Revenue and Capital Budgets and Council Tax for 2013/14  
(PCC/12/2013)

### Summary

On 6 February 2013, the Police and Crime Panel agreed the proposals of the Police and Crime Commissioner (the Commissioner) to issue a Band D council tax precept for the Northumbria area of £86.61. There are statutory requirements for the Commissioner to calculate the budget requirement and formally issue a precept for the financial year.

### Recommendation / Findings

It is recommended that the Commissioner approves:

- the proposed capital programme and revenue budgets for 2013/14;
- the review of the reserves policy;
- the council tax precept of £86.61 for Band D to be issued for 2013/14;
- the calculations for the council tax in 2013/14 in accordance with Sections 42A, 42B and 45 to 47 of the Local Government Finance Act 1992, as amended;
- the Prudential Indicators as outlined in the attached report; and
- the method of calculating Minimum Revenue Provision (MRP) for 2013/14.

### Northumbria Police and Crime Commissioner

I hereby approve the recommendations above.

Signature



Date 27.02.13

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**Council Tax Precept and Revenue and Capital Budgets 2013/14**

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**Report of Darren Collins, Treasurer**

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**Purpose of Report**

1. To request the Police and Crime Commissioner (the Commissioner) to approve the revenue budget and capital programme for the financial year 2013/14 to enable a council tax to be formally agreed and issued in accordance with statutory requirements for the financial year commencing 1 April 2013.

**Background**

2. The Local Government Finance Act 1992, as amended by the Localism Act 2011 sets out the requirements for the commissioner to consider council tax calculations by major precepting authorities.
3. On 6 February 2013, the Police and Crime Panel agreed the Commissioner's proposals to issue a Band D council tax precept for the Northumbria area of £86.61, which represents an increase of £2.93 per year, (6p per week) or 3.5% for the following reasons:
  - To invest in maintaining front line policing to ensure the residents of Northumbria continue to benefit from a high standard of policing in the face of an extremely challenging financial climate; and
  - To ensure a sustainable financial position for policing in Northumbria beyond the next financial year in the context of uncertainty around future levels of funding.
4. These budget proposals have been developed on the basis of:
  - Northumbria remains the lowest policing precept in England and Wales
  - Significant use has been made of reserves to meet the funding gap going forward;
  - A one-off availability to take up the precept which is doubtful going forward, without which frontline policing numbers would be under threat in future years; and
  - A 20% real term cut in Central Government funding for the police from 2011/12 to 2014/15
5. In preparing the budgets, the following issues have been considered:
  - The key principles underlying the MTFs 2013/14 to 2015/16;
  - The provisional Police Grant settlement for 2013/14, which for Northumbria is a reduction in grant funding of 1.6%, a cash reduction of £3.8m;
  - The likely Revenue and Capital outturn for 2012/13;
  - The budget pressures in 2013/14;

- Delivery of the Police and Crime Plan;
  - Budget savings;
  - Options for council tax;
  - Reserves and risk assessment; and
  - The Prudential Code for Capital Finance in Local Authorities.
6. The Medium Term Financial Strategy (MTFS) covering the years 2013/14 to 2015/16 sets out a challenging financial context:
- a reduction in grant funding of 1.6% for the next year and projected reductions of a similar magnitude over the remaining years of the MTFS;
  - budget savings of over £35m over the next three years, on top of savings in excess of £40m already achieved over the previous two financial years;
  - a funding gap of £22m over the three years of the MTFS, after planned use of reserves.
7. This report sets out the proposed revenue budget and capital programme for 2013/14, together with a review of the current year's budget position to allow a budget and council tax to be agreed in accordance with legislative requirements.

### **Proposed Council Tax and Revenue & Capital Budgets 2013/14**

8. Summary of Proposed Council Tax and Revenue & Capital Budgets 2013/14
- A revenue budget of £287.4m for policing and crime reduction;
  - Provision for increases in pay and prices of £3.3m;
  - Budget pressures of £1.3m to reflect the full year effect of changes in the current year, mainly relating to increases in national police services' charges, contract increases and the uplift of injury pensions in line with CPI;
  - An increase in revenue costs of £1.0 m to support capital investment in buildings, vehicles and new technology;
  - Budget savings of £16.4m in 2013/14;
  - Capital investment in buildings, vehicles and new technology of £22.7m;
  - The use of £9.274m from the Commissioner's reserves to support capital investment and phase budget savings to minimise the impact on frontline policing; and
  - An increase in Band D Council Tax of 3.5% to £86.61 per annum, approximately £1.66 per week, to allow continued support in front line policing. Band A households which make up approximately 60% of the total in Northumbria will pay £57.74 a year, approximately £1.11 per week.

### **Police Finance Settlement**

9. The final Formula Grant figures for 2013/14 were published on 4 February 2013 and approved in Parliament on 13 February 2013. They were the same as the provisional settlement of 19 December 2012.
10. Northumbria's reduction in grant funding of 1.6% in 2013/14 is consistent with the national reduction for all Commissioners and continues to be at what is

referred to as the floor. This cut represents a cash reduction of £3.8m, after adjusting for the Neighbourhood Policing Fund which has been moved into the baseline. Northumbria will receive £240.181m in Formula Grant in 2013/14 as set out below:

	<b>2012/13</b>	<b>2013/14</b>	
	<b>£m</b>	<b>£m</b>	
DCLG Grant	120.079	119.017	
Police Grant	114.992	121.164	
<b>Formula Grant</b>	<b>235.071</b>	<b>240.181</b>	
Relative Needs Amount	53.011	52.497	
Relative Resource Amount	-1.610	-2.121	
Central Allocation	47.183	46.082	
Main Police Grant	114.992	121.164	
Floor Damping	20.583	21.647	
Council Tax Freeze	0.912	0.912	
Compensation (2011/12)			
<b>Formula Grant</b>	<b>235.071</b>	<b>240.181</b>	
Neighbourhood Policing Fund*	8.923	0	
<b>Adjusted formula grant</b>	<b>243.994</b>	<b>240.181</b>	<b>-1.6%</b>

\* paid as a specific grant in 2012/13 but absorbed into Main Police Grant in 2013/14

11. In addition, the Commissioner will receive £6.845m in Localised Council Tax Support Grant to offset the shortfall in council tax income, subject to a reduction of 10%, from the introduction of localised council tax support schemes by billing authorities; and £2.789m from the Community Safety Fund which was previously paid to a number of other bodies but is being paid to police and crime commissioners in 2013/14.
12. The Government has made available funding to Commissioners to freeze their council tax in 2013/14. The grant funding is equivalent to a 1% increase in council tax, which for Northumbria equates to £0.367m and is payable for two years. The implications of this are considered later in the report.
13. Over the Spending Review 2010 period, a number of specific grants have been absorbed within the Main Police Grant. Those that remain as specific grants for 2013/14 include the Counter Terrorism specific grant for which allocations are awaited from the Home Office and the Private Finance Initiative grant, which for Northumbria finishes during 2013/14.

### **Capital Programme 2012/13**

14. The Commissioner considers regular monitoring reports in relation to the capital programme. The latest report in January 2013 indicated that expenditure in 2012/13 was currently estimated at £25.466m, compared to the budget of £29.177m. The reduction reflects the slippage of expenditure due to the phasing of work in relation to the Newcastle City Centre Police Station, and slippage on those schemes awaiting the outcomes of reviews within the Programme of Change.

## Capital Programme 2013/14

15. The proposed capital programme for 2013/14 totals £22.750m and is shown in detail at Appendix A. The programme has been set at a level to reflect the challenging financial position and the need to focus on essential schemes to deliver the Programme of Change. The Estates Strategy continues to focus on the delivery of the Newcastle City Centre Police Station and an acceleration of the rationalisation of the estate. It is estimated that £16.390m will be spent on committed major building schemes during 2013/14.
16. The programme for minor building works, vehicles, equipment and computers and communications totals £6.360m. This is made up of:
- A programme for minor building works including provision for cell refurbishment, energy management initiatives and public area CCTV;
  - Investment of £2.239m in computers and communications in 2013/14 providing for the ongoing essential maintenance and development of the ICT infrastructure, the 'refresh' of the existing technology in line with the ICT strategy, the implementation of a new information management platform to provide new functionality to support the Force's operating model; and the development of a mobile data solution designed to transform the way operational staff access and share everyday information used to deliver policing services to the communities.
  - Planned expenditure on vehicles and equipment is £3.250m in 2013/14, comprising £2.7m on the vehicle fleet, which allows for the replacement of vehicles within the current replacement strategy, and £0.320m to complete the replacement of body armour secured in 2012/13 through a national procurement exercise.
17. The table below sets out the proposed financing of the capital programme. Capital resources such as capital receipts and capital grants are limited so prudential borrowing will continue to be the main source of funding. This is dependent on satisfying the prudential framework which requires an income stream to be identified to meet the ongoing revenue costs.

	<b>Original Estimate 2012/13 £m</b>	<b>Revised Estimate 2012/13 £m</b>	<b>Estimate 2013/14 £m</b>
Capital Grant	3.362	3.744	3.496
Capital Receipts	1.400	1.202	1.844
Prudential Borrowing	24.415	20.520	17.410
<b>Total</b>	<b>29.177</b>	<b>25.466</b>	<b>22.750</b>

18. The proposed programme of £22.750m along with planned spending of £21.137m in future years represents a significant investment in the Commissioner's asset base, new technology and operational vehicles and equipment.

## **Revised Revenue Budget 2012/13**

19. The Commissioner also considers regular monitoring reports in relation to the revenue budget. The Commissioner's budget for the financial year 2012/13 was £291.318m, reduced by transfers from reserves of £19.410m. This was revised in June 2012 to take account of agreed rephasing of savings over the life of the MTFS. The budget was revised to £288.924m and the planned use of reserves was reduced to £17.016m
20. The latest report in January 2013 projected an overall net underspend of £4.471m (1.5%) against the approved budget, resulting in a requirement from reserves of £12.545m. A number of factors account for this position, primarily one off business rate refunds, on-going underspends on the Forensic Science Service and capital financing costs, and the limited utilisation of the one off transition contingency. .
21. The underspend has been achieved against a backdrop of continuous improvement of performance by the Force. The Commissioner has identified in year savings in relation to Support Services of £0.073m, and has also overseen reductions in spend against her non staff budgets of £0.170m. Work to review non-essential spending during the remainder of the financial year will continue in the Force and the Commissioner's office in order to maximise the reserves available to support the budget in future years.

## **Revenue Budget 2013/14**

22. For the financial year 2013/14, the proposed total net police expenditure before the use of reserves is £287.381m, details of which are attached at Appendix B. The proposed budget includes £3.3m in pay and prices increases to cover the cost of pay awards and inflationary increases in relation to energy, business rates and rent increases. Most other inflation is being absorbed within existing budgets.
23. Budget pressures of £0.9m have been included in the budget, which relates primarily to increases in national police services' charges, and the uplift of injury pensions in line with CPI. Contract increases of £0.4m have also been included.
24. A further provision of £1.0m has been included to reflect the revenue impact of the capital programme including the cost of additional borrowing.

## **Budget Savings**

25. The proposed budget for 2013/14 includes savings which have been carefully considered to ensure the Commissioner and Force can meet the financial challenges they face whilst continuing to focus on their core principles, as set out below:
  - Police and Crime Plan Delivery;
  - Prioritise Neighbourhood Policing;
  - Improve performance; and
  - Address local priorities.

26. Whilst maintaining the above principles, £16.4m of budget savings have been identified for 2013/14. Further budget savings of over £19m have been built into the updated MTFs for 2014/15 and 2015/16 to meet the challenging financial position and to ensure the impact on frontline policing is minimised.

27. In 2013/14, the savings will be realised by a combination of:

- A reduction in police officers through natural wastage, with a programme of recruitment to protect the frontline. For 2013/14, this reduction is expected to total 184 fte during the course of the year, resulting in a saving of £9.2m, offset by recruitment of 50 fte at a cost of £0.5m in 2013/14. Over the course of the financial year the Force will aim to manage an overall net reduction of 134 fte officers;
- A reduction in police staff through natural wastage. The full-year effect of staff savings in 2012/13 and a further reduction in staff of 35 fte in 2013/14 from natural wastage, estimated at saving £2.4m;
- Implementation of the Winsor Review, which has recommended changes to police officer terms and conditions, generating estimated savings of £2.1m; and
- Scrutiny of non-pay related expenditure throughout the Force, including overtime, with expected savings of £2.4m in 2013/14, as summarised below:

	£000s
Estate savings	792
Review of individual non pay budgets	483
Air Support (NPAS)	271
Forensic Science Service	270
Vehicle Recovery	180
Police Officer Overtime	155
ICT Communications	152
Interpretation Services	68
Catering	55
	<b>2,426</b>

28. Within the non pay savings, rationalisation of the estate is anticipated to generate £0.8m in 2013/14.

29. In addition, expenditure by the Commissioner on support services has been reduced by £0.35m (15%) and closer scrutiny will deliver more savings in the short and medium term, to ensure the net OPPC budget will be lower than that of the former Police Authority.

30. The Force has undertaken a 'Programme of Change' since 2010/11 in order to establish more efficient ways of working whilst continuing to deliver high levels of service alongside the financial challenges of the Spending Review. The Programme has three phases:

- **Phase 1** of the programme revised operating models and delivered significant savings during 2011/12, whilst maintaining visible policing and improving performance;

- **Phase 2** has continued to challenge ways of working through reviewing processes, productivity, key functions and departments; this has resulted in a further reduction of police officers and police staff. The Workforce Strategy throughout has been to achieve these reductions through voluntary redundancy and natural turnover wherever possible; and
- **Phase 3** is pursuing collaborative opportunities, at a local and regional level, resulting in policing services being delivered in collaboration with other forces or organisations.

31. The programme is underpinned by the following principles of:

- Focus on customers
- Delivering local policing tailored to local communities
- Commitment to people and communities.

32. The proposed budget ensures that resources are directed towards achieving the Police and Crime Plan and the Commissioner's objectives. The Police and Crime Plan is shaped by the Force Strategic Assessment and public consultation by the Commissioner. Engagement with local communities had identified that objectives within the current Local Policing Plan are broadly correct. The 2013/14 Police and Crime Plan was considered by the Police and Crime Panel in February.

### Budget Summary

33. Summary of the proposed 2013/14 Revenue Budget is as follows:

	<b>Original Estimate 2012/13 £000</b>	<b>Revised Estimate 2012/13 £000</b>	<b>Forecast Outturn 2012/13 £000</b>	<b>Original Estimate 2013/14 £000</b>
Employees	214,244	212,880	213,915	205,389
Pensions	45,482	45,257	47,158	44,045
Premises	12,089	11,825	11,773	11,546
Supplies & Services	8,866	8,388	8,096	7,900
Transport	5,966	6,070	5,812	5,494
Establishment Expenses	5,853	5,744	5,780	5,062
Agency Services	4,422	4,418	4,015	4,458
Miscellaneous Expenses	7,617	7,559	8,112	9,334
Capital Charges	<u>7,084</u>	<u>7,084</u>	<u>6,370</u>	<u>7,363</u>
Total Expenditure	311,623	309,225	311,031	300,591
Income	<u>(21,305)</u>	<u>(21,301)</u>	<u>(26,645)</u>	<u>(13,210)</u>
Net Expenditure	290,318	287,924	284,386	287,381
Contingency	<u>1,000</u>	<u>1,000</u>	<u>67</u>	<u>0</u>
Total Expenditure	<u>291,318</u>	<u>288,924</u>	<u>284,453</u>	<u>287,381</u>
Appropriations from reserves	<u>(19,410)</u>	<u>(17,016)</u>	<u>(12,545)</u>	<u>(9,274)</u>
<b>Budget Requirement</b>	<b>271,908</b>	<b>271,908</b>	<b>271,908</b>	<b>278,107</b>



## Funding

34. As outlined above, the proposed budget before use of reserves is £287.381m. Formula grant funding available is £240.181m (paragraph 10). This would leave £47.20m to be met from council tax before considering use of reserves. After taking into account Localised Council Tax Support Grant of £6.845m, the Transitional Council Tax Support Grant of £0.161m and the proportion of the collection fund surplus of the constituent billing authorities of £0.074m, this would require a council tax increase of 34%. Further consideration is required, therefore, of the council tax options and the potential for using reserves to fund the proposed budget package.

## Council Tax Options

35. Schedule 5 of the Localism Act introduces a Chapter into the Local Government Finance Act 1992 (the 1992 Act) governing the calculation of council tax. It makes provision for council tax referendums to be held if an authority increases its council tax by an amount exceeding principles determined by the Secretary of State and agreed by the House of Commons.
36. On 19 December 2012, the Secretary of State for Communities and Local Government stated that the trigger for a referendum for Commissioners is likely to be any council tax increase greater than 2%.
37. However, commissioners in whose areas the 2012/13 council tax was in the lower quartile need only hold a referendum if the increase in the basic amount of council tax for 2013/14 is by more than 2% **and** there is a cash increase of more than £5. Northumbria falls into this category; a £5 cash increase at Band D would represent a 5.98% increase and would provide additional funding of approximately £1.78m per annum.
38. A 1% council tax freeze grant will be available in 2013/14, payable for two years, and estimated to be £0.367m per annum for Northumbria. This is only available if the Commissioner freezes the 2013/14 relevant basic council tax level.
39. For Northumbria, each 1% increase in the precept generates approximately £0.298m. An increase of 5.98% (Band D increase from £83.68 a year to £88.68 a year) would generate £1.78m in extra revenue in 2013/14. An increase in one year would also reduce the gap in future periods.
40. The annual additional income generated for a range of council tax increases in 2013/14 can be illustrated as follows:

Increase %	Band D £	Additional Income £m
0.5	84.10	0.150
1	84.52	0.299
1.5	84.94	0.449
2	85.35	0.595
2.5	85.77	0.744
3	86.19	0.894
<b>3.5</b>	<b>86.61</b>	<b>1.044</b>
4	87.03	1.193
4.5	87.45	1.343
5	87.87	1.492
5.5	88.28	1.639
5.98	88.68	1.780

41. Given the size of Northumbria's council tax, which remains the lowest in the country, percentage increases are limited and have only a small impact on council tax in each of the six local authorities in Northumbria. For example, a 3.5% increase at Band D, which covers a minority of households, would be only £2.93 a year or less than 6p a week and is only a fraction of the investment in neighbourhood policing in recent years. Band A households would pay less than an extra 4p per week. A schedule of indicated Band D council tax for each Police and Crime Commissioner for 2012/13 and 2013/14 is attached as Appendix C.

## Reserves

42. The Commissioner's reserves policy is set out in the MTFs and is subject to regular review.
43. A full analysis of the Commissioner's revenue reserves and their planned use taking into account the proposals outlined below is attached at Appendix D. This shows a projected General Reserve of £18.922m and earmarked reserves of £12.268m at 31 March 2013.
44. The General Reserve at £18.922m is 6.6% of revenue expenditure. This meets one of the key MTFs principles to seek to maintain the general reserve at a minimum of 3% of the revenue budget. It is currently at a higher than minimum level as a result of the Commissioner reviewing earmarked reserves and releasing some to provide more flexibility for the budget. Guidance does not dictate a reasonable level of the General Reserve because it needs to be linked to other factors such as the risks inherent in the budget, the level of robustness of budget monitoring, past experience of outturn spending within budget and the extent of earmarked reserves. The General Reserve, which is designed to act as a contingency and smooth out variations in spending, could be reduced to a minimum level of £8.7m if we were to continue to satisfy the minimum 3% guidance.

45. The former Police Authority has previously agreed, subject to annual review, that the General Reserve above the minimum requirements should be used as short term funding to offset grant cuts whilst budget savings are achieved to minimise the impact on frontline policing. This strategy can be applied to allow the Commissioner to use £10.222m of the General Reserve over the next two years as short term funding to contribute to meeting the £22m funding gap identified over the three years of the MTFs whilst budget savings are identified. To support the phasing of budget savings and protect frontline services it is proposed to use £3.550m of the General Reserve in 2013/14 and £6.672m in 2014/15.
46. Earmarked reserves have been established for specific purposes as set out in Appendix D and are regularly reviewed. The main earmarked reserve is the Capital Development Reserve which is set aside to assist in developing and improving the capital assets of the Commissioner, particularly the Estates Strategy, in advance of generating capital receipts from former sites. The current strategy is to use this reserve to fund the revenue implications of prudential borrowing to support the delivery of the capital programme. The reserve, which is forecast to be £7.4m at 31 March 2013, is anticipated to be fully utilised during 2014/15 as a result of existing commitments.
47. The Workforce Management Reserve was set up to fund the one-off cost of police staff redundancies to release the on-going revenue savings of the reduction in staff costs at an estimated cost of between £2m and £3m over the life of the MTFs. It is anticipated that £1.2m of the reserve will be used during 2012/13. The balance of £1.8m is set aside to fund any future workforce changes, for example, the potential cost of a voluntary exit scheme for officers. It is anticipated that this reserve will be fully utilised during 2013/14.
48. The Insurance Reserve has been reviewed in the light of claims history and it is recommended that this remains at £3m. This will provide £2m for the insured liability claims falling within policy excesses and uninsured liability claims and £1m for uninsured property damage.
49. As reported in the MTFs the Commissioner has reviewed the Devolved Budget Reserves and will limit individual reserves balances for operational departments' and area commands' devolved revenue budget to the reduced level of £0.1m as at 31 March 2013.
50. The above proposals can be summarised as follows:
  - In line with the MTFs, the General Reserve will reduce from £18.922m to £8.7m by the end of 2015/16. The proposed net contribution to the revenue budget in 2013/14 is £3.550m.
  - A planned contribution from the Capital Development Reserve of £5.724m in 2013/14, with a further contribution of £1.644m in 2014/15.
  - A planned contribution of £1.8m from the Workforce Development Reserve to fund future workforce changes, including the potential cost of a voluntary exit scheme for officers.

51. Using reserves in this way will allow the Commissioner to continue supporting investment in front line policing and the capital programme and would result in a precept increase of 3.5%, compared to the 34% that would have been necessary without the application of reserves.
52. There is uncertainty about the future distribution of grant from 2014/15 onwards. The Home Secretary will be commissioning a full review of the funding formula once Commissioners are established in their roles and are able to engage fully in the review process. Northumbria will continue to make representations in relation to the current formula failing to take account of relative need, resulting in the current position of Northumbria being £21.647m below the floor. The magnitude of the current reliance on damping protection presents a significant risk to the financial sustainability of Northumbria Police and this has been considered by the Commissioner in the review of reserves.

### **Adequacy of Reserves and Robustness of Budget Estimates**

53. The Local Government Act 2003 requires the Treasurer to undertake an assessment of the robustness of the budget estimates and the adequacy of reserves.
54. The MTFS allows the Commissioner to consider the prudent use of reserves in the context of the future spending pressures and risks arising from potential changes to the funding formula without having a detrimental effect on policing.
55. In assessing the robustness of the budget, the Treasurer has considered the following issues:
  - The general financial standing of the Police and Crime Commissioner;
  - The underlying budget assumptions, including an assessment of the estimates for pay and price increases;
  - A risk assessment of expenditure and income estimates;
  - The future budget pressures identified in the MTFS;
  - The adequacy of the budget monitoring and financial reporting arrangements;
  - The adequacy of the Commissioner's governance arrangements and internal control system;
  - The adequacy of unearmarked reserves to cover any potential financial risks faced by the Commissioner;
  - The risks inherent in reliance on the application of floors beyond 2013/14; and
  - The impact of funding cuts and the uncertainty of grant support beyond 2013/14.
56. At 31 March 2013, the Commissioner's General Reserve is estimated at £18.922m (6.6% of revenue expenditure), in addition to other reserves which are earmarked for specific purposes. The Commissioner's reserves policy will result in the General Reserve reducing to 3% of revenue expenditure by 2014/15. In estimating the level of reserves the Treasurer has taken account of known commitments for 2013/14 and the financial risks faced by the Commissioner which could impact on the level of reserves.

57. The Treasurer confirms that, after taking account of these issues, the revenue and capital estimates contained in this report are considered robust and that the level of reserves proposed in the review set out earlier is considered adequate to cover the financial risks faced by the Commissioner in 2013/14.

## Precept 2013/14

### Decisions for Issue of Precepts

58. Under Section 26 of the Police Reform and Social Responsibility Act 2011, the Police and Crime Commissioner is established as a precepting authority for the purpose of the Local Government Finance Act 1992.
59. Schedule 5 of the Police Reform and Social Responsibility Act 2011 states that “a police and crime commissioner may not issue a precept under section 40 of the Local Government Finance Act 1992 for a financial year until the end of the scrutiny process is reached.”
60. The Commissioner must notify the Police and Crime Panel of the precept she is proposing to issue for the financial year by 1<sup>st</sup> February. The Police and Crime Panel must make a report to the Commissioner on the proposed precept by 8<sup>th</sup> February and may veto it.
61. Northumbria Police and Crime Panel agreed to accept the Police and Crime Commissioner’s proposed increase in the precept of 3.5% at its meeting of 6 February 2013, and the Chair of the Panel notified the Commissioner in writing of this decision on 7 February 2013..
62. The Commissioner must set the precept by 1<sup>st</sup> March, taking the Panel’s report into account.

### Council Tax Requirement

63. The Localism Act requires the Commissioner to set a Council Tax Requirement. The calculation of the Council Tax Requirement, based on the proposed revenue budget and contribution from reserves is set out below:

	<b>£m</b>
Total Revenue Expenditure	287.381
<b>Less</b> Appropriations from Reserves	<u>9.274</u>
Budget Requirement	278.107
<b>Less:</b>	<b>£m</b>
DCLG Grant	119.017
Police Grant	121.164
Localised Council Tax Support Grant	6.845
Transitional Council Tax Support Grant	<u>0.161</u>
	<u>247.187</u>
Balance to be Raised Locally	30.920
Less estimated net surplus on collection funds	<u>0.073</u>
Council Tax Requirement	<u>30.847</u>

64. The proportion of collection funds' net surplus due to the Commissioner from its constituent billing authorities is £0.073m for 2013/14 (£0.257m in 2012/13).
65. The notified Council Tax base figure is 356,193.1, a decrease of 80,973 (18.5%) over the previous year, largely due to the changes following the replacement of the council tax benefit system with localised schemes of discounts.
66. Using the notified Council tax base figure of 356.193.1, the council tax for 2013/14 can then be calculated as £86.61 at Band D, which represents a 3.5% increase from 2012/13. The council tax for Band A households, which represent approximately 60% of the total, would be £57.74, or approximately £1.11 per week. The table below sets out the proposed council tax for each band:

<b>Band</b>	<b>£ per annum</b>	<b>£ per week</b>
A	57.74	1.11
B	67.36	1.29
C	76.99	1.48
D	86.61	1.66
E	105.86	2.03
F	125.10	2.40
G	144.35	2.77
H	173.22	3.32

67. The precept increase will raise an additional £1.044m funding per annum to support the provision of policing services in Northumbria.

### **Consultation Local Communities**

68. Consultation has taken place with stakeholders and local communities, including:
- Engagement in public places such as local supermarkets in Killingworth and Berwick, Gateshead and the Monument Metro Stations and shopping centres such as the Bridges in Sunderland. Public engagement has also take place at Harton Technical College in South Tyneside and a national farmer's event in Hexham.
  - A third sector conference in collaboration with Voluntary organisations Network North East (VONNE) reaching out to organisations with many thousands of participants.
  - Engagement events with young people followed by a youth survey in North Tyneside completed by over 500 young people.
  - An interactive web based survey completed by over 3,000 people from across Northumbria, within which 76% of respondents indicated that they would be happy to pay around 10 pence per week extra for policing in their area..
  - Priority workshops with partner organisations, including Probation and health, Northumbria Police Strategic Independent Advisory Group and police professionals.
  - A review of Community Safety Partnership strategic assessments, plans and emerging priorities for 2013/14.

69. This engagement has specifically included a Victim Advisory Group whose members are themselves victims of crime, and a meeting with representatives from a number of organisations that support victims, for example Victim Support and Tyneside Rape Crisis Centre.
70. To ensure the diverse needs of communities in Northumbria are reflected in the Police and Crime plan and supported by the budget, the Commissioner has established seven Advisory Groups covering victims and the six diversity strands of age, faith, disability, gender, Black Minority Ethnic (BME) and Lesbian, Gay, Bisexual and Transgender (LGBT) communities. These groups will also be included in the engagement process to inform development of the plan.

### **The Prudential Code for Capital Finance in Local Authorities**

71. The CIPFA Prudential Code is a professional code of practice to support local authorities in taking decisions relating to capital investment in fixed assets. Local authorities, including police and crime commissioners and fire authorities, are required to have regard to the Code under Part 1 of the Local Government Act 2003. The basic principle of the system is that local authorities will be free to invest so long as their capital spending plans are affordable, sustainable and prudent.
72. In order to demonstrate that they have fulfilled the objectives of the Code, authorities must produce a range of key Prudential Indicators. The Code does not suggest indicative limits or ratios for these indicators, which are designed to support and record local decision making, and are not intended to be used for comparative purposes.
73. These key indicators can be split into two broad categories, affordability indicators and prudence indicators. Affordability indicators concentrate upon the level of capital investment over the period 2012/13 to 2014/15. Prudential indicators concentrate on the level and composition of external debt, and are therefore very closely linked to the Commissioner's Treasury Management Strategy.
74. The Commissioner's proposed Prudential Indicators are shown at Appendix E to this report.

### **Minimum Revenue Provision**

75. Regulations came into effect from March 2008 with regard to preparing an Annual MRP Statement. MRP is the amount that needs to be set aside to reflect the depreciation of capital assets. There are no proposed changes to the method used to calculate MRP and the Annual MRP statement for 2013/14 is attached at Appendix F.

### **Financial Considerations**

76. Financial implications are considered throughout the report.

## **Risk Management Implications**

77. Associated risks have been considered and recorded as appropriate and are set out in Appendix G.

## **Legal Considerations**

78. The legal implications are considered within the report.

## **Equal Opportunities Implications**

79. The Equality Act 2010 includes a public sector duty to embed equality considerations into the day to day work of all public authorities. This ensures that they tackle discrimination and inequality and contribute to making society fairer. The impact of individual budget proposals arising from the contents of this report will be assessed and considered prior to implementation in relation to equality duty of both the Commissioner and Force to:
- eliminate unlawful discrimination, harassment and victimisation;
  - advance equality of opportunity between people from different groups; and
  - foster good relations between people from different groups.

## **Recommendations**

80. The Commissioner is requested to:
1. (a) approve the capital programme and authorise the Treasurer to undertake the appropriate financing;
  - (b) approve the revenue budget;
  - (c) agree the review of the reserves policy; and
  - (d) note the recommendations of the Treasurer in respect of the robustness of the budget and the adequacy of reserves.
  2. Note the Council Tax Base of 356,191.09 for the year 2013/14 as notified by the billing authorities within Tyne and Wear and Northumberland (item T in the formula in Section 42B of the Local Government Finance Act 1992, as amended).
  3. Approve the following amounts for the year 2013/14 in accordance with Sections 42A, 42B and 45 to 47 of the Local Government Finance Act 1992, as amended:-
    - (a) £300,591,455 being the aggregate of the amounts which the Police and Crime Commissioner estimates for the items set out in Section 42A (2) (a) to (d) of the Act;
    - (b) £269,744,170 being the aggregate of the amounts which the Police and Crime Commissioner estimates for the items set out in Section 42A (3) (a) to (b) adjusted for the item set out in S42A (10) of the Act;



(c) £30,847,285 being the amount by which the aggregate at (a) above exceeds the aggregate at (b) above, calculated by the Police and Crime Commissioner in accordance with Section 42A (4) of the Act, as its Council Tax Requirement for the year (item R in the formula is Section 42B of the Act);

(d) £86.61 being the amount at (c) above (item R) divided by the amount noted in Recommendation 3 above (item T), calculated by the Police and Crime Commissioner in accordance with Section 42B (1) of the Act, as the basic amount of its Council Tax for the year;

(e) Valuation bands

A	£ 57.74	being the amounts given by multiplying the
B	£ 67.36	amount of (d) above by the number which, in
C	£ 76.99	the proportion set out in Section 5 (1) of the
D	£ 86.61	Act, is applicable to dwellings listed in a
E	£105.86	particular valuation band divided by the number
F	£125.10	which in that proportion is applicable to
G	£144.35	dwellings listed in valuation band D, calculated
H	£173.22	by the Police and Crime Commissioner in
		accordance with Section 47 (1) of the Act, as
		the amounts to be taken into account for the
		year in respect of the categories of dwelling
		listed in different valuation bands.

4. Resolve that under Section 52ZB of the Local Government Finance Act, the Commissioner's relevant basic amount of Council Tax for 2013/14 is not excessive in accordance with the principles determined under Section 52ZC (1) of the Act for 2013/14.
5. Resolve that in accordance with Section 40 of the Local Government Finance Act 1992, as amended, the billing authorities within the area of this authority be issued with precepts in the amount of £30,847,285 for the financial year beginning 1 April 2013, the amount of the retrospective precepts to be issued to each billing authority's area in accordance with the Sections 42A, 42B and 45 to 48 of the 1992 Act, as amended.
6. Approve the Prudential Indicators as outlined in Appendix E to this report.
7. Accept the recommendation of the Treasurer for the method of calculating MRP for 2013/14 as set out in the Annual MRP statement at Appendix F to this report.

## **Background and Supporting Papers**

Report of the Police and Crime Commissioner for Northumbria to Northumbria Police and Crime Panel meeting on 6 February 2013 on Proposed Precept for 2013/14

Response of the Northumbria Police and Crime Panel to the Police and Crime Commissioner for Northumbria on Proposed Precept 2013/14, 7 February 2013

Letter of the Police and Crime Commissioner for Northumbria to the Chair of Northumbria Police and Crime Panel on Proposed Precept, 13 February 2013

Medium Term Financial Strategy 2013/14 to 2015/16 of the Police and Crime Commissioner for Northumbria

Written Ministerial Statement of Minister of State for Policing and Criminal Justice on 4 February 2013 on the final Police Grant Report England and Wales 2013/14

Written Ministerial Statement of Minister of State for Policing and Criminal Justice on 19 December 2012 on Provisional Police Funding Announcement – Home Office Police Grant Report England and Wales 2013/14

## POLICE &amp; CRIME COMMISSIONER FOR NORTHUMBRIA

## CAPITAL PROGRAMME 2012/13 – 2015/16

Scheme	2012/13 Revised Estimate £000s	2013/14 Estimate £000s	2014/15 Estimate £000s	2015/16 Estimate £000s
<b>MAJOR BUILDING WORKS</b>				
Newcastle City Centre Police Station	9,000	14,300	2,800	400
North Tyneside - New Command HQ	212			
Operations / Training Firearms Facility	8,506	200		
Estates Rationalisation	600	1,890	25	
<b>TOTAL MAJOR BUILDING WORKS</b>	<b>18,318</b>	<b>16,390</b>	<b>2,825</b>	<b>400</b>
<b>MINOR BUILDING WORKS</b>				
Cell Refurbishments	210	450	450	600
Aerial Masts	75	4		
Refurbishment of Westgate Road	722	16		
Helicopter Support Unit, Newcastle Airport	228			
Decommissioning sites	140	60		
Energy Management Initiatives	150	150	150	150
Public Area CCTV	250	191	215	235
Estates Review - Gateshead PS	3			
Custody Suite Upgrade / CCTV	215			
<b>TOTAL MINOR BUILDING WORKS</b>	<b>1,993</b>	<b>871</b>	<b>815</b>	<b>985</b>
<b>TOTAL BUILDING WORKS</b>	<b>20,311</b>	<b>17,261</b>	<b>3,640</b>	<b>1,385</b>
<b>COMPUTERS &amp; COMMUNICATIONS</b>				
Service Access - PCs	5	50	160	320
Service Hosting - Servers/SAN	533	250	275	200
Resource Management System	39			
Data & Telephony Network Refresh		175	100	4,000
Telephone Network/Voice Uplift	385			
Airwave Refresh - Covert equipment	44		100	100
Airwave Refresh - Handheld equipment	393			1,575
Control Rooms - ICCS				1,400
Control Rooms - recording system				250
Confidential Network	101			
Automatic Number Plate Recognition (ANPR)	85	38		
Microsoft Licences		70	70	70
Operational Systems refresh (NPICCS)			1,000	
Performance Management and Business Intelligence System (PMIS)	64			
Geographic Information System (GIS)		56		
Information Management		500	300	300
National ICT			500	
Mobile Data	220	1,100		
<b>TOTAL COMPUTERS &amp; COMMUNICATIONS</b>	<b>1,869</b>	<b>2,239</b>	<b>2,505</b>	<b>8,215</b>

## POLICE &amp; CRIME COMMISSIONER FOR NORTHUMBRIA

## CAPITAL PROGRAMME 2012/13 – 2015/16

<b>Scheme</b>	<b>2012/13 Revised Estimate £000s</b>	<b>2013/14 Estimate £000s</b>	<b>2014/15 Estimate £000s</b>	<b>2015/16 Estimate £000s</b>
<b>VEHICLES &amp; EQUIPMENT</b>				
Replacement of Operational Vehicles	2,250	2,704	2,885	2,295
Body Armour Revalidation/Replacement	930	320		
TSU - Technology Refresh	106	106	106	106
TSU - Telephony refresh		120		
<b>TOTAL VEHICLES &amp; EQUIPMENT</b>	<b>3,286</b>	<b>3,250</b>	<b>2,991</b>	<b>2,401</b>
<b>TOTAL CAPITAL PROGRAMME</b>	<b>25,466</b>	<b>22,750</b>	<b>9,136</b>	<b>12,001</b>

## POLICE &amp; CRIME COMMISSIONER FOR NORTHUMBRIA

## REVENUE BUDGET 2013/14

	ORIGINAL ESTIMATE 2012/13 £000s (1)	REVISED ESTIMATE 2012/13 £000s (2)	FORECAST OUTTURN 2012/13 £000s (3)	ORIGINAL ESTIMATE 2013/14 £000s (4)
<b>Employees</b>				
<b>- Pay</b>				
Police Officers	144,480	143,954	144,736	138,587
Police Overtime	3,996	3,683	4,409	3,814
Staff	45,742	45,336	45,039	44,198
Earnings Related Contributions	16,271	16,170	16,260	15,739
Allowances	3,755	3,737	3,471	3,051
	214,244	212,880	213,916	205,389
<b>- Pensions</b>				
Police Officer Pensions	38,607	38,438	40,338	37,323
Staff Pensions	6,875	6,819	6,820	6,722
	45,482	45,257	47,158	44,045
<b>Premises</b>				
Maintenance & Improvement	2,787	2,955	2,762	2,681
Energy	3,499	3,074	3,118	2,968
Furniture & Fittings	41	34	8	10
Rent & Rates	4,153	4,153	4,311	4,466
Contract Cleaning	1,609	1,609	1,574	1,421
	12,089	11,825	11,773	11,546
<b>Supplies &amp; Services</b>				
Equipment & Materials	1,102	1,145	1,266	1,049
Computer Maintenance & Rental	2,366	2,001	1,857	1,694
Catering	55	55	61	0
Clothing, Uniforms & Laundry	684	677	519	610
Communications	3,974	3,825	3,776	3,921
Education and Training	685	685	617	626
	8,866	8,388	8,096	7,900
<b>Transport</b>				
Air Support	1,499	1,499	1,358	1,228
Car Allowances & Vehicle Hire	717	789	726	681
Petrol, Oil, Tyres & Licences	2,922	2,929	2,888	2,865
Repair & Maintenance of Vehicles	828	853	840	720
	5,966	6,070	5,812	5,494

## POLICE &amp; CRIME COMMISSIONER FOR NORTHUMBRIA

## REVENUE BUDGET 2013/14

	ORIGINAL ESTIMATE 2012/13 £000s (1)	REVISED ESTIMATE 2012/13 £000s (2)	FORECAST OUTTURN 2012/13 £000s (3)	ORIGINAL ESTIMATE 2013/14 £000s (4)
<b>Establishment Expenses</b>				
Printing, Stationery, Advertising	992	1,008	1,082	967
Travelling & Subsistence	608	483	510	441
Members Expenses	232	232	135	16
Insurances	1,669	1,669	1,774	1,639
Support Services	2,352	2,352	2,279	1,999
	5,853	5,744	5,780	5,062
<b>Agency Services</b>				
Forensic Science Service	1,950	1,950	1,570	1,680
Consortium Charges & Fingerprinting	247	247	245	260
Other National Police Services	1,018	1,019	965	1,247
Airwave	1,207	1,202	1,235	1,271
	4,422	4,418	4,015	4,458
<b>Miscellaneous Expenses</b>				
Surgeons & Pathologists Fees	2,877	2,897	2,837	2,790
Community Safety	782	792	1,096	2,887
Crime Management	553	553	486	499
Vehicle Recovery	958	949	919	929
Audit, Debt Management & Bank Charges	147	147	121	121
Interpreters Fees	227	232	158	155
Other Expenses	2,073	1,989	2,495	1,953
	7,617	7,559	8,112	9,334
<b>Capital Charges</b>				
Capital Financing	7,084	7,084	6,370	7,363
	7,084	7,084	6,370	7,363
<b>Total Expenditure</b>	311,623	309,225	311,031	300,591

## POLICE &amp; CRIME COMMISSIONER FOR NORTHUMBRIA

## REVENUE BUDGET 2013/14

	ORIGINAL ESTIMATE 2012/13 £000s (1)	REVISED ESTIMATE 2012/13 £000s (2)	FORECAST OUTTURN 2012/13 £000s (3)	ORIGINAL ESTIMATE 2013/14 £000s (4)
<b>Income</b>				
Sales	(222)	(222)	(330)	(222)
Special Services	(1,099)	(1,099)	(1,152)	(1,093)
Fees	(1,714)	(1,721)	(1,985)	(2,094)
Secondments / partnerships	(1,511)	(1,862)	(2,192)	(1,857)
Rents	(381)	(381)	(437)	(396)
Grants and other income	(16,378)	(16,017)	(20,549)	(7,548)
	(21,305)	(21,301)	(26,645)	(13,210)
<b>Net Police &amp; Crime Commissioner Revenue Budget</b>	<b>290,318</b>	<b>287,924</b>	<b>284,386</b>	<b>287,381</b>
Contingency	1,000	1,000	67	0
<b>Total Police &amp; Crime Commissioner Revenue Expenditure</b>	<b>291,318</b>	<b>288,924</b>	<b>284,453</b>	<b>287,381</b>
Use of Reserves	(19,410)	(17,016)	(12,545)	(9,274)
<b>Budget Requirement</b>	<b>271,908</b>	<b>271,908</b>	<b>271,908</b>	<b>278,107</b>
<b>Funded By:</b>				
Home Office Grant	114,992	114,992	114,992	121,164
DCLG Grant	120,079	120,079	120,079	119,017
Localised Council Tax Support Grant	0	0	0	6,845
Transitional Council Tax Support Grant	0	0	0	161
Collection Funds' net surplus	257	257	257	73
<b>Council Tax Requirement</b>	<b>(36,580)</b>	<b>(36,580)</b>	<b>(36,580)</b>	<b>(30,847)</b>

**Schedule of indicated Band D council tax for Police & Crime Commissioners for  
England and Wales for 2013/14**

<b>Force Area</b>	<b>2012/13 Band D Precept £</b>	<b>Indicated 2013/14 Band D Precept £</b>	<b>Increase £</b>	<b>Increase %</b>
Avon and Somerset	168.03	168.03	0.00	0
Bedfordshire	150.49	153.50	3.01	2
Cambridgeshire	174.51	177.83	3.32	1.9
Cheshire	150.22	153.22	3.00	2
Cleveland	194.41	198.30	3.89	2
Cumbria	200.79	204.66	3.87	1.93
Derbyshire	163.74	166.95	3.21	1.96
Devon & Cornwall	159.73	162.92	3.19	2
Dorset	180.00	183.51	3.51	1.95
Durham	153.41	156.48	3.07	2
Dyfed Powys	198.54	206.28	7.74	3.9
Essex	136.71	141.48	4.77	3.5
Gloucestershire	199.69	203.68	3.99	2
Greater Manchester	144.33	149.33	5.00	3.46
Gwent	193.09	198.23	5.14	2.66
Hampshire	146.25	151.22	4.97	3.4
Hertfordshire	147.82	147.82	0.00	0
Humberside	173.12	173.12	0.00	0
Kent	138.68	141.45	2.77	2
Lancashire	149.93	152.93	3.00	2
Leicestershire	173.87	173.87	0.00	0
Lincolnshire	186.39	190.12	3.73	2
Merseyside	150.62	153.63	3.01	2
Norfolk	196.92	200.79	3.87	1.965
North Wales	214.56	223.10	8.54	3.98
North Yorkshire	204.55	204.55	0.00	0
Northamptonshire	193.20	193.20	0.00	0
<b>Northumbria</b>	<b>83.68</b>	<b>86.61</b>	<b>2.93</b>	<b>3.5</b>
Nottinghamshire	166.41	169.65	3.24	1.95
South Wales	169.42	181.28	11.86	7
South Yorkshire	137.55	142.36	4.81	3.5
Staffordshire	177.61	177.61	0.00	0
Suffolk	166.77	166.77	0.00	0
Surrey	203.49	207.56	4.07	2
Sussex	138.42	138.42	0.00	0
Thames Valley	154.30	157.38	3.08	2
Warwickshire	180.96	180.96	0.00	0
West Mercia	178.72	178.72	0.00	0
West Midlands	99.45	102.43	2.98	3
West Yorkshire	130.50	135.50	5.00	3.8
Wiltshire	157.77	157.77	0.00	0



## POLICE AND CRIME COMMISSIONER FOR NORTHUMBRIA

## RESERVES AND PLANNED USE

	Closing Balance at 31/03/2012 £000s	Movement during Year £000s	Review of Reserves £000s	Estimated Closing Balance at 31/03/2013 £000s	Planned movement during Year £000s	Estimated Closing Balance at 31/03/2014 £000s	Planned movement during Year £000s	Estimated Closing Balance at 31/03/2015 £000s
<b>General Reserve</b> The general reserve exists to protect the Commissioner against unexpected events and to finance future revenue or capital expenditure.	26,635	-8,908	1,195	18,922	-3,550	15,372	-6,672	8,700
<b>Insurance Reserve</b> This reserve is maintained for potential liabilities and costs which fall onto the Commissioner where no external insurance cover is arranged by or available to the Commissioner	3,000	0	0	3,000	0	3,000	0	3,000
<b>Devolved Budget Reserve</b> This represents individual reserves for operational departments' and area commands' devolved revenue budgets.	295	0	-195	100	0	100	0	100
<b>Airwave Reserve</b> This reserve was established to allow for the future costs associated with the new radio communications system.	1,000	0	-1,000	0	0	0	0	0
<b>Capital Development Reserve</b> The capital development reserve is to assist in developing and improving the capital assets of the Commissioner.	11,005	-3,637	0	7,368	-5,724	1,644	-1,644	0
<b>Workforce Development Reserve</b> The workforce development reserve is to support the costs of workforce changes.	3,000	-1,200	0	1,800	-1,800	0	0	0
<b>Total</b>	<b>44,935</b>	<b>-13,745</b>	<b>0</b>	<b>31,190</b>	<b>-11,074</b>	<b>20,116</b>	<b>-8,316</b>	<b>11,800</b>

### Prudential Indicators – Treasury Management

The authorised boundary for external debt is based on the worst case scenario of the Commissioner's most likely borrowing for the next three financial years; taking into account estimated capital expenditure and estimated cash flow requirements

<b>Authorised Limit For External Debt</b>			
	<b>2013/14 £000</b>	<b>2014/15 £000</b>	<b>2015/16 £000</b>
Borrowing	170,000	170,000	170,000
Other Long term Liabilities	0	0	0
<b>Total</b>	<b>170,000</b>	<b>170,000</b>	<b>170,000</b>

The operational boundary for external debt is based on the Commissioner's estimate of most likely borrowing for the next three financial years, taking into account estimated capital expenditure and estimated cash flow requirements.

<b>Operational Boundary For External Debt</b>			
	<b>2013/14 £000</b>	<b>2014/15 £000</b>	<b>2015/16 £000</b>
Borrowing	145,000	145,000	145,000
Other Long Term Liabilities	0	0	0
<b>Total</b>	<b>145,000</b>	<b>145,000</b>	<b>145,000</b>

The setting of upper and lower limits on fixed and variable interest rate exposure has the effect of creating ranges within which a Commissioner will limit its exposure to both fixed and variable interest rate movements. It provides a single point of control over the overall interest obligations on a net basis. Indicators are set by considering as many borrowing and investment scenarios as possible, providing a framework that the Commissioner can work within.

<b>Upper Limit On Fixed And Variable Interest Rates Exposures</b>			
	<b>2013/14 £000</b>	<b>2014/15 £000</b>	<b>2015/16 £000</b>
<b>Fixed rate:</b>			
<b>Upper</b>	85.206	87.035	84.033
<b>Lower</b>	(20.617)	(51.581)	(56.413)
<b>Variable rate:</b>			
<b>Upper</b>	12.750	13.250	13.250
<b>Lower</b>	(20.000)	(20.000)	(20.000)

The upper and lower limits for the maturity structure of borrowing are calculated to provide a framework within which the Commissioner can manage the maturity of new and existing borrowing to ensure that debt repayments are affordable in coming years.

<b>Upper And Lower Limits For The Maturity Structure Of Borrowings</b>		
	<b>Upper Limit</b>	<b>Lower Limit</b>
Under 12 months	20%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	70%	0%
10 years and above	90%	0%

The purpose of the upper limit on amounts invested beyond 364 days is for the Commissioner to contain its exposure to the possibility of loss that might arise as a result of having to seek early repayment or redemption of principal sums invested.

<b>Upper Limit On Amounts Invested Beyond 364 Days</b>			
	<b>2013/14 £000</b>	<b>2014/15 £000</b>	<b>2015/16 £000</b>
Investments	15,000	15,000	15,000

## Police and Crime Commissioner for Northumbria Minimum Revenue Provision (MRP) Statement 2013/14

Four methods of calculating MRP are set out in the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [Si 2008/414] as detailed below:

### Option 1: Regulatory Method

MRP is equal to the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations, as if they had not been revoked by the 2008 Regulations. The MRP element of the RSG (Revenue Support Grant) is calculated on this basis.

### Option 2: Capital Financing Requirement (CFR) Method

MRP is equal to 4% of the CFR at the end of the preceding financial year.

### Option 3: Asset Life Method

Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the life of the asset. There are two main methods by which this can be achieved, as described below. Under both variations, authorities may in any year make additional voluntary revenue provision, in which case they may make an appropriate reduction in later years' levels of MRP.

#### (a) Equal instalment method

MRP is the amount given by the following formula:

$$\frac{A - B}{C}$$

where:

- **A** is the amount of the capital expenditure in respect of the asset financed by borrowing or credit arrangements
- **B** is the total provision made before the current financial year in respect of that expenditure
- **C** is the inclusive number of financial years from the current year to that in which the estimated life of the asset expires.

#### (b) Annuity method

MRP is the principal element for the year of the annuity required to repay over the asset life the amount of capital expenditure financed by borrowing or credit arrangements. An appropriate interest rate should be used to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during the repayment period (eg by the application of capital receipts) should be made as necessary.

MRP should normally commence in the financial year following the one in which the expenditure was incurred. The estimated life of the asset should be determined in the year that MRP commences and not subsequently be revised.

If no life can reasonably be attributed to an asset, such as freehold land, the life should be taken to be a maximum of 50 years. However, in the case of freehold land on which a building or other structure is constructed, the life of the land may be treated as equal to that of the structure, where this would exceed 50 years.

When borrowing to provide an asset, the Commissioner may treat the asset life as commencing in the year in which the asset first becomes operational. It may postpone beginning to make MRP until the financial year following the one in which the asset becomes operational. "Operational" here has its standard accounting definition. Investment properties should be regarded as becoming operational when they begin to generate revenues.

#### **Option 4: Depreciation Method**

MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment chargeable to the Income and Expenditure Account.

For this purpose standard depreciation accounting procedures should be followed, except in the following respects.

MRP should continue to be made annually until the cumulative amount of such provision is equal to the expenditure originally financed by borrowing or credit arrangements. Thereafter the authority may cease to make MRP.

On disposal of the asset, the charge should continue in accordance with the depreciation schedule as if the disposal had not taken place. But this does not affect the ability to apply capital receipts or other funding sources at any time to repay all or part of the outstanding debt.

Where the percentage of the expenditure on the asset financed by borrowing or credit arrangements is less than 100%, MRP should be equal to the same percentage of the provision required under depreciation accounting.

**In 2013/14, the MRP will be calculated on supported expenditure using the regulatory method and on self-financed expenditure using the asset life (equal instalment method). The Treasurer has the discretion to make additional voluntary provision. The impact of MRP has been considered when determining the financing of the 2013/14 Capital Programme.**

## NORTHUMBRIA POLICE AUTHORITY FINANCIAL RISK ANALYSIS

### 1. General Balances

The risk is that the General Reserve balance is not sufficient. This is mitigated by:

- The General Reserve will be kept at a minimum of 3% of revenue expenditure;
- The projected balance on the General Reserve at the 1 April 2013 of £18.922m is 6.6% of the revenue expenditure budget; and
- Strong financial controls have resulted in a consistent trend of the revenue outturn being delivered within budget in recent years.

### 2. Pay Increases

The risk is that pay increases may exceed the levels provided for within the budget. A pay award of 1% has been assumed for 2013/14 payable from September 2013. There is a two-year national pay freeze for police officers and police staff ending in 2013. The Chancellor in his Autumn Statement 2011 announced a cap on public sector pay of 1% following the pay freeze period.

### 3. Price Increases

The risk is that price increases may exceed the levels provided for within the budget. This is mitigated by applying inflation on an individual basis to provide for contractual commitments and premises related expenditure. All other inflation will be managed within existing budgets reflecting the current economic climate. The risk that prices may rise is mitigated by budget monitoring arrangements and the Force's current approach to efficiency in challenging and managing spend pressures. Devolved expenditure is generally controllable and encourages savings at a local level, and any under/over spends are transferred to/from devolved budget reserves.

### 4. Capital Financing

The risk is that Capital Financing Charges will be greater than budgeted. This is mitigated by:

- Revenue implications are considered as part of the capital planning process and taken in to account in the MTFs; and
- The principal repayment in respect of debt is the MRP, which is based on 4% of the opening capital financing requirement for supported borrowing and calculated on an asset by asset basis as part of the capital planning process. Any change in interest rates will not have an effect as 100% of debt is at fixed rates and any refinancing of existing debt will only take place if it will lead to a long term saving in interest charges.

## 5. Financial Planning

The risk is that a major liability or commitment is currently known but has not been taken into account in the Police and Crime Commissioner's financial planning. This is mitigated by:

- The Medium Term Financial Strategy includes an assessment of spending pressures, to be assessed for inclusion in the Commissioner's budget, identified by the Chief Constable by reference amongst other sources to the Local Policing Plan; and
- In addition, regular liaison by senior officers of the Force and the Commissioner's Office help to strengthen and coordinate the financial planning of the Commissioner.

## 6. Savings

Budget savings of £16.4m have been included in the revenue budget for 2013/14. The risk is that the budget savings will not be delivered. This is mitigated by:

- The strong record of delivering the budget within targets;
- The Chief Constable's Programme of Change to deliver the budget savings over the next three years
- The Force's strong record of achievement of efficiencies, so if the planned savings could not be delivered, alternatives would be identified; and
- Adequacy of the General Reserve and the overall reserves policy.

## 7. National Funding

The risk inherent in being below the floor for formula grant. This risk is not mitigated, but Northumbria continues to make representations in relation to the current formula failing to take account of relative need. The confirmed funding levels for the coming year and the announcement that the damping mechanism will not change until a full review of the formula funding is undertaken, which is not expected to impact before 2015/16 gives some certainty around levels of funding within the Spending Review period to allow financial planning. In addition, the Commissioner will be able to be fully engaged in the review of formula funding.

## 8. Loss of Deposit

The risk is that funds deposited by the Commissioner are lost due to the collapse of the financial institution with whom the deposit is placed. The risk is limited by the controls in the Treasury Management Strategy which focuses on control of deposits rather than returns. The potential impact is limited by the strategy of a diverse portfolio with top rated institutions which are either part nationalised or have credit guarantees.

## 9. Interest Rates on Deposits

The risk is that interest rates will be lower than expected and prudent assumptions on likely interest rates for 2013/14 have been incorporated into the budget.

## 10. Budgetary Control

The risk is that the budget will overspend. This is mitigated by:

- Monthly budget monitoring in place;
- Quarterly monitoring reports to the Commissioner;
- Performance in previous years; and
- Rules in place regarding devolvement which encourages savings and allows for transfers to and from balances.

## 11. Council Tax

The Localism Act makes provision for council tax referendums to be held if a commissioner increases her council tax by an amount exceeding principles determined by the Secretary of State and agreed by the House of Commons. For 2013/14, these principles have already been reported and agreed by Parliament. For commissioners, any increase in the relevant amount of council tax in excess of 2% will be considered excessive but commissioners in whose areas the 2012/13 council tax was in the lower quartile need only hold a referendum if the increase is more than 2% and there is a cash increase of more than £5. The Commissioner has proposed an increase of £2.93 or 3.5%.

The risk following the localisation of council tax support is that collection rates could be affected which would impact on billing authorities' collection fund balances and any surpluses payable to the Commissioner. To mitigate this risk, local billing authorities have factored in prudent collection rates.

## 12. Capital Programme Implications

The risk is that the capital programme may be understated, funding will not be available as planned or that over spending may occur. This is mitigated by:

- Regular review of Estates Strategy and the decision to focus on key priority schemes only; together with quarterly updates of progress will provide assurance in the accuracy of forecasts;
- Quarterly capital monitoring reports to the Commissioner; and
- Prudential regime gives added flexibility in terms of financing the Capital Programme.



### **13. Risk Management**

The risk is that all risks have not been identified when the budget has been set and that major financial consequences may result. This is mitigated by:

- Risk management arrangements;
- Comprehensive self and external insurance arrangements in place;
- Adequacy of the insurance reserve; and
- Adequacy of the general balances and the overall reserves policy.