

## NORTHUMBRIA POLICE AND CRIME COMMISSIONER

### Key Decisions

#### Title and Reference

Approval for the Council Tax and Revenue and Capital Budgets for 2014/15

(PCC/68/2014)

#### Summary

On 3 February 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 requirements 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 2014/15;
- the review of the reserves policy;
- the council tax precept of £86.61 for Band D to be issued for 2014/15;
- the calculations of the council tax in 2014/15 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 Position (MRP) for 2014/15

#### Northumbria Police and Crime Commissioner

I hereby approve the recommendation above.

Signature



Date

13.2.14

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**Council Tax Precept and Revenue and Capital Budgets 2014/15**

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**Report of Mike Tait, Joint Chief Finance Officer**

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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 2014/15 to enable a council tax to be formally agreed and issued in accordance with statutory requirements for the financial year commencing 1 April 2014.

**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 3 February 2014, the Police and Crime Panel agreed the Commissioner's proposals to accept the 1% council tax freeze grant and issue a Band D council tax precept for the Northumbria area of, £86.61 which represents no increase on the previous year.
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;
  - Acceptance of a 1% baselined council tax freeze grant in 2014/15
5. In preparing the budgets, the following issues have been considered:
  - The key principles underlying the MTFS 2014/15 to 2016/17;
  - The provisional Police Grant settlement for 2014/15, which for Northumbria is a reduction in grant funding of 4.8%, a cash reduction of £11.5m;
  - The forecast Revenue and Capital outturn for 2013/14;
  - The budget pressures in 2014/15;
  - 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 2014/15 to 2016/17 sets out a challenging financial context:

- a reduction in grant funding of 4.8% for the next year and projected reductions of a similar magnitude over the remaining years of the MTF5;
  - budget savings of over £42m over the next three years, on top of savings in excess of £40m already achieved over the previous two financial years;
7. This report sets out the proposed revenue budget and capital programme for 2014/15, 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 2014/15**

8. Summary of Proposed Council Tax and Revenue & Capital Budgets 2014/15
- A revenue budget of £277.7m for policing and crime reduction;
  - Provision for increases in pay and prices of £3.6m;
  - 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 £1.0m to support capital investment in buildings, vehicles and new technology;
  - Budget savings of £19.2m in 2014/15;
  - Capital investment in buildings, vehicles and new technology of £13.2m ;
  - The use of £6.5m from the Commissioner's reserves to support capital investment and phase budget savings to minimise the impact on frontline policing; and
  - Acceptance of the council tax freeze grant resulting in no increase in Band D Council Tax of £86.61.

### **Police Finance Settlement**

9. The final Formula Grant figures for 2014/15 have yet to be published however it is anticipated that there will be no difference to the provisional settlement of 18 December 2013.
10. Northumbria's reduction in grant funding is 4.8% in 2014/15 is consistent with the national reduction for all Commissioners and represents a cash reduction of £11.5m.
11. Northumbria will receive £230.52m in Formula Grant in 2014/15.
12. In addition, the Commissioner will receive £6.867m in Localised Council Tax Support Grant and £0.912m in legacy council tax freeze grant which is the allocation from the 2011/12 council tax freeze grant to offset the shortfall in council tax income.
13. The Government has made available funding to Commissioners to freeze their council tax in 2014/15 and 2015/16. The grant funding is baselined for two years and is equivalent to a 1% increase in council tax, which for Northumbria equates to £0.384m in 2014/15 and £0.768 in 2015/16. The implications are considered later in this report.

14. Over the Spending Review 2010 and 2013 periods, a number of specific grants have been absorbed within the Main Police grant. In 2013/14 the Commissioner received an un-ring fenced Community Safety grant of £2.789m. This Community Safety grant is being rolled into the Main Police grant for 2014/15 therefore there is no specific funding for Community Safety activity. Those grants that remain specific include Counter Terrorism, Victim Support services and Restorative justice funding.
15. The financial settlement announced in December 2013 gave additional advice that a number of new funding streams have been created through top-slices from main police grant, i.e. Innovation Fund, National Police Coordination Centre, IPCC (Independent Police Complaints Commission), College of Policing. The IPCC will be expanded so it is able to deal with all serious and sensitive cases involving police and HMIC are to receive funding for a new annual programme of Force inspections to enable the public to see how well their force is performing in relation to cutting crime and providing value for money. The impact of this top slicing to Northumbria is an additional loss of £3.6m per annum from 2014/15. Bids to the Innovation Fund will be considered to support the ongoing activities of the Commissioner.

#### **Capital Programme 2013/14**

16. The Commissioner considers formal quarterly monitoring reports in relation to the capital programme. The latest report in September 2013 indicated that expenditure in 2013/14 was currently estimated at £20.69m, compared to the budget of £22.8m. The reduction in the revised estimate for the year reflects some minor movement and roll over of planned schemes into 2014/15. The quarterly reports are supported by regular updates at the Joint Business Meeting with the Chief Constable.

#### **Capital Programme 2014/15**

17. The proposed capital programme set out below for 2014/15 totals £13.2m and is reflected in the MTFS. The programme has been set at a level to reflect the challenging financial position and the need to focus on essential schemes such as the rationalisation of the estate.

	<b>2014/15</b>
	<b>£m</b>
<b>High Priority Proposals</b>	
Major Building Schemes	3.08
Minor Building Schemes	3.11
ICT	3.91
Vehicles/Equipment	3.11
<b>Total</b>	<b>13.21</b>

18. The following comments outline the 2014/15 year capital programme:
  - Major Building schemes £3.08m – Continuation of the existing Forth Banks building work is due to end 2014/15. There are no further major building works expected.

- Minor Building Schemes £3.11m – Includes the ongoing programmes of the cell refurbishment and work associated with implementing the new operating model and vacation of the HQ site at Ponteland.
  - Computer and Communications £3.91m - Street to Strategic, as previously identified, which is the ICT Transformation through the use of mobile access, modernisation and core operational systems and improvement of Information Management.
  - Other £3.11m - Capital provision for the annual refresh and replacement of IT and Airwave equipment as well as replacement of Force vehicles.
19. If account is taken of the provisional capital grant, and assumed capital receipts over the period of the MTFs, then there is a need for additional prudential borrowing of £6.4m in 2014/15; beyond this period the capital receipts will fund the programme.

#### **Revised Revenue Budget 2013/14**

20. The Commissioner also considers regular monitoring reports in relation to the revenue budget. The Commissioner's budget for the financial year 2013/14 after use of reserves was £278.1m.
21. The latest report in September 2013 projected an overall net underspend of £3.095m (1.1%) against the approved budget, resulting in a requirement from reserves of £6.63m. The main reasons for the variance include officer and staff pay, as well as various forecast over and under spends within the Non Pay budgets, the net impact of which is an under spend of £0.53m. The key areas contributing to this non pay under spend include Forensic Science, Supplies and Services including Force Uniform and Equipment budgets and rates under spends attributed to the disposal of buildings
22. The Commissioner has identified and will deliver in year savings of £1.2m. 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. This review is expected to achieve further savings.

#### **Revenue Budget 2014/15**

23. For the financial year 2014/15, the proposed total net police expenditure before the use of reserves is £277.7m, details of which follow in paragraph 30. The proposed budget includes £3.5m in pay and prices increases to cover the cost of the implemented 1% pay awards and inflationary increases in relation to energy, business rates and rent increases. Most other inflation is being absorbed within existing budgets.
24. Budget pressures of £1.3m 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 (Consumer Price Index).

25. A further provision of £1.0m has been included to reflect the revenue impact of the capital programme including the cost of additional borrowing and running costs associated with the capital schemes.

### **Budget Savings**

26. The proposed budget for 2014/15 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.
27. Whilst maintaining the above principles, £19.2m of budget savings have been identified for 2014/15. Further budget savings of over £25m have been built into the updated MTFs for 2015/16 and 2016/17 to meet the challenging financial position and to ensure the impact on frontline policing is minimised.
28. In 2014/15, the savings will be realised by a combination of:
- Scrutiny of non pay costs throughout the Force with expected savings of £4.4m
  - Identifying opportunities for collaboration and / or strategic partnerships
  - ICT transformation
  - A review of all income streams and funding opportunities has resulted in a further £1m.
  - A reduction in police officers through natural wastage, with a programme of recruitment to protect the frontline;
  - A reduction in police staff through natural wastage and targeted Voluntary Redundancy Scheme (VRS);
29. The Commissioner intends to save £2.28m in 2014/15 based on a further review of office costs and new ways of working with partners.

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 reviewed by means of 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 2014/15 Police and Crime Plan will be considered by the Police and Crime Panel in February.

### **Budget Summary –2014/15**

30. A summary of the proposed 2014/15 Revenue Budget follows:

	<b>Original Estimate 2013/14 £000</b>	<b>Revised Estimate 2013/14 £000</b>	<b>Forecast Outturn 2013/14 £000</b>	<b>Original Estimate 2014/15 £000</b>
Employees	205,389	205,767	205,698	197,455
Pensions	44,045	44,237	44,732	43,462
Premises	11,546	11,579	11,483	11,339
Supplies & Services	7,900	7,816	7,619	7,412
Transport	5,494	5,775	5,717	5,624
Establishment Expenses	5,062	4,331	4,201	3,747
Agency Services	4,458	4,078	3,836	4,133
Miscellaneous Expenses	9,334	10,199	9,788	7,831
Capital Charges	<u>7,363</u>	<u>7,363</u>	<u>7,030</u>	<u>7,585</u>
Total Expenditure	300,591	301,145	300,104	288,589
Income	<u>(10,421)</u>	<u>(10,422)</u>	<u>(12,476)</u>	<u>(10,925)</u>
Net Expenditure	290,170	290,723	287,628	277,663

### **Council Tax Options**

31. 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.
32. 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%. There has been no further announcement to date on this or any indication of additional flexibility for lower quartile authorities.
33. A 1% council tax freeze grant will be available in 2014/15, payable for two years, and estimated to be £0.384m per annum for Northumbria. This is only available if the Commissioner freezes the 2013/14 relevant basic council tax level.
34. It is proposed that the offer of a freeze grant of 1% be accepted for 2014/15. The impact of this decision is that there is no change in council tax precept for 2014/15 and that the Band D precept for the Northumbria area of £86.61.
35. This proposal is made in the context of the MTFs which sets out the detail of how this decision is affordable over the medium term.

### **Reserves**

36. The Commissioner's reserves policy is set out in the MTFs and is subject to regular review.
37. A full analysis of the Commissioner's revenue reserves and their planned use in 2014/15 taking into account the proposals outlined is set out below. This

shows a projected General Reserve of £21.6m and earmarked reserves of £7.2m at 31 March 2014.

	<b>Estimated at 31 March 2014 £m</b>	<b>Planned use of reserves 2014/15 £m</b>	<b>Estimated At 31 March 2015 £m</b>
<b>Earmarked Reserves</b>			
Insurance Reserve	3	0	3
Workforce Development Reserve	1.8	0	1.8
Capital Development Reserve	1.7	(1.7)	0
External Funding Reserve	0.7	0	0.7
<b>Total Earmarked Reserves</b>	<b>7.2</b>	<b>(1.7)</b>	<b>5.5</b>
<b>General Reserves</b>	<b>21.6</b>	<b>(4.8)</b>	<b>16.8</b>
<b>Total Reserves</b>	<b>28.8</b>	<b>(6.5)</b>	<b>22.3</b>

38. The General Reserve at £21.6m is 7.7% of revenue expenditure. This meets one of the key MTFs principles to seek to maintain the general reserve at a minimum of 2% of the revenue budget. Estimated reserve level at 31 March 2015 is £16.8m which equates to 6% of the revenue budget.
39. The above proposals can be summarised as follows:
- In line with the MTFs, the General Reserve will reduce from £21.6m to £16.8m by the end of 2014/15. The proposed use of reserves in 2014/15 is £6.5m set as set out above. The capital development reserve of £1.7m will be fully utilised in 2014/15.
40. Using reserves in this way will allow the Commissioner to continue supporting investment in front line policing and the capital programme and enable acceptance of the 1% council tax freeze grant.

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

41. The Local Government Act 2003 requires the Joint Chief Finance Officer to undertake an assessment of the robustness of the budget estimates and the adequacy of reserves.
42. 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.
43. In assessing the robustness of the budget, the Joint Chief Finance Officer 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 un earmarked reserves to cover any potential financial risks faced by the Commissioner;
  - The risks inherent in reliance on the application of floors beyond 2014/15; and
  - The impact of funding cuts and the uncertainty of grant support beyond 2014/15.
44. At 31 March 2014, the Commissioner's General Reserve is estimated at £21.6m (7.7% 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 6% of revenue expenditure by the end of 2014/15. In estimating the level of reserves the Joint Chief Finance Officer has taken account of known commitments for 2014/15 and the financial risks faced by the Commissioner which could impact on the level of reserves.
45. The Joint Chief Finance Officer 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 2014/15.

### Council Tax Requirement

46. 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	277.663
<b>Less</b> Appropriations from Reserves	<u>6.457</u>
Budget Requirement	271.206
<b>Less:</b>	<b>£m</b>
DCLG Grant	112.546
Police Grant	117.979
Localised Council Tax Support Grant	6.867
Legacy freeze grant	0.912
Commissioning victims	0.579
Restorative Justice	0.157
2014/15 council tax freeze grant	<u>0.386</u>
	<u>239.426</u>
Balance to be Raised Locally	31.78
Less estimated net surplus on collection funds	<u>0.266</u>
Council Tax Requirement	<u>31.514</u>

47. The proportion of collection funds' net surplus due to Northumbria Police from its constituent billing authorities is £0.266m for 2014/15 (£0.074m in 2013/14).
48. The notified Council Tax base figure is 363,861.63, an increase of 7,698.54 over the previous year.

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

49. 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.
50. 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.
51. 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 2013/14 to 2015/16. Prudential indicators concentrate on the level and composition of external debt, and are therefore very closely linked to the Commissioner's Treasury Management Strategy.
52. The Commissioner's proposed Prudential Indicators are shown at Appendix A to this report.

### **Minimum Revenue Provision**

53. 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 2014/15 is attached at Appendix B.

### **Financial Considerations**

54. Financial implications are considered throughout the report.

### **Risk Management Implications**

55. Associated risks have been considered and recorded as appropriate and are set out in Appendix C.

## Legal Considerations

56. The legal implications are considered within the report.

## Equal Opportunities Implications

57. 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

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 363,861.63 for the year 2014/15 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 2014/15 in accordance with Sections 42A, 42B and 45 to 47 of the Local Government Finance Act 1992, as amended:-
  - (a) £288.589m 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) £257.075m 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) £31.514m 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 amount of (d) above by the number which, in the proportion set out in Section 5 (1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated 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. |
| B | £ 67.36 |  |
| C | £ 76.99 |  |
| D | £ 86.61 |  |
| E | £105.86 |  |
| F | £125.10 |  |
| G | £144.35 |  |
| H | £173.22 |  |

4. Resolve that under Section 52ZB of the Local Government Finance Act, the Commissioner's relevant basic amount of Council Tax for 2014/15 is not excessive in accordance with the principles determined under Section 52ZC (1) of the Act for 2014/15.
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 £31.514m for the financial year beginning 1 April 2014, 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 A to this report.
7. Accept the recommendation of the Treasurer for the method of calculating MRP for 2014/15 as set out in the Annual MRP statement at Appendix B to this report.

## **Background and Supporting Papers**

Report of the Police and Crime Commissioner for Northumbria to Northumbria Police and Crime Panel meeting on 3 February 2014 on Proposed Precept for 2014/15

Response of the Northumbria Police and Crime Panel to the Police and Crime Commissioner for Northumbria on Proposed Precept 2014/15, 4 February 2014

Medium Term Financial Strategy 2014/15 to 2016/17 of the Police and Crime Commissioner for Northumbria

Written Ministerial Statement of Minister of State for Policing and Criminal Justice on 18 December 2013 on Provisional Police Funding Announcement – Home Office Police Grant Report England and Wales 2014/15

### Police and Crime Commissioner for Northumbria Prudential Indicators

1. The actual capital expenditure that was incurred in 2012/13 and the estimates of capital expenditure to be incurred for the current and future years are shown below:

<b>Capital Expenditure</b>				
<b>2012/3</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
23,355	20,694	13,211	10,045	5,619

2. Estimates of the ratio of financing costs to net revenue stream for the current and future years are:

<b>Ratio of financing costs to net revenue stream</b>			
<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
2.62	2.80	3.17	3.25

The estimates of financing costs include current commitments and the proposals in this budget report

3. Estimates of the end of year capital financing requirement for the Commissioner for the current and future years and the actual capital financing requirement at 31 March 2013 are:

<b>Capital Financing Requirement</b>				
<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
96,350	108,285	111,112	106,973	103,497

The capital financing requirement measures the Commissioner's underlying need to borrow for a capital purpose. In accordance with best professional practice, the Commissioner does not associate borrowing with particular items or types of expenditure. She has, at any point in time, a number of cashflows both positive and negative, and manages her treasury position in terms of her borrowings and investments in accordance with her approved treasury management strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the Commissioner and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the Commissioner's underlying need to borrow for a capital purpose.

4. The Joint Chief Finance Officer for the PCC has delegated responsibility for the Treasury Management investment and borrowing activities, and is responsible for these on behalf of the Commissioner; in doing so he ensures that all activities are undertaken in compliance with the CIPFA Code of Practice for Treasury Management in Public Services.

CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence:

*"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 the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."*

The Treasurer reports that the Commissioner had no difficulty meeting this requirement in 2012/13, nor are any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this budget report.

5. In respect of its external debt, it is recommended that the Commissioner approves the following authorised limits for her total external debt gross of investments for the next three financial years. These limits separately identify borrowing from other long term liabilities such as finance leases. The Commissioner is asked to approve these limits and to delegate authority to the Treasurer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for money for the Commissioner. Any such changes made will be reported to the Commissioner at her next meeting with the Treasurer following the change.

<b>Authorised limit for external debt</b>			
	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
	<b>£000</b>	<b>£000</b>	<b>£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 Treasurer reports that these authorised limits are consistent with the Commissioner's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with her approved treasury management policy statement and practices. The Treasurer confirms that they are based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account; as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.

6. The Commissioner is also asked to approve the following operational boundary for external debt for the same time period. The proposed operational boundary for external debt is based on the same estimates as the authorised limit but reflects directly the Treasurer's estimate of the most likely, prudent but not worst case scenario without the additional headroom included within the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate. The operational boundary represents a key management tool for in year monitoring by the Treasurer. Within the operational boundary, figures for borrowing and other long term liabilities are separately identified. The Commissioner is also asked to delegate authority to the Treasurer, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities, in a similar fashion to the authorised limit. Any such changes made will be reported to the Commissioner at her next meeting with the Treasurer following the change.

<b>Operational boundary for external debt</b>			
	<b>2014/15 £000</b>	<b>2015/16 £000</b>	<b>2016/17 £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 Commissioner's actual external debt at 31 March 2013 was £ 75,133m, which was made up entirely of borrowing. It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary, since actual external debt reflects the position at one point in time.

In taking its decisions on this budget report, the Commissioner is asked to note that the authorised limit determined for 2014/15 will be the statutory limit determined under section 3 (1) of the Local Government Act 2003.

7. Given the assumption that any further investment will be funded by capital receipts, the estimate of the incremental impact of £1m additional capital investment is £0 per annum for the next 3 years.
8. As outlined in paragraph 4 above, when undertaking borrowing and investment, The Joint Chief Finance Officer has adopted the CIPFA Code of Practice for Treasury Management in Public Services. There are several prudential indicators relating to the Treasury management function, as outlined below.



9. It is recommended that the Commissioner sets the following range of upper limits for its fixed and variable interest rate exposures in relation to its net outstanding principal sums:

	2014/15	2015/16	2016/17 <sup>6</sup>
	£000	£000	£000
<b>Fixed rate exposure</b>			
Upper	116.789	95.787	92.123
Lower	( 10.410)	(21.442)	(21.442)
<b>Variable rate exposure</b>			
Upper	6.707	6.707	6.707
Lower	( 20,000)	( 20,000)	( 20,000)

10. It is recommended that the Commissioner sets upper and lower limits for the maturity structure of its borrowings as follows:

	Upper Limit	Lower Limit
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	70%	0%
10 years and above	90%	0%

11. The purpose of the upper limit on amounts invested beyond 364 days is for the Commissioner to contain her 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>			
	2014/15	2015/16	2016/17
	£000	£000	£000
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.

#### **Method used:**

In 2014/15, 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 2014/15 Capital Programme.

## NORTHUMBRIA POLICE AUTHORITY FINANCIAL RISK ANALYSIS

### 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 2% of revenue expenditure; The projected balance on the General Reserve at the 1 April 2014 of £21.6m is 7.7% 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.

### Pay Increases

The risk is that pay increases may exceed the levels provided for within the budget. A pay award of 1% has been reflected in the MTFS payable from September 2013.

### 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

### 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.

### 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.

### **Savings**

Budget savings of £19.2m have been included in the revenue budget for 2014/15. 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.

### **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.

### **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.

### **Interest Rates on Deposits**

The risk is that interest rates will be lower than expected and prudent assumptions on likely interest rates for 2014/15 have been incorporated into the budget.

## **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.

## **Council Tax**

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.

## **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.

## **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