



**VERA BAIRD**<sup>QC</sup>  
POLICE & CRIME COMMISSIONER

## **Police & Crime Commissioner for Northumbria**

### **MEDIUM TERM FINANCIAL STRATEGY 2013/14 – 2015/16**

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**Police & Crime Commissioner for Northumbria**  
**Medium Term Financial Strategy 2013/14 – 2015/16**

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## **1. Purpose of the Medium Term Financial Strategy**

- 1.1 This is the Medium Term Financial Strategy (MTFS) of the Police and Crime Commissioner for Northumbria, elected on 22 November 2012 under the provisions of the Police Reform and Social Responsibility Act 2011 to replace the former Northumbria Police Authority, and reflects the financial position inherited on election from Northumbria Police Authority and the Government's funding decisions. It covers a period of three years but will be reviewed annually to reflect the dynamic nature of both policing and changes in funding. It describes the financial direction of the organisation and outlines financial pressures.
- 1.2 The MTFS provides options for delivering a sustainable budget and capital programme over the medium term. It also sets out how the Commissioner can provide the Chief Constable with the resources to deliver the priorities in the Police & Crime Plan within a challenging financial climate.
- 1.3 The MTFS sets the financial context for the Commissioner's revenue budget and capital programme and precepting decisions.
- 1.4 The overall financial strategy will be to ensure that the Commissioner's resources are directed toward achieving the Police & Crime Plan.

## **2. Benefits of the Strategy**

- 2.1 The MTFS assists in:
  - Supporting delivery of the Police & Crime Plan;
  - Improving financial planning and the financial management of the Commissioner's resources, both revenue and capital;
  - Maximising the use of resources available to the Commissioner and Chief Constable, both internal and external;
  - Ensuring that the Commissioner and Chief Constable provide Value for Money and continue to deliver efficiency gains;
  - Allowing the development of longer term budgets and strategic thinking;
  - Reviewing the Commissioner's policy on the use of reserves, ensuring the position continues to be sustainable and there are sufficient resources over the medium term;
  - Responding to external pressures, including changes to the police funding formula and funding reductions; and
  - Developing a sustainable budget over the medium term.

## **3. Principles of the Strategy**

- 3.1 The key principles underlying the Police and Crime Commissioner for Northumbria's MTFS 2013/14 – 2015/16 are:-
  - (i) Overall expenditure of the Commissioner will be contained within original estimates each year;
  - (ii) The Commissioner will seek to maintain the General Reserve at a minimum of 3% of the revenue budget to cover any major unforeseen expenditure or loss of funding but will review on a regular basis the opportunity cost of maintaining

reserves at this level against the benefits of alternative approaches. A flexible approach will be adopted appropriate to circumstances.

- (iii) The Commissioner will maintain earmarked reserves for specific purposes when appropriate which are consistent with achieving objectives;
- (iv) The Commissioner will continue to prioritise the achievement of value for money and efficiency in establishing the framework for policing within Northumbria and in commissioning and procurement decisions.
- (v) The Treasurer and Chief Constable will prepare a rolling programme of three year budget forecasts to inform the Commissioner's budget and precepting decisions.
- (vi) The Commissioner, supported by the Treasurer and Chief Constable, will continue to contribute to national reviews of police funding and lobby on a national basis for the fair and equitable funding of Northumbria Police.

#### **4. Reviewing the Strategy**

4.1 The Commissioner's MTFs review for 2013/14 to 2015/16 has been carried out under the following key themes:

- The national financial context in which the Commissioner operates
- The local financial inheritance;
- The Commissioner's current financial position;
- The future budget pressures and funding cuts which the Commissioner will face over the period of the strategy;
- Budget savings;
- The Commissioner's capital programme;
- Reserves policy; and
- Police Funding Formula.

#### **5. National Financial Context**

##### **Spending Review 2010**

- 5.1 The Chancellor of the Exchequer set out the Government's priorities and spending plans for the spending review period 2011/12 – 2014/15 on 20 October 2010 on a national level, which forecast a real terms 20% reduction in Central Government funding to police by 2014/15. This was followed by the Police Grant Settlement announced in January 2011, covering the two years 2011/12 and 2012/13. The provisional police grant settlement for 2013/14 was received on 19 December 2012. It confirms the previously announced plans.
- 5.2 The provisional grant settlement for 2013/14 for Northumbria is a cut in grant funding of 1.6%, a cash reduction of £3.8m.

## **Funding beyond 2013/14**

### **2014/15**

- 5.3 No funding allocations have been provided by Government for 2014/15. The written ministerial statement on 19<sup>th</sup> December 2012 from Damien Green states that he has 'decided to defer publication of funding allocations for 2014/15 in order to fully scrutinise all Home Office budgets'. Assumptions in the MTFs are based on national police revenue funding within the Spending Review 2010 and indicative allocations from DCLG. This assumes funding reductions in 2014/15 of 2.2%. The Chancellor in the Autumn Statement announced a further 2% reduction in Home Office and Local Government departmental expenditure limits in 2014/15, and reiterated the cap of 1% on public sector pay. It is not clear what impact these cuts in funding will have on police funding levels but a further 2% cut for Northumbria equates to approximately £4.7m. This additional cut has not been factored into the MTFs projections at this time due to the uncertainty surrounding its application.

### **2015/16 onwards**

- 5.4 The Chancellor's Autumn Statement did not provide government departmental totals for 2015/16 and beyond but stated that reductions from 2015/16 to 2017/18 will continue on the same rate as the previous spending review. A new spending review is expected during 2013 and this will be taken into account in the next refresh of the MTFs.
- 5.5 No change to the damping mechanism is proposed until a full review of the formula funding is undertaken, and this is not expected to impact before 2015/16. 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.

## **Council Tax**

- 5.6 Since 2007/08, council tax increases nationally have been constrained by the Government's threat of capping and excessive council tax principles. The proportion of funding from formula grant and specific Home Office grants has reduced, and the proportion from council tax has increased. Northumbria's council tax is by far the lowest of policing bodies in the country at £83.68 per annum for Band D properties. The average Band D of English police bodies (excluding London) in 2012/13 was £163, with West Midlands being the second lowest at £99.45. Income from council tax accounts for only 13% of funding. Over the past ten years, the Band D Council tax in Northumbria has been as follows:

| Year    | Band D Council Tax<br>£ |
|---------|-------------------------|
| 2012/13 | 83.68                   |
| 2011/12 | 83.68                   |
| 2010/11 | 83.68                   |
| 2009/10 | 81.32                   |
| 2008/09 | 78.27                   |
| 2007/08 | 74.62                   |
| 2006/07 | 71.78                   |
| 2005/06 | 70.03                   |
| 2004/05 | 66.93                   |
| 2003/04 | 63.80                   |

- 5.7 The Localism Act 2011 provides for council tax referendums. 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%.
- 5.8 However, Commissioners whose 2012/13 council tax was in the lower quartile must 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 have provided additional funding of approximately £1.78m per annum.
- 5.9 The Commissioner has approved a 3.5% precept increase in 2013/14. This increase is within the trigger point so will not require a referendum and it will provide additional funding of over £1 million per annum. The impact of this increase is as follows:-

| Band | Council Tax per<br>annum<br>£ | Increase per<br>annum<br>£ | Increase per<br>week<br>(rounded)<br>£ |
|------|-------------------------------|----------------------------|--|
| A    | 57.74                         | 1.95                       | 0.04                                   |
| B    | 67.36                         | 2.28                       | 0.04                                   |
| C    | 76.99                         | 2.61                       | 0.05                                   |
| D    | 86.91                         | 2.93                       | 0.06                                   |
| E    | 105.86                        | 3.58                       | 0.07                                   |
| F    | 125.10                        | 4.23                       | 0.08                                   |
| G    | 144.35                        | 4.88                       | 0.10                                   |
| H    | 173.27                        | 5.86                       | 0.11                                   |

- 5.10 The way in which the Home Office is reducing funding to Commissioners using percentages, penalises those areas which are more dependent on grant funding to meet higher needs and lower council tax bases. The six metropolitan areas, including Northumbria, are amongst the biggest losers. The impact of the grant cuts are compounded by the council tax freeze grants which also reward high council tax base areas with low needs. If the 1% 2013/14 council tax freeze grant was allocated on the same basis as police grant, Northumbria would receive just over £1m, nearly £0.7m more than the share based on council tax levels. This is because the amount of freeze grant

receivable by Northumbria equates to 1.1% of the total allocated to policing bodies, compared to a 3.1% share of police grant.

### **Localisation of Council Tax Support**

- 5.11 At the Spending Review 2010 the Government announced it would replace the council tax benefit system with localised schemes of discounts to be designed and administered by local authorities from April 2013. Responsibility for funding will transfer from the Department for Work and Pensions to the Department for Communities and Local Government (DCLG), which will fund the cost of the local discounts by giving a grant to all principal authorities, including policing bodies. However, the grant will assume a 10% reduction and will mean that local authorities will either have to design schemes that are less generous, or find additional resources to make up the deficit.
- 5.12 The Local Government Finance Act 2012, introduced in October 2012 required each billing authority in England to make a local council tax reduction scheme no later than 31 January 2013, to be introduced by 1 April 2013. The Act gave the Secretary of State powers to prescribe categories of people which should be included or excluded from schemes.
- 5.13 Under the localised schemes, the council tax base will reduce. In order to make up the shortfall in council tax income as a result, an equivalent sum, subject to a 10% reduction, will be paid as a grant. The grant allocation from DCLG for Northumbria for 2013/14 is £6.845m. The Government will consider how grant will be paid to local policing bodies beyond this Spending Review period.

### **Transitional Grant**

- 5.14 In October 2012 DCLG published details of an additional one-off £100m transitional grant scheme for local authorities to limit the impact of the introduction of local support schemes on low income households. This funding will only be available if local authorities' schemes meet several conditions, the main one being that those currently entitled to 100% support will pay no more than 8.5% of their net council tax liability under the local scheme. If a billing authority's scheme is eligible for funding, it will be responsible for applying for the grant on behalf of itself and all the major precepting authorities in the area. As such, policing bodies will receive a grant paid directly from DCLG for those areas where the billing authority's schemes are eligible and have applied for grant. Five of the six local schemes in the Northumbria area are eligible, resulting in funding of approximately £0.160m.
- 5.15 Local authorities have a number of choices as to how they will address the shortfall :
- Withdraw discount from those who would previously have not paid council tax. The Local Government Finance Act protects pensioners from any changes;
  - Find the 10% shortfall from other revenue budget savings;
  - Design a local scheme that caps payments for those who have previously not paid council tax at 8.5% of net council tax liability.
- 5.16 If the local authorities adopt the first approach, it means in theory there should be no impact on police council tax collection, although there is the risk that collection rates in relation to households who have not previously paid council tax could be significantly lower than has been achieved in recent years. If the local authority adopts the second

approach, the notional 10% shortfall in council tax support funding will also impact on the Police element of the council tax, as this will also not be collected. The final option attracts additional funding in the first year only.

- 5.17 All local authorities in the Northumbria area have confirmed their council tax base, indicating that the council tax base will be 356,163.1, so based on the previous Band D council tax precept figure of £83.68, this would provide income of £29.8m, subject to collection rates, compared with the £36.6m collected in 2012/13. The difference of £6.8m being funded from the council tax support grant and transitional grant.

### **Community Safety Fund**

- 5.18 From April 2013 a total of £90m will be made available to Commissioners nationally (compared to £120m in 2012/13) to replace numerous funding streams for drugs, crime and community safety currently paid by the Home Office to various organisations. The Government has published a list of these funding streams:

- Drug Interventions Programme (DIP)
- DIP Drug Testing Grant
- Community Safety Partnership Funding
- Youth Crime and Substance Misuse Prevention Grant
- Positive Futures,
- Communities Against Guns, Gangs and Knives Programme,
- Community Action Against Crime:
  - Community Innovation Fund
  - Safer Future Communities;
  - Ending Gang and Youth Violence Funding

- 5.19 Funding has been allocated to Commissioners according to the funding streams' current distribution. In 2013/14, Northumbria will receive £2.789m in grant funding from the Community Safety Fund. It will be paid as an un-ringfenced grant in 2013/14. In 2014/15 Community Safety Funding will be rolled into the main police grant.

## **6. Current Financial Position**

### **Revenue**

- 6.1 The Commissioner's net revenue budget for 2012/13 after the use of reserves is £271.9m. The third quarterly revenue monitoring report shows a projected underspend of just over £4.471m as at 31 December 2012. A number of factors account for this position including underspends in relation to the Forensic Science Service and capital financing costs, and additional income from rate refunds following a review of rateable values within the Estate and £0.933m of the one-off contingency for transition of £1m not being utilised.
- 6.2 This overachievement against the revenue budget has allowed the Commissioner's financial strategy to be positively reviewed and is a major contribution to bridging the previous funding gap over the life of the spending review and beyond.

### **Capital**

- 6.3 The third quarter capital monitoring report outlined a revised capital estimate of £25.5m as at 31 December 2012, compared to the original estimate of £29.2m. The reduction in the

revised estimate for the year reflects the slippage on schemes, and specific ICT schemes not proceeding pending the exploration of a strategic partnership and joint venture opportunity.

## **7. Medium Term Budget Pressures**

- 7.1 The 2012/13 budget adjusted for one-off costs provides the base budget used to calculate the projected budgets from 2013/14 to 2015/16.
- 7.2 The following budget pressures have been included when calculating the budget projections:
1. Reductions in grant funding
  2. Workforce management
  3. Pay and price increases
  4. Revenue implications of the capital programme

### **Pay and price inflation**

- 7.3 There has been a two-year pay freeze since September 2011. From September 2013, a 1% increase in police officer and police staff pay has been included in the model to reflect the announcement in the Autumn Statement of a 1% cap on public sector pay increases from 2013. The initial pay assessments have been based on an establishment as at 31 March 2013 of 3,722 police officers and 1,806 police staff, including CSOs, which are consistent with the Human Resources Strategy.
- 7.4 The Retail Price Index (RPI) for November 2012 showed a 3% increase over the last twelve months; The Consumer Price Index (CPI) increased by 2.7%. By reference to the Office of Budgetary Responsibility Economic and Fiscal Outlook Report December 2012, the CPI inflation measure is forecast to be around 2.5%, placing additional pressures on the Commissioner's finances.
- 7.5 The inflation provision is required to meet energy, business rates and rent increases. Most other inflation is being absorbed within existing budgets.
- 7.6 Other pressures include increases in national police services' charges, the uplift of injury pensions in line with CPI, contractual increases (such as charges in relation National Police Improvement Agency and Airwave), football policing and loss of external funding.

### **Pensions and Pension Reform**

- 7.7 Police officer and police staff employer pension contributions have been assumed to increase in line with the pay awards. A triennial actuarial review of the Local Government Pension Scheme for police staff is due in March 2013 which will impact on employers' contribution rates for 2014/15 to 2016/17, details of which are not known at this stage. No other changes to pension contributions have been included in the MTFs.
- 7.8 A new Local Government Pension Scheme (LGPS) will be introduced from 1<sup>st</sup> April 2014, replacing the current scheme (LGPS 2008). A new police pension scheme is to be introduced from April 2015, which will replace the 1987 and 2006 schemes. The Government is anticipating savings from increased member contributions but a full actuarial review is anticipated ahead of the introduction of the new scheme.

## **Changes in specific grant funding**

- 7.9 From 2013/14 the Neighbourhood Policing Fund specific grant will be absorbed into the Police Main Grant and redistributed as part of the police finance settlement. In 2012/13, NPA / the Commissioner should receive £8.923m in Neighbourhood Policing Fund specific grant which contributes up to 75% of the salary costs of CSOs.
- 7.10 The specific grant of £0.244m per annum in relation to the Mounted Stables PFI scheme finishes in October 2013, creating a budget pressure going forwards.
- 7.11 In 2012/13, NPA / the Commissioner will receive £0.706m in Drug Intervention Programme (DIP) grant in relation to Drug Testing on Arrest. From 2013/14 the DIP funding forms part of the Community Safety Fund which the Commissioner will receive. The Community Safety funding is made up of the following former funding streams:
- Drug Interventions Programme (DIP)
  - DIP Drug Testing Grant
  - Community Safety Partnership Funding
  - Youth Crime and Substance Misuse Prevention Grant
  - Positive Futures,
  - Communities Against Guns, Gangs and Knives Programme,
  - Community Action Against Crime:
    - Community Innovation Fund
    - Safer Future Communities;
    - Ending Gang and Youth Violence Funding

## **Revenue implications of the capital programme**

- 7.12 The implementation of the revised capital programme will add an additional £0.3m borrowing costs to the revenue budget in 2013/14, increasing to a further £1.0m on the existing base budget by 2015/16. Estimated additional running costs are £1.3m by the end of the MTFs, which are expected to be more than offset by proposed savings following implementation of the Estates Strategy. Details of the capital programme are included in Section 9.

## **Workforce Management**

- 7.13 To respond to unprecedented cuts in funding, the former Police Authority made an offer of enhanced voluntary redundancy to all police staff. 491 police staff took up this offer and left the Authority by 31 March 2012, a further 61 staff are leaving under voluntary redundancy by 31 March 2013. The cost of redundancy and strain on pension fund payments was £11m in 2011/12 and a further £1.2m anticipated in 2012/13 which will be met from the Workforce Management reserve in accordance with the agreed reserves policy. This will leave £1.8m remaining in the reserve to fund any future workforce changes, for example, the potential cost of a voluntary exit scheme for officers.
- 7.14 Details of workforce changes proposed for 2013/14 and beyond are provided in Section 8 below.

7.15 The financial impact of these commitments and budget pressures are shown in Section 12 of this strategy.

## 8. Budget Savings

9.1 Agreed budget savings in 2012/13 of £24m have been factored into the base position for 2013/14. Beyond this, the potential for further budget savings in excess of £35m over the period of the MTFs have been built into the strategy for 2013/14 onwards to meet the challenging financial position of projected funding cuts of £14m compounded by forecast budget pressures of £17m and utilisation of all usable reserves, and to ensure the impact on frontline policing is minimised.

8.2 The future 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;
- A reduction in police staff through natural wastage;
- Implementation of the Winsor Review, which has recommended changes to police officer and police staff terms and conditions;
- Rationalisation of the estate;
- Scrutiny of non pay costs throughout the Force
- A reduction in support services to the Commissioner; and
- Identifying opportunities for collaboration and / or strategic partnerships

8.3 The 'Programme of Change', which has three phases, was launched by the Force in 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. **Phase 1** of the change programme revised operating models and delivered significant savings during 2011/12, whilst maintaining visible policing and improving performance.

8.4 **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.

8.5 The change programme has now been embedded within the organisation with the creation of a permanent team responsible for delivering continuous improvement and developing strategic partnerships. Workforce participation provides an invaluable source of knowledge and generates new ideas that will support the organisation to deliver change.

8.6 Frontline (visible) policing remains a priority in terms of workforce planning strategies. The 'Supporting the Challenge' initiative led by the Chief Officer Team during 2012/13 identified further non-frontline efficiencies for the remainder of the Spending Review period and beyond. Plans are currently being developed to refine operating models further.

8.7 In order to deliver against these plans the Force will need to make further reductions in the numbers of police officers and police staff:

- The utilisation of the police officer voluntary exit scheme is being considered as an option to support this alongside natural wastage. The police officer profile will need to be maintained at a sustainable level by 2015/16; this level is currently forecast to be in the region of 3,500 fte. In order to achieve this, workforce plans incorporate higher levels of police officer recruitment towards the end of the Spending Review period.
  - The police staff profile is currently expected to reduce by a further 140 fte prior to the end of the Spending Review period; whereby the profile will be approximately 1,710 fte.
- 8.8 Collaborative opportunities, (**Phase 3** of the Programme of Change) at a local and regional level are being pursued, resulting in policing services being delivered in collaboration with other forces or organisations.
- 8.9 In addition to identifying savings through the Workforce Strategy, the Force is also proposing to deliver non pay savings over the period of the MTFS. The Force has delivered £16.4m of non pay savings since 2010/11 and proposes a further £7.6m of savings for the period of the MTFS. The delivery of the proposed savings will be a challenge however, the savings are proposed with the aim of protecting frontline services and maintaining operational performance.
- 8.10 To deliver the Force's non pay savings a series of budget reviews has been undertaken. The reviews have robustly challenged spend in all areas both operationally and within back office functions. Savings have been identified through consultation with budget holders and subsequently considered by the Chief Officer Team.
- 8.11 Force budget reductions to date have been realised through changes to policy, demand management, procurement and cessation of non operational functions. Examples of the agreed savings include the following:
- Rationalisation of the estate;
  - Rationalisation of the vehicle fleet;
  - Closure of the HQ Canteen;
  - Introduction of a new Vehicle Recovery contract;
  - Savings within the scheme of devolved financial management.
- 8.12 The delivery of further savings beyond those proposed is going to become increasingly difficult; taking the proposed 2013/14 revenue budget as an example, non pay budgets will represent only 17% of the gross revenue budget.
- 8.13 Further details on the strategy for delivering budget savings, including any constraints and the outcome of the service reviews, will need to be considered during the life of the MTFS and in particular in advance of agreeing the budget and council tax for 2013/14.
- 8.14 The Commissioner intends to save a minimum of 15% on the PCC's budget in 2013/14. A reduction of 15% in 2013/14 has been factored into the financial projections.

## **9. Capital and Prudential Borrowing**

### **Impact of Capital Programme**

- 9.1 The estimated capital programme over the medium term is underpinned by the Estates Strategy; the ICT Strategy and exploration of a strategic partnership and joint venture opportunities; and the operational vehicle and equipment replacement programmes.
- 9.2 The major component of the estimated capital programme is the continuing delivery of the Estates Strategy. The Estates Strategy 2011 to 2014 was agreed by the former Police Authority in November 2010 and reviewed in July 2012 in light of the review of the operational policing model, in particular the potential disposal of the Ponteland Headquarters site. The main components of the Strategy are the delivery of Newcastle City Centre Police Station and the firearms training and operational facility, and the rationalisation of the estate.
- 9.3 The Chief Constable in reviewing the operational policing model has instituted a number of changes requiring the reorganisation of business within the Force. This has resulted in the relocation of some staff and the current estate is being adjusted to meet these changes as required. The cost of these changes to the estate has been factored into the capital programme estimates.
- 9.4 The revised operating model is likely to realise revenue savings and capital receipts from the sale of surplus properties, including significant receipts from the Ponteland Headquarters site. A number of options are available on the use of these capital receipts, namely:
- Use receipts to fund the future capital programme
  - Use receipts to repay borrowing early or restructure borrowing and invest the capital receipts
  - Invest the capital receipts and borrow to fund the future capital programme.
- 9.5 The options will need to be considered once the receipts become more certain.
- 9.6 A presentation on the ICT strategy for the future was given to the former Resource Management Committee (RMC) in February 2012 which covered information, communications, service management, collaboration, partnership and sourcing, and a capital overview.
- 9.7 The Chief Constable's review of her operational vehicle and equipment replacement programmes have been reflected in the capital requirement for 2012/13 and throughout the MTFS and has resulted in reductions to revenue expenditure over the period.
- 9.8 The following table outlines the estimated impact that prioritised capital proposals would have on the overall capital programme over the next three years. The most significant element of the major building schemes below are Newcastle City Centre Police Station, Operations / Training Firearms Facility and Estates Rationalisation. These proposals have been identified during the revision of the MTFS and include budget revisions and slippage carried forward from 2012/13:

|                                | 2012/13     | 2013/14     | 2014/15    | 2015/16     |
|--------------------------------|-------------|-------------|------------|-------------|
|                                | £m          | £m          | £m         | £m          |
| <b>High Priority Proposals</b> |             |             |            |             |
| Major Building Schemes         | 18.3        | 16.4        | 2.8        | 0.4         |
| Minor Building Schemes         | 2.0         | 0.9         | 0.8        | 1.0         |
| ICT                            | 1.9         | 2.2         | 2.5        | 8.2         |
| Vehicles/Equipment             | 3.3         | 3.3         | 3.0        | 2.4         |
| <b>Total</b>                   | <b>25.5</b> | <b>22.8</b> | <b>9.1</b> | <b>12.0</b> |

### Impact of Prudential Borrowing on the Budget Position

- 9.9 To implement the capital programme the Commissioner can use capital resources such as capital receipts and capital grants received in 2013/14 and future years. Income from these sources will not be sufficient to fund the capital programme wholly. If the Commissioner wants to continue investing in her assets prudential borrowing may be required.
- 9.10 The provisional finance settlement 2013/14 set out the provisional allocation of central government capital grant to Northumbria for 2013/14 of £2.9m and an indicative allocation for 2014/15 of £3.0m. Grant allocations beyond the Spending Review period are not known so for 2015/16 they have been assumed to continue at the same level as 2014/15.
- 9.11 Financing of the capital programme assumes a level of capital receipts from the sale of land and property. The review of the estate will release major land sales. These receipts can be set-aside to fund future capital schemes or be used to reduce revenue costs by repaying borrowing.
- 9.12 If account is taken of the provisional capital grant, and assuming a level of capital receipts of £10.9m over the period of the MTFs, then the need for additional prudential borrowing to finance the planned capital programme can be summarised as follows:

|         | £m   |
|---------|------|
| 2013/14 | 17.4 |
| 2014/15 | 6.1  |
| 2015/16 | 0    |

- 9.13 Borrowing and reducing reserves have a revenue impact by way of the interest payable on borrowing and the interest lost on the investment of reserves. Currently this not a material factor as interest rates available are low.
- 9.14 In addition to the revenue impact of interest, undertaking prudential borrowing will impact on the Minimum Revenue Provision (MRP). This is the amount charged to revenue for the provision of the repayment of external loans determined by reference to the life of the asset. The estimated revenue impact of this strategy on the base budget showing the additional cost each year is as follows:

|                                     | <b>2012-13<br/>Estimate</b> | <b>2013-14<br/>Estimate</b> | <b>2014-15<br/>Estimate</b> | <b>2015-16<br/>Estimate</b> |
|-------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                     | <b>£m</b>                   | <b>£m</b>                   | <b>£m</b>                   | <b>£m</b>                   |
| Interest                            | 3.4                         | 3.9                         | 3.9                         | 4.0                         |
| MRP                                 | 2.9                         | 3.5                         | 3.7                         | 4.4                         |
| <b>Total</b>                        | <b>6.3</b>                  | <b>7.4</b>                  | <b>7.6</b>                  | <b>8.4</b>                  |
| Capital financing<br>budget 2012/13 | 7.1                         |                             |                             |                             |
| <b>Increase in budget</b>           |                             | <b>0.3</b>                  | <b>0.2</b>                  | <b>0.8</b>                  |

## 10. Reserves

### Review of Reserves

- 10.1 Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when preparing budgets.
- 10.2 In establishing reserves, the Commissioner must comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Treasurer is required as part of the budget setting process to provide a statement on the adequacy of reserves.
- 10.3 CIPFA guidance on Reserves and Balances (LAAP Bulletin No 77 November 2008) and the requirements of the Code suggests twice yearly reviews of reserves. By doing this, the visibility of reserves are increased and consideration of their use is placed at the forefront of the decision making process. Reserves are cash backed balances, held on the balance sheet until they are spent or released for other purposes. As such, they can only be spent once, and are not part of the base budget.
- 10.4 The Commissioner's balance sheet reserves are held for three main purposes:
- A contingency for unexpected events or emergencies for example, a change in damping arrangements in the police funding formula or a major incident –part of the General Reserve;
  - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing –part of the General Reserve; and
  - A means of building up funds to meet known or predicted liabilities or to smooth expenditure requirements – known as earmarked reserves.
- 10.5 CIPFA guidance issued in June 2003 confirms that Commissioners should make their own judgements on such matters, taking into account relevant local circumstances and an assessment of risk and the advice of the Treasurer.

### Reserves Policy

- 10.6 The Commissioner must retain adequate reserves so that unexpected budget pressures can be met without adverse impact on the achievement of key objectives and council tax payers. The Commissioner's policy for reserves and balances is based on a thorough understanding of the organisation's needs and risks. Part of this process is to give a clear

explanation of the existing and proposed use of reserves and this is addressed in the paragraphs below.

- 10.7 Reserves fall into two categories, general and earmarked. The General Reserve is available to support future revenue and capital programmes, unexpected major incidents and loss of funding. Earmarked reserves are set up to provide for specific liabilities. The position as at April 2013 is expected to be as follows:

|                    |             |
|--------------------|-------------|
|                    | <b>£m</b>   |
| General reserve    | 18.9        |
| Earmarked reserves | <u>12.3</u> |
|                    | <u>31.2</u> |

### **General Reserve**

- 10.8 The expected General Reserve of £18.9m at 1 April 2013 is 6.6% of the revenue budget.
- 10.9 The appropriate level of General Reserve will be influenced by the balance of risks inherent in the budget, the robustness of budget monitoring, past experience of outturn spending, the extent of earmarked reserves and funding cuts over the next three years. Consideration also needs to be given to the adequacy of this reserve in light of the potential risks to funding from the proposed formula funding review.

### **Earmarked Reserves**

#### **Insurance Reserve**

- 10.10 The Insurance 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. Potential liabilities include storm damage, business interruption and claims that would fall within the Commissioner's policy excess limit. In line with the requirements of the Code, the Commissioner operates an Internal Insurance Account, where internal premiums are charged with any surpluses or shortfall transferred to the revenue account. The number of insurance providers has significantly reduced, now leaving three main insurers offering the required combined liability cover. The insurance providers are Zurich Municipal, AIG and Travellers; this reduced number of providers has diminished both competition and choice within the insurance market overall. The reserve protects the Commissioner from changes in the insurance market and currently stands at £3m. The level of reserve is set in line with good practice and reviewed annually with the outcome reflected in subsequent years.
- 10.11 Municipal Mutual Insurance (MMI), a former insurer for the Police Authority, went into 'run-off' in 1992 and a contingent Scheme of Arrangement became effective. In the event that MMI was unable to achieve a solvent run-off, the Scheme would be triggered and there would be a liability to authorities in the form of a levy of claims already paid and a reduced percentage of future claims to be paid. MMIs administrators, actuaries and Creditors Committee are to undertake a financial review to consider the extent of the levy to be imposed on scheme creditors. The exact value of the levy for Northumbria is unknown but could be in the region of £0.5m. Further details should be known following the meeting of the Creditors Committee in February.

## **Devolved Budget Reserve**

10.12 The scheme of financial devolution ensures that responsibility and accountability for resources rests with those managers who are responsible for service delivery. To make the scheme work and give devolved budget holders the necessary freedom to manage their resources, they are allowed to carry forward underspends. This amount represents the cumulative net underspend of the budget devolved to specific departments and area commands which is carried forward into the following financial year to cover future events. Following a review of the balances held it was agreed to limit individual reserves balances to 1% of an area command or operational department's devolved revenue budget. As a result, devolved reserves totalled £0.3m at the beginning of 2012/13, and can be reduced to £0.1m as at 31 March.

## **Airwave Reserve**

10.13 This reserve is maintained to allow for the future costs associated with the national radio communications system. It is not now anticipated that there will be any costs associated with Airwave until 2016/17 at the earliest, so this reserve will be transferred to the General Reserve.

## **Capital Development Reserve**

10.14 The Capital Development Reserve was set aside to assist in developing and improving the capital assets of the former Authority, 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 in the medium term 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.

## **Workforce Management Reserve**

10.15 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.

## **Budgeted Reserves Position for 2012/13 and future years**

10.16 A full analysis of the Commissioner's reserves and their current planned use, before taking into account funding gaps, is as follows:

|                                 | At 31<br>March<br>2012<br>£m | At 31<br>March<br>2013<br>£m | At 31<br>March<br>2014<br>£m | At 31<br>March<br>2015<br>£m | At 31<br>March<br>2016<br>£m |
|---------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| <b>Earmarked Reserves</b>       |                              |                              |                              |                              |                              |
| Insurance Reserve               | 3.0                          | 3.0                          | 3.0                          | 3.0                          | 3.0                          |
| Devolved Budget Reserve         | 0.3                          | 0.1                          | 0.1                          | 0.1                          | 0.1                          |
| Airwave Reserve                 | 1.0                          | 0                            | 0                            | 0                            | 0                            |
| Capital Development Reserve     | 11.0                         | 7.4                          | 1.7                          | 0                            | 0                            |
| Workforce Management Reserve    | 3.0                          | 1.8                          | 0                            | 0                            | 0                            |
| <b>Total Earmarked Reserves</b> | <b>18.3</b>                  | <b>12.3</b>                  | <b>4.8</b>                   | <b>3.1</b>                   | <b>3.1</b>                   |
| <b>General Reserve</b>          | <b>26.6</b>                  | <b>18.9</b>                  | <b>18.9</b>                  | <b>18.9</b>                  | <b>18.9</b>                  |
| <b>Total Reserves</b>           | <b>44.9</b>                  | <b>31.2</b>                  | <b>23.7</b>                  | <b>22.0</b>                  | <b>22.0</b>                  |

## 11. Funding

- 11.1 The Provisional Police Settlement 2013/14 sees Northumbria receive formula funding of £240.2m in 2013/14, a reduction of £3.8m, 1.6%, in line with the 2010 Spending Review. Northumbria's level of grant funding continues to be at what is referred to as the floor and without the application of floor damping, £21.647m less in grant would have been received in 2013/14. No change to the damping mechanism is proposed until a full review of the formula funding is undertaken, not expected to impact before 2015/16. 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. Funding for 2014/15 is based on national totals outlined in the Spending Review pending further information, which assumes funding reductions in 2014/15 of 2.2%.
- 11.2 The PCC will receive £2.789m of Community Safety Funding. For indicative planning purposes, it is assumed this funding be fully utilised by the Commissioner in commissioning services.
- 11.3 The Commissioner will receive £6.845m in council tax from changes to the council tax benefit system. These changes also impact on the council tax base for Northumbria which will reduce by 18.5%

## 12. Indicative Budget Forecasts 2013/14 to 2015/16

- 12.1 All the budget pressures, budget savings, funding assumptions and proposed use of reserves outlined earlier in this Strategy are summarised below, to show an overall position before consideration of solutions to close the projected funding gap.

|  | 2013/14<br>£m | 2014/15<br>£m | 2015/16<br>£m |
|--|---------------|---------------|---------------|
| Base budget (before reserves)                                      | 287.7         | 290.2         | 283.1         |
| <b>Budget pressures</b>  |               |               |               |
| Pay and price increases  | 3.3           | 3.5           | 3.3           |
| Budget pressures / loss of specific grants                         | 12.5          | 0.4           | 0             |
| Revenue impact of capital strategy                                 | 1.0           | 0.8           | 1.1           |
| Community Safety Fund expenditure                                  | 2.1           | 0             | 0             |
| Proposed budget savings  | (16.4)        | (11.8)        | (7.5)         |
| <b>Total Budget</b>  | <b>290.2</b>  | <b>283.1</b>  | <b>280.0</b>  |
| Projected total grant income                                       | 240.2         | 234.9         | 234.9         |
| Localised council tax support grant                                | 6.8           | 6.8           | 6.8           |
| Localised council tax transition grant                             | 0.2           | 0             | 0             |
| Community Safety Fund  | 2.8           | 2.8           | 2.8           |
| Council tax income (assumes maximum permissible increase of 2% pa) | 30.9          | 31.5          | 32.1          |
| <b>Total Income</b>  | <b>280.9</b>  | <b>276.0</b>  | <b>276.6</b>  |
| <b>Funding gap (before planned use of reserves)</b>                | <b>9.3</b>    | <b>7.1</b>    | <b>3.4</b>    |
| <b>Existing planned use of reserves</b>                            |               |               |               |
| General reserve  | 0             | 0             | 0             |
| Capital Development reserve  | 5.7           | 1.7           | 0             |
| <b>Funding gap (after planned use of reserves)</b>                 | <b>3.6</b>    | <b>5.5</b>    | <b>3.4</b>    |
| <b>Further use of available reserves</b>                           |               |               |               |
| General Reserve  | 3.6           | 5.5           | 1.1           |
| <b>Funding Gap (after full use of reserves and precept income)</b> | <b>0</b>      | <b>0</b>      | <b>2.3</b>    |

### 13. Financial Strategy

13.1 The forecast revenue budget position requires more difficult choices to be made. Options open to the Commissioner to close the projected gap in future years are as follows:

- Further budget savings
- Further use of reserves
- Further council tax increases
- Increases in income / external funding

## **Budget savings**

- 13.2 The current level of proposed savings, of more than £35m over the next three years, is aimed at responding to the challenge of cuts in funding whilst minimising the impact on frontline services. There are constraints on the level of budget savings that can be achieved, particularly in the costs of police officers. The service review process will continue to maintain frontline service delivery to the public wherever possible and identify efficiencies which will enable budget savings to be made to reduce the funding gap identified in the MTFS. Protecting front line services will continue to be the highest priority. The achievement of further savings consistent with this priority will continue to be pursued.

## **Further use of Reserves**

- 13.3 The budget forecast assumes the utilisation of a further £10.2m of the General Reserve whilst retaining levels at 3%. However, any increase in the General Reserve to mitigate future funding gaps will reduce the reserve available to provide one-off support to the budget. The use of reserves to support the budget is not sustainable in the longer term. Scope for further reserve usage under the current strategy is extremely limited but this would be subject to review dependant on circumstances..

## **Council Tax**

- 13.4 Council tax increases will need to be considered in future years to meet the funding gaps, recognising that flexibility on the level of rises will continue to be curtailed. It is not known if the higher threshold set in 2013/14 for lower quartile policing bodies will be repeated in future years. The budget forecast takes account of the 3.5% precept increase agreed by the Commissioner for 2013/14. This reduces the funding gap over the period of the MTFS by £3 million. The forecasts also assume a 2% precept increase in 2014/15 and 2015/16. Scope for further council tax increases above these figures is likely to be limited.

## **Increases in Income / External Funding**

- 13.5 The former Authority and Force have been successful in securing and delivering outcomes from external funding in previous years. Specific and general funding will continue to be sought but this is limited in the current climate of reductions in the public sector.

## **14. Risk Assessment**

- 14.1 The MTFS contains the most up to date information at the time of drafting but the Commissioner's financial position is dynamic. A comprehensive financial risk assessment is undertaken for the revenue and capital budget setting process to ensure all risks and uncertainties affecting the Commissioner's financial position are identified. The Commissioner faces a number of significant financial pressures that could affect the position over the medium term. An assessment of the likelihood and impact of each risk and the management controls in place are shown in the following table:-

| <b>Risk</b>   | <b>Likelihood</b> | <b>Impact</b> | <b>Risk Management</b>  |
|---|-------------------|---------------|---|
| General Reserve not sufficient to cover future unexpected costs                           | Possible          | High          | Reserve strategy to maintain balance at a minimum of 3% of budget.  |
| Pay awards and price inflation being higher than anticipated                              | Unlikely          | Medium        | Budget based on best information available and set at a prudent level.  |
| Capital financing charges will be higher than forecast                                    | Unlikely          | Low           | Revenue implications are considered as part of capital planning and any changes to variable rate will have minimum impact as 100% of debt is at fixed rates.  |
| Interest rates on deposits lower than anticipated   | Unlikely          | Low           | Prudential assumptions on likely interest rates are incorporated into the MTFS and regular review, monitoring and reporting of interest takes place.  |
| Capital programme is understated and funding not available to deliver plans               | Unlikely          | Medium        | Capital monitoring and Estates Strategy updates are taken to the Commissioner quarterly to provide assurance in the accuracy of forecast and monthly monitoring undertaken by the Treasurer and Chief Constable. Prudential borrowing gives flexibility in financing the capital programme. |
| Failure to deliver required savings   | Possible          | High          | Quarterly revenue monitoring updates to the Commissioner and monthly monitoring undertaken by the Treasurer and Chief Constable; maintenance of the General Reserve balance at 3% of budget.  |
| Further reductions in funding including unfavourable review of funding formula            | Possible          | High          | Balance on General Reserve maintained at minimum of 3%; forward planning; regular monitoring. Lobbying of Home Office   |
| Future council tax rises limited by excessiveness principles determined by the Government | Likely            | Medium        | Balance on General Reserve maintained at minimum of 3%; forward planning; lobbying of Government.   |

| <b>Risk</b>  | <b>Likelihood</b> | <b>Impact</b> | <b>Risk Management</b>   |
|--|-------------------|---------------|--|
| Reduction in council tax collection following the introduction of the localised council tax support scheme | Possible          | Low           | Balance on General Reserve maintained at minimum of 3%; forward planning; regular monitoring.  |
| Not all risk have been identified  | Unlikely          | Medium        | Comprehensive insurance arrangements are in place alongside robust risk management arrangements; balance on General Reserve maintained at a minimum of 3% of budget. |

## **15. Conclusion**

- 15.1 The review of the MTFS reflects the Programme of Change within Northumbria Police that has established a new model of operational policing which has delivered and continues to deliver significant budget savings whilst protecting front line services.
- 15.2 The funding gaps over the remaining period of the Spending Review to 2016 are lower as a result of the projected underspend on the current year's budget and the identification of further savings particularly in non-pay areas, the application of available reserves and increased precept income.
- 15.3 Grant funding for 2013/14 has now been published but there is uncertainty about the distribution of grant from 2014/15 onwards. The review of formula funding could have a significant impact on the Commissioner's overall funding. For the MTFS, funding assumptions have been made based on national totals but these assumptions will need to be revisited once the Home Office have published funding allocations for 2014/15 and the outcomes of the next Spending Review and formula funding review are known. The magnitude of the current reliance on damping protection presents a significant risk to the finances of Northumbria Police going forward.
- 15.4 The overall financial context for Northumbria Police remains extremely challenging and further budget savings will need to be considered over the life of the MTFS, together with efficiencies generated from different ways of working.
- 15.5 The MTFS does indicate that a sustainable financial position can be achieved over the period 2013/14 to 2015/16 and the Commissioner is fully committed to taking the necessary decisions to achieve this outcome.