

## POLICE AND CRIME COMMISSIONER FOR NORTHUMBRIA

### Title and Reference - (PCC/131/2015)

Approval for the Council Tax and Revenue and Capital Budgets for 2015/16.

### Summary

On 6 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 £88.33. There are statutory requirements for the Commissioner to calculate the budget requirements and formally issue a precept for the financial year.

### Recommendation

It is recommended that the Commissioner approves:  
the proposed capital programme and revenue budgets for 2015/16;  
the review of the reserves policy;  
the council tax precept of £88.33 for Band D to be issued for 2015/16;  
the calculations of the council tax in 2015/16 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 2015/16.

### Northumbria Police and Crime Commissioner

I hereby approve the recommendation above.

Signature



Date 19.02.15

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**Council Tax Precept and Revenue and Capital Budgets 2015/16**

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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 2015/16.

**Background**

2. The Local Government Finance Act 1992, as amended by the Localism Act 2011 sets out the requirements for the commissioner to consider council tax calculations by major precepting authorities.
3. On 6 February 2015, the Police and Crime Panel agreed the Commissioner's proposals to increase the council tax precept for 2015/16 by 1.99%.
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 1.99% council tax increase in 2015/16.
5. In preparing the budgets, the following issues have been considered:
  - The key principles underlying the MTFS 2014/15-16/17 and its latest revision;
  - The provisional Police Grant settlement for 2015/16, which for Northumbria is a reduction in grant funding of 5.1%, a cash reduction of £11.5m;
  - The forecast Revenue and Capital outturn for 2014/15;
  - 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 2015/16 to 2017/18 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 MTFS;
  - 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 2015/16, 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 2015/16**

8. Summary of Proposed Council Tax and Revenue & Capital Budgets 2015/16
- A revenue budget of £269.0 m for policing and crime reduction;
  - Provision for increases in pay and prices of £4.45m;
  - Budget pressures of £1.67m 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 £2.2m to support capital investment in buildings, vehicles and new technology;
  - Budget savings of £16.2m in 2015/16;
  - Capital investment in buildings, vehicles and new technology of £11.7m ;
  - The use of £9.2m from the Commissioner's reserves to support capital investment and phase budget savings to minimise the impact on frontline policing; and
  - Acceptance of the increase in council tax of 1.99%.

### **Police Finance Settlement**

9. The final police grant for 2015/16 was announced on 4th February 2015. The key highlights are as follows:
- Only a 1 year settlement;
  - Overall cut to England and Wales policing funds is 3.5% in cash terms
  - Cash paid to PCC's has cut by 5.1% - £11.7 million – for Northumbria an extra £4.4 million more than expected;
    - Existing damping arrangements continue so all forces face the same overall percentage cut although the split between the grants is different;
  - Top Slicing has increased central funds by £96 million to £822 million. Central funds now account for more than 10% of the total policing "funding envelope".

## Capital Programme 2015/16

10. The proposed capital programme set out below for 2015/16 totals £11.97m 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>2015/16 £ million</b>
Major Building Schemes	1.34
Minor Building schemes	2.38
ICT	5.07
Vehicles/Equipment	3.00
<b>Total</b>	<b>11.79</b>

11. The following comments outline the 2015/16 year capital programme:
- Major Building schemes – In 2015/16 this allocation will provide the final strands of the major project to relocate functions from the former HQ site at Ponteland. Beyond 2015/16 there are no further major schemes in the Programme.
  - Minor Building Schemes – The allocation for minor building schemes will primarily facilitate the on-going work to migrate the force to a new estate model, a change in approach highlighted in the previous MTFS. In addition to set-up costs of new community bases, there will also be further work to finalise the planned upgrade of custody suites.
  - Computer and Communications – This allocation will continue to support all IT requirements for the Force but also continue to support the changing nature of policing through the Street to Strategic (S2S) project whereby Officers will be provided with hand-held equipment to conduct business through technology and be able to spend more time in communities.
  - Vehicles and Equipment – Primarily the replacement of vehicles in the Force fleet but also to refresh some specialist operational equipment.

The programme will be funded as through the use of Capital Grant and receipts.

## Revenue Budget 2015/16

12. For the financial year 2015/16, the proposed total net police expenditure before the use of reserves is £269.0m, details of which follow in paragraph 19. The proposed budget includes £4.45m in pay and price increases to cover the cost of pay awards and inflationary increases in relation to energy, business rates and rents. Most other inflation is being absorbed within existing budgets.

13. Budget pressures of £1.7m 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).
14. A further provision of £2.1m 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**

15. The proposed budget for 2015/16 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.
16. Whilst maintaining the above principles, £16.2m of budget savings have been identified for 2014/15. Further budget savings of over £24m 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.
17. In 2015/16, the savings will be realised by a combination of:
  - Rationalisation of Estates and new operating model of 3 Area Commands
  - 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).
  - ICT transformation
  - Scrutiny of non pay costs throughout the Force
  - Identifying opportunities for collaboration and / or strategic partnerships
18. In addition to the Force led savings, the Commissioner has scrutinised the OPCC budget and also intends to save £1.0m in 2015/16 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 2015/16 Police and Crime Plan will be considered by the Police and Crime Panel in February.

## Budget Summary –2015/16

19. A summary of the proposed 2015/16 Revenue Budget follows:

Revenue Budget	Original Estimate 2014/15 £000	Revised Estimate 2014/15 £000	Forecast Outturn 2014/15 £000	Original Estimate 2015/16 £000
Chief Constable	264,939	264,939	264,157	256,656
Police and Crime Commissioner	11,988	11,988	11,270	12,383
<b>Net Revenue Expenditure</b>	<b>276,927</b>	<b>276,927</b>	<b>275,427</b>	<b>269,039</b>

The budget for the Chief Constable provides for all the day to day operational policing. The budget for the Police and Crime Commissioner primarily includes the capital financing costs for both corporate bodies as well as the OPCC running costs.

### Council Tax Options

- 20 The Localism Act 2011 introduced a power for the Secretary of State for Communities and Local Government to issue principles that define what should be considered excessive Council Tax, including proposed limits. From 2013 onwards, any council that wishes to raise its Council Tax above the limits that apply to them will have to hold a referendum.
- 21 The principles that were set out for 2014/15 considered council tax to be excessive if it was 2%, or more than 2% greater than its adjusted relevant basic amount for 2013/14. The 2015/16 principles are in line with 2014/15; any increase must be 1p less than 2% of Band D per annum.
- 22 It is proposed that the precept is increased by 1.99%. The impact of this in 2015/16 will allow for an additional £0.63m.
- 23 The 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

24. The Commissioner's reserves policy is set out in the MTFs and is subject to regular review.
25. A full analysis of the Commissioner's revenue reserves and their planned use in 2015/16 taking into account the proposals outlined is set out on the following page. This shows a projected General Reserve of £21.8 m and earmarked reserves of £4.8m at 31 March 2015.

	Estimated at 31 March 2015 £m	Planned use of reserves 2015/16 £m	Estimated At 31 March 2016 £m
<b>Earmarked Reserves</b>			
Insurance Reserve	3.0	0	3.0
Workforce Development Reserve	1.3	(0.7)	0.6
Capital Development Reserve	0.2	(0.2)	0
External Funding Reserve	0.3	0	0.3
<b>Total Earmarked Reserves</b>	<b>4.8</b>	<b>(0.9)</b>	<b>3.9</b>
<b>General Reserves</b>	<b>21.8</b>	<b>(9.0)</b>	<b>12.8</b>
<b>Total Reserves</b>	<b>26.6</b>	<b>(9.9)</b>	<b>16.7</b>

26 The above proposals can be summarised as follows:

- In line with the MTFS the General reserve will reduce from £21.8million to £12.8m by the end of 2015/16. The proposed use of reserves in 2015/16 in total is £9.9m as set out above. The capital development reserve of £0.2m will be fully utilised in 2015/16.

27 The planned use of reserves will allow the Commissioner to continue supporting front line policing and the capital programme.

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

28 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.

29 The budget and 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.

30 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 2015/16; and
- The impact of funding cuts and the uncertainty of grant support beyond 2015/16.

31 At 31 March 2015, the Commissioner's General Reserve is estimated at £21.8m (8% 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 5% 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 2015/16 and the financial risks faced by the Commissioner which could impact on the level of reserves.

32 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 2015/16.

### Council Tax Requirement

33 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:

Total Revenue Expenditure	£m
	269.039
<b>Less</b> Appropriations from Reserves	<u>9.220</u>
Budget Requirement	259.819

<b>Less:</b>	<b>£m</b>
DCLG Grant	107.988
Police Grant	110.759
Localised Council Tax Support Grant	6.867
Legacy freeze grant	0.912
2014/15 council tax freeze grant	0.389
	<u>226.915</u>
Balance to be Raised Locally	32.904
Less estimated net surplus on collection funds	<u>0.283</u>
Council Tax Requirement	<u>32.621</u>

34 The proportion of collection funds' net surplus due to Northumbria Police from its constituent billing authorities is £0.283m for 2014/15 (£0.266m in 2014/15).

35 The notified Council Tax base figure is 369,311 which is an increase of 5,449 over the previous year.



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

- 36 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.
- 37 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.
- 38 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 2015/16 to 2017/18. Prudential indicators concentrate on the level and composition of external debt, and are therefore very closely linked to the Commissioner's Treasury Management Strategy.
- 39 The Commissioner's proposed Prudential Indicators are shown at Appendix A to this report.

## **Minimum Revenue Provision**

- 40 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 pay off the Capital Financing Requirement. There are no proposed changes to the method used to calculate MRP but the use of capital receipts to reduce the debt liability is now included in the 2015/16 statement as attached at Appendix B.

## **Financial Considerations**

41. Financial implications are considered throughout the report.

## **Risk Management Implications**

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

## **Legal Considerations**

43. The legal implications are considered within the report.

## **Equal Opportunities Implications**

44. 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 369,311.17 for the year 2015/16 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 2015/16 in accordance with Sections 42A, 42B and 45 to 47 of the Local Government Finance Act 1992, as amended:-
  - (a) £281.011m 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) £248.389m 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) £32.621m 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) £88.33 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	£ 58.89	being the amounts given by multiplying the
B	£ 68.70	amount of (d) above by the number which, in
C	£ 78.52	the proportion set out in Section 5 (1) of the
D	£ 88.33	Act, is applicable to dwellings listed in a
E	£107.96	particular valuation band divided by the number
F	£127.59	which in that proportion is applicable to
G	£147.22	dwellings listed in valuation band D, calculated
H	£176.66	by the Police and Crime Commissioner in
		accordance with Section 47 (1) of the Act, as
		the amounts to be taken into account for the
		year in respect of the categories of dwelling
		listed in different valuation bands.

4. Resolve that under Section 52ZB of the Local Government Finance Act, the Commissioner's relevant basic amount of Council Tax for 2015/16 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 £32.6m for the financial year beginning 1 April 2015, 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 2015/16 as set out in the Annual MRP statement at Appendix B to this report.

### Prudential Indicators – Treasury Management

#### Authorised Limit For External Debt

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

Authorised Limit For External Debt			
	2015/16 £000	2016/17 £000	2017/18 £000
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>

#### Operational Boundary For External Debt

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

Operational Boundary For External Debt			
	2015/16 £000	2016/17 £000	2017/18 £000
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>

#### Upper Limit On Fixed And Variable Interest Rates Exposures

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

Upper Limit On Fixed And Variable Interest Rates Exposures			
	2015/16 £000	2016/17 £000	2017/18 £000
<b>Fixed rate:</b>			
<b>Upper</b>	110.425	101.594	91.173
<b>Lower</b>	(7.535)	(22.535)	(27.115)
<b>Variable rate:</b>			
<b>Upper</b>	6.000	6.000	6.000
<b>Lower</b>	(20.000)	(20.000)	(20.000)

### Upper And Lower Limits For The Maturity Structure Of Borrowings

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

<b>Upper And Lower Limits For The Maturity Structure Of Borrowings</b>		
	<b>Upper Limit</b>	<b>Lower Limit</b>
Under 12 months	50%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	70%	0%
10 years and above	90%	0%

### Upper Limit On Amounts Invested Beyond 364 Days

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

<b>Upper Limit On Amounts Invested Beyond 364 Days</b>			
	<b>2015/16 £000</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>
Investments	15,000	15,000	15,000

### Gross Debt and the Capital Financing Requirement

The following table shows the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement), highlighting any over or under borrowing.

<b>Gross Debt and the Capital Financing Requirement</b>					
	<b>31/03/14 £000 Actual</b>	<b>31/03/15 £000 Estimate</b>	<b>31/03/16 £000 Estimate</b>	<b>31/03/17 £000 Estimate</b>	<b>31/03/18 £000 Estimate</b>
Actual gross debt at 31 March	88,131	100,128	100,128	100,128	98,049
Capital Financing Requirement	106,054	112,143	107,075	102,672	98,473
Under / (over) borrowing	17,923	12,014	6,946	2,543	424

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<b>Upper And Lower Limits For The Maturity Structure Of Borrowings</b>		
	<b>Upper Limit</b>	<b>Lower Limit</b>
Under 12 months	50%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	70%	0%
10 years and above	90%	0%

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	<b>2015/16 £000</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>
Investments	15,000	15,000	15,000

### Gross Debt and the Capital Financing Requirement

The following table shows the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement), highlighting any over or under borrowing.

<b>Gross Debt and the Capital Financing Requirement</b>					
	<b>31/03/14 £000 Actual</b>	<b>31/03/15 £000 Estimate</b>	<b>31/03/16 £000 Estimate</b>	<b>31/03/17 £000 Estimate</b>	<b>31/03/18 £000 Estimate</b>
Actual gross debt at 31 March	88,131	100,128	100,128	100,128	98,049
Capital Financing Requirement	106,054	112,143	107,075	102,672	98,473
Under / (over) borrowing	17,923	12,014	6,946	2,543	424

**Police and Crime Commissioner for Northumbria Minimum Revenue Provision (MRP) Statement 2015/16**

The MRP charge for 2015/16 for capital expenditure incurred before 1<sup>st</sup> April 2008 (prior to the new regulations) or which has subsequently been financed by supported borrowing will be based on the previous regulatory method of Capital Financing Requirement at 4% of the opening balance less prescribed adjustments.

For all unsupported borrowing, exercised under the Prudential Code, the MRP Policy is based on the Asset Life Method. The minimum revenue provision will be at equal annual instalments over the life of the asset. The first charge will not be made until the asset is operational.

In 2015/16 the MRP funded from revenue increases to just over £5.1 million from £3.6 million in 2014/15. This large increase reflects the capital investment decisions that were not funded in last year, including the purchase of fleet and the completion of the new offices.

The estates rationalisation programme will see the sale of some £30 million of assets over the next few years. The receipts from this will be used to pay off debt and thus reduce the Capital Financing Requirement and MRP in the future. Rather than pay off the sum in full it is proposed to apply a balance of capital receipts towards the annual MRP reducing the total revenue required. This will create a short term MRP revenue budget holiday relieving the revenue budget for around 4 years.

### NORTHUMBRIA POLICE AND CRIME COMMISSIONER 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 2015 of £21.8m is 8% 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. Estimates for future pay awards have been fully included.

#### 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, 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 and Commissioner's Office help to strengthen and coordinate the financial planning of the Commissioner.

#### Savings



Budget savings of £16.2m have been included in the revenue budget for 2015/16. 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  
Adequacy of the General Reserve and the overall reserves policy.

### **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 2015/16 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;

### **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

### **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.