

## **NORTHUMBRIA POLICE AND CRIME COMMISSIONER**

### **Key Decision**

#### **Title and Reference**

**COUNCIL TAX PRECEPT AND REVENUE AND CAPITAL BUDGETS 2020/21**  
**(PCC/417/2020)**

#### **Summary**

On 04 February 2020 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 £137.00. There are statutory requirements for the Commissioner to calculate the budget requirements and formally issue a precept for the financial year.

#### **Recommendation/Findings:**

As set out in the attached report it is recommended that the Commissioner:

1. Approves:
  - (i) The Revenue Budget.
  - (ii) The Capital Programme and authorises the Joint Chief Finance Officer to undertake the appropriate financing.
  - (iii) Agree the review of the reserves policy.
  - (iv) Notes the recommendations of the Joint Chief Finance Officer (Treasurer) in respect of robustness of the revenue and capital budget estimates and the adequacy of reserves.
2. Notes the Council tax Base of 398,916 for the year 2020/21.
3. Approves the calculations of Council Tax in 2020/21 in accordance with sections 42A, 42B and 45 to 47 of the Local Government Finance Act 1992, as amended.
4. Approves the Council Tax Precept of £137.00 for Band D to be issued in 2020/21.
5. Approves the Prudential Indicators.
6. Accepts the method of calculating Minimum Revenue Provision (MRP) for 2020/21.

#### **Northumbria Police and Crime Commissioner**

I hereby approve the recommendation above.

**Signature**



**Date**

**20/2/2020**

<b>Joint Business Meeting</b>	<b>20 February 2020</b>
<b>Council Tax Precept and Revenue and Capital Budgets 2020/21</b>	
<b>Report of: Mike Tait, Joint Chief Finance Officer</b>	
<b>Author: Gail Thompson, Principal Accountant</b>	

## **1. PURPOSE**

- 1.1 To request the Police and Crime Commissioner (the Commissioner) to approve the revenue budget, capital programme and precept for the financial year 2020/21.

## **2. BACKGROUND**

- 2.1 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.
- 2.2 This report sets out the proposed revenue budget and capital programme for 2020/21, together with a review of the current year's budget position to allow a budget and council tax precept charge to be approved in accordance with legislative requirements.
- 2.3 Northumbria has taken the largest financial cut of all Forces in England and Wales through both the 2010 and 2015 Comprehensive Spending Review (CSR) periods, as reported by the National Audit Office. Central Government formula funding for policing in Northumbria was reduced by more than 31% in real terms between 2010/11 and 2018/19.
- 2.4 The current financial climate remains a difficult and challenging one. The last 10 years have seen unprecedented cuts to the funding provided by the Government to Police and Crime Commissioners in England and Wales. By the end of 2019/20 Northumbria will have made £144.3m of cuts and efficiencies to manage the reductions imposed by government over that period.
- 2.5 For a number of years now, the severe restrictions on funding from Central Government have been delivered with the continued expectation that the shortfall is met locally by tax payers through the precept.
- 2.6 Local precept income is essential to maintain spending power and preserve the high standards of policing that we have in Northumbria. The Council Tax Precept raised £52.769m towards the total funding requirement for Northumbria in 2019/20. Residents in Northumbria have provided additional funding to support Northumbria Police year-on-year and that support has been vital to help the force deliver the Police and Crime Plan priorities.
- 2.7 Northumbria have argued for a number of years that the Government settlement should deliver the additional funding required by forces to deliver policing services to the public and that the responsibility should not simply be pushed onto local tax payers. Whilst the 2020/21 settlement appears to go some way towards that principle, there remains a lack of clarity over longer term funding certainty and the messaging from HM Treasury is that the CSR 2020 is expected to be tough and future settlements less favourable.
- 2.8 In preparing the Revenue and Capital Budgets for 2020/21 the following have all been considered:

- The key principles underlying the 4 year MTFs 2020/21 to 2023/24.
- The level of investment in local policing priorities that is sustainable over the medium term balanced with the risk and uncertainty of a 1 year funding settlement.
- The Police Grant settlement for 2020/21 which has provided detail on Home Office core grant funding for both revenue and capital, legacy Council Tax grants, Special Pension Grant, National police officer Uplift and the referendum limits for increases to the Council Tax Precept.
- The overall financial position of the force including: the likely revenue and capital outturn for 2019/20; budget pressures and savings identified for 2020/21; and the level of reserves available to the PCC.
- Delivery of the Police and Crime Plan.
- Risk assessment.
- The Prudential Code for Capital Finance in Local Authorities.

2.9 On 4 February 2020, the Police and Crime Panel agreed the Commissioner's proposals to increase the council tax precept for 2019/20 by 1.99%, equivalent to £2.67 per year for a Band D household, and £1.78 for those households in Band A. This increase is within the excessiveness limits set by Government.

### **Proposed Council Tax and Revenue & Capital Budgets 2020/21**

2.10 Summary of Proposed Council Tax and Revenue & Capital Budgets 2020/21:

- A proposed revenue budget of £294.327m for policing and crime reduction that includes:
  - Provision for increases in pay and prices of £9.600m; and budget pressures of £2.600m;
  - A net increase of £1.400m in the revenue costs to support capital investment; and
  - Budget savings of £3.700m in 2020/21.
  - Delivery of the Northumbria share of the National police officer Uplift target by March 2021.
  - Investment of £4.358m in local policing priorities for 2020/21.
  - Initial phasing of investment over the medium term has been set at a level which is prudent and sustainable. Part of the funding allocated for 2020/21 will be set aside in reserves to maintain investment priorities over the medium term, balanced against the risks identified and the level of funding uncertainty beyond March 2021.
  - Capital investment in buildings, vehicles and new technology of £17.261m.
  - Proposed increase of 1.99% on the Council Tax Precept (£2.67 for a Band D property) in 2020/21 to raise an additional £1.065m income.

### **Financial Strategy**

2.11 The 2020/21 budget is part of the four year Medium Term Financial Strategy (MTFS).

2.12 The overall financial strategy seeks to deliver the Commissioner's Police and Crime Plan, support the Police 2025 Strategy, the mission, vision and values of Northumbria Police and meet the requirements of the National Strategic Policing Requirement.

## National Police Finance Settlement

2.13 The national police grant settlement was published on 22 January 2020.

2.14 The key headlines from the settlement are:

- Police Core Grant – Core grant allocations to PCCs to be increased by £532m, to support recruitment of up to 6,000 additional officers by the end of March 2021. The increase will be paid to all 43 forces and allocated in-line with formula funding such that all forces will see an increase in their core funding equivalent to 7.5%.
- No direct inflationary increases have been allocated to core grant funding over and above the funding provided for additional officer recruitment.
- Ring-fenced grant funding of £168m will be allocated to PCCs in-line with formula funding allocations and accessed through progression against their recruitment targets.
- Legacy grants relating to Council Tax and freeze grants for 2011/12 and 2014/15 remain payable.
- Specific grant funding allocated to forces to manage part of the increased cost of employer pensions in 2019/20 has been confirmed for one further year only.
- Council Tax Referendum Limits - The Government has proposed precept referendum limits for 2020/21 that enable PCCs to raise additional funding for local priorities through an increase of up to £10.00 for a Band D property. However, this increase is subject to confirmation at the final Local Government Finance Settlement.
- Police Capital Funding – Capital grants to PCCs cut / top-sliced by 74% as the Government prioritise national schemes and infrastructure. The messaging is that PCCs can utilise increases in other grants (revenue) to cover both capital and non-capital spend, increasing the impact of capital investment on force revenue budgets.
- Four priority areas to drive efficiency, productivity and effectiveness next year including efficiency savings through joint procurement, enhanced productivity using technological solutions, achieving best value on police technology spending and ensuring forces meet their recruitment targets for 2020/21.
- PCC allocations for the commissioning of victims' services have been issued to include a 1.84% inflationary increase.
- In addition, funding for Violence Reduction Units (VRU) has been confirmed for one further year only.

## Northumbria Settlement

2.15 **Police Grant** - The one year settlement announcement confirmed that core grant allocations would be increased to support recruitment of up to 6,000 officers by March 2021. The Northumbria allocation is £16.387m which represents an increase equivalent to 7.5%.

2.16 Whilst core grant funding has been significantly increased for 2020/21, this funding has been provided to support the recruitment of the initial 6,000 officers **and** provide the necessary infrastructure improvements to deliver the full 20,000 national Uplift by March 2023. In addition no direct inflationary increase has been provided over and above the funding to support the officer Uplift.

2.17 The ring-fenced funding allocation for Northumbria is £5.175m and will be allocated on a quarterly basis as the force progresses against its recruitment target of 185 additional officers

by March 2021. Recruitment targets allocated at force level beyond 2020/21 are not yet known.

- 2.18 The Special Pension Grant of £3.423m allocated in 2019/20 to cover part of the increased cost of police officer pensions (£7.700m for Northumbria) has been confirmed for one further year only. No inflationary increase has been made, the grant is maintained in flat cash terms. This remains a significant risk to the medium term position and therefore the principle to maintain a Police Pension Scheme Funding Reserve is continued.
- 2.19 Northumbria will continue to receive legacy grants totaling £8.168m, relating to Council Tax and freeze grants for 2011/12 and 2014/15.
- 2.20 Capital grant funding allocated by the Government for Northumbria is £0.338m and represents less than 2% of the total funding required for capital investment in 2020/21. The grant has been cut by 74% against the level allocated for 2019/20.
- 2.21 This is a one-year settlement which does not provide any certainty beyond March 2021. The messaging from HM Treasury is that the Comprehensive Spending Review (CSR) 2020 will be tough and future settlements will not be as favourable.
- 2.22 **Council Tax Precept** - The Government has proposed precept referendum limits for 2020/21 that enable PCCs to raise additional funding for local priorities through an increase of up to £10.00 for a Band D property. For residents in Northumbria this would equate to a further 7.44% on Council Tax bills for 2020/21. However, it is for locally accountable PCCs to take decisions on local precept and explain to their electorate how the additional funding will be invested in police services.

#### **Capital Programme 2019/20**

- 2.23 The Commissioner has a revised capital budget for 2019/20 of £21.829m. The third quarter capital monitoring report outlined a revised capital estimate of £17.004m as at 31 December 2019. The reduction in the revised estimate for the year mainly reflects changes in the phasing and timing of capital schemes which will roll forward into 2020/21.

#### **Capital Programme 2020/21**

- 2.24 The following table sets out a summary of the capital programme for 2020/21:

<b>2020/21 Capital Programme</b>	<b>Total £000</b>
Building Schemes	8,002
Information Technology	4,254
Vehicles and Equipment	4,485
<b>Total</b>	<b>16,741</b>

- 2.25 Key areas to note in the proposed programme are:
  - **Building Schemes** - Estates refurbishment programme based on the new operational model requirements, improving wellbeing and the 2018 condition surveys; transition and relocation costs associated with premises moves and co-location with partner agencies.

- **Information Technology** - The Force have a number of Improvement Schemes to deliver change and efficiency through transformation which includes considerable investment in IT systems. This includes the replacement of all core operating systems and the associated hardware and network equipment, and future implementation of the National Emergency Services Network (ESN) within Northumbria.
- **Vehicles and Equipment** - A rolling programme of vehicle replacement and material programmes for upgrading equipment including body armour replacement and body-worn video.

### Revenue Budget 2019/20

- 2.26 The Commissioner's Group revenue budget for 2019/20 is £280.082m. The Quarter 3 revenue monitoring report shows a projected underspend of £2.868m as at 31 December 2019.

2019/20 Revenue Monitoring - Quarter 3 Position			
	Approved Budget 2019/20	Projected Outturn 2019/20	Variance 2019/20
Group Position	£m	£m	£m
Chief Constable	268.581	266.686	(1.895)
Police and Crime Commissioner	2.098	2.098	-
Capital Financing	9.403	8.430	(0.973)
<b>Net Expenditure</b>	<b>280.082</b>	<b>277.214</b>	<b>(2.868)</b>
Central Government Grant	(230.551)	(230.551)	-
Council Tax Precept	(53.531)	(53.531)	-
<b>Central Grant and Precept Total</b>	<b>(284.082)</b>	<b>(284.082)</b>	-
<b>Appropriations (to) / from reserves</b>	<b>(4.000)</b>	<b>(6.868)</b>	<b>(2.868)</b>

- 2.27 The Chief Constable's revenue budget for 2019/20 is £268.581m. The forecast underspend of £1.895m represents 0.7% of the budget allocated for the year. The underspend is mainly attributed to a one-off saving from the timing and phasing of the increase to the workforce funded through last year's precept increase. In addition there are one-off additional receipts of income associated with the provision of training courses and other police services. This saving will not be used to increase general reserves but will be set aside and reinvested to maintain the increase in the workforce during 2019/20 alongside the additional investment planned for 2020/21, ensuring that this remains sustainable over the medium term.
- 2.28 For Capital financing, underspend is attributed to the timing of payments relating to the repayment of borrowing and interest. The capital programme includes a rolling programme of significant estates and ICT works. Repayment of borrowing is based on estimates at a point in time, which are monitored and updated quarterly throughout the year. In addition, savings on interest costs have been achieved in-year mainly due to a reduction in planned capital spend, new long term borrowing secured at preferential rates and borrowing deferred to later in the financial year. The underspend will be set aside in reserves to manage capital expenditure associated with implementation of the National Emergency Services Network (ESN) within Northumbria. This supports the prudent approach being taken to overall capital financing over the medium term in light of capital grant funding from Government being cut by 74% within the settlement for 2020/21.

2.29 The overall Group forecast represents an underspend of £2.868m. The underspend will be reinvested over the medium term to maintain the increase to the workforce during 2019/20 and manage the capital costs associated with implementation of the National ESN within Northumbria.

2.30 The forecast closing position on the general reserve for 2019/20 is £9.728m.

### **Revenue Budget 2020/21**

2.31 For the financial year 2020/21, the proposed total net revenue budget is £294.327m.

2.32 The proposed budget includes £9.600m in relation to pay and price increases including an estimated 2.5% pay award for officers and staff; provision for police officer pay progression under regulations, known contract increases and other inflation costs associated with rates, rents, utilities and force contracts.

2.33 Budget pressures of £2.600m have also been incorporated, which include ICT revenue costs associated with capital schemes, IT software licenses and new software solutions, known operational budget pressures, and other non-pay pressures.

2.34 Force budget savings of £3.700m have been identified in 2020/21 relating to the revaluation of the police staff pension fund (LGPS), officer allowances, other non-pay budget areas and income generation.

2.35 An increase in capital financing costs of £1.400m to support capital investment is included which reflects the planned profile of interest costs, investment income and the principal repayment of borrowing. The movement reflects the additional revenue cost of supporting 2019/20 capital investment through prudential borrowing. This approach is set in the context of a significant cut to Government grant funding for capital for 2020/21.

2.36 The 2020/21 settlement sees the Government cut capital grants by 74% in order to prioritise national capital schemes and infrastructure with the expectation that increases in revenue grants can be used flexibly to cover both capital and non-capital spend. Capital receipts will therefore be used prudently across the MTFS period to manage overall capital investment and limit the impact on revenue budgets alongside this significant funding cut.

2.37 The revenue budget 2020/21 includes the costs associated with delivering the Northumbria share of the National police officer Uplift of an additional 6,000 officers by March 2021 and the ring-fenced Uplift grant allocation for Northumbria of £5.175m.

2.38 The revenue budget for 2020/21 includes provision for further investment in policing priorities of £4.358m. The force will undertake to prioritise investment options over the coming weeks to provide the benefits that maximise policing outcomes for Northumbria residents.

2.39 Under this scenario, part of the funding allocated for 2020/21 will be set aside in reserves to ensure that the investment in the Northumbria area will be sustainable over the medium term. This approach will also ensure that funds are available to provide the necessary infrastructure improvements to support the future Uplift in police officer numbers in 2021/22 and 2022/23. Given the late announcement by the Government of police funding for 2020/21, final decisions regarding the initial level of investment will continue to be considered by the PCC and Chief Constable.

## Budget Summary – 2020/21

- 2.40 A summary of the 2019/20 forecast outturn position and proposed 2020/21 Revenue Budget is set out in the following table:

<b>2020/21 Group Budget</b>			
	<b>Original Estimate</b>	<b>Projected Outturn</b>	<b>Original Estimate</b>
	<b>2019/20</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Group Revenue Budget</b>			
Chief Constable	268.581	266.686	281.482
Police and Crime Commissioner	2.098	2.098	2.098
Capital Financing	9.403	8.430	10.747
<b>Net Revenue Expenditure</b>	<b>280.082</b>	<b>277.214</b>	<b>294.327</b>

- 2.41 The group budget is held by the Police and Crime Commissioner who provides financial resources to the Chief Constable to deliver operational policing. The PCC has a small specific budget for the Commissioners Community Fund and the OPCC running costs. The Capital Financing budget comprises the revenue provision for repayment of borrowing, interest costs and investment income.

### Council Tax Options

- 2.42 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 PCC that wishes to raise its Council Tax above the limits that apply to them will have to hold a referendum.
- 2.43 The excessiveness limit for 2020/21 is £10.00 per Band D property.
- 2.44 During 2019/20 the Council Tax base in the Northumbria force area increased by an average 1.55% to 398,916 (Band D equivalent properties). The increase in the Council Tax base will generate additional income of £0.817m for 2020/21.
- 2.45 In calculating the overall settlement for policing in 2020/21 the Government has proposed enabling each PCC to raise further funding for local priorities through an increase of up to £10.00 for a Band D property. For residents in Northumbria this would equate to a further 7.44% on Council Tax bills for 2020/21. Consideration of the Council Tax Precept has to be taken alongside both the overall funding made available to the force and the impact on households of any increase.
- 2.46 The proposal is to increase the Council Tax precept by 1.99% (£2.67 for a Band D property) to raise an additional £1.065m over 2020/21. The Police Commissioner has stated this is a rise that is fair on households dealing with their own cost issues while at the same time ensuring Northumbria Police is well positioned to tackle emerging crime trends alongside additional funds made available in the financial settlement.
- 2.47 The anticipated receipts of £54.651m from the precept are included in the MTFS that sets out the main assumptions and provides further detail to demonstrate that this decision provides affordability over the medium term.
- 2.48 In addition, all six billing authorities will pay a collection fund surplus in 2020/21 which will deliver a total of £0.938m.



## Reserves

- 2.49 The Commissioner's reserves policy is set out in the MTFS and is subject to regular review.
- 2.50 A full analysis of the Commissioner's revenue reserves and their planned use in 2020/21 taking into account the proposals outlined is set out in the following table:

Revenue Reserves	Estimated at 31 March 2020 £m	Planned Transfer to Planned Use		Estimated at 31 March 2021 £m
		Reserves 2020/21 £m	of Reserves 2020/21 £m	
<b>Earmarked Reserves</b>				
Insurance Reserve	3.0	-	-	3.0
Workforce Management Reserve	1.3	-	-	1.3
Police Pension Scheme Funding Reserve	3.4	-	-	3.4
Emergency Services Network (ESN) Reserve	3.6	-	-	3.6
Reserve to Maintain Investment over the Medium Term	1.9	8.2	-	10.1
Innovation Reserve	0.3	-	(0.3)	-
External Funding Reserve	0.3	0.2	(0.1)	0.4
NERSOU Reserve	0.2	-	(0.2)	-
<b>Total Earmarked Reserves</b>	<b>14.0</b>	<b>8.4</b>	<b>(0.6)</b>	<b>21.8</b>
<b>General Reserves</b>	<b>9.7</b>	-	-	<b>9.7</b>
<b>Total Reserves</b>	<b>23.7</b>	<b>8.4</b>	<b>(0.6)</b>	<b>31.5</b>

- 2.51 The MTFS sets out the Commissioner's reserves strategy which is to maintain the general reserve at a minimum of 2% of the net revenue budget for the year. As at 31 March 2020 the balance is estimated to be £9.728m which equates to 3.2%.

### Adequacy of Reserves and Robustness of Budget Estimates

- 2.52 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.
- 2.53 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.
- 2.54 In assessing the robustness of the budget, the Joint Chief Finance Officer has considered the following issues:
- The general financial standing of the group made up of the OPCC and Northumbria Police.
  - 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 general reserves to cover any potential financial risks faced by the Commissioner.

- The impact of funding cuts and the uncertainty around future budget pressures, CSR 2020 and the levels of grant support beyond 2020/21.

2.55 At 31 March 2020, the Commissioner's General Reserve is estimated at £9.728m (3.2% of revenue expenditure), in addition to other reserves which are earmarked for specific purposes. In estimating the level of reserves the Joint Chief Finance Officer has taken account of known commitments and the financial risks faced by the Commissioner which could impact on the level of reserves over the MTFS period.

2.56 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 2020/21.

### Council Tax Requirement

2.57 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 in the following table:

Council Tax 2020/21		£m	£m
<b>Total Revenue Expenditure</b>			<b>294.327</b>
<b>Add:</b> Appropriations to/(from) Reserves			<b>8.200</b>
<b>Budget Requirement</b>			<b>302.527</b>
<b>Less:</b>			
Home Office Core Grant	235.347		
Special Pension Grant	3.423		
Localised Council Tax Support Grant	6.867		
Council Tax Freeze Grant 11/12	0.912		
Council Tax Freeze Grant 14/15	0.389		
			<b>246.938</b>
<b>Balance to be raised locally</b>			<b>55.589</b>
<b>Less:</b> Estimated net surplus on collection funds			<b>0.938</b>
<b>Council Tax Requirement</b>			<b>54.651</b>

2.58 The proportion of collection funds' net surplus due to Northumbria Police from its constituent billing authorities is £0.938m for 2020/21 (£0.762m in 2019/20).

2.59 The notified Council Tax base figure is 398,916 which is an increase of 6,086 over the previous year (1.55%).

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

2.60 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 I 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.

- 2.61 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.
- 2.62 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 2020/21 to 2023/24. Prudential indicators concentrate on the level and composition of external debt, and are therefore very closely linked to the Commissioner's Treasury Management Strategy. Prudential indicators are set out at Annex A.

### **Minimum Revenue Provision (MRP)**

- 2.63 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 2020/21 is attached at Annex B.

### **Financial Considerations**

- 2.64 Financial implications are considered throughout the report.

### **Risk Management**

- 2.65 Associated risks have been considered and recorded as appropriate, set out in Annex C

## **3. RECOMMENDATIONS**

- 3.1 The Commissioner is requested to:
- I. Approve the capital programme and authorise the Joint Chief Finance Officer (Treasurer) to undertake the appropriate financing.
  - II. Approve the revenue budget.
  - III. Agree the review of the reserves policy.
  - IV. Note the recommendations of the Joint Chief Finance Officer (Treasurer) in respect of the robustness of the budget and the adequacy of reserves.
- 3.2 Note the Council Tax Base of 398,916 for the year 2020/21 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).
- 3.3 Approve the following amounts for the year 2020/21 in accordance with Sections 42A, 42B and 45 to 47 of the Local Government Finance Act 1992, as amended:

(a) £321.465m

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) £266.814m 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) £54.651m 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) £137.00 Being the amount at (c) above (item R) divided by the amount noted in Recommendation 2 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 | £91.33  | 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 | £106.56 |  |
| C | £121.78 |  |
| D | £137.00 |  |
| E | £167.44 |  |
| F | £197.89 |  |
| G | £228.33 |  |
| H | £274.00 |  |

- 3.4 Resolve that under Section 52ZB of the Local Government Finance Act, the Commissioner's relevant basic amount of Council Tax for 2020/21 is not excessive in accordance with the principles determined under Section 52ZC (1) of the Act for 2020/21.
- 3.5 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 £54,651,467 for the financial year beginning 1 April 2020, 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.
- 3.6 Approve the Prudential Indicators as outlined in Annex A to this report.
- 3.7 Accept the recommendation of the Joint Chief Finance Officer (Treasurer) for the method of calculating MRP for 2020/21 as set out in the Annual MRP statement at Annex B to this report.

### **Prudential Indicators**

In line with the requirements of the CIPFA Prudential Code for Capital Finance, the various indicators that inform whether capital investment plans are affordable, prudent and sustainable, are set out below.

#### **Authorised Limit for External Debt**

There are two limits on external debt: the 'Operational Boundary' and the 'Authorised Limit'. Both are consistent with the current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices.

**Authorised Limit** - this represents a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

**Operational Boundary** - this is the limit beyond which external debt is not normally expected to exceed. In most cases this would be a similar figure to the Capital Financing Requirement (CFR), but may be lower or higher depending on the levels of actual debt.

The key difference between the two limits is that the Authorised Limit cannot be breached without prior approval of the PCC. It therefore includes more headroom to take account of eventualities such as delays in generating capital receipts, forward borrowing to take advantage of attractive interest rates, use of borrowing in place of operational leasing, "invest to save" projects, occasional short term borrowing to cover temporary revenue cash flow shortfalls, as well as an assessment of risks involved in managing cash flows. The Operational Boundary is a more realistic indicator of the likely position.

#### **Authorised Limit for External Debt**

	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000
Borrowing	175,000	170,000	165,000	165,000
Other long-term liabilities	0	0	0	0
<b>Total</b>	<b>175,000</b>	<b>170,000</b>	<b>165,000</b>	<b>165,000</b>

#### **Operational Boundary for External Debt**

	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000
Borrowing	155,000	150,000	145,000	145,000
Other long-term liabilities	0	0	0	0
<b>Total</b>	<b>155,000</b>	<b>150,000</b>	<b>145,000</b>	<b>145,000</b>

The latest forecast for external debt indicates that it will be within both the authorised borrowing limit and the operational boundary set to 2023/24. The maturity structure of debt is within the indicators set.

## Upper and Lower Limits for the Maturity Structure of Borrowing

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.

**Maturity structure of borrowing** – these gross limits are set to reduce the Commissioner’s exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Following the changes in guidance issued by CIPFA the maturity structure of borrowing is required to cover variable as well as fixed rate debt. The maturity structure of borrowing set out below applies to all borrowing by the Police and Crime Commissioner, both fixed and variable.

	Upper Limit	Lower Limit
Under 12 months	60%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and above	80%	0%

## Upper Limit on Principal Amounts Invested Beyond 365 Days

The purpose of the upper limit on principal amounts invested beyond 365 days is for the Commissioner to contain the exposure to the possibility of loss that might arise as a result of having to seek early repayment or redemption of principal sums invested.

	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000
Investments	15,000	15,000	15,000	15,000

## Gross Debt and Capital Financing Requirement (CFR)

In order to ensure that over the medium term debt will only be for a capital purpose, the Police and Crime Commissioner should ensure that debt does not, except in the short term, exceed the total of capital financing in the previous year plus the estimates of any additional capital financing requirement for the current and next two financial years.

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with external debt.

This is a key indicator of prudence. Where the gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy.

Gross Debt and CFR	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000
Forecast Borrowing as at 31 March	86,969	89,031	101,519	105,282
Capital Financing Requirement (CFR) as at 31 March	120,805	115,585	110,465	109,328
Amount of borrowing (over)/under CFR	33,836	26,554	8,946	4,046

Forecast borrowing is within the CFR estimates for 2020/21 to 2023/24.

### **Affordability**

The impact of the capital programme on the revenue budget is shown in the table below:

Affordability	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000
Revenue Budget	294,327	304,500	308,400	311,100
Capital Expenditure	16,741	18,649	17,955	7,952
Capital Financing Requirement (CFR) as at 31 March	120,805	115,585	110,465	109,328
Interest Cost	3,170	3,370	3,520	3,370
Minimum Revenue Provision	7,952	9,901	8,741	8,751
Revenue Financing Costs	11,122	13,271	12,261	12,121
Ratio of financing cost to revenue stream %	3.78%	4.36%	3.98%	3.90%

**Police and Crime Commissioner for Northumbria Minimum Revenue Provision (MRP) Statement 2020/21**

The MRP charge for 2020/21 for capital expenditure incurred before 01 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 a minimum of 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 year after the asset becomes operational.

Capital receipts of £23.310m are expected to be available (£15.556m brought forward and £7.754m received 20/21-21/22) over the period of the MTF5. The receipts will be used to finance capital expenditure over the medium term period and reduce the overall capital financing requirement.



## **NORTHUMBRIA POLICE AND CRIME COMMISSIONER FINANCIAL RISK ANALYSIS TO THE 2020/21 BUDGET**

### **Budget Risks**

- 1 year settlement.
- CSR 2020.
- Pension Grant.
- Uplift Funding.

### **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.
- 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.
- Advice is taken from the Commissioner's external treasury management advisers Link Asset Services (LAS) in relation to revenue estimates for borrowing and investment interest.
- The principal repayment in respect of debt is the Minimum Revenue Provision (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.
- 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 £3.700m have been included in the revenue budget for 2020/21. The risk is that the budget savings will not be delivered. This is mitigated by:

- The strong record of delivering the budget within targets.
- Robust monitoring process for budget management throughout the year.
- 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 2020/21 have been incorporated into the budget. Advice has been taken from the Commissioner's external treasury management advisers Link Asset Services (LAS) on appropriate budget rates for borrowing and investment interest.

### **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.
- Adequacy of the general balances and the overall reserves policy.

