



## Proposed Council Tax and Revenue & Capital Budgets 2019/20

1. Summary of Proposed Council Tax and Revenue & Capital Budgets 2019/20:
  - A proposed revenue budget of £280.082m for policing and crime reduction that includes:
    - Provision for increases in pay and prices of £10.7m; and budget pressures of £3.2m;
    - A net increase in revenue costs of £2.0m to support capital investment; and
    - Budget savings of £2.0m in 2019/20.
    - A contingency of £1.4m set aside to mitigate the potential loss of funding as a result of the forthcoming Comprehensive Spending Review (CSR) not meeting the increase in police pension costs in 2020/21.
    - A contingency of £2.6m set aside to manage increasing future costs associated with the national Emergency Services Network (ESN).
    - Capital investment in buildings, vehicles and new technology of £17.248m.
    - Agree an increase of £24 on the Council Tax Precept in 2019/20 to raise an additional £9.428m income.

### Considerations

2. In preparing the Revenue and Capital Budgets for 2019/20 the Commissioner has considered the following issues:
  - The key principles underlying the 4 year MTFS 2019/20 to 2022/23.
  - The final Police Grant settlement for 2019/20.
  - The likely revenue and capital outturn for 2018/19.
  - The significant impact of the Government's failure to resource the increased cost of employer contributions for police officer pensions.
  - The budget pressures in 2019/20.
  - Delivery of the Police and Crime Plan.
  - Budget savings and efficiencies.
  - Options for the Council Tax Precept.
  - Reserves.
  - Risk assessment.
  - The Prudential Code for Capital Finance in Local Authorities.

### Financial Strategy

3. The 2019/20 budget is part of the four year Medium Term Financial Strategy (MTFS).
4. 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.

5. It sets out the service developments; responses to changes in crime and demand; and how it will work in partnership with other agencies to maximise effectiveness.
6. Underpinning the 2019/20 budget and MTFs is a workforce strategy that includes recruitment, training and development of officers and police staff whilst continuing to manage planned change through the prudent use of reserves.

### **National Police Finance Settlement**

7. The provisional national police grant settlement was published on 13 December 2018 for consultation. The final figures were confirmed on 24 January 2019 and were unchanged against the provisional settlement.
8. The key headlines from the settlement are:
  - Police Core Grant - General police grant allocations to PCCs to be increased by £161m, equivalent to 2.1%.
  - One-off Special Pension Grant allocations to PCCs totaling £153m to provide specific funding for part of the increased cost of police officer pensions in 2019/20.
  - Council Tax Referendum Limits - All Police and Crime Commissioners have been allowed/required to increase the precept by £24 per Band D property.
  - Legacy grants relating to Council Tax and freeze grants for 2011/12 and 2014/15 remain payable.
  - Police capital grant maintained in flat cash terms.
  - Four priority areas identified to drive efficiency, productivity and effectiveness in 2019/20, ahead of the new Comprehensive Spending Review (CSR).

### **Northumbria Revenue**

9. **Police Grant** - The one year settlement announcement confirmed that government grants would be increased by 2.1% for 2019/20. The increase in police grant for Northumbria is £4.5m.
10. **Northumbria Budget Pressures** - Including pay and price increases totaling £13.9m in 2019/20.
11. **Northumbria Budget Savings** - Plans to make £2.0m savings from:
  - Non pay savings.
  - Maximising income generation.
12. **Council Tax Precept** - The Council Tax referendum limits for 2019/20 mean that all Police and Crime Commissioners are expected to increase their precept by up to £24. No government Council Tax Freeze grants are available in 2019/20. In Northumbria without the £24 increase the policing budget will be reduced by £9.4m.
13. **Reserves** - The General Reserve will be maintained at £8.4m over 2019/20. This level represents 3.0% of the net revenue budget.

## Capital

14. Capital expenditure of £17.248m to be financed by a combination of government grants, capital receipts and prudential borrowing.

## Funding Formula

15. The Home Office failed to implement its proposed new funding formula for 2016/17 after a fundamental error was found in the data it was using for its calculations. During 2016 the Government re-launched its review of the Police funding formula which continued into 2017, however, the 2018/19 settlement announcement in December 2017 stated that the formula review would be deferred to the next Spending Review, this is still to be formally confirmed.
16. Allowing for the Spending Review, work undertaken on the review and the full consultation period expected during 2020, there is no change anticipated to the formula used to distribute core grant funding till 2021/22 at the earliest. Therefore the MTFs has made no assumptions in this regard.

## Capital Programme 2018/19

17. The Commissioner has an approved revised capital budget for 2018/19 of £16.419m. The third quarter capital monitoring report outlined a revised capital estimate of £10.991m as at 31 December 2018. 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 2019/20.

## Capital Programme 2019/20

18. The following table sets out a summary of the capital programme for 2019/20:

2019/20 Capital Programme	Total £000
Major and Minor Building Schemes	6,301
Information Technology	7,579
Vehicles and Equipment	3,368
<b>Total</b>	<b>17,248</b>

19. Key areas to note in the proposed programme are:
- **Major and Minor Building Schemes** - Estates refurbishment programme based on operational requirements and 2018 condition surveys; transition and relocation costs associated with the estates rationalisation programme; 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-worn video.

## Revenue Budget 2018/19

20. The Commissioner's net revenue budget for 2018/19 is £266.245m. The Quarter 3 revenue monitoring report shows a projected budget underspend of £2.214m as at 31 December 2018.

2018/19 Revenue Monitoring - Quarter 3 Position			
	Approved Budget 2018/19	Projected Outturn 2018/19	Variance 2018/19
<u>Group Position</u>	£m	£m	£m
Chief Constable	256.801	255.106	(1.695)
Police and Crime Commissioner	2.061	1.858	(0.203)
Capital Financing	7.383	7.067	(0.316)
<b>Net Expenditure</b>	<b>266.245</b>	<b>264.031</b>	<b>(2.214)</b>
Central Government Grant	(222.624)	(222.624)	0.000
Council Tax Precept	(43.621)	(43.621)	0.000
<b>Central Grant and Precept Total</b>	<b>(266.245)</b>	<b>(266.245)</b>	<b>0.000</b>
<b>Appropriations (to) / from reserves</b>	<b>0.000</b>	<b>(2.214)</b>	<b>(2.214)</b>

21. The overall Group forecast represents an underspend of £2.214m. The underspend against the Chief Constable's revenue budget is primarily attributable to: The receipt of a one-off large value rate rebate for the Ponteland site from the Valuation Office; an underspend against the workforce profile set in January 2018 as part of the MTFS process, primarily due to the re-profiling of recruitment of staff positions until the future funding position was clarified; and a reduction in ICT product support costs, due to the re-profiling of go-live dates of new systems.
22. For Capital financing, 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 deferred to later in the financial year on advice from the Commissioner's external treasury advisers.
23. The overall Group forecast represents an underspend of £2.214m. £2.0m of this underspend will be used to establish a pensions reserve because the government has failed to commit to protecting police budgets against the revaluation of the police pension fund, Northumbria's contribution to that cost would be £3.4m each year. If this position does not improve in the 2019 Comprehensive Spending Review (CSR) this reserve will contribute to the management of the inevitable resulting reductions.
24. The forecast closing position on the general reserve for 2018/19 is £8.4m, as set out in the table below. This includes the planned transfer to increase the Workforce Reserve to mitigate against any future workforce changes, as set out within the current MTFS:

2018/19 General Reserve - Quarter 3 Position			
	Approved 2018/19	Revised 2018/19	Variance 2018/19
<u>Group Position</u>	£m	£m	£m
Opening Balance (01/04/18)	9.1	9.4	0.3
Planned Transfer to Workforce Reserve	(1.0)	(1.0)	0.0
<b>Forecast Closing Balance (31/03/19)</b>	<b>8.1</b>	<b>8.4</b>	<b>0.3</b>

## Revenue Budget 2019/20

25. For the financial year 2019/20, the proposed total net revenue budget is £280.082m.
26. The proposed budget includes £10.7m in relation to pay and price increases including an estimated 2% pay award for officers and staff; an increase of £7.7m in the cost of employer pension contributions for police officers as a result of pension 'directions' issued by the government; provision for police officer pay progression under regulations, known contract increases and other inflation costs associated with rates, rents, utilities and force contracts.
27. Budget pressures of £3.2m have also been incorporated, which include ICT revenue costs associated with capital schemes, known operational budget pressures, and other non-pay pressures.
28. A net increase in capital financing costs of £2.0m to support capital investment is included which reflects the planned profile of interest costs, investment income and the principal repayment of borrowing.
29. The revenue budget 2019/20 includes the investment of the money generated into policing, including new officers and staff and the retention of roles that had originally planned to be lost.

## Budget Savings

30. Force budget savings in 2019/20 of £2.0m have been identified relating to non-pay budget areas, mainly estates costs, ICT contracts and officer allowances.

## Budget Summary - 2019/20

31. A summary of the 2018/19 forecast outturn position and proposed 2019/20 Revenue Budget is set out below:

2019/20 Group Revenue Budget				
	Original Estimate	Revised Estimate	Projected Outturn	Original Estimate
<u>Group Revenue Budget</u>	2018/19	2018/19	2018/19	2019/20
	£m	£m	£m	£m
Chief Constable	256.801	256.801	255.106	268.581
Police and Crime Commissioner	2.061	2.061	1.858	2.098
Capital Financing	7.383	7.383	7.067	9.403
<b>Net Revenue Expenditure</b>	<b>266.245</b>	<b>266.245</b>	<b>264.031</b>	<b>280.082</b>

32. 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

33. 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.

34. The excessiveness limit for 2019/20 is £24 per Band D property. In calculating the overall settlement for policing in 2019/20 the Government has assumed that each PCC will raise the precept by the maximum amount.
35. During 2018/19 the Council Tax base in the Northumbria force area increased by an average 1.45% to 392,830 (Band D equivalent).
36. The proposal is to increase the Band D precept by £24 per year to raise an additional £9.428m over 2019/20.
37. The anticipated receipts of £52.769m 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.
38. In addition, all six billing authorities will pay a collection fund surplus in 2019/20 which will deliver a total of £0.762m.

### Reserves

39. The Commissioner's reserves policy is set out in the MTFS and is subject to regular review.
40. A full analysis of the Commissioner's revenue reserves and their planned use in 2019/20 taking into account the proposals outlined is set out below.

	Estimated at 31 March 2019	Planned Transfer to Reserves 2019/20	Planned use of Reserves 2019/20	Estimated at 31 March 2020
Revenue Reserves	£m	£m	£m	£m
<b>Earmarked Reserves</b>				
Insurance Reserve	3.0	0.0	0.0	3.0
Workforce Development Reserve	1.3	0.0	0.0	1.3
Pensions Reserve	2.0	1.4	0.0	3.4
Emergency Services Network (ESN) Reserve	0.0	2.6	0.0	2.6
Domestic Violence Reserve - Health Advocates	0.1	0.0	(0.1)	0.0
Partnership Working Reserve	0.2	0.0	(0.1)	0.1
External Funding Reserve	0.1	0.0	(0.1)	0.0
NERSOU Reserve	0.2	0.0	(0.2)	0.0
<b>Total Earmarked Reserves</b>	<b>6.9</b>	<b>4.0</b>	<b>(0.5)</b>	<b>10.4</b>
<b>General Reserves</b>	<b>8.4</b>	<b>0.0</b>	<b>0.0</b>	<b>8.4</b>
<b>Total Reserves</b>	<b>15.3</b>	<b>4.0</b>	<b>(0.5)</b>	<b>18.8</b>

41. 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 £8.4m which equates to 3.0%.

### Adequacy of Reserves and Robustness of Budget Estimates

42. 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.
43. 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.

44. 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, 2019 CSR and the levels of grant support beyond 2019/20.
45. At 31 March 2019, the Commissioner's General Reserve is estimated at £8.4m (3.0% of revenue expenditure), in addition to other reserves which are earmarked for specific purposes. The Commissioner's reserves policy will result in a General Reserve of £9.4m (3.3% of revenue expenditure) by the end of 2022/23. 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.
46. 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 2019/20.

### Council Tax Requirement

47. 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:

	£m	£m
<b>Total Revenue Expenditure</b>		<b>280.082</b>
<b>Add:</b> Appropriations to Reserves		<b>4.000</b>
<b>Budget Requirement</b>		<b>284.082</b>
<b>Less:</b>		
Police Grant	110.950	
Ex-DCLG Grant	108.010	
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>230.551</b>
<b>Balance to be raised locally</b>		<b>53.531</b>
<b>Less:</b> Estimated net surplus on collection funds		<b>0.762</b>
<b>Council Tax Requirement</b>		<b>52.769</b>

48. The proportion of collection funds' net surplus due to Northumbria Police from its constituent billing authorities is £0.762m for 2019/20 (£0.899m in 2018/19).
49. The notified Council Tax base figure is 392,830 which is an increase of 5,610 over the previous year (1.45%).

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

50. 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.
51. 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.
52. 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 2019/20 to 2022/23. Prudential indicators concentrate on the level and composition of external debt, and are therefore very closely linked to the Commissioner's Treasury Management Strategy.
53. The Commissioner's proposed Prudential Indicators are shown at Annex A to this report.

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

54. 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 2019/20 is attached at Annex B.

### **Financial Considerations**

55. Financial implications are considered throughout the report.

### **Risk Management**

56. Associated risks have been considered and recorded as appropriate, set out in Annex C

### **Recommendations (Proposed)**

57. 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.
58. Note the Council Tax Base of 392,830 for the year 2019/20 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).

59. Approve the following amounts for the year 2018/19 in accordance with Sections 42A, 42B and 45 to 47 of the Local Government Finance Act 1992, as amended:

(a) £296.918m 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) £244.149m 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) £52.769m 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 it's Council Tax Requirement for the year (item R in the formula is Section 42B of the Act).

(d) £134.33 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	£89.55	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	£104.48	
C	£119.40	
D	£134.33	
E	£164.18	
F	£194.03	
G	£223.55	
H	£268.66	

60. Resolve that under Section 52ZB of the Local Government Finance Act, the Commissioner's relevant basic amount of Council Tax for 2019/20 is not excessive in accordance with the principles determined under Section 52ZC (1) of the Act for 2019/20.

61. 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 £52,768,815 for the financial year beginning 1 April 2019, 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.

62. Approve the Prudential Indicators as outlined in Annex A to this report.

63. Accept the recommendation of the Joint Chief Finance Officer (Treasurer) for the method of calculating MRP for 2019/20 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**

	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000
Borrowing	175,000	175,000	180,000	175,000
Other Long Term Liabilities	0	0	0	0
<b>Total</b>	<b>170,000</b>	<b>180,000</b>	<b>180,000</b>	<b>180,000</b>

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

	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000
Borrowing	150,000	150,000	155,000	150,000
Other Long Term Liabilities	0	0	0	0
<b>Total</b>	<b>145,000</b>	<b>155,000</b>	<b>155,000</b>	<b>155,000</b>

The latest forecast for external debt indicates that it will be within both the authorised borrowing limit and the operational boundary set to 2022/23. 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.

## Upper Limit on Principal Amounts Invested Beyond 365 Days

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £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.

<b>Gross Debt and CFR</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Forecast Borrowing as at 31 March	93,713	102,237	111,362	110,637
Capital Financing Requirement as at 31 March	108,744	108,435	111,444	110,719
Amount of borrowing (over) / under CFR	15,031	6,198	82	82

Forecast borrowing is within the CFR estimates for 2019/20 to 2022/23.

## Affordability

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

<b>Affordability</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Revenue Budget	280,082	284,200	284,000	287,600
Capital Expenditure	17,248	18,279	14,065	6,739
Capital Financing Requirement as at 31 March	108,744	108,435	111,444	110,719
Interest Cost	3,270	3,415	3,664	3,764
Minimum Revenue Provision	6,422	5,908	5,777	5,801
Revenue Financing Costs	9,692	9,323	9,441	9,565
Ratio of financing cost to revenue stream %	3.46%	3.28%	3.32%	3.33%

**Police and Crime Commissioner for Northumbria Minimum Revenue Provision (MRP) Statement 2019/20**

The MRP charge for 2019/20 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.

The estates rationalisation programme will see £23.2m capital receipts generated through the sale of assets over the period of the MTFS. The receipts will be used to finance capital expenditure and reduce the overall capital financing requirement.

**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 2019 of £8.4m is 3.0% of the revenue expenditure budget.
- The projected balance on the General Reserve at the 1 April 2020 of £8.4m is 3.0% of the revenue expenditure budget.
- 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 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 £2.0m have been included in the revenue budget for 2019/20. 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 2019/20 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.