

## **APPENDIX I**

### **Proposed Council Tax and Revenue & Capital Budgets 2023/24**

1. Summary of Proposed Council Tax and Revenue & Capital Budgets 2023/24:
  - A proposed revenue budget of £355.584m for policing and crime reduction that includes:
    - Maintaining the Northumbria police officer Uplift delivered by March 2023.
    - Capital investment in buildings, vehicles, and new technology of £33.376m.
    - Proposed increase of £15.00 per year on the Council Tax Precept for a Band D property in 2023/24 to raise an additional £6.120m income, which will:
      - Deliver a restructure of neighbourhood policing, allocating 134 new officers into specialist frontline roles to take on the fight against crime, and;
      - Help protect the force from the impact of significant budget pressures and spiraling inflation.

### **Considerations**

2. In preparing the Revenue and Capital Budgets for 2023/24 the following have been considered:
  - The key principles underlying the Medium Term Financial Strategy (MTFS).
  - The Police Grant settlement for 2023/24 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 indicative increase to police funding provided by government for 2024/25.
  - The overall financial position of the force including: The likely revenue and capital outturn for 2022/23; budget pressures and savings identified for 2023/24; and the level of reserves available to the PCC.
  - Delivery of the Police and Crime Plan.
  - Risk assessments.
  - The Prudential Code for Capital Finance in Local Authorities.

### **Financial Strategy**

3. The 2023/24 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.



## National Police Finance Settlement

5. The provisional police grant settlement was published on 14 December 2022.
6. The key headlines from the settlement are:
  - Police Core Grant – Core grant allocations to PCCs to be increased by £174.000m, comprising:
    - The additional £100.000m committed in the 2021 Spending Review.
    - The £140.000m allocated to cover the additional cost of the 2022 police officer pay award has been added to the ring-fenced Uplift grant.
    - A reduction of £69.000m due to the reversal of the employer NI increase in relation to the Health and Social Care Levy.
    - Minor increase of £5.000m to legacy council tax grants.
  - The Government's key priorities are outlined in the [Written Ministerial Statement \(WMS\)](#) on the Provisional Police Grant Report 2023/24, with the expectation that these are a focus for policing in 2023/24:
    - Ensuring overall police officer numbers are maintained at the agreed Police Uplift baseline plus force level allocations of the 20,000 additional officers.
    - Deploying these additional officers to reduce crime and honour this Government's commitment to keep the public safe.
    - Delivering improvements in productivity and driving forward efficiencies, maximizing the value of the Government's investment.
  - The ring-fenced grant income allocated to PCCs in 2022/23 of £135.000m is therefore increased (by the £140.000m) to £275.000m. Allocation of this ring-fenced grant is in line with formula funding percentages, and in previous years it has been accessed through progression against force Uplift targets. For 2023/24 the ring-fenced grant will be 'paid out subject to forces maintaining their officer numbers'.
  - At the time of writing this report the Government are yet to provide the detail of the ring-fenced grant mechanism, payment points and criteria to claim the funding. PACCTS have raised concerns on this matter with the Home Office in their response to the 2023/24 provisional settlement, with the additional concern that this significant and crucial funding stream for policing has not been baselined in core grant, providing a lack of certainty for the future.
  - The minimum increase of £150.000m committed to police funding nationally for 2024/25 (Police Settlement 2022/23) was not specifically re-confirmed. However, the WMS on the Provisional Police Grant Report states that the 'Chancellor confirmed at the Autumn Statement that departmental budgets set out at Spending Review 2021 will be maintained to 2024/25'. On that basis it is assumed that the commitment to the £150.000m in 2024/25 remains.
  - 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 pension contributions in 2019/20 has been confirmed for a further year.
  - Council Tax Referendum Limits – In the Autumn Budget and Spending Review 2021 referendum limits were set for the 3-year spending review period 2022/23 to 2024/25. PCCs were told they could approve an increase of up to £10.00 for a Band D property

in each year. The referendum limit for 2023/24 has now been increased to £15.00 for a Band D property, with no change to the £10.00 limit for 2024/25.

- Police Capital Funding – For the second year running there is no capital grant funding allocated to police forces in the settlement.

### Northumbria Settlement

7. The total grant increase for Northumbria including the ring-fenced grant and the reduction for the removal of the Health and Social Care Levy is £5.232m.

Northumbria Settlement	£m
Core Grant – formula funding share (3.08%) of £100.000m committed in SR 2021	3.080
Increase in ring-fenced grant - formula funding share (3.08%) of £140.000m	4.312
Removal of funding associated with the Health and Social Care Levy	(2.160)
<b>Total Increase in Funding</b>	<b>5.232</b>

8. The Uplift target set for Northumbria of 615 officers is expected to be maintained. Ring-fenced grant income of £8.470m will be paid as Special Grant during the year. This comprises the level of grant allocated in 2022/23 of £4.158m, plus the increase of £4.312m for 2023/24. For 2023/24 the ring-fenced grant will be ‘paid out subject to forces maintaining their officer numbers’. As set out previously in this report, the Government are yet to provide the details, mechanism and payment points associated with the receipt of this funding.
9. The 2022/23 settlement included £69.000m for police forces to manage the cost of the Health and Social Care Levy effective 1 April 2022. As this Levy was removed from November 2022, the 2023/24 settlement has reduced police funding by this amount. The reduction for Northumbria is approximately £2.160m.
10. Northumbria will continue to receive legacy grants totaling £8.168m, relating to Council Tax and freeze grants for 2011/12 and 2014/15.
11. Capital grant funding allocated by the Government for Northumbria is nil, as for 2022/23.
12. **Council Tax Precept** – The Government has proposed a precept referendum limit for 2023/24 that enables PCCs to raise additional funding for local priorities through an increase of up to £15.00 per year for a Band D property. 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

13. The Commissioner has a capital budget for 2022/23 of £39.387m. The Quarter 3 capital monitoring report outlined a revised capital estimate of £22.364m as at 31 December 2022, a reduction of £17.023m.
14. The reduction is attributed to changes in phasing of the planned programme of major refurbishments to the force estate; re-phasing of IT and Digital Transformation schemes; and slippage in vehicle delivery dates as a consequence of ongoing world-wide supply chain shortages.

15. The following table sets out the forecast outturn position for 2022/23 and a summary of the capital programme for 2023/24:

Capital Programme	Revised Budget 2022/23 £000	Forecast Outturn 2022/23 £000	Forecast Variance 2022/23 £000	Budget Estimate 2023/24 £000
Building Works	9,920	4,768	(5,152)	9,583
Information Technology and Digital Transformation	21,086	12,956	(8,130)	13,863
Vehicles and Equipment	8,381	4,640	(3,741)	9,930
<b>Total</b>	<b>39,387</b>	<b>22,364</b>	<b>(17,023)</b>	<b>33,376</b>

16. Key areas to note in the proposed capital programme are:

- Major and Minor Building Schemes** – The force has a programme of refurbishment and adaptation aimed at improving the condition of the estate with a focus on staff wellbeing as well as being able to fully accommodate the Uplift in officer numbers.
- Information Technology** – The force has a number of significant improvement schemes to deliver change and efficiency through transformation which includes considerable investment in IT and digital infrastructure. We have commenced the process of replacing key IT infrastructure which will include the replacement of all core operating systems; investment in data and analytics; and investment required in preparation for implementation of the National Emergency Services Network (ESN) within Northumbria.
- Vehicles and Equipment** – Continued planned investment in the replacement of force vehicles, in accordance with delivery of the rolling programme of fleet investment within a challenging climate. The 2023/24 budget includes slippage of £2.343m in vehicles from the 2022/23 capital programme due to on-going supply chain shortages and some significant price increases. The provision and upgrading of personal issue equipment including Taser capability, £0.900m for body-worn video and £1.391m for body worn armour replacement. Ensuring those who protect us are kept safe, and those who threaten our safety face well-equipped officers.

### Revenue Budget Position 2022/23

17. The Commissioner's Group revenue budget for 2022/23 is £339.332m. The Quarter 3 revenue monitoring report shows a projected underspend of £2.758m as at 31 December 2022.

Revenue Budget 2022/23 Group Position	Approved Budget 2022/23 £000	Forecast Outturn 2022/23 £000	Forecast Variance 2022/23 £000
Chief Constable	322,788	322,216	(572)
Office of the Police & Crime Commissioner	1,829	1,765	(64)
OPCC Supporting Services	1,121	1,020	(101)
Capital Financing	13,594	11,573	(2,021)
<b>Group Position Total</b>	<b>339,332</b>	<b>336,574</b>	<b>(2,758)</b>

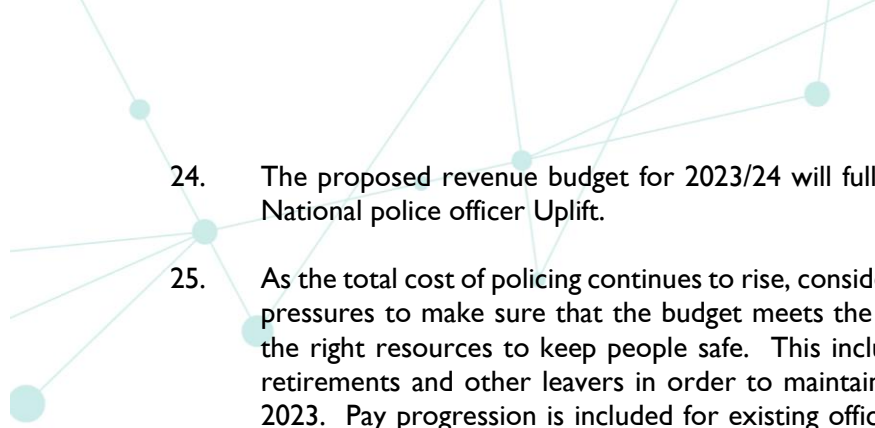
18. The Chief Constable's revenue budget for 2022/23 is £322.788m. The forecast outturn is within the budget allocated by the Commissioner with phasing and recruitment of police staff contributing to the underspend position along with additional grant income from government relating to Uplift delivery. Significant inflationary pressures of £4.661m have been managed during the year, within the outturn position. These include pressures on utilities, fuel, office supplies, software, and vehicle recovery contracts.
19. For Capital financing the underspend relates to:
- The principal repayment of capital which is lower than the original budget estimate by £1.011m, based on reduced expenditure in the final capital outturn for 2022/23.
  - The succession of Bank Rate increases during the year and higher reserve balances have led to an increase in investment income of £0.767m.
  - Prudential borrowing requirements for the year were reduced as a result of slippage in the capital programme and interest on borrowing has contributed £0.243m to the underspend position.
20. The overall Group forecast represents an underspend of £2.758m, a variance of less than 0.9% of budget.
21. The forecast closing position on the general reserve for 2022/23 is £10.563m which is above the minimum set out in the Commissioners reserves strategy.

### Revenue Budget 2023/24

22. For the financial year 2023/24, the proposed Group revenue budget is £355.342m as set out in the following table:

Group Revenue Budget 2022/23	Proposed Budget 2023/24 £000
Chief Constable	339,645
Office of the Police & Crime Commissioner (OPCC)	1,823
OPCC Supporting Services	1,231
Capital Financing	12,885
Net Expenditure	355,584
Central Government Grants	277,738
Council Tax Precept	69,790
Central Grant and Precept Total	347,528
Transfer (to)/from reserves	8,056

23. The Group budget is held by the Police and Crime Commissioner who provides financial resources to the Chief Constable to deliver operational policing. The budget delegated to the Chief Constable for 2023/24 is £339.645m. The OPCC budget of £1.823m covers the running costs of the Commissioner and her office, covering all administration and governance arrangements. The OPCC Supporting Services budget of £1.231m includes the specific budget for the Commissioners Community Fund, premises expenditure, the Police Digital Service contribution, and the Northumbria Sexual Assault Referral Centre (SARC). The Capital Financing budget comprises the revenue provision for repayment of borrowing, interest costs and investment income.

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24. The proposed revenue budget for 2023/24 will fully maintain the Northumbria share of the National police officer Uplift.
  25. As the total cost of policing continues to rise, consideration has been given to all known budget pressures to make sure that the budget meets the challenge of providing Northumbria with the right resources to keep people safe. This includes the replacement of over 220 officer retirements and other leavers in order to maintain the Uplift target delivered by 31 March 2023. Pay progression is included for existing officers and staff along with provision for the 2023 pay award (estimated at 3.0%), inflationary increases on injury pensions, rents and utilities, known contract increases and other non-pay inflation.
  26. The significant levels of inflation emerging in the economy over 2022/23 are expected to continue to impact on force budgets over the medium-term. There has been no additional financial support from government to recognise the unprecedented scale of inflation that forces are having to deal with. Inflation and other budget pressures identified for 2023/24 are now more than £15.000m greater than anticipated within the MTFs approved last year. Utilities, fuel, insurances, pay awards, building maintenance, digital policing and all major contracts have been significantly impacted through recent challenges to the economy, inflation, energy shortages and the cost-of-living crisis.
  27. The force began work early in 2022/23 to establish and monitor the scale of the impact of inflation and economic pressure on force budgets, both for the current year and looking ahead to the next medium term financial planning period through to 2026/27. Whilst inflationary pressures of £4.661m have been managed within the revenue budget for 2022/23 it was recognised that this could not be sustained in future years.
  28. A significant programme of work commenced in the summer to review the capacity across the force operating model to deliver efficiencies whilst maintaining performance and identifying opportunities to improve policing services. Approved efficiencies and budget reductions being delivered in 2023/24 are just over £9.600m with further savings planned across the medium-term.
  29. The increase in the Council Tax Precept for 2023/24 will help protect the force from the impact of significant budget pressures and spiraling inflation. The force will deliver a restructure of neighbourhood policing, allocating 134 new officers into specialist frontline roles to take on the fight against crime. Plans will focus on patrols in hot spot areas, proactive anti-social behaviour reduction plans and further disruption of organised crime groups.
  30. Increased capital financing costs are included for 2023/24 reflecting the additional revenue cost of supporting 2022/23 capital investment through prudential borrowing. This includes the planned profile of interest costs, investment income and the principal repayment of borrowing.
  31. The planned use of earmarked reserves of £8.056m comprises £4.500m from the Investment Reserve and £3.556m from the Inflationary Risks Reserve. The Investment Reserve was set up in 2020/21 to support Uplift delivery and maintain investment in policing services over the medium-term. The Inflationary Risks Reserve was created from the underspend against the Chief Constable's revenue budget in 2021/22 to manage the impact of extraordinary levels of inflation which were emerging in the economy for energy, fuel and prices. The reserve will be fully utilised over the medium-term to provide much needed support, whilst longer-term sustainable solutions are delivered through efficiencies.

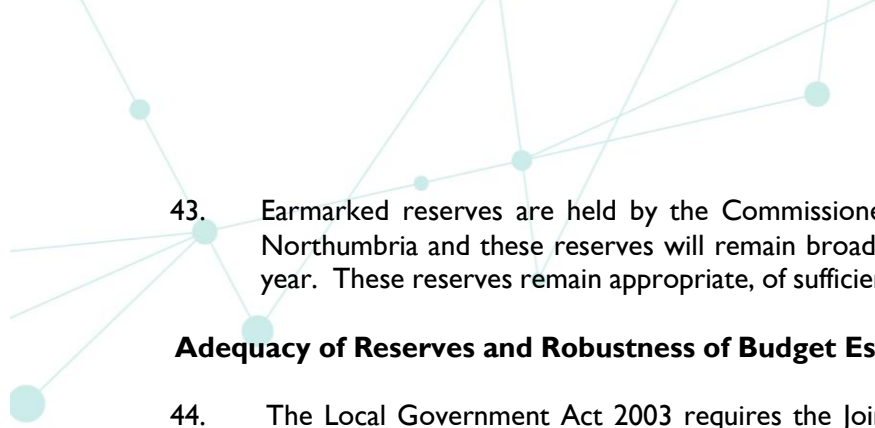


## Council Tax Options

32. 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.
33. The excessiveness limit for 2023/24 is £15.00 per year for a Band D property.
34. During 2022/23 the Council Tax base in the Northumbria force area increased by an average 1.53% to 407,988 (Band D equivalent properties). The increase in the Council Tax base for 2023/24 represents an increase of £0.945m in precept income when compared with 2022/23 which is broadly in-line with the expected increase of 1.50% within last year's MTFS forecast.
35. In addition, the net position estimated on the Commissioners share of Collection Fund balances at 31 March 2023, across the six local billing authorities, is a surplus of £1.124m. (Surplus £0.913m as at 31 March 2022)
36. The surplus of £1.124m will be received by the Commissioner in 2023/24.
37. In addition to the net surplus due from the six Local Authorities, there is a smaller legacy deficit payable by the Commissioner in 2023/24 of £0.219m. This relates to the implementation of 'The Local Authorities (Collection Fund: Surplus and Deficit) (Coronavirus) (England) Regulations 2020' which required that payment of any deficit relating specifically to the 2020/21 financial year was spread across 3 years 2021/22 to 2023/24. The net surplus receivable in 2023/24 is therefore £0.905m.
38. In calculating the overall settlement for policing in 2023/24 the Government has proposed enabling each PCC to raise further funding for local priorities through an increase of up to £15.00 per year for a Band D property. 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.
39. The proposal is to increase the Council Tax precept by £15.00 per year for a Band D property which equates to an increase of 9.75%. The Commissioner has stated that it is "wholly inappropriate to keep increasing the cost burden on the taxpayer" but feels there is little choice. Even the full precept rise won't fully cover what Northumbria Police needs but the force is planning around this with a restructure that will see 134 new officers deployed into specialist frontline policing to take on the fight against crime. The proposed increase is supported by the results of a public consultation during January 2023 and will provide additional income to continue to support local policing services in the face of a challenging financial situation.
40. The anticipated receipts of £68.885m from the Council Tax precept are fully reflected within the proposed budget for 2023/24 as set out earlier in the report.

## Reserves

41. The Commissioner's reserves policy is set out in the MTFS and the Annual Reserves Strategy Statement and is subject to regular review.
42. 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 2023 the balance is estimated to be £10.563m which equates to 3.0% of the 2023/24 revenue budget.

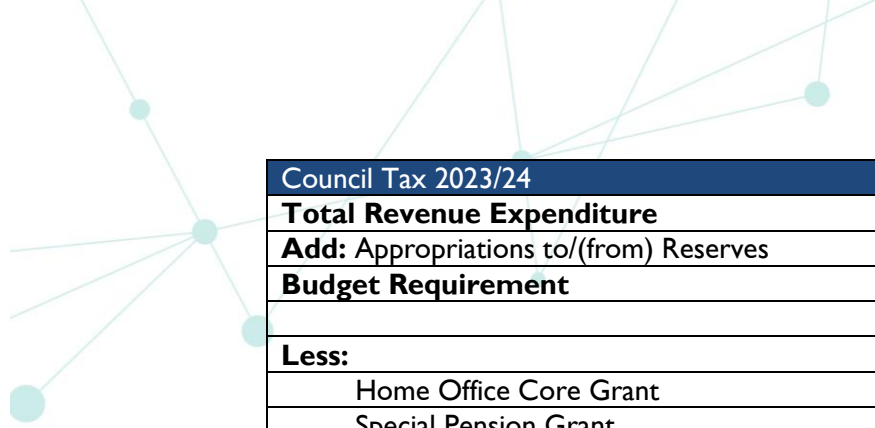
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43. Earmarked reserves are held by the Commissioner to address specific risks identified for Northumbria and these reserves will remain broadly unchanged across the 2023/24 financial year. These reserves remain appropriate, of sufficient value and fit for their intended purpose.

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

44. 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.
45. The budget and MTF5 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.
46. 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 and known budget pressures.
  - A risk assessment of expenditure and income estimates.
  - The future budget pressures identified in the MTF5.
  - 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, Autumn Statement 2022 and the OBR Forecasts, and the levels of grant support anticipated beyond 2023/24.
47. At 31 March 2023, the Commissioner's General Reserve is estimated at £10.563m (3.0% 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 MTF5 period.
48. 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 is considered adequate to cover the financial risks faced by the Commissioner in 2023/24.

### **Council Tax Requirement**

49. The notified Council Tax Base figure across the six billing authorities is a total of 407,988 for 2023/24 which is an increase of 6,144 against the previous year (1.53%).
50. 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 2023/24	£m	£m
<b>Total Revenue Expenditure</b>		<b>355.584</b>
<b>Add: Appropriations to/(from) Reserves</b>		<b>(8,056)</b>
<b>Budget Requirement</b>		<b>347.528</b>
<b>Less:</b>		
Home Office Core Grant	266.147	
Special Pension Grant	3.423	
Localised Council Tax Support Grant	6.867	
Council Tax Freeze Grant 2011/12	0.912	
Council Tax Freeze Grant 2014/15	0.389	<b>(277.738)</b>
<b>Balance to be Raised Locally</b>		<b>69.790</b>
<b>Add: Estimated Net Surplus on Collection Funds</b>		<b>0.905</b>
<b>Council Tax Requirement</b>		<b>68.885</b>

51. The proportion of collection funds' net surplus receivable by Northumbria Police from its constituent billing authorities is £1.124m for 2023/24 offset by the deficit payable in relation to the 2020/21 collection fund of £0.219m, resulting in a net surplus of £0.905m.

#### Minimum Revenue Provision (MRP)

52. 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 and provide funds for the principal repayment of borrowing. There are no proposed changes to the method used to calculate MRP and the Annual MRP statement for 2023/24 is attached at Annex A.

#### Financial Considerations

53. Financial implications are considered throughout the report.

#### Risk Management

54. Associated risks have been considered and recorded as appropriate, set out in Annex B

#### Recommendations (Proposed)

55. 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.
56. Note the Council Tax Base of 407,988 for the year 2023/24 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).
57. Approve the following amounts for the year 2023/24 in accordance with Sections 42A, 42B and 45 to 47 of the Local Government Finance Act 1992, as amended:



(a) £388.145m

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) £319.260m

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) £68.885m

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) £168.84

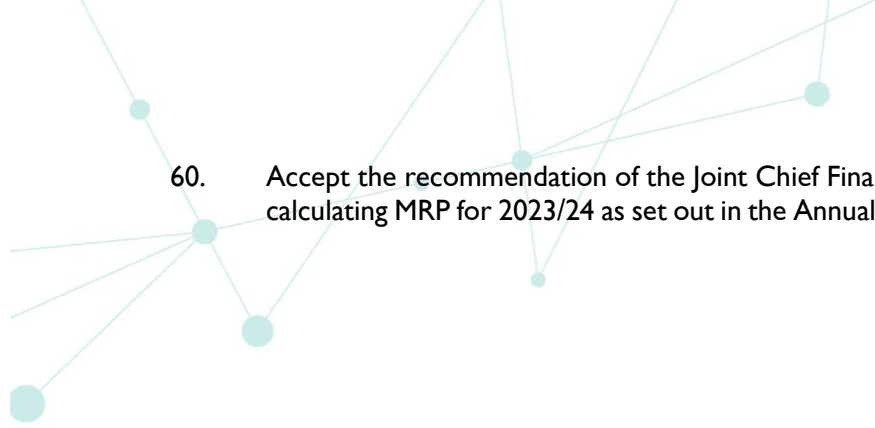
Being the amount at (c) above (item R) divided by the amount noted in Recommendation 2 above (item T), calculated by the Police and Crime Commissioner in accordance with Section 42B (1) of the Act, as the basic amount of its Council Tax for the year.

(e) Valuation bands

A	£112.56	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	£131.32	
C	£150.08	
D	£168.84	
E	£206.36	
F	£243.88	
G	£281.40	
H	£337.68	

58. Resolve that under Section 52ZB of the Local Government Finance Act, the Commissioner's relevant basic amount of Council Tax for 2023/24 is not excessive in accordance with the principles determined under Section 52ZC (1) of the Act for 2023/24.

59. 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 £68,884,727 for the financial year beginning 1 April 2023, 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.



60. Accept the recommendation of the Joint Chief Finance Officer (Treasurer) for the method of calculating MRP for 2023/24 as set out in the Annual MRP statement at Annex A to this report.

**Police and Crime Commissioner for Northumbria Minimum Revenue Provision (MRP) Statement 2023/24**

The MRP charge for 2023/24 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.

## **NORTHUMBRIA POLICE AND CRIME COMMISSIONER FINANCIAL RISK ANALYSIS TO THE 2023/24 BUDGET**

### **General Balances**

The Commissioner's strategy for General Reserves is that these will be maintained at a minimum of 2% of the net revenue budget, to cover any major unforeseen expenditure or loss of funding. The financial risk is that the minimum level is threatened by the need to use reserves. For budgetary purposes the Commissioners MTFS plans aim to maintain a prudent General Reserve level set at 3% of net revenue budget.

The proposed budget as presented for 2023/24, and subject to robust and effective budgetary controls, does not create a risk to the General Reserve. The Commissioner is proposing a balanced budget with the forecast General Reserve remaining unchanged across the year at £10.563m representing 3.0% of net revenue budget, which is well above the minimum in the strategy.

### **Pay Increases**

The revenue budget for 2023/24 includes financial forecasts based on a pay award of 3.0% for 2023/24. The risk is that actual pay increases for 2023/24 exceed the level provided for within the budget.

### **Price Increases and Inflation**

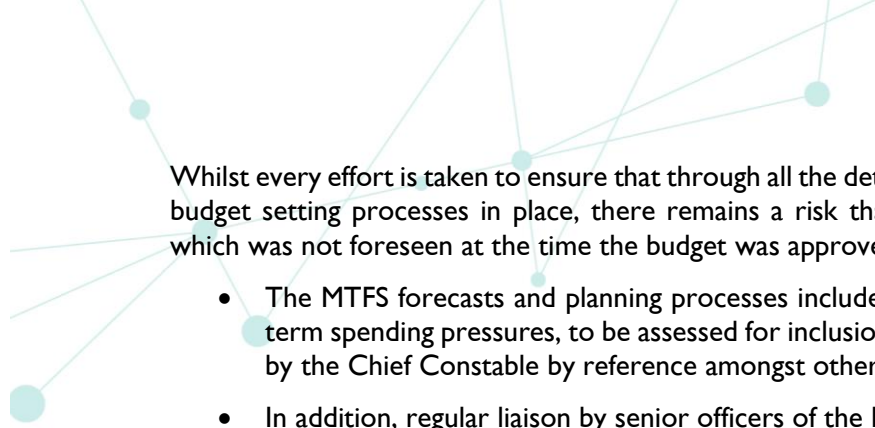
The risk is that price increases may exceed the levels provided for within the budget. This is mitigated by applying inflation on an individual basis to provide for contractual commitments and forecast inflationary pressures across utilities, fuel, insurances, pay awards, building maintenance, digital policing, and all major contracts. 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. The force established an Inflationary Risks Reserve at the end of the 2021/22 financial year to manage the impact of extraordinary levels of inflation which were emerging in the economy for energy, fuel and prices. This reserve will be fully utilised over the medium-term to provide much needed support, whilst longer term sustainable solutions are delivered through efficiencies.

### **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, reviewed, and revised each year as part of the budget and MTFS process. Monthly budget monitoring ensures that potential variances are identified at the earliest opportunity in order to consider remedial action.
- 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**



Whilst every effort is taken to ensure that through all the detailed financial planning and comprehensive budget setting processes in place, there remains a risk that a major liability or commitment arises which was not foreseen at the time the budget was approved. This is mitigated by:

- The MTFS forecasts and planning processes include robust assessments of potential medium term 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.

### **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 focus on control and safety of deposits rather than maximising investment returns. The potential impact is limited by the strategy of a diverse portfolio with strict creditworthiness criteria and regular advice on the placement of new investments provided by the Commissioner's external treasury management advisers Link Asset Services (LAS).

### **Interest Rates on Deposits**

The risk is that interest rates will be lower than expected. Advice is taken from the Commissioners external treasury management advisers Link Group, on forecast rates of return for investments.

### **Council Tax**

There is a significant degree of uncertainty on all matters relating to Council Tax income as a result of the Covid-19 pandemic and the ongoing impact on both the economy and employment. For the 2021/22 financial year Local Authorities reported a fall in collection rates, slowing of the growth provided by the house building sector and greater demand placed on Local Council Tax Support Schemes, which impacted heavily on tax base estimates for 2021/22 resulting in a net reduction of 0.74% for that year. The impact on precept income for Northumbria was largely managed for 2021/22 with losses resulting from the net reduction in Tax Base across the six local authorities and the net deficit on the 2020/21 collection funds, being offset by additional grant funding for Local Council Tax Support (Covid).

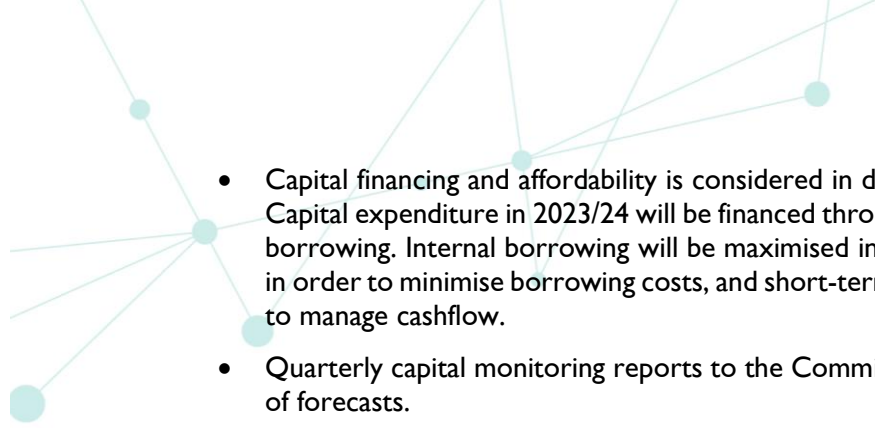
There remains a risk for future years which requires prudent estimates to be applied to MTFS forecasts for Council Tax. The additional grant support for the tax base reduction in 2021/22 was a one-off for that year only, despite the impact of those reductions extending into future years.

The net increase in tax base of 1.53% across the six Local Authorities for 2023/24 is in-line with the previous MTFS estimate for the year (1.50%).

The risk is that the tax base set for 2023/24 is not achieved and the resulting deficit becomes payable in 2024/25, however the six Local Authorities returned a net surplus on the 2021/22 collection fund of £0.913m and a further £1.124m on the 2022/23 collection fund, which shows evidence of a prudent approach to estimates on their behalf.

### **Capital Programme Implications**

The risk is that the cost estimates included in the capital programme are understated, funding is not available as planned or that overspending may occur. This is mitigated by:

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- Capital financing and affordability is considered in detail alongside the budget setting process. Capital expenditure in 2023/24 will be financed through a mix of capital receipts and prudential borrowing. Internal borrowing will be maximised in-year through the use of reserve balances in order to minimise borrowing costs, and short-term borrowing applied as and when required to manage cashflow.
  - Quarterly capital monitoring reports to the Commissioner provide assurance in the accuracy of forecasts.

### **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.