

NORTHUMBRIA POLICE AUTHORITY

MEDIUM TERM FINANCIAL STRATEGY 2010/11 – 2012/13



Northumbria Police Authority

Medium Term Financial Strategy 2010/11 – 2012/13

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1. Purpose of the Medium Term Financial Strategy

- 1.1 The current Medium Term Financial Strategy (MTFS) covering the period 2009/10 to 2011/12 was approved by the Police Authority on 17 December 2008. Although the strategy covers a period of 3 years, it is reviewed annually to reflect the dynamic nature of both policing and changes in funding.
- 1.2 The MTFS is a key part of the Authority's Integrated Corporate Planning Process which links operational planning with financial and resource planning and aims to ensure that all resources are directed toward delivery of the Local Policing Plan and the 2020 Vision. The Strategy describes the financial direction of the Authority and outlines the financial pressures over a 3 year period. It is also an indication of the likely direction of financial planning over the next year.
- 1.3 The MTFS provides options for delivering a sustainable budget and capital programme over the medium term. It also sets out how the Authority can provide the Chief Constable with the resources to deliver the priorities in the Local Policing Plan and the 2020 Vision during what is expected to be a challenging financial climate.
- 1.4 Following consideration of the MTFS, a financial strategy is agreed and specific proposals developed for consultation with stakeholders and reviewed in January before the Authority agrees its revenue budget and capital programme in February of each year.
- 1.5 The overall financial strategy will be to ensure that the Authority's resources are directed toward achieving the Local Policing Plan and the 2020 Vision and more specifically the Authority's corporate objectives:
 - Improve performance in acquisitive and volume crime;
 - Address alcohol and youth related crime and disorder;
 - Provide effective local policing to address neighbourhood concerns and improve the quality of service delivery;
 - Reduce the harm caused by serious and organised crime;
 - Provide effective protective services;
 - Work in partnership to deliver a more effective, transparent and responsive Criminal Justice System for victims and the public; and
 - Make best use of resources to maintain operational performance whilst delivering value for money

2. Benefits of the Strategy

- 2.1 The MTFS assists in:
 - Meeting strategic priorities and the requirements of the policing plan by aligning financial resources to the Authority's spending priorities;
 - Supporting the delivery of the 2020 Vision;
 - Improving financial planning and the financial management of the Authority's resources, both revenue and capital;

- Maximising the use of resources available to the Authority, both internal and external;
- Ensuring that the Authority provides Value for Money and continues to achieve efficiency gains;
- Allowing the development of longer term budgets and strategic thinking;
- Reviewing the Authority's policy on the use of reserves, ensuring the position continues to be positive and there are sufficient resources over the medium term;
- Responding to external pressures, including changes to the police funding formula; and
- Developing a sustainable budget over the medium term.

3. Principles of the Strategy

3.1 The key principles underlying the Authority's MTFs 2010/11 to 2012/13 are:

- (i) Overall Authority expenditure should be contained within original estimates each year;
- (ii) The Authority will maintain its general reserve at a minimum of 5% of its gross revenue budget to cover any major unforeseen expenditure or loss of funding and will consider on a regular basis the opportunity cost of maintaining reserves balanced against the benefits derived from income earned and protecting against risks;
- (iii) The Authority will aim to balance its revenue budget over the period of the MTFs without reliance on the use of the general reserve;
- (iv) The Authority will maintain earmarked reserves for specific purposes, which are consistent with achieving its objectives. The use of earmarked reserves will be in line with the principles set out in the MTFs and reviewed annually;
- (v) The Authority will continue to improve its approach to efficiency, value for money and procurement. It will specifically ensure that efficiency targets and budget savings are identified and delivered;
- (vi) The Authority recognises the impact of increases in precept levels in an area of relatively low income and low wealth (as measured by property values) and will balance the need for increases in precept against the delivery of the Authority's objectives;
- (vii) The Authority will consider the use of prudential borrowing to support the capital programme as part of its annual Treasury Strategy and will ensure that the revenue costs are affordable;
- (viii) The Authority will continue to contribute to reviews of police funding, both in its own right and as a member of lobbying groups such as the Association of Police Authorities;
- (ix) The Treasurer and Chief Constable will prepare a rolling programme of 3 year budget forecasts;
- (x) Opportunities for securing external funding to support the Authority's objectives will be sought. The implications of the cessation or withdrawal of funding will also continue to be reviewed so that options can be considered on the future of the funded schemes; and

- (xi) Opportunities for working in collaboration and partnership will be identified and developed where this will support the Authority's corporate objectives and improve service efficiency and delivery.

4. Reviewing the Strategy

4.1 The review of the Authority's MTFs for 2010/11 to 2012/13 has been carried out under the following key themes:

- The national financial context in which the Authority operates;
- The Authority's current financial position;
- The future budget pressures which the Authority is likely to face over the period of the strategy;
- The Authority's Capital Programme;
- Reserves Policy;
- Police Funding Formula; and
- The Government's Efficiency Review.

5. National Financial Context

5.1 Over the past few years precept increases nationally have been constrained by the Government's threat of capping. The proportion of funding from formula grant has reduced, and the proportion from council tax and Specific Home Office Grants has increased. Despite this the Authority's precept is still the lowest in the Country and income from this source is only 12% of funding.

5.2 The Comprehensive Spending Review (CSR07) was announced in October 2007 setting out the Government's overall funding plans for 2008-2011. The provisional settlement for Northumbria for the final year of this review was an increase of 2.5%, the minimum possible. Confirmation of this provisional funding was announced by Ministers in the draft Local Government Finance Settlement on the 26th November 2009. The Chancellor, in his pre budget report on 9 December, also gave assurances that previously agreed funding levels would not be changed.

5.3 The downturn in the economy and the injection of public funding into the banking sector is likely to have an impact on the level of public spending in the future. Whilst funding levels beyond 2010/11 have yet to be confirmed, there seems little doubt that they will be much tighter than in previous years.

5.4 A Home Office White Paper, Protecting the Public: Supporting the Police to Succeed was published on the 2nd December 2010. The White Paper outlines the Home Office's proposals for improving efficiency and capability and cutting bureaucracy in the police service over the next 5 years. The key points from the white paper are:

- Police Service efficiency savings of 5% per annum by 2014;
- A national procurement strategy for vehicles, body armour and e-forensic services;

- Continuation of the NPIA's Information Systems Improvement Strategy with the aim of converging towards a national system; and
- Streamline support services.

5.5 The Chancellor, in his pre budget report on 9 December built on the themes set out in the White Paper by including the following references to police financing:

- Sufficient funding will be made available in the years to 2012-13 to enable Police Authorities to maintain the current number of warranted Police Officers, Police Community Support Officers and other staff exercising police powers;
- This funding will be accompanied by reforms to increase value for money in policing, which will include, by 2013-14, generating at least £500 million by improving processes, and at least £70 million of savings from police overtime. Most of these are expected to be delivered by 2012-13;
- There will be a one per cent cap on public sector pay settlements in 2011-12 and 2012-13; and
- The employer rates of National Insurance contributions will increase by an additional 0.5% from that previously announced, meaning that an increase of 1% is now expected from April 2011.

6. Authority's Current Financial Position

- 6.1 The Authority's net revenue budget for 2008/09 after the use of reserves was £277.822m. Effective budget monitoring and delivery of efficiencies during the year ensured that expenditure was contained within original estimates.
- 6.2 Sound financial management has allowed the Authority to consistently provide for high priority growth identified by the Chief Constable. It has also been possible to prudently add to the level of reserves in recent years, particularly those available for capital investment. All of this has been achieved with the lowest precept level in the country.
- 6.3 The Authority's net revenue budget for 2009/10 after the use of reserves is £285.123m. The second quarterly revenue monitoring report which was presented to the Resource Management Committee in October showed a notional underspend of £1.256m as at 30 September 2009. This position, six months into the financial year is consistent with one of the key principles of the MTFS of containing spending within original estimates.
- 6.4 The second quarter capital monitoring report to October's Resource Management Committee outlined a reviewed capital estimate of £37.518m as at 30 September 2009, compared to the original estimate of £36.057m. This increase is largely due to the progression of work on North Tyneside Area Command. The expected capital outturn will be closely monitored throughout the year due to the high number of major building schemes in the programme, where the timing of

expenditure is uncertain. The monitoring will be supported by the quarterly update of the Estates Strategy.

7. Medium Term Budget Pressures

7.1 The base budget used to calculate the projected budgets from 2010/11 to 2012/13 includes:

- The full year effect of 2009/10 growth; and
- Net reduction in income from investments and borrowing costs

7.2 A £2m net projected reduction in investment income and borrowing costs has been incorporated into the base budget in 2010/11. This can be attributed to the fall in the Bank of England base rate, a drop in average investments due to the repayment of long-term debt and a reduction in the number of counter parties available to place deposits. This has been partially offset by a reduction in the cost of borrowing following the repayment of debt.

7.3 The following budget pressures have been included when calculating the budget projections from 2010/11 to 2012/13:

- Pay increases
- National Insurance increase in 2011
- Price increases
- Pension increases
- Revenue implications of the Estates Strategy
- Committed and high priority new growth

7.4 2010/11 is the final year of a three year pay settlement for police officers and staff of 2.5%. For 2011/12 onwards a provision in line with the Chancellor expectation of a 1% pay cap has been included in the financial models. A combination of pay and price increases could add £8m, £4.8m and £3.6m in 2010/11, 2011/12 and 2012/13 base budgets. The initial pay assessments have been based on an establishment of 4133 police officers and 2593 police staff, which is consistent with the Human Resources Strategy.

7.5 Police officer employer pension contributions have been assumed to increase in line with the 2.5% pay award in 2010/11, and then 1% in 2011/12 and 2012/13.

7.6 Police staff pension contributions have also been assumed to increase in line with pay awards along with an additional 15% rise in 2011/12 to reflect the actuarial valuation of the Tyne & Wear Pension Fund which is taking place during 2010. Actual rises will depend on the outcome of the valuation and the impact of the Chancellor's expectation of a cap on state contributions to pensions.

7.7 The implementation of the Estates Strategy will add an additional £3.605m borrowing costs to the revenue budget in 2010/11, increasing to £7m in 2012/13. Scope exists to continue to support this cost from

the capital development reserve over the medium term but in the light of the overall financial context will need to be reviewed.

- 7.8 The level of committed growth reduces over the medium term from £1.181m in 2010/11 to £0.035m in 2012/13. The committed growth relates to the unwinding of funding arrangement for Community Support Officers and additional repairs and maintenance costs at new premises. In addition to this a relatively small amount of high priority new growth has been included.
- 7.9 The Authority had a £5.2m deposit in Heritable Bank, a subsidiary of an Icelandic bank, when it entered administration in October 2008. The administrator is still positive about progress and issued a dividend of 16.13p in the pound in August 2009, along with notification to pay a further 10p in the pound in December 2009. The prospects for recovery are still promising and a material impact on the Authority's finances is not anticipated.
- 7.10 The financial impact of these commitments and proposals are shown in Section 11 of this strategy.

8. Capital and Prudential Borrowing

Impact of Capital Programme

- 8.1 The estimated capital programme over the medium term is underpinned by the following strategies:
- Estates Strategy;
 - IS&T Strategy; and
 - Vehicle Fleet Strategy.
- 8.2 The major component of the estimated capital programme is the continuing delivery of the Estates Strategy. The cost of the current Strategy in the years 2010/11 to 2012/13 is estimated at £100m. Prioritisation and phasing of these major building schemes was considered as part of the review of the Estates Strategy presented to the Resource Management Committee in October 2009. In line with the planned three year review of the Estates Strategy work is being commissioned to refresh the Strategy. The outcomes are expected to be reported to members in June 2010.
- 8.3 The capital budget forecast also takes account of the Corporate Planning process and the need to routinely replace assets which have come to the end of their useful working life.
- 8.4 The proposal for IS & T capital expenditure provides for the ongoing 'refresh' of the existing technology and supporting equipment in line with the principles of the IS & T Strategy. Provision is also included for the continued rollout of the Voice and Data Storage Area Network and the planned technology and application server refresh.

- 8.5 The proposed vehicle budget provides for the continued replacement of operational vehicles in line with the current Vehicle Fleet Strategy.
- 8.6 The Force is currently undertaking a review of the ICT programme in line with the revised ICT Strategy and has recently completed a first review of vehicle fleet.
- 8.7 The following table outlines the estimated effect that prioritised capital proposals could have on the overall capital programme over the next three years prior to the outcome of the reviews mentioned above. These proposals have been identified during the revision of the MTFS and include budget revisions and slippage carried forward to 2010/11:

	2010/11 £m	2011/12 £m	2012/13 £m	Total £m
High Priority Proposals				
Major Building Schemes	35.505	46.708	17.525	99.738
Minor Building Schemes	1.349	1.250	1.180	3.779
IS & T	6.646	3.903	3.799	14.348
Vehicles/Equipment	3.394	4.486	3.592	11.472
	46.894	56.347	26.096	129.337

Impact of Prudential Borrowing on the Budget Position

- 8.8 To implement the Capital Programme the Authority can use capital resources such as capital receipts and capital grants received in 2010/11 and future years. Income from these sources is expected to continue falling and will not be sufficient to fund the capital programme. The Authority will therefore need to enter into prudential borrowing supported by the application of the capital development reserve.
- 8.9 In the absence of further guidance it is assumed that the level of central government capital grant is to remain at 2009/10 levels throughout this MTFS period. The actual capital grant for 2010/11 will be announced in January 2010. The Authority's current strategy is to use the Capital Development Reserve to finance the revenue costs of prudential borrowing rather than applying it to outright capital purchases, particularly for the Estates Strategy. If account is taken of these factors, and assuming a minimum level of capital receipts over this MTFS, then the need for prudential borrowing can be summarised as follows:

	£m
2010/11	42.322
2011/12	51.775
2012/13	20.524

- 8.10 The borrowing and reducing capital reserves have a revenue impact by way of the interest payable on borrowing and the interest lost on the investment of reserves although this is currently at an all time low.
- 8.11 In addition to the revenue impact of interest, undertaking prudential borrowing will also impact on the Minimum Revenue Provision (MRP), the amount charged to revenue for the provision of the repayment of external loans. The estimated revenue impact of this overall strategy is as follows:

	Interest lost on reserves £m	Interest cost of borrowing £m	Total interest cost £m	MRP on additional borrowing £m	Total Revenue impact £m
2010/11	0.029	3.575	3.605	0.963	4.567
2011/12	0.057	6.035	6.092	2.805	8.897
2012/13	0.050	7.009	7.061	5.402	12.463

9. Reserves

Reserves Policy

- 9.1 Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when preparing budgets.
- 9.2 In establishing reserves, the Authority must comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the SORP).
- 9.3 The Authority reviews its reserves policy at least twice a year when preparing its annual budget and reviewing the MTFS. By doing this, the visibility of reserves are increased and consideration of their use is placed at the forefront of the decision making process. Reserves are cash backed balances, held on the balance sheet until they are spent or released for other purposes. As such, they can only be spent once, and are not part of the base budget.
- 9.4 The Authority's balance sheet reserves are held for three main purposes:
- A contingency to cushion the impact of unexpected events or emergencies for example, a change in protection arrangements in the police funding formula – this forms part of the general reserve;
 - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this too forms part of the general reserve; and
 - A means of building up funds to meet known or predicted liabilities or to smooth expenditure requirements – known as earmarked reserves. The Capital Development Reserve is an example of this sort of reserve.

9.5 There is no statutory guidance on the right level of reserves. CIPFA guidance issued in June 2003 confirms that authorities on the advice of their Treasurers should make their own judgements on such matters, taking into account relevant local circumstances and an assessment of risk.

9.6 The Authority's policy on reserves as reflected in the MTFS principles is as follows:

- The Authority will maintain its general reserve at a minimum of 5% of its gross revenue budget to cover any major unforeseen expenditure or loss of funding and will consider on a regular basis the opportunity cost of maintaining reserves balanced against the benefits derived from income earned and protecting risks;
- The Authority will aim to balance its revenue budget over the period of the MTFS without reliance on the use of the general reserve; and
- The Authority will maintain earmarked reserves for specific purposes, which are consistent with achieving its priorities. The use of earmarked reserves will be in line with the principles set out in the MTFS and reviewed annually.

9.7 The Authority must retain adequate reserves so that unexpected pressures on its budget can be met without adverse impact on the achievement of the Authority's key objectives and council tax payers. The Authority's policy for reserves and balances should be based on a thorough understanding of its needs and risks. Part of this process is to give clearer explanation of the existing and proposed use of reserves and this is addressed in the paragraphs below.

9.8 Reserves fall into two categories, general and earmarked. The general reserve is available to support future revenue and capital programmes, unexpected major incidents and loss of funding. Earmarked reserves are set up to provide for specific liabilities. The position as at April 2009 can be summarised as follows:

	£m
General reserve	47.218
Earmarked reserves	45.430

9.9 CIPFA defines revenue reserves as "resulting from events that have allowed monies to be set aside, surpluses or decisions causing anticipated expenditure to have been postponed or cancelled."

General Reserve

9.10 The Authority's general and earmarked reserves have always been retained at a prudent level and are subject to a regular review. The MTFS allows the Authority to consider the prudent use of reserves in the context of the future spending pressures, risks and changes to the funding formula without having a detrimental effect on policing in Northumbria.

- 9.11 The general reserve of £47.218m as at 1 April 2009 is 16.4% of gross expenditure and 16.9% of net expenditure. The current level of the general reserve is largely due to a combination of a review in reserves in 2008/09 resulting in a transfer of £9m to the general reserve from earmarked reserves and a history of effective budget control resulting in transfers of revenue underspends to the general reserve over a number of years.
- 9.12 Guidance does not dictate a reasonable level of general reserve because it needs to be linked to other factors such as the risks inherent in the budget, the robustness of budget monitoring, past experience of outturn spending and the extent of earmarked reserves. All of these factors suggest that the general reserve, which is designed to act as a contingency and smooth out variations in spending, could be reduced to a minimum level of £16.5m over the medium term. This would equate to 5% of gross expenditure. This allows the Authority to use the general reserve as short term funding to continue to meet its objectives whilst budget savings are achieved.

Earmarked Reserves

Insurance Reserve

- 9.13 The insurance reserve is maintained for potential liabilities and costs, which fall onto the Authority where no external insurance cover is arranged by or available to the Authority. Potential liabilities include storm damage, business interruption and claims that would fall within the Authority's policy excess limit. In line with the requirements of the SORP, the Authority operates an Internal Insurance Account, where internal premiums are charged and any surpluses generated are credited to the reserve. Given the difficulties encountered in previous years of securing external cover, this reserve protects the Authority from changes in the insurance market. In line with good practice this reserve is reviewed annually with the outcome reflected in the following year's budget.

Devolved Budget Reserve

- 9.14 The Authority has approved a scheme of financial devolution to ensure that responsibility and accountability for resources rests with those managers who are responsible for service delivery. To make the scheme work and give devolved budget holders the necessary freedom to manage their resources, they are allowed to carry forward underspends. This amount represents the cumulative net underspend of the budget devolved to specific departments and area commands which is carried forward into the following financial year to cover future events. A limit on the size of the carry forward, equivalent to 4% of the devolved budget is applied to this reserve. As a result the maximum level of the reserve is £2.26m and any balance exceeding this would be transferred to the General Reserve, and applied to support agreed

schemes in 2010/11. The expected reserve balance as at 31 March 2010 is £1.778m.

Air Support Unit Reserve

- 9.15 This reserve is the Authority's share of the Air Support General Reserve, which is maintained to allow for future unexpected events in relation to the Unit and the Air Support Capital Reserve. As at the 31st March the cumulative net unspent element of the Air Support Unit reserve was £0.747m (£0.715m general reserve and £0.032m capital reserve).
- 9.16 The North East Air Support Unit was established as a consortium between Northumbria, Durham and Cleveland Police Authorities. The three Authorities agreed that the Consortium be wound up on 31 March 2009. Thereafter Northumbria entered into a new partnership with Durham Police Authority to provide Air Support Services, which involves sharing the costs of operating a single Helicopter from Newcastle Airport.
- 9.17 The principles of apportioning the assets and liabilities of the Consortium at 31 March 2009 have been agreed by the three authorities. All that remains is the agreement of the final sums to be apportioned to each authority.

Police Officers Commutation Reserve

- 9.18 This reserve was originally a provision for the cost of lump sum payments in respect of those officers eligible to retire as at the balance sheet date. Following the introduction of accounting requirements for pensions this has been reclassified as a reserve. This position was reviewed prior to consideration of precept levels in February 2007, when the Authority agreed to increase the contributions to the general reserve to £3m per annum until 2010/11 when the reserve will be exhausted.

Airwave Reserve

- 9.19 This reserve is maintained to allow for the future costs associated with the national radio communications system. The balance of this reserve is £1m, which will be used in 2011/12 to finance the replacement of the integrated command and control system.

Capital Development Reserve

- 9.20 This reserve is to assist in developing and improving the capital assets of the Authority, particularly the Estates Strategy Development Programme. The Authority's current strategy is to use this reserve to fund the revenue implications of prudential borrowing to support the delivery of the capital programme. This enables the Authority to take advantage and lock into current lower interest rates without impacting on the precept in the medium term. It is anticipated that following the

completion of the major projects in the Estates Strategy, capital receipts will be received in respect of the former sites, which can be used to either repay debt or replenish this reserve.

Budgeted Reserves Position for 2009/10 and future years

- 9.21 A full analysis of the Authority's reserves and their planned use taking account of the proposals outlined in this report is as follows:

Analysis of proposed reserves 2009 to 2013

NPA Reserves	At 31 March 2009 £m	At 31 March 2010 £m	At 31 March 2011 £m	At 31 March 2012 £m	At 31 March 2013 £m
Earmarked Reserves					
Insurance Reserve	6.000	6.000	6.000	6.000	6.000
Devolved Budget Reserve	1.505	1.778	2.260	2.260	2.260
Air Support Unit General Reserve	0.747	0.715	0.715	0.715	0.715
Police Officers Commutation Reserve	5.199	2.199	0	0	0
Airwave Reserve	1.000	1.000	1.000	1.000	0
Capital Development Reserve	30.979	29.404	25.799	19.707	12.646
Total Earmarked Reserves	45.430	41.096	35.774	29.682	21.621
General Reserve	47.218	37.405	26.952	21.752	16.552
Total Reserves	92.648	78.501	62.726	51.434	38.173

- 9.22 The level of reserves carries an opportunity cost in that the funds held in reserve could be used for other purposes. In previous years this course of action had to be balanced against the benefit derived from income earned on reserves which was used to support the delivery of services and the need to make prudent provision for dealing with future risks and commitments. Whilst it is still necessary to make prudent provision, the benefit gained from interest earned is not currently a significant factor as the market rates available for investment reflect the fall in the Bank of England base rate. This situation does however offer an opportunity for debt repayment and the current strategy is to repay debt where it will reduce the cost of borrowing and therefore offset the reduced investment income. This strategy alongside that of using reserves to fund the revenue implications of prudential borrowing taken to support the delivery of the capital programme will see the Authority's level of reserves reduce significantly over the medium term.
- 9.23 The overall position of reserves will be further reviewed before the Authority agrees its annual revenue budget and capital programme in February 2010.
- 9.24 The Authority has previously agreed to draw £11.069m from the general reserve and £3m from earmarked reserves in 2009/10 to support revenue spending which is set to continue in 2010/11. Following the inclusion of the projected £1.256m revenue underspend

in 2009/10, it is proposed that a contribution of £10.453m is made from the General Reserve in 2010/11 and £5.2m in the following 2 years to support the revenue budget and the agreed strategy of reducing the General Reserve in the medium term to a minimum level of 5% of gross expenditure. The Capital Development Reserve is currently used to finance the revenue implications of prudential borrowing. The following table sets out the proposed use of reserves over the next 5 years:

NPA Reserves	Budget 2009/10 £m	Budget 2010/11 £m	Budget 2011/12 £m	Budget 2012/13 £m	Budget 2013/14 £m
Opening balances	92.648	78.501	62.726	51.434	38.173
Transfers to / (from):					
Earmarked Reserves	(4.334)	(5.322)	(6.092)	(8.061)	(7.061)
General reserve	(9.813)	(10.453)	(5.200)	(5.200)	0
Closing Balance	78.501	62.726	51.434	38.173	31.112

10. Funding

- 10.1 The Minister of State for Policing, Crime and Security announced details of the provisional Local Government Finance settlement 2010/11 on 26 November 2009. This confirmed the provisional figures set out in January 2009, with Northumbria receiving £256.2m for 2010/11, an increase of 2.5%. Northumbria's level of grant funding is what is referred to as the floor and without the application of floor damping, £36.252m less grant would be received in 2010/11.
- 10.2 In relation to precept increases Ministers have again made clear that there is no excuse for excessive increases next year, and they will not hesitate to use capping powers to deal with excessive council tax increases in 2010/11, including requiring authorities to re-bill if necessary. The Government is expecting average increases to be below 3%.
- 10.3 Ministers gave no indication of grant funding beyond 2010/11 which will be dependent on the outcome of the next Comprehensive Spending Review. Given the uncertainty over public spending over the next few years the Strategy models a number of scenarios to give a range of options. These will need to be refined when the MTFs is reviewed next year.

11. Indicative Budget Forecasts 2010/11 to 2012/13

- 11.1 All the budget pressures, funding assumptions and proposed use of reserves outlined earlier in this Strategy are summarised below, showing an overall position before consideration of the means of closing the projected funding gap. Funding in this scenario reflects a cash standstill in grant in 2011/12 and 2012/13. Given the uncertainty beyond 2010/11 Appendix A models two other funding scenarios taking into account the Chancellor's pre budget report.

	2010/11	2011/12	2012/13
	£m	£m	£m
Base budget (before reserves)	300.965	310.646	312.234
Pay and price increases	8.048	4.824	3.548
	309.013	315.470	315.782
Budget Pressures			
Committed growth	1.181	1.385	0.035
Additional growth	1.002	0.457	0.612
Invest to Save Proposals	1.062	1.192	0.131
Revenue impact of current Capital strategy	3.605	6.092	7.061
Revenue impact of use of Revenue Reserves	0.072	0.064	0.064
	6.922	9.190	7.903
Budget savings	(5.289)	(12.426)	(12.489)
Total Budget	310.646	312.234	311.196
Projected total grant income	256.184	256.184	256.184
Precept income (current levels)	35.188	35.188	35.188
Total Income	291.372	291.372	291.372
Agreed use of reserves	16.257	11.292	13.261
Funding Gap	3.017	9.570	6.563

11.2 The target for budget savings for 2010/11 was agreed by the Authority in the previous MTFS. Although specific Home Office efficiency targets have not been set beyond 2010/11, the recent White Paper described an intention for authorities and forces to deliver significant savings to support front line policing. Indicative targets based on 4% of the budget are included for financial planning purposes and will be reviewed when further announcements are made.

11.3 The sensitivity analysis in Appendix A shows the impact of a 1% change in grant on the potential funding gap. For the sensitivity analysis it has been assumed that the percentage change in grant will be the same in both years, the cumulative effect is summarised in the following tables:

11.4

	Funding Gap 2011/12		
	-1%	0%	1%
	£m	£m	£m
Funding Requirement	265.754	265.754	265.754
Total Grant Funding	253.622	256.184	258.746
Funding Gap	12.132	9.570	7.008

	Funding gap 2012/13		
	-1%	0%	1%
	£m	£m	£m
Funding Requirement	262.747	262.747	262.747
Total Grant Funding	251.086	256.184	261.334
Funding Gap	11.661	6.563	1.413

12. Financial Strategy

12.1 The indicative budget forecasts show a range of funding gaps over the next three years. Further refinement of the proposals will take place over the next two months to enable the Authority to consider the overall picture for 2010/11 and refinement of forecasts will take place over the next 12 months to inform 2011/12 onwards. Options open to the Authority to close the projected gap are as follows:

- Additional efficiencies
- Reassessment of priorities
- Further use of reserves
- External funding / increases in income
- Precept increases

Additional Efficiencies

12.2 The Authority and Force's approach to Value for Money is recognised in the Audit Commission's assessment of Use of Resources a provisional score of 3 under the new arrangements. This takes into account the general strengthening of the Audit Commission's scoring criteria in the new Use of Resources approach this year (the so called "harder test").

12.3 The Authority is committed to delivering £8.329m of cash releasing savings, agreed as part of the 2009/10 – 2011/12 Medium Term Financial Strategy. The Value for Money Strategy for the Force has been agreed and sets out the high level approach to efficiencies, including reviewing business activity to promote process improvement and capacity development. Plans are in place to meet this target. The approach taken has been to look at reducing costs of support functions in the first instance but also to prepare options and assess the risk around potential reductions in other services. An Efficiency Programme Board has been established to oversee the implementation of the efficiency proposals. Approximately £1.36m of budgetary savings have been achieved as at 30 September 2009 and reported to RMC on 7 October 2009. The Force is on target to deliver a total of £1.9m of budgetary savings during 2009/10 and a further £5.3m in 2010/11.

12.4 Building on the existing framework provided by the VFM Strategy, the Force will develop a series of options to deliver the proposed new budget savings set out in paragraph 11.2 and provide options for additional efficiencies beyond this level. The Force's approach to

programme management will be utilised to ensure that these new proposals can be delivered.

Reassessment of Priorities

- 12.5 A further option for closing the funding gap is to reassess the overall revenue and capital budgets and the level of priority growth. This will be informed by amongst other things the review of the Estates, ICT and Vehicle Fleet Strategies.

Further use of Reserves

- 12.6 The reserves strategy outlined in this document will result in earmarked reserves of £21.621m and a General Reserve of £16.552m at the end of 2012/13. A reassessment of these reserves could enable an increase in the amount of reserves used to support the revenue budget in the medium term. However, the use of reserves to support the budget is not sustainable in the longer term, and this reliance should be reduced as the benefits of efficiency initiatives put in place start to be realised.

External Funding / Increases in Income

- 12.7 The Authority and Force has been successful in securing and delivering outcomes from external funding in previous years. Specific and general funding will continue to be sought in line with the principles set out in this strategy.

Council Tax Precept

- 12.8 Each 1% increase in the precept generates £0.351m before taking into account changes in tax bases. Downward pressure on precepts has already been raised by Minister's during the announcement of the draft Local Government Finance Settlement and in separate correspondence with authorities.

13. Risk Assessment

The MTFs contains the most up to date information at the time of drafting but the Authority's financial position is dynamic. A comprehensive financial risk assessment is undertaken for the Revenue and Capital Budget setting process to ensure all risks and uncertainties affecting the Authority's financial position are identified. The Authority faces a number of financial uncertainties that could affect its position over the medium term. An assessment of the likelihood and impact of each risk and the management controls in place are shown in the following table:

Risk	Likelihood	Impact	Risk Management
Reduction in national funding	Likely	High	Final year of CSR07 gives greater certainty to 2010/11. Sensitivity analysis around possible scenarios enables impact of possible reductions to be assessed and planned for.
General reserve not sufficient to cover future unexpected costs.	Unlikely	Medium	Reserve strategy to maintain balance at 5% of gross revenue budget.
Pay awards and price inflation being higher than anticipated.	Unlikely	Medium	Budget based on best information available and set at a prudent level.
Capital financing charges will be higher than forecast.	Unlikely	Low	Revenue implications are considered as part of capital planning and any changes to variable rate will have minimum impact as 100% of debt is at fixed rates.
Major liability or commitment has not been considered during financial planning.	Unlikely	Medium	All growth items are classified by priority when assessed for inclusion in the budget and regular liaison between senior officers and the Chief Officers Police Group help to strengthen and coordinate financial planning.
Interest rates on deposits lower than anticipated.	Unlikely	Low	Prudential assumptions on likely interest rates are incorporated into the MTFs and regular review, monitoring and reporting of interests takes place.
Capital programme understated and funding not available to deliver plans.	Possible	Medium	Capital monitoring and Estates Strategy updates are taken to RMC quarterly to provide assurance in the accuracy of forecast. Prudential borrowing gives flexibility in financing the capital programme
Not all risk have been identified	Unlikely	Medium	Comprehensive insurance arrangements are placed alongside robust risk management arrangements.

14. Conclusion

- 14.1 The Government has confirmed previously agreed funding levels for 2010/11 but no certainty beyond this period.
- 14.2 Increased public borrowing by the Government to support the economy through the recession is expected to require cuts in public spending over the next few years. The reliance of the Authority on grant support, which meets 88% of spending in the current year, presents a challenge to ensure the Authority's corporate objectives continue to be delivered in the future.
- 14.3 Government funding for capital investment and receipts from building and land sales are expected to be much tighter over the next few years. This means that the Authority will need to be more self-sufficient and use reserve resources to support capital investment through prudential borrowing.
- 14.4 A combination of spending pressures, funding challenges and the need to support capital investment means that difficult choices will need to be made to ensure the Authority's current sound financial position is sustainable.
- 14.5 In addition, the Authority's reserves will fall over the next few years as they are used to support the delivery of corporate objectives. This will require the achievement of budget savings to reduce reliance on reserves into the future.
- 14.6 The uncertainty over public funding beyond 2010/11 makes future financial planning very difficult. The financial models will be reviewed when more information becomes available over the next twelve months but the principles of the MTFS set the framework for dealing with a more challenging financial context.
- 14.7 In the short-term all funding options will be considered over the next two months that will allow a balanced budget to be considered by the Authority in February 2010.

Base budget and potential funding gap sensitivity analysis

	2010/11	2011/12			2012/13		
	£m	-1% £m	0% £m	+1% £m	-1% £m	0% £m	+1% £m
1 Base Budget	300.965	310.646	310.646	310.646	312.234	312.234	312.234
2 Pay and Prices							
- Pay	7.141	3.887	3.887	3.887	2.599	2.599	2.599
- Prices	0.907	0.937	0.937	0.937	0.949	0.949	0.949
3 Budget Pressures							
- Committed Growth	1.181	1.385	1.385	1.385	0.035	0.035	0.035
- Proposed Growth	1.002	0.457	0.457	0.457	0.612	0.612	0.612
- Invest to Save	1.062	1.192	1.192	1.192	0.131	0.131	0.131
4 Revenue impact of Capital Programme	3.605	6.092	6.092	6.092	7.061	7.061	7.061
5 Revenue impact of use of Revenue Reserves	0.072	0.064	0.064	0.064	0.064	0.064	0.064
6 Budget savings	(5.289)	(12.426)	(12.426)	(12.426)	(12.489)	(12.489)	(12.489)
	310.646	312.234	312.234	312.234	311.196	311.196	311.196
7 Funding							
- Formula Grant	256.184	253.622	256.184	258.746	251.086	256.184	261.334
- Council Tax	35.188	35.188	35.188	35.188	35.188	35.188	35.188
- General Reserve	10.453	5.200	5.200	5.007	5.200	5.200	5.200
- Earmarked Reserves	5.804	6.092	6.092	6.092	8.061	8.061	8.061
	307.629	300.102	302.664	305.226	299.535	304.633	309.782
7 Potential Funding Gap	3.017	12.132	9.570	7.008	11.661	6.563	1.413