

NORTHUMBRIA POLICE AUTHORITY

MEDIUM TERM FINANCIAL STRATEGY 2011/12 – 2013/14



Northumbria Police Authority

Medium Term Financial Strategy 2011/12 – 2013/14

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1. Purpose of the Medium Term Financial Strategy

- 1.1 The current Medium Term Financial Strategy (MTFS) covering the period 2010/11 to 2012/13 was approved by the Police Authority on 16 December 2009. The strategy covers a period of 3 years but is reviewed annually to reflect the dynamic nature of both policing and changes in funding. The planned reductions in police funding over the next four years require a fundamental review of the MTFS covering the next three years.
- 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 towards delivery of the Local Policing Plan. The Strategy describes the financial direction of the Authority and outlines the financial pressures over a three 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 during what will be an extremely challenging financial climate following the Spending Review by the coalition government in October 2010.
- 1.4 Following consideration of the MTFS, a financial strategy is agreed and specific proposals developed for consultation with stakeholders and reviewed 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 more specifically the Authority's corporate objectives:
 - Reduce and prevent crime and anti social behaviour and improve confidence by working together with partners;
 - Tackling the harm caused by alcohol-related crime and disorder;
 - Work with our partners to identify and protect the vulnerable within our communities;
 - Identify and tackle local priorities by listening to, and involving, our communities;
 - Deliver an effective and efficient capability to tackle terrorism, serious crime and provide other protective services; and
 - Provide effective, value for money policing which addresses community priorities and the challenge of financial constraints.

2. Benefits of the Strategy

- 2.1 The MTFS assists in:
 - Supporting delivery of the Local Policing Plan.

- 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 deliver 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 funding reductions; and
- Developing a sustainable budget over the medium term.

3. Principles of the Strategy

3.1 The key principles underlying the Authority's MTFFS 2011/12 to 2013/14 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 3% of its 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, protecting against risks and investing to generate longer term efficiencies.
- (iii) The Authority will aim to balance its revenue budget over the period of the MTFFS 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 MTFFS and reviewed annually;
- (v) The Authority will continue to improve its approach to efficiency, value for money and procurement. It will specifically ensure that budget savings to offset funding cuts 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 three year budget forecasts;

- (x) The implications of the cessation or withdrawal of funding will continue to be reviewed so that options can be considered to minimise the impact on the Authority's corporate objectives;
- (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; and
- (xii) The Authority will recognise and respond to the financial consequences of legislative changes.

4. Reviewing the Strategy

4.1 The review of the Authority's MTFs for 2011/12 to 2013/14 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 and funding cuts which the Authority will face over the period of the strategy;
- The Authority's capital programme;
- Reserves policy; and
- Police Funding Formula.

5. National Financial Context

5.1 The Police Reform and Social Responsibility Bill, which is currently in the House of Commons, has major implications for the Authority over the life of the MTFs, in particular the proposed introduction of Police and Crime Commissioners. The MTFs need to recognise this potential significant change in governance arrangements but also the imperative to deal with challenging cuts in funding whilst minimising the impact of frontline services.

5.2 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.

5.3 The Chancellor announced his intention to find £6.2bn of public spending cuts in 2010/11 on 24 May 2010. The Home Office was asked to find £367m of this in-year reduction.

5.4 Subsequently, the Home Office announced a £3.5m reduction in Rule 2 Grant the Authority would receive in 2010/11. This required further consideration as to how the budget could continue to be balanced in the current year, in line with the principle of the MTFs, whilst maintaining standards of service provision.

5.5 The Spending Review announced in October 2010 set out the Government's priorities and spending plans for the coming spending

review period 2011/12 – 2014/15. This was followed by the Provisional Finance Settlement announced 13 December 2010, which gave indicative allocations for Northumbria for 2011/12 and 2012/13 and headline figures for 2013/14 and 2014/15. The provisional settlement also set out the intention of a fundamental review of local government finance during the first two years which could impact on the Authority from 2013/14 onwards.

- 5.6 The Provisional Grant Settlement for Northumbria was a decrease in grant funding of 5.1% in 2011/12 and 6.7% in 2012/13 on top of the in year funding cuts in 2010/11. This is consistent with the national reduction for all police authorities and represents a cash reduction of £13.6m in 2011/12 (£1.7m including the in-year cuts) and £16.8m in 2012/13.
- 5.7 When specific grants are added to the formula grant figures, the total reduction, prior to confirmation of Counter Terrorism Specific Grant, is 5.5% in 2011/12 and 6.5% in 2012/13.
- 5.8 Funding was top sliced from grant to deliver a council tax freeze in 2011/12. The grant will equate to a 2.5 % increase in council tax and is estimated at £0.9m for Northumbria.
- 5.9 The way in which the Home Office is reducing funding to police authorities using percentages, penalises those areas which are more dependent on grant funding to meet higher needs and lower council tax bases. The six metropolitan authorities, including Northumbria, are the biggest losers whereas authorities such as Surrey, Dorset and North Yorkshire are gainers.
- 5.10 The impact of the grant cuts are compounded by the council tax freeze grant which also rewards high precept areas with low needs.
- 5.11 This level of funding cuts is unprecedented and requires a fundamental review of the Authority's financial strategy to protect frontline policing and ensure a sustainable financial position over the medium term.

6. Authority's Current Financial Position

- 6.1 The Authority's net revenue budget for 2009/10 after the use of reserves was £285.123m. 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, which has been achieved with the lowest precept level in the country.
- 6.3 The Authority's net revenue budget for 2010/11 after the use of reserves is £292.448m. The third quarterly revenue monitoring report

which was presented to the Resource Management Committee in January showed a small projected overspend of £0.087m as at 31 December 2010. A combination of factors accounts for this position including the in-year reduction in Home Office Grant income of £3.494m and the cost of Operation Bulwark; offset by in-year savings identified by the Chief Constable and lower capital financing costs.

- 6.4 The third quarter capital monitoring report to January's Resource Management Committee outlined a revised capital estimate of £19.534m as at 31 December 2010, compared to the original estimate of £33.410m. The reduction in the revised estimate for the year reflects the active management of capital expenditure to reduce expenditure commitments to essential and key priority areas only.

7. Medium Term Budget Pressures

- 7.1 The base budget used to calculate the projected budgets from 2011/12 to 2013/14 includes the full year effect of 2010/11 growth, the revenue impact of agreed capital schemes, increases in borrowing costs and the impact of cuts in funding.

- 7.2 The following budget pressures have been included when calculating the budget projections from 2011/12 to 2013/14:

- Pay and price increases
- Revenue implications of the Estates Strategy
- Committed and high priority new growth

- 7.3 The financial models include the full year effect of the 2010/11 pay award from September 2010 for police officers, followed by a two year pay freeze and an estimated 2.5% increase in 2013/14 for both officers and staff. Provision has also been made for police officer increments and an estimate for the impact of the changes in National Insurance. The initial pay assessments have been based on an establishment as at 31 March 2011 of 4,073 police officers, 432 PCSOs and 2,031 police staff, which are consistent with the Human Resources Strategy.

- 7.4 The committed growth relates to the unwinding of funding arrangement for Community Support Officers, additional repairs and maintenance costs at new premises, approved staff establishment changes and the on-going implications of previous capital expenditure. A combination of pay and price increases and committed growth adds £7.3m, £0.8m and £4.2m to the base budgets for 2011/12, 2012/13 and 2013/14 respectively.

- 7.5 Police officer employer pension contributions have been assumed to increase in line with the pay awards.

- 7.6 Police staff pension contributions have also been assumed to increase in line with pay awards and for the purposes of this strategy, no increase in the employer's contribution has been assumed pending the

outcome of the triennial actuarial valuation on the Tyne & Wear Pension Fund in 2011/12.

- 7.7 The implementation of the revised capital programme will add an additional £0.8m borrowing costs to the revenue budget in 2011/12, increasing to £4.4m in 2013/14 and an estimated additional £0.4m in running costs.
- 7.8 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 following the most recent dividend payment around 50% of the deposit has been recovered. Accounting rules require that the Authority account for the outstanding dividend during 2010/11. It is estimated that the amount outstanding at the year end will be £1.2m, which can be met from the General Reserve. This impact will be offset by the receipt of dividends in future years, and the prospects for full recovery are still promising. A material impact on the Authority's finances is not anticipated.
- 7.9 The financial impact of these commitments and proposals are shown in Section 12 of this strategy.

8. Budget Savings

- 8.1 Agreed budget savings in 2010/11 have been factored into the base position for 2011/12. Beyond this, the potential for further budget savings, in excess of £57m, have been built into the strategy for 2011/12 onwards to meet the challenging financial position and to ensure the impact on frontline policing is minimised.
- 8.2 The Force and Authority are undertaking business reviews to deliver budget savings between 2011/12 and 2013/14, namely:
- Contact Management;
 - BCU (Basic Command Unit);
 - Deployment;
 - Crime;
 - Operations Command
 - Business Support; and
 - Police Authority and Support Services
- 8.3 These reviews will focus on those areas where the potential for improvements in service delivery, efficiency and productivity are felt to be greatest and will enable the required budget savings to be made. Protecting front line services will continue to be the highest priority.
- 8.4 The savings will be realised by a combination of:
- A reduction in police officers through natural wastage;
 - A reduction in police staff through redundancy and natural wastage; and
 - Scrutiny of other costs throughout the Force.

- 8.5 In addition to the savings from the business reviews, there is also the potential for savings from the Winsor Review, which is looking at police officer terms and conditions.
- 8.6 Further details on the strategy for delivering budget savings, including any constraints and the outcome of the service reviews, will need to be considered during the life of the MTFs and in particular in advance of agreeing the budget and council tax for 2011/12.

9. Capital and Prudential Borrowing

Impact of Capital Programme

- 9.1 The estimated capital programme over the medium term is underpinned by the following strategies:
- Estates Strategy;
 - ICT Strategy; and
 - Vehicle Fleet Strategy.
- 9.2 The major component of the estimated capital programme is the continuing delivery of the Estates Strategy. Prioritisation and phasing of major building schemes was considered as part of the refreshed Estates Strategy 2011 to 2014 agreed by members in November 2010. The original strategy of £93m was reduced to a cost of £50m over the three year period to include only key priority schemes. A further review of the Estates Strategy will be carried out during 2011/02 to align with the new operating model of the Force which will emerge as a result of the business reviews.
- 9.3 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.
- 9.4 The proposals for ICT capital expenditure were set out in the ICT Strategy report presented to Resource Management Committee in January 2011 which set a programme of expenditure of £12.6m over the medium term. It provides for the maintenance and development of the ICT infrastructure and proposes a number of refresh programmes of the existing technology and supporting equipment. In addition, five new ICT infrastructure schemes are identified to mitigate risks to the Force and position it to better exploit technology through its Corporate Programme of Change. It is also envisaged that the Programme of Change may lead to the requirement for further investment in operational and business applications, which will be subject to business case approval and the availability of funding opportunities.
- 9.5 The Force is currently undertaking a review of the vehicle fleet. The proposed vehicle replacement programme will be aligned with the new operating model of the Force.

- 9.6 The following table outlines the estimated impact that prioritised capital proposals would have on the overall capital programme over the next three years based on the agreed strategies. These proposals have been identified during the revision of the MTFs and include budget revisions and slippage carried forward to 2011/12:

	2011/12	2012/13	2013/14	Total
	£m	£m	£m	£m
High Priority Proposals				
Major Building Schemes	18.400	21.920	9.880	50.200
Minor Building Schemes	1.408	1.350	1.000	3.758
ICT	4.320	2.700	5.580	12.600
Vehicles/Equipment	3.180	2.100	3.180	8.460
	27.308	28.070	19.640	75.018

Impact of Prudential Borrowing on the Budget Position

- 9.7 To implement the Capital Programme the Authority can use capital resources such as capital receipts and capital grants received in 2011/12 and future years. Income from these sources will not be sufficient to fund the capital programme. As in recent years, the Authority will therefore need to enter into prudential borrowing if it wants to continue investing in its assets.
- 9.8 The Provisional Finance Settlement set out the following provisional allocations of central government capital grant to Northumbria. This is a 40% reduction from 2010/11:

	£m
2011/12	2.3
2012/13	3.4
2013/14	3.2

- 9.9 If account is taken of the provisional capital grant, and assuming a minimum level of capital receipts over the period of the MTFs, then the need for prudential borrowing can be summarised as follows:

	£m
2011/12	24.408
2012/13	23.170
2013/14	16.190

- 9.10 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 not a material factor as rates achievable are low.
- 9.11 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 strategy is as follows:

	Interest cost of borrowing £m	MRP on additional borrowing £m	Total Revenue impact £m
2011/12	0.839	0.000	0.839
2012/13	2.139	0.977	3.116
2013/14	3.173	1.269	4.442

10. Reserves

Reserves Policy

- 10.1 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.
- 10.2 In establishing reserves, the Authority must comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).
- 10.3 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.
- 10.4 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 or a major incident – 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.
- 10.5 There is no statutory guidance on the correct 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.

- 10.6 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 3% 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 and investing to generate longer term efficiencies;
 - 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.

10.7 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 a clear explanation of the existing and proposed use of reserves and this is addressed in the paragraphs below.

10.8 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 2011 is expected to be as follows:

	£m
General reserve	28.471
Earmarked reserves	35.910

General Reserve

- 10.9 The expected General Reserve of £28.471m at 1 April 2011 is 9.3% of the budget. 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.
- 10.10 Guidance does not dictate a reasonable level of General Reserve because it needs to balance the risks inherent in the budget, the robustness of budget monitoring, past experience of outturn spending, the extent of earmarked reserves and the certainty of funding cuts over the next four years. All of these factors suggest that the General

Reserve, which is designed to act as a contingency, should be a minimum of £9m over the medium term, which equates to 3% of the revenue budget. This would allow the Authority to use part of the existing General Reserve as short term funding to offset grant cuts whilst budget savings are achieved.

Earmarked Reserves

Insurance Reserve

- 10.11 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 Code, 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. A review is currently underway on the level of this reserve.

Devolved Budget Reserve

- 10.12 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 2% for Area Commands and 1% for Departments, of the devolved budget is applied to this reserve. As a result the maximum level of the reserve is £0.86m and any balance exceeding this would be transferred to the General Reserve, and applied to support agreed schemes in 2011/12. The expected reserve balance as at 31 March 2011 is £0.855m.

Airwave Reserve

- 10.13 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 2012/13 to finance the replacement of Airwave equipment.

Capital Development Reserve

- 10.14 This reserve is to assist in developing and improving the capital assets of the Authority, particularly the Estates Strategy Development

Programme in advance of generating capital receipts from former sites. The Authority's current strategy is to use this reserve to fund the revenue implications of prudential borrowing in the medium term to support the delivery of the capital programme. Consideration should also be given to making use of this reserve to fund the costs of police staff redundancies, allowing the Authority to realise the on-going revenue savings of this reduction in staff costs in advance of an application for a capitalisation direction from the Department for Communities and Local Government in 2011/12. This would allow some of the costs to be spread over a number of years.

Budgeted Reserves Position for 2010/11 and future years

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

NPA Reserves	At 31 March 2010 £m	At 31 March 2011 £m	At 31 March 2012 £m	At 31 March 2013 £m	At 31 March 2014 £m
Earmarked Reserves					
Insurance Reserve	6.000	6.000	6.000	6.000	6.000
Devolved Budget Reserve	1.715	0.855	0.855	0.855	0.855
Police Officers Commutation Reserve	2.199	0	0	0	0
Airwave Reserve	1.000	1.000	1.000	0	0
Capital Development Reserve	29.868	28.055	10.154	2.007	0
Total Earmarked Reserves	40.782	35.910	18.009	8.862	6.855
General Reserve	41.063	28.471	24.471	19.271	19.271
Total Reserves	81.845	64.381	42.480	28.133	26.126

10.16 The overall position of reserves will be further reviewed before the Authority agrees its annual revenue budget and capital programme in February 2011.

10.17 The Authority has previously agreed to draw £9.540m from the General Reserve and £5.777m from earmarked reserves in 2010/11 to support revenue spending. Following the inclusion of the projected 2010/11 revenue outturn and the impact on the General Reserve of the Heritable Impairment, which must be met in 2010/11, the level of useable reserves is anticipated to be £64.381m at 31 March 2011.

10.18 The previous strategy proposed that a contribution of £5.2m be made from the General Reserve in 2011/12 and 2012/13 to support the revenue budget, prior to the delivery of necessary budget savings following the funding cuts and in line with the agreed strategy of reducing the General Reserve in the medium term to a minimum level of 3% of the budget. This remains the assumption in the reviewed strategy. Currently, the Capital Development Reserve is used to finance the revenue implications of prudential borrowing, but in addition, it is proposed to use this reserve to fund the costs of the redundancy programme, pending an application for capitalisation.

11. Funding

- 11.1 The Policing Minister announced details of the Provisional Local Government Finance settlement 2011/12 and 2012/13 on 13 December 2010. The Provisional Settlement for Northumbria will see Northumbria receiving grant funding of £250.983m in 2011/12, a decrease of 5.1%, and £234.160m in 2012/13, a further reduction of 6.7%. Northumbria's level of grant funding continues to be at what is referred to as the floor and without the application of floor damping, £20.912m less in grant would be received in 2011/12. The floor damping element of the formula grant is lower than previous years (in 2010/11 it was £36.252m) following successful lobbying by Northumbria regarding amendments to the formula.
- 11.2 For Northumbria, a 1% increase in the precept generates £0.362m before taking account of changes in council tax base. The reduction in grant funding of £13.6m in 2011/12 and £16.8m in 2012/13 would require a 37.5% increase in precept in 2011/12 and a further 33.7% in 2012/13 to compensate for the loss of grant funding.
- 11.3 In relation to precept increases, The Secretary of State for Communities and Local Government announced that the Government will take action to cap both Nottinghamshire and Greater Manchester police authorities if they propose council tax increases in 2011/12 above 2.5%. This follows the decision by the last Government to designate both authorities after council tax rises in 2010/11. Details of capping principles for 2011/12 will be announced at the time the Local Government Finance Settlement is debated in Parliament, expected to be early February.
- 11.4 As part of the police Spending Review £75m has been top sliced from grant and made available to police authorities to deliver a council tax freeze in 2011/12. For Northumbria, the grant is likely to be approximately £0.9m. Payment of this grant is dependent upon a council tax freeze in 2011/12, but does not rule out council tax increases in future years. At this stage the grant has been built into the MTFs although a decision will need to be taken by the Authority in February 2011.
- 11.5 In future years, the prospect of significant increases in precepts appear limited by the risks of capping and the potential for a referendum to be triggered by council tax rises above a "reasonable" level if proposals in the current Localism Bill are enacted. The indicative forecast below does not include an increase in council tax for 2012/13 and 2013/14.

12. Indicative Budget Forecasts 2011/12 to 2013/14

- 12.1 All the budget pressures, budget savings, funding assumptions and proposed use of reserves outlined earlier in this Strategy are summarised below, to show an overall position before consideration of the means of closing the projected funding gap.

	2011/12 £m	2012/13 £m	2013/14 £m
Base budget (before reserves)	330.195	318.056	298.761
Pay and price increases	5.393	0.648	4.751
	335.588	318.704	303.512
Budget pressures / committed efficiencies			
Committed growth	1.952	0.188	(0.530)
Efficiencies committed / approved	(2.957)		
Revenue impact of capital strategy	0.839	2.276	1.726
Revenue impact of use of Revenue Reserves	0.210	0.121	0.018
	0.044	2.586	1.214
Proposed budget savings	(17.576)	(22.529)	(17.744)
Total Budget	318.056	298.761	286.982
Projected total grant income	250.983	234.160	238.700
Specific grants	10.540	10.540	1.560
Council tax freeze grant	0.908	0.908	0.908
Precept income	36.264	36.264	36.264
Total Income	298.695	281.872	277.432
Funding gap (pre cost of redundancies and planned use of reserves)	19.361	16.889	9.550
Estimated cost of redundancies	13.455	1.425	0.699
Total funding gap	32.816	18.314	10.249
Planned use of reserves			
General reserve	(5.200)	(5.200)	0.000
Capital development reserve (redundancies)	(13.455)	(1.425)	(0.699)
Capital development reserve (capital strategy)	(4.446)	(6.722)	(1.308)
Funding gap (after use of reserves)	9.715	4.967	8.242

13. Financial Strategy

13.1 The indicative budget forecasts outlined in Para 12.1 show a potential funding gap of £9.715m in 2011/12 and nearly £23m over the three year period. This gap remains after significant amounts of proposed savings. Further refinement of the proposals will take place over the next month to enable the Authority to consider the overall picture and the solutions to meet these gaps.

13.2 The revenue budget position requires more difficult choices to be made than in previous years. Options open to the Authority to close the projected gap are as follows:

- Further budget savings
- Further use of reserves

- Increases in income / external funding
- Precept increases

Budget savings

- 13.3 The current level of proposed savings, of nearly £58m over the three year period, is aimed at responding to the challenge of cuts in funding whilst minimising the impact on frontline services. There are also constraints on the level of budget savings that can be achieved, particularly in the costs of police officers. The service review process will continue to improve services to the public wherever possible and identify efficiencies which will enable budget savings to be made to reduce the funding gap identified in the MTFS. Protecting front line services will continue to be the highest priority.

Further use of Reserves

- 13.4 The reserves strategy outlined in this document will result in earmarked reserves of £6.855m and a General Reserve of £19.271m at the end of 2013/14. The indicative budget forecast assumes the utilisation of over £38m of reserves over the period and the scope to go beyond this will be constrained. A reassessment of reserves to reduce the General Reserve to 3% of the revenue budget over the medium term could enable a limited increase in the amount of reserves used to support the revenue budget over this period. 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 budget savings start to be realised.

Increases in Income / External Funding

- 13.5 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 where this can help support delivery of the Authority's Corporate Objectives.

Council Tax Precept

- 13.6 Consideration will need to be given to the level of Council Tax Precept over the period of the MTFS.
- 13.7 Each 1% increase in the precept generates £0.362m before taking into account changes in tax bases. £75m from the overall police grant settlement has been set aside in each year of the Spending Review period to fund a council tax freeze in 2011/12 only. This payment would be the equivalent of 2.5% of the precept yield in 2010/11, which would equate to £0.9m for Northumbria. Details of capping principles for 2011/12 will be announced at the time the Local Government Finance Settlement is debated in Parliament, expected to be early February 2011.

14. 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 significant financial pressures 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
General Reserve not sufficient to cover future unexpected costs	Unlikely	High	Reserve strategy to maintain balance at a minimum of 3% of 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.
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 interest 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
Failure to deliver required savings	Possible	Medium / High	Quarterly revenue monitoring updates to RMC; maintenance of the General Reserve balance at 3% of budget.

Further reductions in funding and legislative changes over the life of the MTFS	Possible	Medium / High	Balance on General Reserve maintained at minimum of 3%; forward planning; regular monitoring.
Not all risk have been identified	Unlikely	Medium	Comprehensive insurance arrangements are in place alongside robust risk management arrangements; balance on General Reserve maintained at a minimum of 3% of budget.

15. Conclusion

- 15.1 The Government has announced provisional funding levels for 2011/12 and 2012/13, but no certainty beyond this period.
- 15.2 The Government's intention to eliminate the public sector spending deficit over the next four years results in challenging funding cuts for Northumbria Police Authority to deal with. These are compounded by the reliance of the Authority on grant support, which meets 88% of spending in the current year.
- 15.3 The proposals in the Police Reform and Social Responsibility Bill will have implications for the MTFS if enacted. At this stage, the strategy is based on the need to deliver budget savings to protect frontline services to ensure that the Authority is sustainable.
- 15.4 Government funding for capital investment and receipts from building and land sales will be much tighter over the next few years. This means that the Authority will need to continue to be self-sufficient and use reserve resources to support priority capital investment through prudential borrowing in the short term.
- 15.5 The Authority's reserves will fall over the next three years as they are used to support reductions in costs at a rate which does not threaten frontline services. This will require the delivery of significant budget savings to reduce reliance on reserves into the future.
- 15.6 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.
- 15.7 In the short term all funding options will be considered over the next month that will allow a balanced budget to be considered by the Authority in February 2011.

