



Peter McCall

Office of the Police & Crime Commissioner

REQUEST FOR POLICE & CRIME COMMISSIONER DECISION - (N° 002 / 2020)

TITLE: 2020/21 Budget, Medium Term Financial Forecast and Reserves Strategy

Executive Summary:

The Commissioner is asked to approve the revenue budget, capital budget and reserves strategy for 2020/21 and the level of council tax to support the budget, having taken into account the advice of the Joint Chief Finance Officer in his report on the robustness of the proposed budgets. The papers provide provisional financial information for the years 2021/22 to 2023/24 and for 10 years in respect of the capital programme.

Recommendation:

The Commissioner is asked to note the attached Joint Chief Financial Officer's report on the robustness of the budget 'the Local Government Act 2003 Requirements' report (item 11a), taking into account his advice in respect of his decisions on the proposed budgets.

Appendix B of the attached report 'Budget 2020/21 and Financial Forecasts 2021/22 to 2023/24' (item 11b) sets out the budget resolution for decision by the Commissioner in order to formally approve the level of council tax precept. In the context of the budget resolution, it is recommended that:

- a) The revenue budgets outlined in the report and appendices be approved, having regard to the Local Government Act 2003 Requirements report
- b) That the budget requirement for 2020/21 be set on the basis of the amount within the budget resolution at appendix B
- c) The council tax for Band D properties be approved at £265.59 for 2020/21, an increase of £8.91 or 3.47%, being the amount within the budget resolution

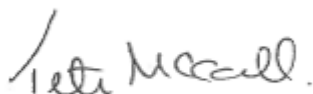
The commissioner is also asked to approve the Reserves Strategy for 2020/21 which is provided as a separate report (item 11c).

Police & Crime Commissioner

I confirm that I have considered whether or not I have any personal or prejudicial in this matter and take the proposed decision in compliance with the Code of Conduct for Cumbria Police & Crime Commissioner. Any such interests are recorded below.

I hereby approve/~~do not approve~~ the recommendation(s) above

Police & Crime Commissioner / ~~Chief Executive~~ (delete as appropriate)



Signature:

Date: 19/02/2020

PART 1 – NON CONFIDENTIAL FACTS AND ADVICE TO THE PCC

1. Introduction & Background

It is a legal requirement for the Police and Crime Commissioner to annually set a balanced budget and to allocate funds to the Chief Constable to secure the maintenance of the Police Force for Cumbria. The attached reports set out the proposed budgets and the advice of the Joint Chief Finance Officer regarding their approval.

2. Issues for Consideration

Please see attached reports. The Local Government Act 2003 report sets out the primary issues for consideration in approving the proposed budgets.

3. Implications

(List and include views of all those consulted, whether they agree or disagree and why)

- 3.1. Financial: As set out in the attached reports
- 3.2. Legal: It is a legal requirement to annually set a balanced budget and determine the police precept.
- 3.3. Risk: The Local Government Act 2003 report documents the risks to the financial forecasts. Specific operational reserves and contingencies and general balances have been set at a level that in the view of the Joint Chief Finance Officer is reasonable in the context of those risks that it is possible to provide for. The budgets place reliance on the Home Office transition funding in respect of formula funding risks.
- 3.4. HR / Equality: The proposed budget provide resources used by the Constabulary. The Commissioner has arrangements in place to hold the Chief Constable to account in respect of the Public Sector Equality Duty. The budget is subject to an equality impact assessment. The 2020/21 budgets for the Constabulary provide resources to maintain establishment numbers.
- 3.5. I.T.: The budgets and capital programme are supported by a comprehensive ICT strategy. There are significant implications for ICT following from the investment proposed for both capital and revenue to support the delivery of the strategy.
- 3.6. Procurement: There are significant procurement implications arising from the budgets in respect of both revenue supplies and services expenditure and procurement of large capital estate and ICT schemes. A procurement strategy detailing the principles, which underpin procurement activity linked to planned procurement in 2020/21 will be presented to the Public Accountability Conference in March. Procurement regulations require procurement business partners to lead and/or support business managers in any significant or complex procurement activity.
- 3.7. Victims: The budgets provide resources for commissioning victims services in addition to the resources for the continued provision of sexual assault referral services.

4. Backgrounds / supporting papers

The Local Government Act 2003 Requirements Report

Budget 2020/21 and Financial Forecasts 2021/22 to 2023/24

Public Access to Information

Information in this form is subject to the Freedom of Information Act 2000 (FOIA) and other legislation. Part 1 of this form will be made available on the PCC website within 3 working days of approval. Any facts/advice/recommendations that should not be made automatically available on

request should not be included in Part 1 but instead on the separate Part 2 form. Deferment is only applicable where release before that date would not compromise the implementation of the decision being approved.

Is the publication of this form to be deferred? NO

If yes, for what reason:

Until what date (if known):

Is there a **Part 2** form - NO

(If Yes, please ensure Part 2 form is completed prior to submission)

ORIGINATING OFFICER DECLARATION:

I confirm that this report has been considered by the Chief Officer Group and that relevant financial, legal and equalities advice has been taken into account in the preparation of this report.

Signed: **Date:**

OFFICER APPROVAL

Chief Executive / Deputy Chief Executive (delete as appropriate)

I have been consulted about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner / Chief Executive (delete as appropriate).

Signature: V. Stafford

Date: 19/02/2020

Media Strategy

The decision taken by the Police & Crime Commissioner may require a press announcement or media strategy.

Will a press release be required following the decision being considered? YES

If yes, has a media strategy been formulated? YES

Is the media strategy attached? NO

What is the proposed date of the press release: 19th February 2020



Cumbria Office of the Police and Crime Commissioner

Public Accountability Conference 19 February 2020

Local Government Act 2003 Requirements Report

Report of the Chief Finance Officer

1. Introduction

1.1 The Local Government Act 2003 requires the Chief Financial Officer to report formally on the robustness of the budget for consideration immediately prior to setting the Budget and Council Tax. The report aims to ensure that the Commissioner is aware of the opinion of the Joint Chief Financial Officer regarding the robustness of the budget as proposed, including the longer term revenue and capital plans, the affordability of the capital programme when determining prudential indicators and the adequacy of general balances and reserves. The Commissioner is required to take account of this report when determining the budget.

2. Robustness of the Estimates, Medium Term Plans and Tax Setting Calculations

2.1 Preparation for the budget, including decisions on key budget assumptions, takes place between November and February, with the budget being set 14 months ahead of the end of financial year to which it relates. Whilst the final recommended budget will always take account of the latest forecasts, the nature of the budget cycle means that there will always be some level of variation between the budget and actual expenditure. This risk is managed by ensuring that the budget process and estimates are robust and that balances and reserves are set at a level that takes account of financial and operational uncertainty. In giving a positive opinion on the robustness of the estimates and tax setting calculations reliance is placed on the Commissioner's overall arrangements for financial management.

- 2.2 The process for preparing the estimates involves a budget proposal from the Constabulary. The proposal is supported by detailed financial estimates prepared in accordance with guidance issued by the Joint Chief Finance Officer. Estimates are prepared under the professional supervision of the Deputy Chief Finance Officer and Financial Services Manager and with the support of Financial Services Officers. Estimates are subject to scrutiny by financial services staff and the Constabulary's Chief Officer Group, including a series of budget star chambers, prior to submission to the Joint Chief Finance Officer for further review.
- 2.3 Working papers for review include a full reconciliation between the base budget for the previous financial year and the proposed budget for the new financial year for each section of the budget. This is accompanied by the detail of the management accounts. The working papers support an analytical review of the reasonableness of variations between financial years against budget assumptions. The overall budget consolidates the Constabulary's budget proposal with detailed estimates of the Commissioner's direct expenditure; budgets commissioned with other third parties and estimates of income. The most significant areas of income are in respect of government grant and council tax. Funding is calculated using actual information from the settlement and district notification of the tax base.
- 2.4 In addition to detailed estimates for the immediate financial year, a Medium Term Financial Forecast (MTFF) is prepared covering four financial years. Key financial risks identified within the forecast are included within the Commissioner's strategic risk register and are subject to review based on the likelihood and severity of the risk. This ensures that the medium term profile of income and expenditure is based on a sound review of risk and uncertainty that informs budget assumptions and the level of provisions and reserves.
- 2.5 Internal audit undertake cyclical reviews of the main financial systems and processes. Both internal and external audit provide an annual opinion on governance and internal controls. In addition, the external auditor undertakes a review of financial resilience as part of the value for money conclusion within the audit findings report. Collectively this work provides assurance with regard to the accuracy and reliability of the financial information used in the budget setting process.

- 2.6 On the basis of the overall arrangements for financial management, and audit of those arrangements, I can confirm that in my view the Commissioner has robust procedures in place for determining estimates, medium term plans and the Council Tax requirements.

3. Determination of the level of resources available

- 3.1 The resources available to the Commissioner to support expenditure primarily derive from Home Office Police Grant (£64.429m). The next most significant funding source is Council Tax (£45.770m). The balance of expenditure is funded from specific grants, reserves and fees and charges. The 2020/21 budget is based on actual government grant settlement figures and district notifications of the Council Tax base. As such, a high degree of assurance can be provided in respect of the level of certainty for 2020/21 in respect of funding. This level of assurance cannot be given to resources beyond 2020/21.
- 3.2 The level of future grant funding will be heavily influenced by the outcome of the next Government spending review, which is due to be announced in the autumn of 2020, by which time the immediate economic impact of Brexit should also be clearer. The 2020/21 grant settlement included funding for the initial allocation of increased police officers as part of the Government's pledge to provide an additional 20,000 officers nationally (known as Operation Uplift). At this stage, the proportion of additional officers will come to Cumbria in years 2 and 3 of Op Uplift and the level of funding they will attract has still to be determined. In addition, the 2020/21 grant settlement provided a continuation of funding to offset much of the financial impact of increased police officer pension contributions applicable from 1st April 2019, however, there is no guarantee that this will be continued in future years. Collectively, these factors mean that the calculation of grant funding forecasts beyond the 2020/21 financial year are particularly uncertain.
- 3.3 In recent years the Government has protected core police grant funding, but only on a cash basis, whilst providing Commissioners with increased flexibility to raise council tax to fund pay increases and inflation. In relation to future Council Tax forecasts, this gives rise to a risk regarding the sustainability of local taxpayers supporting above inflation precept rises to maintain services over the longer term. The Medium Term Financial Forecast beyond 2020/21 assumes moderate, but nonetheless, above inflation annual increases in precept.

- 3.4 Each of the key issues with regard to the availability of resources, and the approach taken to managing the associated financial risk, is set out below. It is my opinion that the approach taken, alongside the Commissioner's position with respect to reserves and balances, is both prudent and robust in view of the level of risk.

Police and Crime Panel Veto

- 3.5 The arrangements for budget setting provide the Police and Crime Panel with a veto over the level of precept increase. The panel may determine that the precept increase is too high or too low. In these cases, the Commissioner is required to either reduce or increase the precept. It is for the Commissioner to determine the extent to which the precept is revised, having taken into account the views of the panel. For the 2020/21 budget the panel determined not to exercise its powers of veto and the budget is presented on the basis of the precept proposal that was unanimously supported by the panel of a £8.91 increase on the band D council tax, which represents an increase of 3.47%. The position of the panel in respect of future year precept increases will not be known until January of the relevant financial year, presenting a risk in respect of the precept increase assumptions in the medium term budget.

Legacy Council Tax Grants

- 3.6 Council tax discounts are available to support low income households with the cost of their council tax liabilities. They are administered locally on the basis of schemes developed by district councils. Because these benefits were previously administered nationally, and the impact of the change reduces the local tax base and council tax income, a national government grant compensates precept and billing authorities for the funding loss. Further compensation is provided for financial years where decisions have been taken to freeze the council tax precept. Collectively these grants are known as Legacy Council Tax Grants. The amount of grant for Cumbria is £4.85m.
- 3.7 There is a level of uncertainty in respect of longer term methodologies for distributing this funding and the mechanism through which the total amount of grant funding will be determined nationally. In addition, the calculation of the total national funding and its distribution is based on a number of assumptions. Where local circumstances vary from these assumptions, there will be a financial implication.
- 3.8 The level of government grant is set at the time of the financial settlement. The main risk in respect of the level of national funding is therefore in respect of future years grant allocations

and the extent to which this funding is impacted by overall reductions in government department expenditure allocations. It is also unclear whether any future national review of police funding will result in this and other specific grants being rolled into formula grant. This would result in a change in the distribution methodology with potential impacts from the 2021/22 settlement onwards.

- 3.9 A further risk is the potential for an increase in local claims for council tax discount. Experience of the last three years suggests that this risk is low as the move to local schemes has not resulted in any significant changes between former benefit and current discount applicants. It is however, known that there are gaps between the proportion of households eligible for discounts and the proportion that actually claim. Should this risk materialise there will be an implication for the collection fund managed by districts that will be shared with all precepting bodies. A high level estimate of the impact of this risk suggests that a 10% increase in claims would have a financial implication of around £400k for the Commissioner's budget.

Council Tax Base & Collection Fund Surplus and Deficits

- 3.10 The amount of council tax income is dependent on the level of council tax and the council tax base – the number of households in Cumbria, within property bands A to G, with a liability to pay their council tax bill. The council tax base is known for 2020/21, but may go up or down compared to the forecasts for the three final years of the medium term financial forecast. The medium term forecast assumes an annual increase in tax base of 0.75%. The experience of previous years has been that the actual tax base has been higher than forecast resulting in a low risk to income. Estimates are revisited on an annual basis.
- 3.11 In any single year the actual council tax income collected from households by district councils can be higher or lower than the amount forecast at the time of setting the budget. Any variation is shared with precepting authorities and will impact on the total amount of council tax income in future years. The factors influencing the council tax base and actual income collected are complex and difficult to forecast. There is therefore always a risk that income does not meet budgeted amounts. This was, however, considered to be a small risk as more recent trends, following council tax localisation, has been for actual income to exceed the forecast. This was the case up until 2018/19 and 2019/20 where a small shortfall has been declared. As a result of the trend over recent years changing from a surplus to a shortfall, the decision has been taken to remove the assumption that there will be an annual surplus of £200k from the 4 year MTFF.

Council Tax/Council Tax Grant Risk

3.12 Collectively, the factors above mean that the ability to accurately forecast council tax income and the local council tax grant, in the medium term, is complex, reducing the amount of assurance that can be provided from income forecasts particularly beyond 2021/22. However, a high degree of assurance can be provided with regard to the combined income from council tax and council tax grants for the current year. Whilst future income is less certain the finance team liaise closely with District Council's when setting these budgets to minimise the extent of this risk. Should any underachievement of income arise it is likely to be capable of being managed without having a material impact on the robustness of the budget or financial resilience.

National Funding Settlements

3.13 The budget for 2020/21 is presented based on notifications of the actual financial settlements. Beyond 2020/21 financial forecasts are based on estimates. The current medium term forecast assumes that the core level of Government funding will be maintained at the level provided for 2020/21 on a flat cash basis. However, allowance is made in the forecast for grant increases for Operation Uplift in line with the national funding model.

3.14 This strategy carries some level of risk, making the assumption that any changes to formula funding will have a neutral impact on the budget or will be supported by sufficient transitional funding to allow time to implement required changes in operational services. This is considered to be a balanced approach given the high level of uncertainty regarding the timing and impact of changes to national funding formula.

Capital Grants and Capital Receipts

3.15 The capital budget has been developed as a 10 year programme. Government capital allocations are only given on an annual basis and the resources from 2021/22 have therefore been prudently based. The level of this grant is now at such a low level that it does not constitute a significant risk. Overall funding within the programme is also to some degree reliant on capital receipts and this presents some risk to funding given the economic climate and market conditions. However, the programme is now heavily reliant on support from the revenue budget, supported by limited use of earmarked capital reserves and prudential borrowing, which have been factored into the revenue budget and MTFP at a level to ensure that the programme is balanced for four years. This provides a high degree of resilience in respect of available funding over the life of the medium term financial forecast.

4. The affordability of Spending Plans

- 4.1 Revenue and Capital budget plans are subject to annual review to ensure that forecasts of resources remain robust and can support planned levels of expenditure. Whilst the process for developing budget estimates is comprehensive, there will always be a degree of risk and operational uncertainty in respect of expenditure forecasts. The affordability of the budget has to take account of financial risks and the actions that can be taken to mitigate that risk. In my view the Commissioner's expenditure plans are affordable, taking account of the risks set out below and the plans for how they will be managed.

Capital Expenditure

- 4.2 Now that the building works on the HQ site have been substantially completed, the capital programme incorporates the delivery of one remaining major estates capital scheme. This is a longer term option to develop a scheme in West Cumbria to manage estates resilience issues within the west of the county. All large capital schemes incorporate risks inherent in delivering to time and budget. The estates team are however highly experienced in the delivery of these type of schemes and have a strong track record of delivering projects within budget. Risks are captured within the estates risk register and are subject to regular review.
- 4.3 The capital programme to 2024 includes a significant number ICT capital schemes, including the implementation of the Emergency Services Communications Network. The experience of past financial years is that ICT capital schemes can experience slippage against the budget. The reasons for the slippage are varied and include national schemes that have not progressed, local schemes that have been subject to changes in decision making and issues around capacity to deliver within the team. Whilst slippage in capital schemes does not create a financial pressure, the consequent level of reserves can be subject to challenge in the context of budget cuts. There are also reputational implications for the quality of financial forecasting and management. To protect against these risks it will be important to understand the risks and issues inherent in the ICT programme and ensure that delivery is effectively supported.
- 4.4 The capital programme is currently only sustainable on the basis of a high level of annual contributions from the revenue budget and a specific capital reserve for the West Cumbria scheme. In addition, any significant level of capital investment is also dependent on a combination of prudential borrowing, direct revenue contributions and capital receipts. The programme is however forecast over 10 years to ensure advanced financial planning can be

managed and peaks in expenditure are identified at an early stage. As capital reserves are depleted, increasing support for the capital programme from the revenue budget will be required. Accordingly, the revenue budget implications of the programme have been built into the medium term forecast.

Treasury Management

- 4.5 Treasury management has the potential to be an area of high budget risk that could have implications for the robustness of the budget should those risks materialise. The treasury management strategy statement provides assurance around the approach to investment and borrowing activity and the way the function is managed that mitigates against this risk.

Capital Financing

- 4.6 The capital programme is financed through direct revenue contributions, capital grants, reserves and borrowing. The Capital Financing Requirement reflects an underlying need to borrow to finance capital schemes, but currently actual borrowing has not been undertaken because internal cash flow balances are sufficient to fund schemes. Many of the internal balances are available as a result of the level of short term reserves. As reserves are spent there will be an increasing need to actually borrow.
- 4.7 The underlying borrowing requirement is forecast at £22.15m at the end of the 2019/20 financial year. The exact timing of borrowing will depend on the extent to which capital schemes deliver to budget or are subject to slippage and the overall position on reserves. Borrowing will create a revenue implication in the form of interest charges and repayments that will be incorporated within the revenue budget, in line with cash-flow forecasts.

Inflation/Pay Awards

- 4.8 Pay costs are provided for within the budget on the basis of a 2.5% pay increase for the duration of the medium term forecast. Pay costs account for the most significant element of the budget and are therefore highly sensitive to variations against the budget assumption. This risk has increased as a result of the relaxation of public sector pay constraints. General price inflation is forecast on the basis of 2% annual increases, in line with Bank of England long term forecasts. Inflation on fuel and energy costs are based on higher 5% annual increases.

Staffing Costs and Profiling

- 4.9 Within the budget employment costs are an area of budget that is highly sensitive to changes in the profile of staffing and difficult to forecast as a result of the complexities of and changes

to terms and conditions that influence actual pay. Maintaining officer numbers at a planned level can be operationally difficult as a result of the timing of staff turnover and lead in time to recruit. Estimates of the costs of early retirement (ER) and redundancy have to be based on averages until the point in which individual staff are identified as part of the change management programme. These factors can cumulatively give rise to significant variations between budgeted costs for pay. Historically, there has been under spending against these budget heads, although more recently police officer pay budgets, in particular, have come under pressure. Pay budgets are based on detailed workforce plans and overtime targets, which are updated annually as part of the budget process. Pay budgets in the current MTFF are also subject to a higher than normal uncertainty, as the increase in officer numbers associated with years 2 and 3 of Operation Uplift at an individual force level are yet to be determined.

Savings Requirements/Budget Management

- 4.10 The overall savings requirement over 4 years to balance the budget is around £3.0m and this is ahead of any loss of funding that may arise from a future review of police grant formula. However, given the uncertainties over future funding, planning for a range of financial scenarios is being undertaken. Having delivered £25m of savings since 2010, additional savings will be challenging to deliver. Delivery of savings will also be constrained by Operation Uplift, which will require savings to be focused on relatively small areas of the budget. Detailed discussions have taken place between the Commissioner and Chief Constable to identify areas where savings may be achieved. A number of potential savings initiatives are being pursued including reviews of specific business areas, reviewing the workforce mix, collaboration with other forces and public sector bodies, consolidating functions to increase capacity and, in particular, ensuring that the full benefits are realised from the investment in new technology. These savings plans will be further developed over the next year as part of a strategic work programme in the Constabulary managed by the Deputy Chief Constable. In this context, the current savings requirement over the period of the MTFF is considered to be challenging but manageable, with decisions required within a relatively short term period to enable the budget and reserves strategy to be sustainable.
- 4.11 The more significant immediate risk is in respect of budget management. The 2019/20 budget is currently forecasting to overspend by £0.4m. The primary reasons for the forecast overspend are in relation to increases in police officer numbers as a result of Operation Uplift and does not point to any fundamental weakness in the financial management process. The overall financial position in 2019/20 does not present any material risks and to some degree has been mitigated

by higher than anticipated funding in the 2020/21 grant settlement. However, the tightness of the budget position is indicative of a growing financial pressure, which will require careful management on an on-going basis. The Constabulary and Commissioner are working together to reduce the current forecast overspend, should this not ultimately prove possible, the overspend will be funded from draw down of the budget support reserve, which has been established for this purpose.

5. General Balances and Reserves

- 5.1 General balances are held as a contingency against risks not provided for in the Commissioner's financial plans or other reserves and provisions. The level of balances, reserves and provisions are assessed annually to ensure they are adequate and take account of known financial risks. This is not a precise science and local circumstances, the strength of financial reporting arrangements and the Constabulary's track record in financial management is also a key influence on the actual potential of any risk materialising.
- 5.2 This report sets out the key risks that have been taken into account in presenting the budget, including any provision made for that risk. Some risks are currently unfunded whilst others have a level of provision that may be less than the full requirement. General balances should be at an appropriate level to provide cover for those risks. The Joint Chief Finance Officer has set balances at £3m for 2020/21. This is around 3% of net expenditure and reasonable in the context of the budget risks set out in this report. The general balances are supported by a budget support reserve of £6.5m, which is intended, alongside savings plans, to manage medium term budget pressures arising from increasing demands and constrained funding. A further £2.4m of budget stabilisation, insurance and operational reserves and contingencies can be used to manage budget pressures and unforeseen events in year that are unable to be contained within the set budget, subsequently being replenished as part of the following year's budget process.
- 5.3 Additional cover is provided through the position on specific reserves. Whilst these are earmarked, a number of the reserves, particularly those for capital, are not planned to be used for a number of years. This provides an additional level of resilience in the short term, although the use of these reserves for other purposes would have an opportunity cost in relation to the future ability to undertake the projects for which they were originally earmarked.

- 5.4 Based on the risk assessment, the Commissioner's general balances are sufficient to meet potential risks and earmarked reserves are set at an appropriate level for the purposes intended. More information on reserves and the purpose for which they are held is included within the Commissioner's Reserves Strategy, included as item 11c on this agenda.

6. The Affordability of the Capital Programme in determining Prudential Indicators

- 6.1 The Prudential Code requires the Chief Financial Officer to ensure that all matters required by the Code to be taken into account in determining the budget are reported to the Commissioner. The treasury management strategy statement provides assurance in respect of this requirement. In particular, the strategy sets out the prudential indicators and limits calculated under the Code including those that support assurances in respect of the affordability of capital expenditure plans. The Code of practice gives no suggestions as to their appropriate level. These have to be set by the Commissioner based on individual circumstances.
- 6.2 The conclusions from the strategy following the setting and calculation of indicators is that capital expenditure plans are resourced and levels of borrowing are prudent in relation to income and assets. The strategy is subject to review by the Joint Audit Committee and independent advisors to provide further assurance that the principles of the code and best professional practice is being applied in relation to operational processes and procedures.

7. Conclusion

- 7.1 Based on the assessment included in this report I have concluded that the budgets as proposed and the associated systems and processes are sound and the level of general balances/reserves is adequate. This is subject to no amendments being made to the budget proposals, which would impact on this assessment. It is my view that the estimates proposed and the tax setting calculations are robust and the provisional capital programme is affordable.

Roger Marshall

Joint Chief Finance Officer

19th February 2020



Peter McCall

Cumbria Office of the Police and Crime Commissioner

Public Accountability Conference 19 February 2020

Budget 2020/21 and Financial Forecasts 2021/22 to 2023/24

Report of the Joint Chief Finance Officer

1. Purpose of the Report

- 1.1 The purpose of this report is to recommend to the Commissioner for approval the revenue and capital budget for 2020/21 and the level of council tax to support the budget. The report also provides provisional estimates for the three years to 2023/24, ensuring budget decisions are taken in the context of the medium term financial forecast.

2. Introduction

- 2.1 It is a legal requirement for the Police and Crime Commissioner to annually set a balanced budget and to allocate funds to the Chief Constable to secure the maintenance of the Police Force for Cumbria. In doing this the budget takes into account forecasts of the income anticipated to be available to the Cumbria police area and expenditure that is expected to be incurred in delivering the functions of the Commissioner and the priorities of the Police and Crime Plan. This report presents the Commissioner's revenue budget plans to meet these requirements.
- 2.2 This budget report is the second report in a series of papers that provide financial and other information to support the budget setting process. Earlier in February, more detailed financial and contextual information has been provided to the Police and Crime Panel. Accompanying the budget report on this agenda is a report covering the capital strategy and programme, treasury management strategy, Prudential Indicators and the policy on Minimum Revenue Provision (MRP). These reports support the due diligence in respect of the affordability of the capital programme and the revenue implications of that expenditure. The agenda includes the Joint Chief Finance Officer's statutory report on the robustness of the budget and a reserves strategy. The full suite of financial reports is available on the Commissioner's website.

3. Summary Budget and Precept

- 3.1 The table below sets out a summary of the consolidated budget setting out the plans for income and expenditure based on the 2020/21 government financial settlement for policing bodies. **Appendix A** sets out the budget for the Commissioner and the budget for the Chief Constable.

Medium Term Budget 2020 - 2024	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s
Police Pay - Police Officer Pay & Allowances	63,980	67,504	69,641	71,886	73,549
Police Pay - Contribution to Pension Fund A/c	22,915	24,923	26,506	21,215	21,215
Police Pay - Ill Health & Injury Pensions	1,211	1,247	1,271	1,297	1,323
PCSO Pay	2,738	2,272	3,495	3,562	3,631
Staff Pay	23,106	24,925	24,780	25,449	26,246
Other Employee Costs	1,346	1,750	1,939	1,972	1,982
Premises Costs	4,312	4,454	4,559	4,668	4,781
Transport Costs	2,297	2,458	2,529	2,602	2,678
Supplies & Services	10,644	11,213	11,235	11,460	11,689
Third Party Expenditure	2,192	2,194	2,238	2,283	2,329
LGPS Past Service Costs	503	22	23	23	24
Insurances/Management of Change	706	728	743	754	766
Commissioned Services	2,245	2,250	2,250	2,250	2,250
Accounting and Financing Costs	7,376	4,693	6,262	7,106	4,674
Contributions to Reserves Revenue	183	96	167	168	119
Total Expenditure	145,754	150,729	157,638	156,695	157,256
Funded by					
Home Office Pension Top Up Grant	(22,915)	(24,923)	(26,506)	(21,215)	(21,215)
Additional Pensions Grant	(1,200)	(1,174)	(1,174)	(1,174)	(1,174)
Other Grants & Contributions	(6,773)	(7,971)	(7,979)	(7,989)	(7,998)
Sales, Fees, Charges & Rents	(5,211)	(5,347)	(5,308)	(5,408)	(5,466)
Interest/Investment Income	(165)	(96)	(74)	(55)	(8)
Revenue Reserves Drawdown	(1,586)	(1,019)	(181)	(100)	(113)
Capital Reserves Drawdown	(4,162)	0	(1,575)	(2,425)	0
Formula Grant	(59,943)	(64,429)	(63,498)	(65,603)	(65,603)
Council Tax Income	(43,799)	(45,770)	(47,975)	(50,256)	(52,648)
Total Income/Funding	(145,754)	(150,729)	(154,270)	(154,225)	(154,225)
Net Savings Requirement	0	0	3,368	2,470	3,031

- 3.2 The table shows estimated expenditure based on the budget proposed by and agreed with Cumbria Constabulary. It also includes expenditure for services that will be commissioned with wider partners and the Constabulary in support of the priorities within the Police and Crime Plan. The budget plan provides estimated funding of £150.729m in 2020/21 to support an equivalent level of expenditure. Between 2021/22 and 2023/24 the gap between income and expenditure is expected to average

around £3.0m. This arises from the net impact of inflation and other expenditure pressures compared with the forecast growth in funding from Government Grant and increases in Council Tax Income.

- 3.3 For 2020/21 the Minister of State for Policing and Fire has again, allowed PCCs a degree of flexibility to increase council tax without the requirement to undertake a local referendum. In the funding announcement he gave PCCs the ability to increase the band D precept by up to £10 (for 2019/20 for the flexibility was given to increase by £24, in 2018/19 £12), for Cumbria this sum would represent an annual increase of 3.89%. In combination with the additional grant funding provided by the Government, the proposed increase in the council tax precept for policing of 3.47% has facilitated the recruitment of an additional 51 police officers, together with a small number of police staff enabling posts, which represents Cumbria's share of the first phase of Operation Uplift involving the recruitment of 6,000 officers nationally. This has the effect increasing the establishment of police officers from 1,145 to 1,216 FTE. The remainder of the proposed budget has been produced on a broadly continuation basis, which means that current levels of service have been maintained over the life of the four year forecast.

4. 2020/21 Policing Bodies Grant Settlement

- 4.1 On the 22nd January 2020 the funding allocations for policing bodies in England and Wales were announced, this announcement had been delayed from its usual publication in December as a result of the general election. The outcome of the settlement is a formula funding amount of £64.429m for the Cumbria police area for 2020/21, which represents an increase of £4.486m compared to the 2019/20 level of funding. The increase in grant is principally intended to enable the Constabulary to recruit additional officers, as the first phase of Operation Uplift (the Government's plan to recruit 20,000 additional officers by the end of 2022/23) and includes both revenue and capital elements. The MTFF assumes that grant funding beyond 2020/21 will increase in line with the Operation Uplift financial model, but that the level of core funding will be maintained on a flat cash basis for the 4 years of the MTFF.
- 4.2 The settlement confirmed that the current arrangements for formula funding and damping would continue for 2020/21. This means all policing bodies will continue to receive the same proportion of core Government funding as in 2019/20. It remain unclear whether the Government will re-visit the Home Office police funding formula in the next spending review, which will apply from 2021/22. In the absence of any firm indications on the timing and effect of any changes to the formula, for the purposes of the budget forecast, it has been assumed that this will have a neutral impact on Cumbria's core grant. The potential that changes to the formula may adversely affect the financial

outlook will, however, continue to be recognised in the risk register and will be monitored on an on-going basis.

- 4.3 In addition to the formula grant the Commissioner receives a number of specific grants for policing and crime. The key grants against which most funding is received are the Police Pensions Top-Up Grant (£25m), Home Office legacy Council Tax Grants of £4.85m, a specific pensions grant of £1.2m introduced in 2019/20 to offset increased police officer pension contributions and a specific grant of £1.4m, which is only receivable if the Constabulary delivers on its initial targeted increase in police officers (+51) as part of Operation Uplift. The Commissioner will also receive income of £0.59m to support responsibilities for commissioning support for victims and restorative justice. For the purposes of financial planning it is assumed that the legacy, pensions and victims grants will continue at their 2019/20 cash levels for the remainder of the MTFF.

5. Council Tax Income & Other Income

- 5.1 The net budget for the Cumbria Police area is funded by a combination of formula grant and Council Tax income. Income from Council Tax is dependent on a precept levied on each District Council in Cumbria. Total tax income is dependent upon the amount at which the precept is set, the number of properties charged (tax base) and the Police Area's share of any surplus or deficit on District Collection Funds. The Council Tax Base takes account of expected collection levels and discounts. The surplus or deficit position on each District Collection Fund reflects the extent to which actual collection and discounts have varied from the budget. Each precepting authority takes a share of the deficit or surplus pro-rata to their share of the precepts.

Council Tax 'Band B' is the band into which the highest number of properties in Cumbria fall, for this band the increase is £6.93 per annum or 13 pence per week (from £199.64 to £206.57 per annum).

- 5.2 The amount of the council tax precept is a decision for the Commissioner, who will take account of the views of the Chief Constable, the Police and Crime Panel and the results of a public consultation in making that decision. This is providing the proposal on the precept is within the Government's Council Tax increase limits. The limits are set by Government each year and inform the percentage increase in Council Tax income allowed before the Commissioner would need to hold a public referendum. The Government has formally announced the Council Tax increase limits as part of the formula grant settlement. As discussed above, the limit for Policing Bodies has been set at a maximum of £10 increase on a band D property for 2020/21. **The Commissioner's budget is based on a precept increase of 3.47%. The financial implications for residents are that the Band D Council Tax amount would increase to £265.59 for 2020/21, an increase of £8.91.**

5.3 Council tax income is forecast using the tax base estimates provided by district councils. Calculations of the tax base have taken into account billing authorities' responsibilities to support low income households with their council tax liabilities. This support is delivered by way of local schemes that provide discounts. The discounts reduce the tax base and therefore also impact precepting bodies. Schemes are subject to review and the Police and Crime Commissioner is required to be consulted with regard to scheme changes. The Commissioner has supported the schemes currently proposed by all districts through the consultation process.

5.4 The table below sets out the tax base for each district for 2020/21 and the tax base for the prior year. The table shows that the total tax base is estimated to increase by 1,676 band D equivalent properties. Budgets from 2021/22 are based on an assumed annual increase in the tax base of 0.75%. The actual updated tax base will be incorporated into future budgets in the year it is notified by districts. If the tax base increases above our estimates this will deliver a small budget benefit whilst a decrease from our estimates will have a negative impact on funding.

District	Tax Base 2019/20	Tax Base 2020/21	Increase (decrease)	% change
Allerdale Borough	30,662.47	30,905.23	242.76	0.79%
Barrow Borough	19,520.25	19,730.84	210.59	1.08%
Carlisle City	33,850.60	34,468.61	618.01	1.83%
Copeland Borough	20,557.70	20,838.01	280.31	1.36%
Eden District	20,615.78	20,741.45	125.67	0.61%
South Lakeland District	45,513.47	45,712.13	198.66	0.44%
Total	170,720.27	172,396.27	1,676.00	0.98%

5.5 In addition to the recurrent grant and tax base income, the 2020/21 budget is reduced by the net impact of a forecast deficit on the 2019/20 district collection funds. The table below shows the council tax attributable to each district for 2020/21 and the position on each district collection fund (surplus/deficit) for 2019/20.

Council Tax Income 2020/21	Tax base 2020/21	Precept (Band D) £	Council Tax Income £	Declared Surplus/ (Deficit)	Total 2020/21 £
Allerdale Borough	30,905.23	265.59	8,208,120.04	21,912.00	8,230,032.04
Barrow Borough	19,730.84	265.59	5,240,313.80	41,460.00	5,281,773.80
Carlisle City	34,468.61	265.59	9,154,518.13	32,705.00	9,187,223.13
Copeland Borough	20,838.01	265.59	5,534,367.08	33,760.00	5,568,127.08
Eden District	20,741.45	265.59	5,508,721.71	(52,400.00)	5,456,321.71
South Lakeland District	45,712.13	265.59	12,140,684.61	(93,867.00)	12,046,817.61
Total	172,396.27	265.59	45,786,725.35	(16,430.00)	45,770,295.35

- 5.6 In addition to formula funding and Council Tax income, the budget includes an amount of one off income to support one off expenditure achieved through a contribution from reserves. The funding available to support the budget is determined annually and takes account of the funding settlement, the need to provide for budget risks and any estimated under spend from prior years. In total the 2020/21 budget is supported by the use of £0.9m of earmarked revenue and capital reserves.
- 5.7 Fees and charges income is estimated to provide £5.3m in 2020/21 in support of expenditure. This income is primarily derived from reimbursements for services and officers provided to support national and regional policing requirements in addition to some income from driver awareness training and licensing. This income is generated on behalf of the Commissioner by the Constabulary and is netted off the overall funding provided to the Chief Constable.

6. Expenditure Budget & Savings

- 6.1 Gross expenditure of £150.729m can be supported by budgeted income in 2020/21. However, it is anticipated that in future years funding will fail to keep pace with expenditure pressures meaning that by 2023/24 £3.0m savings will be needed to offset rising costs. The key driver in the level of savings requirements is increasing inflationary pressure. Following the relaxation in public sector pay constraints, the medium term forecast assumes annual pay rises of 2.5%. Inflation on the majority of non-staff budgets has been set at 2% for the life of the medium term forecast in line with Bank of England estimates. Against this backdrop, all expenditure budgets are subject to rigorous scrutiny including an annual budget Star Chamber process, where budget holders are required to justify their budget requirements.
- 6.2 Recognising the need to make further budget savings in the medium term in order to deliver a balanced budget, the Commissioner and Chief Constable have engaged in a number of discussions to consider areas of the budget that will be targeted for reductions in expenditure. Whilst no firm

decisions have been made, initiatives, which will be explored as part of the Constabulary's Vision 2025 Strategy include, adjusting the workforce mix, consolidating functions to provide greater resilience, collaboration with other forces and other public sector bodies and realising benefits from investment in new technology.

7. Capital Funding & Expenditure

7.1 In addition to revenue grants the Commissioner also receives a small amount of annual capital funding that supports a capital programme. The programme is developed in consultation with the Constabulary who are the primary user of the capital assets under the ownership of the Commissioner. The budget benefits from £0.100m in capital grant to support capital expenditure from the 2020/21 settlement, which is significantly reduced (-73%) from the capital grant received in 2019/20 of £0.372m. Over recent years the level of capital grant has reduced significantly as a result of national top-slicing from capital allocations, contributing to a widening gap between the requirement for capital expenditure and capital funding. This has to be met by revenue contributions to capital, capital receipts from the disposal of property and the use of reserves. From 2020/21 the revenue budget contributes £3.5m to fund capital, this figure has increased from £1.8m in 2019/20. Over the four years of the medium term financial forecast, major capital schemes for ICT and estates are primarily funded through these revenue contributions, one off reserves and capital receipts. Beyond 2023/24 both reserves and capital receipts as sources of funding will be largely exhausted and as a result revenue contributions will be the primary source of capital funding.

8. Reserves and Balances

8.1 Over the life of the financial forecast total reserves are planned to reduce from £19.4m at the start of 2020/21 to £14.5m by end of March 2024, largely due to provision of funding to the support the capital programme. Of the remaining £14.5m, the general reserve of £3m is held for managing financial risks and unforeseen events, budget support, stabilisation and insurance reserves/contingencies of £9.0m provide further resilience, whilst a small number of other reserves are earmarked for specific purposes including pooled/partnership funds.

8.2 The agenda includes a separate paper, **The Reserves Strategy for 2020/21** (see item 11c). The reserves strategy, sets out the purposes for which the individual reserves are held and the planned movements over the life of the medium term budget.

9. Consultation & Value for Money

- 9.1 The Commissioner has undertaken consultation on the budget and the Police and Crime Plan in line with regulatory requirements. Public consultation has taken place through the Police and Crime Panel and with a specific survey on the Commissioner's website during the budget setting process for 2020/21. A total of 1,473 individuals responded to the survey and the outcome of public consultation has been that the majority of respondents (69%) have agreed with the proposal to increase council tax by £8.91 (3.47%) which is under the maximum allowed amount of £10 on a band D property. The Commissioner has also sought the view of the Chief Constable. The Police and Crime Panel voted to support the Commissioner's proposal at its meeting on 7th February 2020 and made a recommendation that the Constabulary aspire to recruit to the establishment provision of 95 PCSOs.
- 9.2 The Police and Crime Plan is underpinned by a performance framework that supports the Commissioner in holding the Chief Constable to account for delivering priorities and securing value for money. In developing the framework consideration is given to past performance, benchmarking against most similar forces, the level of officer and staffing resources that can be supported by the budget and the impact of the continuing implementation of the savings programme.

10. Summary

- 10.1 This report presents and explains the budget plans for the period from 2020/21 to 2023/24. The 2020/21 budget is balanced based on a precept increase of £8.91 for a band D property which equates to an increase of 3.47%. In future years savings will be required to offset a deficit of an average of £3.0m by 2023/24. The precept proposal will increase the annual Council Tax attributable to the Commissioner by £8.91 for a Band D property resulting in a Band D Council Tax charge of £265.59.

11. Recommendations

- 11.1 Appendix B sets out the budget resolution for decision by the Commissioner in order to formally approve the level of council tax precept. In the context of the budget resolution, it is recommended that:
- a) **The revenue budgets outlined in this report and appendices be approved, having regard to the Local Government Act 2003 report**
 - b) **That the budget requirement for 2020/21 be set on the basis of the amount within the budget resolution at appendix C**

- c) **The council tax for Band D properties be approved at £265.59 for 2020/21, an increase of £8.91.**

12. Acknowledgements

- 12.1 The budget is recommended to the Commissioner with recognition for the hard work and support of the financial services team who provide detailed income and expenditure forecasts and for the work of the Police and Crime Panel in providing challenge and scrutiny to the budget proposal.

Roger Marshall

Joint Chief Finance Officer

19 February 2020

Human Rights Implications

None identified

Race Equality / Diversity Implications

The budget is subject to an Equality Impact Assessment.

Risk Management Implications

There is a legal requirement to set a balanced budget. The Commissioner's strategic risk register recognises the importance of sound financial planning.

Financial Implications

The main financial impacts are described in the paper

Personnel Implications

As identified in the report

Contact points for additional information

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Budget for the Commissioner and the budget for the Chief Constable

Description	Base Budget 2019/20 £	Base Budget 2020/21 £	Base Budget 2021/22 £	Base Budget 2022/23 £	Base Budget 2023/24 £
Constabulary Funding					
Police Officer - Pay & Allowances	63,979,207	67,504,354	69,640,508	71,886,082	73,548,987
Police Officer - Contribution to Pension Fund A/c	22,915,000	24,923,000	26,506,000	21,215,000	21,215,000
Police Officer - Ill Health & Injury Pensions	1,211,319	1,246,534	1,271,465	1,296,895	1,322,833
Police Community Support Officers	2,738,236	2,272,442	3,494,714	3,562,082	3,631,135
Police Staff - Pay & Allowances	22,496,766	24,259,556	24,098,467	24,749,929	25,529,678
Other Employee Benefits	1,341,001	1,745,039	1,933,362	1,966,677	1,976,611
Transport Related Expenditure	2,292,794	2,453,549	2,524,137	2,597,347	2,673,157
Supplies & Services	10,529,007	11,094,206	11,113,271	11,335,537	11,562,248
Third Party Related Expenditure	2,188,724	2,178,139	2,221,702	2,266,137	2,311,460
Earned Income	(5,210,621)	(5,347,137)	(5,307,592)	(5,408,161)	(5,466,369)
Total Constabulary Funding	124,481,433	132,329,683	137,496,034	135,467,525	138,304,740
Commissioner's Budget					
Office of the Police & Crime Commissioner	749,008	822,715	842,275	862,309	882,832
Commissioned Services Budget	2,244,773	2,249,590	2,249,590	2,249,590	2,249,590
Premises Related Costs	4,310,486	4,452,921	4,558,171	4,666,436	4,779,821
LGPS Past Service Costs	503,400	22,300	22,800	23,400	24,000
Insurances & Management of Change	706,439	727,604	743,204	754,404	765,904
Accounting & Financing Costs	7,364,569	4,681,948	6,250,755	7,094,596	4,663,464
Contributions to Reserves Revenue	183,379	95,884	166,784	168,184	119,584
Grants & Contributions	(29,940,784)	(33,384,558)	(34,976,324)	(29,694,310)	(29,703,520)
Grants - Victims & Restorative Justice	(575,661)	(583,172)	(583,172)	(583,172)	(583,172)
Grants - Capital	(371,698)	(100,000)	(100,000)	(100,000)	(100,000)
Interest/Investment Income	(165,000)	(96,491)	(73,529)	(55,408)	(7,817)
Total Commissioner's Budget	(14,991,089)	(21,111,259)	(20,899,446)	(14,613,971)	(16,909,314)
Use of Reserves					
Revenue Reserve Drawdown	(1,586,210)	(1,018,941)	(181,204)	(99,978)	(113,198)
Capital Reserve Drawdown	(4,162,275)	0	(1,575,000)	(2,425,000)	0
Total Use of Reserves	(5,748,485)	(1,018,941)	(1,756,204)	(2,524,978)	(113,198)
Budget Requirement	103,741,858	110,199,483	114,840,383	118,328,576	121,282,228
Formula Grant & Council Tax Income					
General Police Grant	(59,942,966)	(64,429,188)	(63,498,166)	(65,602,866)	(65,602,866)
Council Tax Precepts	(43,798,892)	(45,770,294)	(47,974,705)	(50,255,926)	(52,648,004)
Total Formula Grant & Council Tax Income	(103,741,858)	(110,199,482)	(111,472,871)	(115,858,792)	(118,250,870)
Net Deficit/Savings Requirement	0	0	3,367,513	2,469,784	3,031,357
Council Tax per Band D Property	£256.68	£265.59	£276.21	£287.19	£298.62
Increase over previous year		£8.91	£10.62	£10.98	£11.43
Percentage Increase		3.47%	4.00%	3.98%	3.98%

Budget Resolution

Local Government Act 2003 Requirements: That the comments of the Joint Chief Finance Officer on the robustness of the estimates and adequacy of balances and reserves be noted and reflected in the decisions made by the Commissioner in making the following budget determination for 2020/21.

Revenue Estimates 2020/21: That the Commissioner's net **Budget Requirement** of £110,199,483 be approved.

Council Tax Base 2020/21: That it is noted that the Council Tax base has been calculated at the amount of 172,396.27 for 2020/21. This is the total of the tax bases calculated by the District Councils as required by regulation.

Budget Requirement: That the following amounts are calculated by the Commissioner for the 2020/21 financial year:

Ref	2020/21 Amount £s	Description
(a)	£150,633,898	being the total of gross expenditure
(b)	£40,434,415	being the total of income from specific grants, fees and charges and transfers from reserves
(c)	£110,199,483	being the Budget Requirement for the year to be met from Council Tax and External Finance
(d)	£64,429,188	being the total the Commissioner estimates will be received from external financing, being the Police Grant
(e)	-£16,430	being the net surplus/(deficit) on district collection funds
(f)	£45,786,725	being the council tax requirement (the budget requirement less the collection fund surplus and external finance)
(g)	£265.59	being the basic amount of Council Tax for the year (the council tax requirement divided by the tax base)

Valuation Bands and Calculation of the amount of Precept payable by each billing authority:

Valuation Band	Precept 2020/21 Amount £.pp	Proportion
Band A	177.06	6/9 ths
Band B	206.57	7/9 ths
Band C	236.08	8/9 ths
Band D	265.59	9/9 ths
Band E	324.61	11/9 ths
Band F	383.63	13/9 ths
Band G	442.65	15/9 ths
Band H	531.18	18/9 ths

Billing Authority	Tax Base 2020/21	Precept (Band D) £	Amount Payable £
Allerdale Borough	30,905.23	265.59	8,208,120.04
Barrow Borough	19,730.84	265.59	5,240,313.80
Carlisle City	34,468.61	265.59	9,154,518.13
Copeland Borough	20,838.01	265.59	5,534,367.08
Eden District	20,741.45	265.59	5,508,721.71
South Lakeland District	45,712.13	265.59	12,140,684.61
Total	172,396.27	265.59	45,786,725.35



Cumbria Office of the Police and Crime Commissioner

Reserves Strategy 2020/21

Public Accountability Conference 19 February 2020

Report of the Joint Chief Finance Officer

1. Introduction and Background

1.1 This reserves strategy is produced and published as part of the overall budget setting process. The reserves strategy meets the statutory requirement to consider annually the level of reserves that should be held to meet future expenditure requirements when setting the budget. The strategy seeks to achieve a balance between pro-actively utilising reserves to support services for our communities and providing financial resilience to meet unexpected events. It sets out the purpose for which reserves are held and the planned movement in reserves over a period of 4 years (the medium term financial forecast period). Our reserves are held for three main purposes. These are:

- ◆ a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing,
- ◆ a contingency to cushion the impact of unexpected events or emergencies,
- ◆ a means of building up funds, often referred to as earmarked reserves, to meet known or predicted pressures or liabilities.

1.2 Over the past year, the level of reserves nationally have become a focus of attention for the Home Office and it is now considered best practice to publish a **reserves strategy**, which covers the MTF 4 year timeframe plus a further 2 years, 6 years in total.

- 1.3 As part of the budget process a capital strategy is produced which includes capital plans over a longer 10 year timeframe, reflecting the cyclical nature of capital expenditure programmes. In order to facilitate the production of the capital strategy and associated capital financing, reserve balances are projected over this longer 10 year timeframe. For this reason it has been determined that a reserves strategy should be produced covering a 10 year timeframe (exceeding the best practice requirements).
- 1.4 The level of reserves should take into account the medium term financial plan and not be based solely on short term considerations. Set out in section 2 below is a description of the reserves held by the Commissioner and the purpose for which they are held. At **Appendix A** a table is provided which sets out the planned movement in reserves over this longer 10 year timeframe to 31 March 2030. **Appendix B** summarises this information graphically.
- 1.5 The medium term financial forecast shows a budget deficit of £3m from 2021/22 onwards. Savings plans are being progressed to address the deficit. In the event that this is not achieved, reserves will be required to bridge the gap and will result in the level of reserves depleting more quickly than indicated in this strategy.

2. Details of Specific Groups of Reserves

- 2.1 **General Reserves:** The general reserve (police fund) is the main contingency for unexpected events, and the management of cash flow. The level of general reserve is £3m in 2020/21. The amount represents approximately 3% of the net recurrent budget (after specific grants & fees and charges). The level of the general reserve takes account of the risks within the budget, as set out in the Joint Chief Finance Officer's report on the robustness of the budget and the level of provision for those risks within specific earmarked reserves and contingencies.
- 2.2 **Earmarked Capital Reserves:** Capital reserves are a combination of general and earmarked revenue contributions that have been set aside to meet the costs of approved capital schemes to be delivered over multiple financial years. Capital schemes are only included within the capital programme on the basis of setting aside funding to

meet the expenditure. The policy is that general capital reserves will be maintained at a level to ensure a balanced capital budget for the duration of the medium term financial forecast. The capital reserves currently include a reserve to allow consideration of options for the West Cumbria TPA HQ and a balance of general capital reserve. The current capital programme forecasts that these reserves will be almost fully utilised by the end of March 2023.

- 2.3 **Earmarked Revenue Reserves:** Earmarked reserves are held for a number of specific purposes, see paragraphs 2.4 to 2.6 below.
- 2.4 **Budget Stabilisation and Insurance Reserves** are established to smooth the impact of intermittent costs across financial years. This group of reserves includes operational reserves for the Commissioner and Chief Constable, these reserves are to cover any unexpected expenditure that arises during a financial year that cannot be accommodated for existing budgets. The strategy is for these reserves to be replenished if used through the next budget cycle. This group also includes the Chief Constable's contingency, this reserve was established when a more risk based approach to budgeting was adopted thereby removing contingency sums from individual budgets. An Insurance reserve is also maintained to cover the cost of insurance claims below the policy excess.
- 2.5 **Budget Support Reserves** the budget support reserve was established to meet emerging demands and unforeseen items.
- 2.6 **Short-term Project Reserves** primarily fund the one off revenue implications of approved projects and also provide for areas within the budget where there is a liability but the amount or timing is uncertain. This group includes a reserve to cover the future lifecycle costs in relation to the PFI. This group also includes funding in relation to Cumbria road safety initiatives which is ring-fenced to be spent on road safety measures, a reserve to fund the cyclical replacement of body armour and reserves in relation to PCC commissioned services where the approved spend will be drawn down over a number of years.

Roger Marshall, Joint Chief Finance Officer, 19 February 2020

Corporate Support / Financial Services / MB

Planned Movement in Reserves 2020/21 to 2029/30

Reserves Plan 2020 - 2030	Actual Balance 31/03/19 £000s	Forecast Transfers 2019/20 £000s	Estimated Gain/(Use) 2019/20 £000s	Forecast Balance 31/03/20 £000s	Net Gain/(Use) 2020/21 £000s	Forecast Balance 31/03/21 £000s	Net Gain/(Use) 2021/22 £000s	Forecast Balance 31/03/22 £000s	Net Gain/(Use) 2022/23 £000s	Forecast Balance 31/03/23 £000s	Net Gain/(Use) 2023/24 £000s	Forecast Balance 31/03/24 £000s	Net Gain/(Use) 2024/25 £000s	Forecast Balance 31/03/25 £000s	Net Gain/(Use) 2025/26 £000s	Forecast Balance 31/03/26 £000s	Net Gain/(Use) 2026/27 £000s	Forecast Balance 31/03/27 £000s	Net Gain/(Use) 2027/28 £000s	Forecast Balance 31/03/28 £000s	Net Gain/(Use) 2028/29 £000s	Forecast Balance 31/03/29 £000s	Net Gain/(Use) 2029/30 £000s	Forecast Balance 31/03/30 £000s
General Reserve/Police Fund	3,000	0	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000
Total General Reserve/Police Fund	3,000	0	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000
Capital Reserves																								
General Capital Reserve	3,215	(1,457)	(1,758)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
HQ Refurbishments	294	0	0	294	0	294	0	294	0	294	0	294	0	294	0	294	0	294	0	294	0	294	0	294
Eden Deployment Centre	3,628	(3,628)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
West Cumbria Estate	3,497	0	503	4,000	0	4,000	(1,575)	2,425	(2,425)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Capital Reserves	10,634	(5,085)	(1,255)	4,294	0	4,294	(1,575)	2,719	(2,425)	294	0	294	0	294	0	294	0	294	0	294	0	294	0	294
Budget Stabilisation/Insurance																								
PCC Operational Reserve	250	0	0	250	0	250	0	250	0	250	0	250	0	250	0	250	0	250	0	250	0	250	0	250
Constabulary Operational Reserves	250	0	0	250	0	250	0	250	0	250	0	250	0	250	0	250	0	250	0	250	0	250	0	250
Chief Constable's Contingency	500	0	0	500	0	500	0	500	0	500	0	500	0	500	0	500	0	500	0	500	0	500	0	500
Insurance Reserve	1,223	0	46	1,269	46	1,315	46	1,361	46	1,407	46	1,453	46	1,499	46	1,545	46	1,591	46	1,637	46	1,683	46	1,729
Total Budget Stabilisation/Insurance Reserves	2,223	0	46	2,269	46	2,315	46	2,361	46	2,407	46	2,453	46	2,499	46	2,545	46	2,591	46	2,637	46	2,683	46	2,729
Budget Support Reserves																								
Budget Support Reserve	2,839	5,085	(668)	7,256	(717)	6,539	0	6,539	0	6,539	0	6,539	0	6,539	0	6,539	0	6,539	0	6,539	0	6,539	0	6,539
Total Budget Support Reserves	2,839	5,085	(668)	7,256	(717)	6,539	0	6,539	0	6,539	0	6,539	0	6,539	0	6,539	0	6,539	0	6,539	0	6,539	0	6,539
Short Term Project Reserves																								
PFI Lifecycle Replacements	274	0	0	274	0	274	0	274	0	274	0	274	0	274	0	274	0	274	0	274	0	274	0	274
Finance System Upgrade	6	0	(6)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Body Armour (Future Roll Out)	191	0	50	241	50	291	50	341	50	391	0	391	50	441	50	491	50	541	50	591	50	641	50	691
Cumbria Road Safety Initiatives	269	0	(221)	48	(23)	25	71	96	71	167	73	240	0	240	0	240	0	240	0	240	0	240	0	240
HQ Security	80	0	(80)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CS Change Manager	28	0	3	31	(31)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Business Intelligence	143	0	(113)	30	(30)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Red Sigma	407	0	(169)	238	(144)	94	(94)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Commissioned Services	1,816	0	(100)	1,716	(74)	1,642	(87)	1,555	(100)	1,455	(113)	1,342	(120)	1,222	(120)	1,102	(120)	982	(120)	862	(120)	742	(120)	622
Total Short Term Project Reserves	3,214	0	(636)	2,578	(252)	2,326	(60)	2,266	21	2,287	(40)	2,247	(70)	2,177	(70)	2,107	(70)	2,037	(70)	1,967	(70)	1,897	(70)	1,827
Total Earmarked Revenue Reserves	8,276	5,085	(1,258)	12,103	(923)	11,180	(14)	11,166	67	11,233	6	11,239	(24)	11,215	(24)	11,191	(24)	11,167	(24)	11,143	(24)	11,119	(24)	11,095
Total All Reserves	21,910	0	(2,513)	19,397	(923)	18,474	(1,589)	16,885	(2,358)	14,527	6	14,533	(24)	14,509	(24)	14,485	(24)	14,461	(24)	14,437	(24)	14,413	(24)	14,389

Overall reserves are forecast to fall to just £14.5m over the life of the MTFF, this represents a fall of 34% compared to their current level of £21.9m

Planned Movement in Reserves 2020/21 to 2029/30

