



Cumbria Office of the Police and Crime Commissioner

Public Accountability Conference 16 February 2023

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 working in conjunction with nominated budget-holders. Estimates are subject to scrutiny by financial services staff and the Constabulary's Chief Officer Group, 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 unitary authority 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 five financial years, which is in accordance with best practice as set out in the financial management code. 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. The internal auditors carry out a review of financial sustainability as part of their annual programme. 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 (£72.875m). The next most significant funding source is Council Tax (£52.082m). The balance of expenditure is funded from specific grants, reserves and fees and charges. The 2023/24 budget is based on actual government grant settlement figures and unitary authority notifications of the Council Tax base. As such, a high degree of assurance can be provided in respect of the level of certainty for 2023/24 in respect of funding. This level of assurance cannot be given to resources beyond 2023/24. A sensitivity analysis of key aspects of the budget is provided at Appendix A.
- 3.2 In autumn 2021 the government completed a 3 year spending review. In December, detailed figures were provided to forces for the 2023/24 financial year with high level estimates of the overall funding for policing for the following year. The 2023/24 grant settlement included funding for maintenance of the additional 169 police officers provided in Cumbria through the Government's pledge to provide an additional 20,000 officers nationally (known as Operation Uplift) by 2022/23. Cumbria's share of the operation uplift officers amounted to 51 in phase 1, 50 in phase 2 and 68 in phase 3 (169 additional officers in total). In 2023/24, a proportion of grant funding (£2.3m) is ringfenced and is dependent on successfully maintaining the force's Operation Uplift target. Beyond 2023/24 the MTFF assumes that additional grant announced for policing in 2024/25 as part of the spending review will be directed to forces and that similar annual increases in grant funding will continue for the duration of the MTFF.
- 3.3 The grant settlement for 2023/24 also provided a continuation of funding to offset much of the financial impact of increased police officer pension contributions applicable from 1st April 2019. Whilst it has been assumed that this funding will continue in future years, this is not guaranteed, collectively, these factors mean that the calculation of grant funding forecasts beyond the 2023/24 financial year are uncertain.
- 3.4 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. Police and Crime Commissioners were given the flexibility to increase council tax by up to £15 for a band D property in 2023/24. This was increased from the maximum of £10 previously outlined in the spending review. The MTFF assumes that the higher level applied in 2023/24 is for one year only and will revert to the previous £10, the Medium-Term Financial Forecast assumes this level of council tax increase will continue for the duration of the forecast.

- 3.5 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

- 3.6 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 2023/24 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 supported by the panel of a £14.94 increase on the band D council tax, which represents an increase of 5.3%. 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

- 3.7 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 unitary 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. This figure has remained constant for a number of years and it is assumed that this will continue over the length of the Medium-Term Financial Forecast.

- 3.8 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.
- 3.9 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 2024/25 settlement onwards.
- 3.10 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. This risk is heightened by the financial hardships being felt by many households in the current economic climate. Should this risk materialise there will be an implication for the collection funds managed by the unitary authorities 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

- 3.11 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 2023/24 but may go up or down compared to the forecasts for the four final years of the medium term financial forecast. Due to current economic uncertainty following the covid-19 pandemic and wider economic climate,

the medium term forecast assumes only a modest 0.72% annual increase in tax base. Estimates are revisited on an annual basis.

- 3.12 In any single year the actual council tax income collected from households by unitary 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 was declared. During 2020/21 as a result of the covid-19 pandemic district councils experienced a significant deficit for 2020/21 and a reduced taxbase. The government announced that this deficit (where it related specifically to 2020/21) could be spread over three years (2021/22 to 2023/24). The deficit shown for 2023/24 is £219k and this represents £49k deficit arising in 2022/23 and £170k in respect of the third share of the 2020/21 deficit. At this stage there has been no forecast budget included for surplus or deficit in future years. The Government provided additional local council tax support, which was held in reserve and has now been used to mitigate this reduction in council tax income.

Council Tax/Council Tax Grant Risk

- 3.13 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 2023/24. 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 the Unitary 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

- 3.14 The budget for 2023/24 is presented based on notifications of the actual financial settlements. Beyond 2023/24 financial forecasts are based on estimates. The 2021 spending review also gave details of grant funding for 2023/24 and 2024/25 at an overall service level. The Policing

Minister has indicated that the additional grant funding in future years is intended to maintain officer numbers recruited during Operation Uplift and contribute towards meeting pay increases. On this basis, for the purposes of medium-term financial planning, it has been assumed that the additional funding in future years will be directed towards forces with Cumbria's share extrapolated from the national totals. It has also been assumed that similar increases will continue beyond the period covered by the spending review. There is a risk that this is too optimistic, for example if a proportion of the additional funding is retained centrally or directed towards other priorities and that as a result the level of grant received by Cumbria will be lower than those in the forecast.

- 3.15 In 2021 the Home Office announced its intention to review the Police Funding Formula, which is the mechanism by which funding is allocated across individual forces. There were subsequently delays experienced with this review, but it is believed that the Home Office now intend to consult on the allocation methodology in spring 2023, followed by exemplifications of proposed funding being provided to forces later in the year. The new formula may be implemented as early as 2024/25. The medium-term financial forecast currently assumes 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, as the new formula is not sufficiently developed to reach any conclusions on its effect. This is considered to be a balanced approach given the high level of uncertainty regarding the timing and impact of any changes to national funding formula.

Capital Grants and Capital Receipts

- 3.16 The capital budget has been developed as a 10 year programme. Government capital allocations are only given on an annual basis and in the settlement for 2022/23 the capital grant was removed altogether. 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 MTFF at a level to ensure that the programme is balanced for five 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 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 in the context of the current PFI arrangement coming to an end in 2026. 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 2028 includes a significant number ICT capital schemes, including the implementation of a new Records Management System and the Emergency Services Communications Network. The experience of past financial years is that ICT capital schemes can experience delays against the budget. The reasons for the delays 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 delays 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 (either through direct revenue contributions or servicing borrowing) will be required. The capital programme presented shows a funding surplus over 10 years of £160k. The estimates for 5-10 years are built on a number of assumptions, which, particularly in rapidly changing sectors such as ICT, are difficult to accurately predict. This means that projected costs in the later years of the capital programme become increasingly indicative and should be treated with caution.

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 £24.83m at the end of the 2022/23 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 Inflationary pressures are currently more volatile than they have been for almost a generation as the world economy emerges from the pandemic and deals with the effects of the war in Ukraine. Against this background, at a local level pay costs are provided for within the budget on the basis of a 3% pay increase for 2023/24. The remaining years of the MTFF assume a return

to modest pay increases of 2% per annum for the remaining years of the MTFF to 2027/28. Pay costs account for the by far the most significant element of the budget, which is therefore highly sensitive to variations from the budget assumption. For 2023/24 the majority of the non-pay budget lines have been increased by 5% for general inflation, with 2.00% in the remaining years of the MTFF, in line with Bank of England long term forecasts. Inflation on fuel and energy costs are based on higher percentage annual increases. There is a particular risk that pay awards will be higher than the amounts provided and that the current inflationary pressure is more prolonged than currently assumed, both of which have the potential to impact negatively on the financial position and would need to be managed through draw down of reserves in the short term.

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 and staff numbers at a planned level can be operationally difficult as a result of the timing of turnover and lead in time to recruit replacements. 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.

4.10 Specific risks regarding the potential financial impact of meeting pensions obligations arising from the McCloud judgement and the implementation of the Emergency Services Network (ESN) have been specifically recognised and will continue to be closely monitored.

Savings Requirements/Budget Management

4.11 The overall savings requirement over 5 years to balance the budget is around £16m. However, given the uncertainties over future funding, planning for a range of financial scenarios is being undertaken. Having delivered £26m of savings since 2010, additional savings will be challenging to deliver. Delivery of savings may also be constrained by Operation Uplift, which will require officer numbers to be maintained in the short term and therefore confines savings opportunities to 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, income generation, 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 MTF 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.

- 4.12 In respect of budget management, the 2022/23 budget is currently forecast to be broadly in line with the budget. Pressure on overtime budgets which are being offset by changes in police officer pay as a result of the profile of recruitment of police officers and increased vacancies in respect of police staff across the Constabulary and therefore does not point to any fundamental weakness in the financial management process.
- 4.13 The decision to replace £3m of revenue support for the capital programme with borrowing in 2022/23 means that an underspend of this magnitude on the revenue budget is likely at the year end, which will be set aside in a reserve to support the 2023/24 budget. Although this represents a significant variance from the budget, it is indicative of a change in strategic financial planning rather than any fundamental weakness in financial management processes.
- 4.14 The overall financial position in 2022/23 does not present any material risks. However, the tightness of the budget position is indicative of a growing financial pressure, which will require careful management on an on-going basis.

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 £4m for 2023/24. 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 £6m, which is intended, alongside savings plans, to manage medium term budget pressures arising from increasing demands and constrained funding. A further £2m 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 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 09c 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

16th February 2023

Appendix A

Budget 2023/24 and MTFF to 2027/28 Sensitivity Analysis

The table below illustrates the sensitivity of the budget and MTFF to changes in key assumptions by 0.5% or 1%. The table below includes the impact of an increase in assumptions, a reduction will produce an equal and opposite change. The table below shows increases in income as a negative figure (in brackets) and increases in expenditure as a positive figure.

Budget Area	Sensitivity Analysis	2023/24	2024/25	2025/26	2026/27	2027/28	
Expenditure	Pay	<i>Current assumption in MTFF</i>	3.00%	2.00%	2.00%	2.00%	2.00%
	Inflation	Impact in £000's of 0.50% increase in pay inflation	-	£323k	£554k	£554k	£554k
	General	<i>Current assumption in MTFF</i>	5.00%	3.00%	2.00%	2.00%	2.00%
	Inflation	Impact in £000's of 1% increase in general inflation	£56k	£91k	£127k	£123k	£132k
	Fuel	<i>Current assumption in MTFF</i>	0.00%	0.00%	0.00%	0.00%	0.00%
	Inflation	Impact in £000's of 1% increase in fuel inflation	-	£11k	£11k	£11k	£11k
	Police	<i>Current assumption in MTFF</i>	31.00%	31.00%	31.00%	31.00%	31.00%
	Pensions	Impact in £000's of 1% increase in contribution rate	-	£545k	£572k	£600k	£625k
	Local Govt	<i>Current assumption in MTFF</i>		CC 18.9%, PCC 18.6% (for all years)			
	Pensions	Impact in £000's of 1% increase in contribution rate	-	£273k	£267k	£272k	£285k
Funding	Council Tax	<i>Current assumption in MTFF</i>	2.47%	1.98%	1.98%	1.98%	1.97%
	Precept	Impact in £000's of 1% increase in precept	-	(£544k)	(£566k)	(£588k)	(£611k)
	Council Tax	<i>Current assumption in MTFF</i>	0.00%	0.72%	0.72%	0.72%	0.72%
	Base	Impact in £000's of 1% increase in taxbase	-	(£544k)	(£566k)	(£588k)	(£611k)
	Government Grant	<i>Current assumption in MTFF</i>	0.37%	1.71%	1.35%	1.33%	1.31%
	Impact in £000's of 1% increase in Govt. grant	-	(£741k)	(£751k)	(£761k)	(£771k)	