

## **NORTHUMBRIA POLICE AND CRIME COMMISSIONER**

### **Key Decisions**

#### **Title and Reference**

**Approval of the Medium Term Financial Strategy 2016/17 to 2019/20  
(PCC/207/2016)**

#### **Summary**

The Medium Term Financial Strategy (MTFS) sets out the key financial issues facing the Police and Crime Commissioner over the period 2016/17 to 2019/20, and provides options for delivering a sustainable budget and capital programme over the medium term.

It also sets out how the Commissioner can provide the Chief Constable with the resources to deliver the priorities in the Police and Crime Plan.

The MTFS sets the financial context for the Commissioner's revenue budget and capital programme and precepting decisions.

#### **Recommendations/ Findings:**

It is recommended that the Commissioner agrees the principles set out in the MTFS and approves the MTFS for 2016/17 to 2019/20.

#### **Northumbria Police and Crime Commissioner**

I hereby approve the recommendation above.

**Signature**



**Date 11.02.16**

**Police & Crime  
Commissioner for  
Northumbria**

**MEDIUM TERM  
FINANCIAL STRATEGY**

**2016/17 – 2019/20**

Approved 11 February 2016

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**Police & Crime Commissioner for Northumbria**  
**Medium Term Financial Strategy 2016/17 – 2019/20**

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## **1. Purpose of the Medium Term Financial Strategy**

- 1.1 This is the Medium Term Financial Strategy (MTFS) of the Police and Crime Commissioner for Northumbria (the Commissioner). It covers a period of four years but will be reviewed annually to reflect the dynamic nature of both policing and changes in funding. It describes the financial direction of the organisation and outlines financial pressures.
- 1.2 The MTFS provides options for delivering a sustainable budget and capital programme over the medium term. It also sets out how the Commissioner can provide the Chief Constable with the resources to deliver the priorities in the Police & Crime Plan within a challenging financial climate.
- 1.3 The MTFS sets the financial context for the Commissioner's revenue budget and capital programme and precepting decisions.
- 1.4 The overall financial strategy seeks to deliver the Commissioner's Police and Crime Plan, support 'Proud to Protect', the mission, vision and values of Northumbria Police and meet the requirements of the Strategic Policing Requirement.

## **2. Benefits of the Strategy**

2.1 The MTFS assists in:

- Supporting delivery of the Police & Crime Plan;
- Improving financial planning and the financial management of the Commissioner's resources, both revenue and capital;
- Maximising the use of resources available to the Commissioner and Chief Constable, both internal and external;
- Ensuring that the Commissioner and Chief Constable provide value for money and continue to deliver efficiency gains;
- Allowing the development of longer term budgets and strategic thinking;
- Reviewing the Commissioner's policy on the use of reserves, ensuring the position continues to be sustainable and there are sufficient resources over the medium term;
- Responding to external pressures, including changes to the police funding formula and funding reductions; and
- Developing a sustainable budget over the medium term.

## **3. Principles of the Strategy**

3.1 The key principles underlying the Commissioner's MTFS 2016/17 – 2019/20 are:-

- (i) Overall expenditure of the Commissioner will be contained within original estimates each year;
- (ii) The Commissioner will seek to maintain a General Reserve of a minimum of 2% of the net revenue budget to cover any major unforeseen expenditure or loss of funding but will review on a regular basis the opportunity cost of maintaining reserves at this level against the benefits of alternative

approaches. A flexible approach will be adopted appropriate to circumstances.

- (iii) The Commissioner will maintain earmarked reserves for specific purposes only when appropriate and which are consistent with achieving objectives;
- (iv) The Commissioner will continue to prioritise the achievement of value for money and efficiency in establishing the framework for policing within Northumbria and in commissioning and procurement decisions.
- (v) The Joint Chief Finance Officer and Chief Constable will prepare a rolling programme of four year budget forecasts to inform the Commissioner's budget and precepting decisions.
- (vi) The Commissioner, supported by the Joint Chief Finance Officer and Chief Constable, will continue to contribute to national reviews of police funding and lobby on a national basis for the fair and equitable funding of Northumbria Police.

#### **4. Reviewing the Strategy**

4.1 The Commissioner's MTFs review for 2016/17 to 2019/20 has been carried out under the following key themes:

- The financial context in which the Commissioner operates
- The Commissioner's current financial position;
- The future budget pressures and funding cuts which the Commissioner will face over the period of the strategy;
- Budget savings;
- The Commissioner's capital programme; and
- Reserves policy.

#### **5. Operational Context**

5.1 The successful delivery of the strategy requires the Chief Constable to manage a complex set of resources, demands and priorities whilst reviewing and revising plans to meet changing need and available financial resources.

5.2 Demand for policing is changing as new types of crime emerge and require a different approach to policing often working closely with partners. These include protecting Vulnerable People, cyber-crime, victims of Domestic Violence, Antisocial Behaviour, Vulnerable Adults, Repeat Victims, Hate Crime, Honour Based Violence, Female Gender Mutilation, Child Sexual Exploitation and other Child Protection matters.

5.3 Neighbourhood Policing remains at the heart of the delivery of Policing Services to communities within the Northumbria Police Area. Work has been undertaken to obtain a clearer understanding of demand for policing services. Analysis of data obtained both locally and nationally including crime and incident data, levels of deprivation, domestic violence and demography has identified areas of predicted demand and has informed a more accurate allocation of resources across a revised Neighbourhood Policing Team model. This approach to local policing will

balance the response to emergencies with policing activity to prevent crime before it happens and reduce reoffending.

- 5.4 A revised approach to safeguarding will reduce the demands currently placed upon Neighbourhood Policing Teams and will allow a focus upon long-term problem solving including targeting Anti-Social Behaviour, targeted high visibility patrols and meaningful engagement with communities generating the flow of information which will allow early intervention opportunities to prevent crime.
- 5.5 The introduction of a more flexible model for the delivery of policing services will make the force more efficient and effective. Resolution without deployment, where relevant calls for service are effectively managed in-line with the customers wishes without the need for the deployment of Police Officers, is one such change that will improve efficiency. This allows the Force to reinvest staff in areas of significant and emerging demand as mentioned above.
- 5.6 Effective partnership working, information sharing, integrated problem solving and the co-commissioning of services being delivered through the co-location of specialist resources in the form of Multi-Agency Safeguarding Hubs is also part of the strategy. The Hubs will coordinate all response and activity around the identification, assessment and management of vulnerable victims. This approach will also see the coordination of intervention opportunities around Troubled Families, Integrated Offender Management and Missing and Absent reports. This will ensure single outcomes and a more consistent and effective service for the most vulnerable within our communities.
- 5.7 Underpinning this is the comprehensive workforce strategy that includes recruitment, training and development of officers and police staff whilst continuing to manage necessary change through the prudent use of reserves.

## **6. Financial Context**

- 6.1 The last 5 years have seen unprecedented cuts to the funding provided by the Government to Police and Crime Commissioners (PCCs) in England and Wales. Northumbria has had to make £108.1m of cuts and efficiencies to head towards balancing its books (source: HMIC PEEL assessment and 2015/16 revenue budget). In addition it has also had its ability to raise additional tax revenue from the precept restricted by the excessiveness rules and council tax freeze grants.
- 6.2 Northumbria experienced the largest impact of the cuts because it receives more in grant in proportion to its council tax; around 87% is grant. In addition Northumbria has the lowest precept of any PCC in England and Wales and a low yield too.
- 6.3 The financial reserves have played a key part in the strategy to balance the books giving much needed head room to establish strategies and implement them.
- 6.4 Despite cutting its workforce by more than 22%, making efficiencies, transforming activities using technology, cutting waste, selling property and consolidating its area commands from six to three we still need to reduce expenditure further to match our spend with resources.

- 6.5 We need to maintain our pace, continue our programme of change, explore further collaboration and continue our reform to align our spend. All of this will need to take place as we constantly review and redeploy our resources to meet the ever changing nature and threat to our citizens. We will invest in extending our cyber-crime capabilities, supporting victims of crime, protection of the vulnerable, those trapped by modern day slavery and of course anti-terrorism capabilities.

### **Formula Review**

- 6.6 In July 2015 the Home Office launched a very short 8 week consultation on its significant proposals to revise the acknowledged outdated police funding formula. Over a short period of time there was a series of different outcomes for funding which would have resulted in either a significant funding gain or loss for Northumbria. Finally the identification of fundamental errors in the data used for the proposed formula stopped the introduction of a new formula with the Minister publicly apologising for the errors. This was no way to determine the future allocation of funding for such a crucial public service. As a result we have now been left with a one year only settlement based on the current formula.
- 6.7 Government have committed to reviewing the formula in 2016/17 and we await the outcome of this and will ensure that we engage to get the best outcome for Northumbria from 2017/18 onwards.

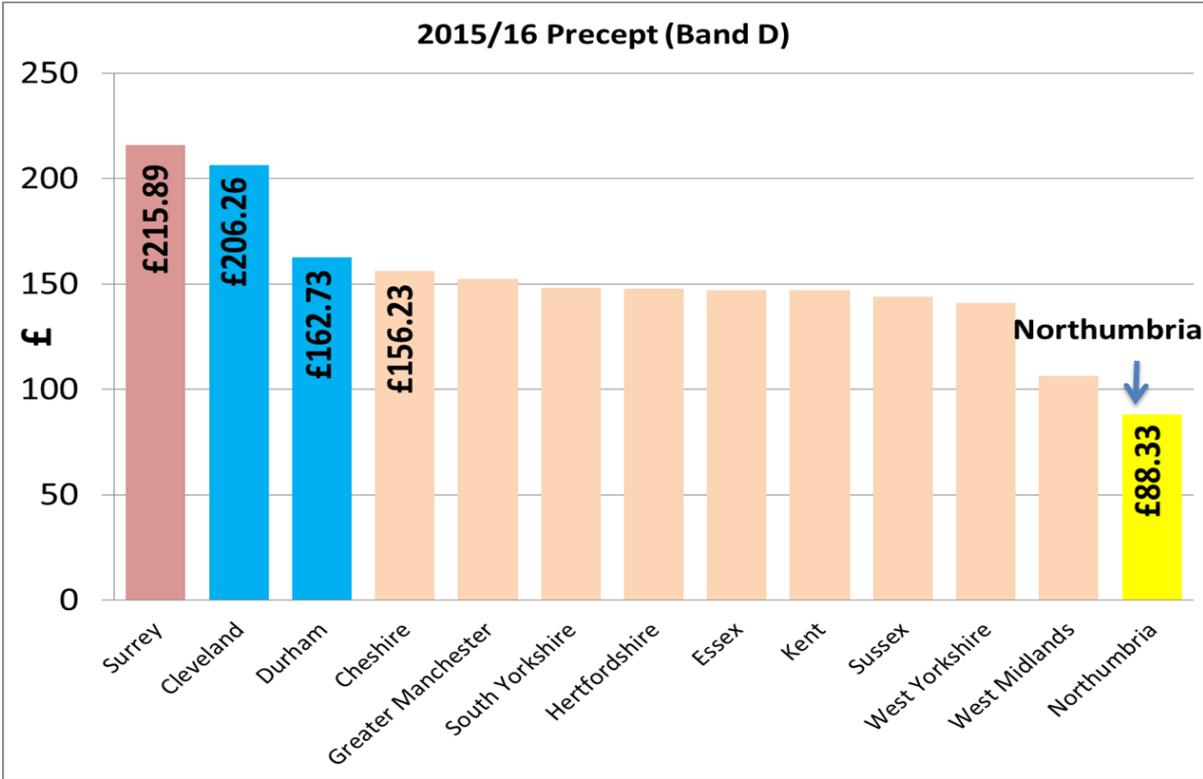
### **Spending Review**

- 6.8 The election of the Conservative Government in May 2015 raised expectations that there would be a continuation of the five years of significant cuts imposed by the coalition government. During that five year period Northumbria's grants were cut by 26% in real terms that required cash savings of £108.1m over the 5 years 2011/12 – 2015/16.
- 6.9 Before the summer recess The Treasury said "large savings" would be required of unprotected departments including the Home Office for the Comprehensive Spending Review 2015 (CSR 2015) that would be announced on 25 November 2015. We were requested to model the impact of two scenarios: of 25% and 40% cut to our budget by 2020. These would have equated to a £48m or £88m cut to Northumbria's grant.
- 6.10 This and the proposed change to the allocation of funding formula featured high on the strategic agenda. The Parliamentary Accounts Committee reviewed the work of the National Audit Office on the sustainability of Police funding. The Home Affairs Committee held an inquiry into the proposed changes to the funding formula and proposed cuts.
- 6.11 On 25 November 2015 the Chancellor of the Exchequer announced the outcome of the Spending Review 2015. SR2015 detailed spending settlements for each government department over the next four years (2016-17 to 2019-20).
- 6.12 The Chancellor? stated that the funds for policing would increase by over £900m and that overall police funding, including funding for Counter Terrorism, was to be cut by 1.3% in real terms over four years.

- 6.13 In a letter to PCCs and Chief Constables issued by the Home Secretary and Policing Minister after the SR2015 they said that “taking into account the scope that you have to raise local council tax, this means a flat real settlement for policing as a whole.”
- 6.14 The final police settlement 2016/17 was published on 4 February 2016 and the key elements are.
- A one year settlement;
  - A flat rate reduction in resource funding of 0.6% in cash terms;
  - No PCC to face a cash reduction in Formula Funding plus legacy council tax grants plus NICC plus precept income (as long as they maximise their precept);
  - The council tax referendum limit for English forces remaining at 2% but that additional flexibility for the ten lowest precept forces to raise the tax by £5. The lowest ten precepting PCCs are Northumbria, West Midlands, West Yorkshire, Sussex, Essex, Kent, Hertfordshire, South Yorkshire, Greater Manchester and Cheshire;
  - Grants relating to previous council tax and freeze grants retained and payable but that there would be no new council tax freeze grant for 2016/17;
  - Centrally the total of top-slices has reduced but the Home Office have confirmed that the police’s share of the £1bn Emergency Services Network is included in the settlement – although it is not separately identifiable;
  - The Home Office has introduced a new Transformational Fund worth £76.4m in 2016-17 to fund, amongst other things, firearms;
  - Counter Terrorism funding up £76m to £640m;
  - Innovation Fund down £15m to £55m due to a higher allocation in 2015/16.
  - Police Capital Grant has reduced from £120m (with £10m going to NPAS) in 2015-16 to £72m (with £16.5m going to NPAS) in 2016-17. The final settlement took a further top-slice of £10.4m for “Police Live Service”.
- 6.15 For Northumbria the implications the local settlement are as follows:
- Grant cut by £1.2m (0.6%) to £217.5m (£218.7m 15/16)
  - Option to protect ‘spending power’ with a £5 increase to the precept;
  - Capital grant reduced by £0.974m to £1.488m.
  - No recognition of the implications of budget pressures including additional Employer National Insurance costs of £4.3m and pay inflation including the pay award of £2.5m.
- 6.16 This MTFs is prepared on the assumptions as laid out in that settlement.

### **Council Tax**

- 6.17 Since 2007/08, council tax increases nationally have been constrained by the Government’s capping and excessiveness council tax principles. Nationally the proportion of funding from formula grant and specific Home Office grants has reduced, and the proportion from council tax has increased. However Northumbria’s council tax is by far the lowest of policing bodies in the country; in 2015/16 at £88.33 per annum for Band D properties. The table below shows the range of precepts including the bottom 10.



6.18 Income from council tax for Northumbria equates to only 13% of funding. The schedule below sets out the level of Band D council tax over the last 3 years:

| <b>Year</b> | <b>Band D Council Tax</b> |
|-------------|---------------------------|
| 2015/16     | £88.33                    |
| 2014/15     | £86.61                    |
| 2013/14     | £86.61                    |

6.19 The Localism Act 2011 introduced a power for the Secretary of State for Communities and Local Government to issue principles that define what should be considered excessive Council Tax, including proposed limits. From 2013 onwards, any billing or major precepting body that wishes to raise its Council Tax above the limits that apply to them will have to hold a referendum.

6.20 The MTFS includes the following additional specific grants relating to previous years precept decisions, and the relevant tax base of the Northumbria Force area:

- Home Office Legacy Council Tax Grant of £1.301m
- In addition, the Local Authorities in the Northumbria area have also advised of surpluses on collected funds, which equate to £0.535m for 2016/17 which is fully reflected in the MTFS.
- DCLG grant allocation of £6.867m

6.21 The settlement confirmed that the 2% referendum threshold will continue in 2016/17. However, the lowest ten precepting PCCs have been given a new flexibility to increase their precept by up to £5.

6.22 This MTFS as presented includes the assumption for each of the four years to increase the precept by £5 as set out in the Governments 'Spending Power' statement.

6.23 Northumbria will remain in the lowest 10 precept grouping throughout the spending review period.

### **Police Innovation Fund**

6.24 This pre-existing funding stream is to be reduced by £15m in 2016/17 and will continue to promote innovation, collaboration and improved efficiency.

6.25 In 2015/16 the Police and Crime Commissioner was successful in a bid to the Home Office Innovation Fund and secured £2.713m for five projects. We await the outcome of the bids we submitted for the 2016/17 fund.

## 7. Current 2015/16 Financial Position

- 7.1 The Commissioner's net revenue budget for 2015/16 after the use of reserves is £269.04m. The Quarter 3 revenue monitoring report shows a projected budget surplus of £1.62m as at 31 December 2015.

| Revenue Monitoring - Quarter 3 Position    |                                  |                                    |                           |
|--|----------------------------------|------------------------------------|---------------------------|
| <u>Group Position</u>                      | Approved Budget<br>2015/16<br>£m | Projected Outturn<br>2015/16<br>£m | Variance<br>2015/16<br>£m |
| Chief Constable                            | 258.187                          | 257.293                            | (0.894)                   |
| Police and Crime Commissioner              | 10.852                           | 10.129                             | (0.723)                   |
| <b>Net Expenditure</b>                     | <b>269.039</b>                   | <b>267.422</b>                     | <b>(1.617)</b>            |
| Central Government Grant Income            | (226.915)                        | (226.915)                          | 0.000                     |
| Council Tax Precept                        | (32.904)                         | (32.904)                           | 0.000                     |
| <b>Central Grant and Precept Total</b>     | <b>(259.819)</b>                 | <b>(259.819)</b>                   | <b>0.000</b>              |
| <b>Appropriations (to) / from reserves</b> | <b>9.220</b>                     | <b>7.603</b>                       | <b>(1.617)</b>            |

- 7.2 The post-election announcement before the summer recess that the Chancellor of the Exchequer wanted government departments and forces to model the impacts of budget cuts of between 25% and 40% added to concerns of further severe grant cuts.
- 7.3 The PCC and the Chief Constable agreed on a strategy to minimize the impact of potential severe cuts by acting in-year. The recruitment of new officers was slowed a little, the redundancy of posts accelerated and one-off savings banked to reduce the requirement to fund from reserves.
- 7.4 One-off treasury management savings have also been realised in year as tactical decisions have been made to defer long term borrowing at higher rates with shorter term borrowing at lower rates and by using cash balances.
- 7.5 The budget surplus allows the Commissioner to draw less than was planned from the General Reserve and Capital Development Fund in 2015/16.

| <b>General Reserve /<br/>Capital Development<br/>Reserve</b> | <b>General<br/>Reserve<br/>2015/16 £m</b> | <b>Capital<br/>Development<br/>Fund 2015/16<br/>£m</b> | <b>Total<br/>2015/16 £m</b> |
|--|---|--|-----------------------------|
| Opening Balance  | 21.8                                      | 0.9  | 22.7                        |
| Planned Use of Reserve                                       | (8.3)                                     | (0.9)  | (9.2)                       |
| Forecast Under Spend   | 1.6                                       | 0.0  | 1.6                         |
| Closing Balance  | 15.1                                      | 0.0  | 15.1                        |

- 7.6 The Commissioner has an approved revised capital budget for 2015/16 of £14.414m. The third quarter capital monitoring report outlined a forecast outturn of £10.488m as at 31 December 2015. The reduction in the revised estimate for the year reflects changes to the timing of and revision to projects.

## **8. Medium Term Budget Pressures**

- 8.1 When calculating the medium term budget projections consideration has been given to a number of budget pressures including (i) reductions in grant funding, (ii) pay and price increases, (iii) revenue implications on the capital programme and (iv) other.

### **Reductions in Grant Funding**

- 8.2 The financial settlement has cut Northumbria's grant by £1.2m (0.6%) to £217.5m (£218.7m 15/16).
- 8.3 For the years 2 to 4 we have assumed that a cut of this level will continue as indicated within the CSR2015.

### **Pay and price inflation**

- 8.4 The indicative budget forecasts for 2016/17 reflect a positive approach to managing the impact of inflation on budgets wherever possible, in that there have been no automatic budget increases for inflationary pressures other than inflation provision has been provided to meet energy, business rates and rent increases. In addition, estimates for future pay awards at 1% have been included.

### **Revenue implications of the capital programme**

- 8.5 A revised four year capital programme has been produced, which is summarised in Section 10. The implications of this programme are fully reflected in the MTFS.

### **Other**

- 8.6 **Employers National Insurance** - The new State Pension is being introduced on 6 April 2016 for those reaching State Pension age after that date. As a consequence of the reforms, contracting-out of the additional State Pension for Defined Benefit pension schemes will come to an end. Contracting-out meant that employees and employers paid a lower National Insurance (NI) rate and gave up entitlement to additional State Pension in return for a broadly similar amount as part of their occupational pension. Currently the Police Officer Pension Scheme and Local Government Pension Scheme for police staff are defined benefit pension schemes that are contracted-out. The main implication is that from 6th April we will no longer receive the NI rebate. This will mean an increase in employer NI contributions and £4.3m of additional cost to the employer. This sum has been included in the MTFS.
- 8.7 **Apprenticeship Levy** - The Government is planning to introduce an Apprenticeship Levy from 2017/18 and it is estimated that will add a further £0.8m cost pressure to meet. The detail of how this will be introduced has yet to be released.

## **9. Medium Term Savings Proposals**

- 9.1 As discussed previously, there has been a period of sustained financial pressure throughout the previous CSR, the impact of which will continue to work through impacting on the early years if this new MTFS.
- 9.2 In addition, savings will continue to be delivered wherever possible, for example:
- Further savings from rationalisation in the operational estate, including maximising collaborative opportunities;
  - Non pay savings through centralised budget management;
  - Savings through procurement particularly within ICT and Estates;
  - Maximising income generation, notwithstanding such opportunities being limited within the Police world.
- 9.3 Given that staff costs represent a significant element of our core cost base and therefore there will continue to be changes to workforce numbers and structures throughout the MTFS. However, there are no plans to change the new three area command structure and the principles of neighbourhood policing will remain.

## 10. Capital Estimates and Financing

10.1 The following table summarises the 4 year capital programme:

| <b>Capital</b>               | <b>2016/17<br/>£000</b> | <b>2017/18<br/>£000</b> | <b>2018/19<br/>£000</b> | <b>2019/20<br/>£000</b> | <b>Total</b>  |
|------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|---------------|
| BUILDING WORKS               | 1,567                   | 599                     | 500                     | 600                     | 3,266         |
| COMPUTERS AND COMMUNICATIONS | 7,232                   | 5,820                   | 6,689                   | 2,330                   | 22,071        |
| VEHICLES AND EQUIPMENT       | 2,519                   | 2,520                   | 2,551                   | 2,522                   | 10,111        |
| <b>Total</b>                 | <b>11,318</b>           | <b>8,939</b>            | <b>9,740</b>            | <b>5,452</b>            | <b>35,448</b> |

10.2 Key areas to note in the proposed programme are:

- Building Works – There are no major building schemes. There will be a continuation of the estates rationalisation and this will include taking account of future use of remaining properties.
- Computer and Communications
  - Technology plays an important role in the delivery of services to communities and there is a drive to deliver on-line self-service platforms to allow individuals to obtain information or access non-emergency services at a time and place which suits their needs. Investment will continue in the Street to Strategic programme including the roll out of devices for front line staff.
  - A new approach to delivery of all IT services through a review of the operating platforms.

- Vehicles and Equipment – The vehicle replacement programme will continue in 2016/17 supported by a new procurement agreement.

## Financing

| Capital Programme           | 2016/17<br>£,000 | 2017/18<br>£,000 | 2018/19<br>£,000 | 2019/20<br>£,000 |
|-----------------------------|------------------|------------------|------------------|------------------|
| <b>Forecast Expenditure</b> | <b>11,318</b>    | <b>8,939</b>     | <b>9,740</b>     | <b>5,452</b>     |
| <b>Financed by:</b>         |                  |                  |                  |                  |
| Capital Grant - Home Office | 3,889            | 1,289            | 1,089            | 889              |
| Capital Receipts            | 5,862            | 7,051            | 8,151            | 3,963            |
| Borrowing                   | 1,567            | 599              | 500              | 600              |
| <b>Total Financing</b>      | <b>11,318</b>    | <b>8,939</b>     | <b>9,740</b>     | <b>5,452</b>     |

- 10.3 The capital financing approach remains to maximise the use of Capital Receipts to support the Capital Programme after the use of grant and also to maximise overall benefit in underpinning the Revenue budget.
- 10.4 Through this MTFS it is proposed that the majority of capital spending for short life assets will be financed from capital receipts. Building works with longer asset lives will be supported by prudential borrowing as this provides the most efficient form of financing.
- 10.5 It should be noted that there is an expectation of an additional Home Office grant in 2016/17 to offset the one-off costs to implement the new national mobile communications system which is to be rolled out from 2017/18 onwards. The costs are included in the Capital Estimates at paragraph 10.1.

## 11. Reserves

### Background information on Reserves

- 11.1 Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when preparing budgets.
- 11.2 In establishing reserves, the Commissioner must comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Chief Finance Officer is required as part of the budget setting process to provide a statement on the adequacy of reserves.
- 11.3 CIPFA guidance on Reserves and Balances (LAAP Bulletin No 77 November 2008) and the requirements of the Code suggests twice yearly reviews of reserves. By doing this, the visibility of reserves are increased and consideration of their use is placed at the forefront of the decision making process. Reserves are cash backed balances, held on the balance sheet until they are spent or released for other purposes. As such, they can only be spent once, and are not part of the base budget.
- 11.4 The Commissioner's balance sheet reserves are summarised as follows:

- General Reserves – a contingency for unexpected events or emergencies and a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
- Earmarked Reserves – to meet known or predicted liabilities, for example workforce management, insurance and capital development reserves,

11.5 CIPFA guidance issued in June 2003 confirms that relevant bodies should make their own judgements on such matters, taking into account relevant local circumstances and an assessment of risk and the advice of the Chief Finance Officer.

### **Reserves**

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

### **General Reserve**

11.7 The expected General Reserve at 1 April 2016 is £15.1m. This meets one of the key MTFS principles to seek to maintain the general reserve at a minimum of 2% of the revenue budget. The closing general reserves at March 2020 are estimated to be £8.9m and 3.4% of the revenue budget.

## Earmarked Reserves

11.8 The following reserves have been set aside for specific purposes. The table shows the strategy for use of reserves over the MTFS.

|                                 | At 31<br>March<br>2016<br>£m | At 31<br>March<br>2017<br>£m | At 31<br>March<br>2018<br>£m | At 31<br>March<br>2019<br>£m | At 31<br>March<br>2020<br>£m |
|---------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| <b>Earmarked Reserves</b>       |                              |                              |                              |                              |                              |
| Insurance Reserve               | 3.0                          | 3.0                          | 3.0                          | 3.0                          | 3.0                          |
| Workforce Development Reserve   | 1.3                          | 0.8                          | 0.0                          | 0.0                          | 0.0                          |
| External Funding Reserve        | 0.1                          | 0.1                          | 0.1                          | 0.1                          | 0.1                          |
| <b>Total Earmarked Reserves</b> | <b>4.4</b>                   | <b>3.9</b>                   | <b>3.1</b>                   | <b>3.1</b>                   | <b>3.1</b>                   |
| <b>General Reserves</b>         | <b>15.1</b>                  | <b>9.4</b>                   | <b>7.9</b>                   | <b>7.9</b>                   | <b>8.9</b>                   |
| <b>Total Reserves</b>           | <b>19.5</b>                  | <b>13.3</b>                  | <b>11.0</b>                  | <b>11.0</b>                  | <b>12.0</b>                  |

## Insurance Reserve

11.9 The Insurance Reserve is maintained for potential liabilities and costs which fall onto the Commissioner where no external insurance cover is arranged by or available to the Commissioner. Potential liabilities include storm damage, business interruption and claims that would fall within the Commissioner's policy excess limits. The level of this reserve is £3m and it is not anticipated that this will change over the period of the MTFS.

## Workforce Development Reserve

11.10 The Workforce Development Reserve was set up to assist workforce changes and has an estimated balance of £1.3m as at 31 March 2016. The balance is planned to be fully used by 31 March 2018.

## External Funding Reserve

11.11 The External Funding Reserve was created in 2012/13 from unspent non-conditional revenue grant income which is to be used for specific purposes in future years. The reserve is expected to be fully used in 2015/16, however it is also anticipated that at 31 March 2016 there will again be non-conditional revenue grant income to be carried forward therefore there will be an external funding reserve on an annual basis. The reserve value for 2016/17 is estimated to be maintained at £0.100m and for planning purposes this level has been retained for the MTFS period.

## 12. Indicative Budget Forecasts 2016/17 to 2019/20

- 12.1 All the budget pressures, budget savings, funding assumptions and proposed use of reserves outlined earlier in this Strategy are summarised below, to show an overall position for the Group representing the combined budget forecasts for the Commissioner and Chief Constable. Having considered the savings proposals and the availability of reserves to support the medium term plan an important consideration is the precept proposal for 2016/17. The MTFs includes a precept increase each year of £5.

The group budget forecast position is set out below:

### Group Budget forecast

|  | 2016/17       | 2017/18       | 2018/19      | 2019/20      |
|--|---------------|---------------|--------------|--------------|
|  | £m            | £m            | £m           | £m           |
| <b>Base budget</b>                                   | <b>269.0</b>  | <b>266.8</b>  | <b>262.8</b> | <b>262.1</b> |
| <b>Budget pressures</b>                              |               |               |              |              |
| Pay and price increases                              | 5.2           | 6.2           | 5.3          | 5.3          |
| Budget pressures                                     | 3.8           | 0.0           | 0.7          | 0.8          |
| Increase in National Insurance costs                 | 4.3           | 0.0           | 0.0          | 0.0          |
| Revenue impact of capital financing                  | (0.2)         | 0.0           | 0.0          | 0.0          |
| <b>Total budget pressures</b>                        | <b>13.1</b>   | <b>6.2</b>    | <b>6.0</b>   | <b>6.1</b>   |
| <b>Proposed budget savings</b>                       | <b>(15.3)</b> | <b>(10.2)</b> | <b>(6.7)</b> | <b>(6.3)</b> |
| <b>Total Budget</b>                                  | <b>266.8</b>  | <b>262.8</b>  | <b>262.1</b> | <b>261.9</b> |
| Grant Income   | 217.5         | 216.2         | 214.9        | 213.6        |
| Council Tax Support Grant                            | 6.9           | 6.9           | 6.9          | 6.9          |
| Council Tax Freeze Grant 11/12                       | 0.9           | 0.9           | 0.9          | 0.9          |
| Council Tax Freeze Grant 14/15                       | 0.4           | 0.4           | 0.4          | 0.4          |
| Council Tax income                                   | 33.0          | 33.2          | 33.4         | 33.6         |
| Council Tax - Precept increase                       | 1.9           | 3.7           | 5.6          | 7.5          |
| Council Tax Collection Fund surplus / (deficit)      | 0.5           | 0.0           | 0.0          | 0.0          |
| <b>Total Income</b>                                  | <b>261.1</b>  | <b>261.3</b>  | <b>262.1</b> | <b>262.9</b> |
| <b>Funding gap / (surplus) before reserves</b>       | <b>5.7</b>    | <b>1.5</b>    | <b>0.0</b>   | <b>(1.0)</b> |
| <b>Planned use of reserves:</b>                      |               |               |              |              |
| Transfers from / (to) General Reserve                | 5.7           | 1.5           | 0.0          | (1.0)        |
| <b>Funding gap / (surplus) after use of reserves</b> | <b>0.0</b>    | <b>0.0</b>    | <b>0.0</b>   | <b>0.0</b>   |

- 12.2 The Group forecast budget set out above shows how after the planned use of reserves, savings and the precept there is no funding gap for the period of the

MTFS, which meets the key principle of the Commissioner’s Strategy that overall expenditure will be delivered within a sustainable budget over the medium term.

### **Ministry of Justice Grant**

- 12.3 The Ministry of Justice allocates a grant to the Commissioner to spend on victims services and Child Sexual Abuse services. The grant is allocated between Police and Crime Commissioners on the basis of population. A total of £1.696m has been allocated to Northumbria for 2016/17.
- 12.4 We make no assumptions about future grant settlements in the MTFS and this funding stream and subsequent spend does not impact on the precept decision.

### **13. Risk Assessment**

- 13.1 The MTFS contains the most up to date information at the time of drafting but the Commissioner’s financial position is dynamic. A comprehensive financial risk assessment is undertaken for the revenue and capital budget setting process to ensure all risks and uncertainties affecting the Commissioner’s financial position are identified. The Commissioner faces a number of significant financial pressures that could affect the position over the medium term. An assessment of the likelihood and impact of each risk and the management controls in place are shown in the following table:

| <b>Risk</b>   | <b>Likelihood</b> | <b>Impact</b> | <b>Risk Management</b>   |
|---|-------------------|---------------|--|
| General Reserve not sufficient to cover future unexpected costs             | Possible          | High          | Reserve strategy to maintain balance at a minimum of 2% of budget.   |
| Pay awards and price inflation being higher than anticipated                | Possible          | Medium        | Budget based on best information available and set at a prudent level.   |
| Capital financing charges will be higher than forecast                      | Unlikely          | Low           | Revenue implications are considered as part of capital planning and any changes to variable rate will have minimum impact as 100% of debt is at fixed rates.               |
| Interest rates on deposits lower than anticipated                           | Unlikely          | Low           | Prudential assumptions on likely interest rates are incorporated into the MTFS and regular review, monitoring and reporting of interest takes place.                       |
| Capital programme is understated and funding not available to deliver plans | Unlikely          | Low           | Capital monitoring updates are taken to the Commissioner quarterly to provide assurance in the accuracy of forecast and monthly monitoring undertaken by the Chief Finance |

| <b>Risk</b>  | <b>Likelihood</b> | <b>Impact</b> | <b>Risk Management</b>   |
|--|-------------------|---------------|--|
|  |                   |               | Officer and Chief Constable. Prudential borrowing gives flexibility in financing the capital programme.  |
| Failure to deliver planned savings   | Possible          | High          | Quarterly revenue monitoring updates to the Commissioner and monthly monitoring undertaken by the Chief Finance Officer and Chief Constable; maintenance of the General Reserve balance at 2% of budget. |
| Further reductions in funding including unfavourable review of funding formula                             | Possible          | High          | Balance on General Reserve maintained at minimum of 2%; forward planning; regular monitoring.  |
| Future council tax rises limited by excessiveness principles determined by the Government                  | Likely            | Low           | Balance on General Reserve maintained at minimum of 2%; forward planning.  |
| Reduction in council tax collection following the introduction of the localised council tax support scheme | Unlikely          | Low           | Balance on General Reserve maintained at minimum of 2%; forward planning; regular monitoring.  |
| Not all risk have been identified  | Unlikely          | Medium        | Comprehensive insurance arrangements are in place alongside robust risk management arrangements; balance on General Reserve maintained at a minimum of 2% of budget.                                     |

## **14. Conclusion**

- 14.1 The overall financial context for Northumbria Police remains extremely challenging.
- 14.2 The approach set out in this MTFS will deliver a balanced budget. It sets out how all four years will be financed and general reserves will be maintained at an estimated £8.9m and this is greater than the minimum set out in the reserve strategy. The management of this position is achieved through the rationalisation of estates, workforce reduction plans, new operating model and significant non pay savings.
- 14.3 The MTFS does indicate that a sustainable financial position can be achieved over the period 2016/17 to 2019/20 and the Commissioner is fully committed to taking the necessary decisions to achieve this outcome.