

## **NORTHUMBRIA POLICE AND CRIME COMMISSIONER**

### **Key Decisions**

#### **Title and Reference**

**Approval of the Medium Term Financial Strategy 2020/21 to 2023/24**

**(PCC/413/2020)**

#### **Summary**

The Medium Term Financial Strategy (MTFS) sets out the key financial issues facing the Police and Crime Commissioner over the period 2020/21 to 2023/24, 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, capital programme and precept decisions.

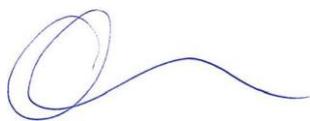
#### **Recommendation:**

It is recommended that the Commissioner agrees the principles set out in the MTFS and approves the MTFS for 2020/21 to 2023/24.

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

I hereby approve the recommendations above.

**Signature**



**Date**

**12 / 03 / 2020**



NORTHUMBRIA  
**POLICE & CRIME  
COMMISSIONER**

# **Police & Crime Commissioner for Northumbria**

## **MEDIUM TERM FINANCIAL STRATEGY**

**2020/21 – 2023/24**

**Police & Crime Commissioner for Northumbria**  
**Medium Term Financial Strategy 2020/21 – 2023/24**

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

- I.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 anticipated funding. It describes the financial direction of the organisation and outlines the level of funding and subsequent investment over the four year period.
- I.2 The MTFS 2020/21 to 2023/24 will, after years of under investment in policing, go some way in providing better opportunities to invest in the infrastructure necessary to take Northumbria Police forward to 2025. The Strategy will assist the force to become better prepared to meet future demand; deliver a much-needed increase in officer numbers; and allow Northumbria Police to invest in the right resources to protect the vulnerable, tackle crime and keep our communities safe.
- I.3 The MTFS provides projections 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 existing Police & Crime Plan and reflect the emerging priorities in the next Police and Crime Plan, within what continues to be a challenging financial climate.
- I.4 The overall financial strategy seeks to deliver the Commissioner's Police and Crime Plan, support the Northumbria Police Strategy 2025, the mission, vision and values of Northumbria Police and meet the requirements of the National 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 funding resulting from the government's annual funding announcements.
  - Developing a sustainable budget over the medium term.

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

3.1 To deliver against the PCC's priorities, and the Police and Crime Plan, effectively and efficiently within the available resources, the key principles underlying the Commissioner's MTFS 2020/21 to 2023/24 are:

- Overall expenditure of the Commissioner will be contained within original estimates each year.
- The Commissioner will maintain a General Reserve of a minimum of 2% of the net revenue budget to cover any major unforeseen expenditure or loss of funding. A flexible approach will be taken to the use of reserve balances above this level where appropriate, balancing the opportunity costs of maintaining reserves against the benefits of alternative approaches.
- The Commissioner will maintain earmarked reserves for specific purposes only when appropriate, for planned use within the period of the MTFS and which are consistent with achieving objectives.
- The Commissioner will continue to ensure that the achievement of Value for Money is prioritised by the Chief Constable, securing economy, efficiency and effectiveness in the use of resources.
- The Joint Chief Finance Officer will prepare a rolling programme of four year budget forecasts to inform the Commissioner's budget and precepting decisions.
- The Commissioner, supported by the Joint Chief Finance Officer and Chief Constable, will continue to contribute to national reviews of police funding and take every opportunity to engage in order to pursue the fair and equitable funding of Northumbria Police.

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

4.1 The Commissioner's MTFS review for 2020/21 to 2023/24 has also been carried out to ensure delivery of key priorities, this approach uses the following key themes:

- The operational context for Northumbria Police.
- The financial context in which the Commissioner operates, including the Commissioner's current financial position and performance, the police settlement 2020/21 issued by Government, and the Council Tax Precept decision.
- The future budget pressures and funding projections which the Commissioner will face over the period of the strategy and any budget savings identified.
- The Commissioner's capital programme and capital financing requirements.
- Reserves policy.
- Risk assessment.

## 5. Transformation and Investment Context

- 5.1 The successful delivery of the Strategy requires the Police and Crime Commissioner and the Chief Constable to manage a complex set of resources, demands and priorities, whilst reviewing and revising plans to meet the changing demand for policing services within available financial resources.
- 5.2 The Commissioners Strategy, after years of under investment in policing, will provide a level of re-investment for Northumbria residents aimed at providing improved police services that work to give confidence and enhance the lives and safety of communities.
- 5.3 The Strategy ensures that the 2020/21 settlement will be utilised to deliver a sustainable level of investment, including support to the increase of officer numbers through the national Uplift programme.
- 5.4 The Strategy will result in investment towards police infrastructure, technology, and professional and specialist police staff that will ensure that Uplift targets for 2020/21 and later years, when set, will be delivered, in-full.
- 5.5 In addition, the Strategy, through the use of the Precept as levied and the prudent use of an investment reserve, provides for the frontloading of officer recruitment in 2020/21. This will deliver an additional local increase within Northumbria of an expected further 60 officers, equivalent to the investment of £2.1m. It is intended this will take-place ahead of the setting of any potential future national targets for Uplift and discussions are ongoing to see how further increased numbers of recruits can be factored in at the earliest point. This will provide Northumbria Police with additional operational officers during 2020/21, thereby putting the force ahead of the increase of officer numbers under the Uplift programme.
- 5.6 The Strategy also enables sustainable prioritised investment over the full term of the MTFs, to enable the force to: become fit for the future; be able to respond to the changing demands and crime-types using leading-edge technology; work with partners to reduce serious violence; maintain focus on vulnerable victims of crime.

Key investments include:

- Increasing the number of officers over and above national targets, as outlined above, investing a total of £4.7m, (including the £2.1m referenced above) directly into police officer resources, during 2020/21. This will provide additional resources to prevent violent crime, take on organised crime and tackle 'County line' issues, while making sure anti-social behaviour is tackled head-on in communities. £2.6m
- Significant investment in ICT capabilities and capacity, to provide the necessary resources to gain maximum benefits available from the associated capital investment in new ICT systems and technologies; ensuring the Force is more fit-for-purpose and better positioned to keep people safe and fight crime, by providing new skills and specialists to keep communities safe. £3.4m
- Increasing investigative capability and capacity. £0.7m
- Investment in Digital Forensics to effectively manage the increasing demands arising from investigations involving electronic devices and material held in digital format. £0.6m
- Improvements to the quality of public contact, engagement and information-sharing. £0.5m

- Protecting and providing appropriate services to the most vulnerable members of our communities. £ 0.4m

- 5.7 In addition to the above revenue investments, a capital programme has been set which will ensure over the term of the MTFS continued investment is made in operational equipment. This will include personal issue equipment such as Taser and Body Worn Video; in addition to leading edge technology and ICT systems to aid the detection and investigation of crimes; ensuring that Northumbria is a Force fit for purpose for the future.
- 5.8 These investments are in-line with the overarching delivery of the priorities for Northumbria Police, as set out within the 'Northumbria Police Strategy 2025'. A Transformation Programme has been established to deliver the long-term objectives. The plan is to transform the service in a phased approach, putting Northumbria Police in the best position to deliver the priorities in the existing Police & Crime Plan and reflect the emerging priorities in the next Police and Crime Plan, future policing demands and business sustainability.
- 5.9 The first phase of the programme, to introduce a new Force Operating Model, was successfully implemented in November 2019. Designed to deliver a responsive policing service that is prioritised on threat to the public, vulnerability of the victim, and is fully aligned to a demand led re-organisation of resources.
- 5.10 The next phase, currently underway, is designed to transform how services are delivered through the use of technology and digitally enabled processes; increasing effectiveness and efficiency; and supported by the national digital programme. Future phases concentrate on innovation, utilising new and emerging technologies, and partnership and collaborative outcomes.
- 5.11 Moving forward, the adoption of a structured business planning process, enables the Force to continue to understand the demand for services, both internal and external, in order to respond and adapt to change. Ensuring services remain fit for purpose, and resources are aligned to meet operational demand as the Force moves forward into the future.
- 5.12 The Commissioner's MTFS is underpinned by a workforce plan and capital programmes which are aligned with the delivery of the Police and Crime Plan priorities. The Northumbria Police Strategy 2025 and new Force Operating Model are fully aligned to the MTFS and available resources to ensure value for money, providing an efficient and effective police service to the communities of Northumbria.

## **6. Financial Context**

- 6.1 Northumbria has taken the largest cut of all Forces in England and Wales through both the 2010 and 2015 Comprehensive Spending Review (CSR) periods. Police officer numbers in Northumbria have fallen by more than 1,100 since 2010, a reduction of 26%. Central government funding was reduced by 31% between 2010/11 and 2018/19 and we have reduced the workforce, and extensively used reserves, to manage the scale of those reductions.
- 6.2 The continuing challenge of one-year funding settlements, a pending Comprehensive Spending Review (CSR) 2020, outstanding financial risks already identified and continuing discussions within the policing world on a review of the Funding Formula. These combine to deliver a future which contains many unknowns, we do not know fully what is coming. The MTFS has been established to make the best use of the financial settlement 2020/21, whilst making prudent assumptions on future funding levels and expected budget requirements, to ensure that resources remain available to meet operational demand, continue to deliver value for money and are sustainable across the period of the MTFS.

- 6.3 The budget set for 2019/20 allowed the former PCC to begin to stabilise the financial footing of Northumbria Police, to prevent further reductions to the workforce and to start to provide a level of investment in the Force. This was largely due to the support provided by Northumbria residents through the significant increase in the Council Tax Precept for the 2019/20 financial year.
- 6.4 The 2019/20 approved budget included a planned transfer to earmarked reserves of £4.000m to protect against specific funding risks for Northumbria. The transfer comprises of £1.400m to the Police Pension Scheme Funding Reserve and £2.600m to the Emergency Services Network (ESN) Reserve, which forms part of the Commissioner's overarching reserves strategy. These reserves remain necessary to ensure that the new medium term financial plans remain affordable in light of the risks already identified and unknown outcomes of the CSR 2020.
- 6.5 For 2019/20 expenditure will be contained within the original budget estimate, in-line with one of the key principles of the MTFs. The Quarter 3 revenue monitoring report shows a projected underspend of £2.868m as at 31 December 2019.

<b>2019/20 Revenue Monitoring - Quarter 3 Position</b>			
	<b>Approved Budget 2019/20</b>	<b>Projected Outturn 2019/20</b>	<b>Variance 2019/20</b>
<b>Group Position</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Chief Constable	268.581	266.686	(1.895)
Police and Crime Commissioner	2.098	2.098	-
Capital Financing	9.403	8.430	(0.973)
<b>Net Expenditure</b>	<b>280.082</b>	<b>277.214</b>	<b>(2.868)</b>
Central Government Grant	(230.551)	(230.551)	-
Council Tax Precept	(53.531)	(53.531)	-
<b>Central Grant and Precept Total</b>	<b>(284.082)</b>	<b>(284.082)</b>	<b>-</b>
<b>Appropriations (to) / from reserves</b>	<b>(4.000)</b>	<b>(6.868)</b>	<b>(2.868)</b>

- 6.6 The Group budget is held by the Police and Crime Commissioner who provides financial resources to the Chief Constable to deliver operational policing. The PCC has a small specific budget for the Commissioners Community Fund and the OPCC running costs. The Capital Financing budget comprises the revenue provision for repayment of borrowing, interest costs and investment income.
- 6.7 The underspend against the Chief Constable's revenue budget is primarily attributable to a one-off saving from the timing and phasing of the increase to the workforce funded through last year's precept increase. In addition, there are one-off additional receipts of income associated with the provision of training courses and other police services.
- 6.8 For capital financing, the underspend is attributable to the timing of payments relating to the capital programme and repayment of borrowing. In addition, savings on interest costs were achieved in-year due to a reduction in planned capital spend, new long-term borrowing secured at preferential rates and borrowing taken later than planned.
- 6.9 The overall Group forecast represents an underspend of £2.868m. Therefore the transfer to reserves of £4.000m has been successfully delivered and in addition through careful financial

management and prudent budget monitoring during 2019/20 the underspend is available for re-investment to support the medium term plans.

## **National Police Settlement 2020/21**

6.10 The national police grant settlement for 2020/21 was published on 22 January 2020, and the key headlines from the settlement are:

- Police Core Grant – Core grant allocations to PCC's to be increased by £532.0m, to support the national Uplift target of 6,000 additional officers by the end of March 2021. The increase will be paid to all 43 Forces and allocated in-line with formula funding such that all Forces will see an increase in their core funding equivalent to 7.5%.
- Ring-fenced Uplift grant funding of £168.0m will be allocated to PCC's in-line with formula funding allocations and accessed through progression against their Uplift recruitment targets.

Whilst the 2020/21 settlement has provided a significant increase in core grant funding to support the national officer Uplift, it does not include any direct inflationary increase to core grant funding. Furthermore, the Government has made it clear that the increase in core grant funding for 2020/21 is a one-off and is not likely to be repeated. There is clear messaging that the additional funding should put in place the necessary support and infrastructure to ensure that, as further Uplift targets are announced, Forces have in place everything needed to successfully deliver against those targets.

6.11 Other key headlines from the settlement are set out below:

- Legacy grants relating to Localised Council Tax Support and Council Tax freeze grants for 2011/12 and 2014/15 remain payable.
- Specific grant funding allocated to Forces to manage part of the increased cost of employer pensions in 2019/20 has been confirmed in flat cash terms for one further year only.
- Council Tax Referendum Limits – The referendum limits for 2020/21 have been set by Government to enable PCC's to raise further funding through an increase in the Council Tax Precept of up to £10.00 per Band D property.
- Police Capital Funding – Capital grants to PCC's cut / top-sliced by 74% as the Government prioritises national schemes and infrastructure. The messaging is that PCC's can utilise increases in other grants (revenue) to cover both capital and non-capital spend, increasing the impact of capital investment on Force revenue budgets.
- Four priority areas to drive efficiency, productivity and effectiveness next year including efficiency savings through joint procurement, enhanced productivity using technological solutions, achieving best value on police technology spending and ensuring Forces meet their recruitment targets for 2020/21.
- PCC allocations from the Ministry of Justice (MOJ) for the commissioning of victims' services have been issued to include a 1.84% inflationary increase.
- In addition, Home Office funding for Violence Reduction Units (VRU) has been confirmed for one further year only.

6.12 In addition to the Force level funding set out above there are a number of top-slices and reallocations which form part of overall funding for policing but do not directly impact on funding for Police Forces. These include increased investment in Serious and Organised Crime

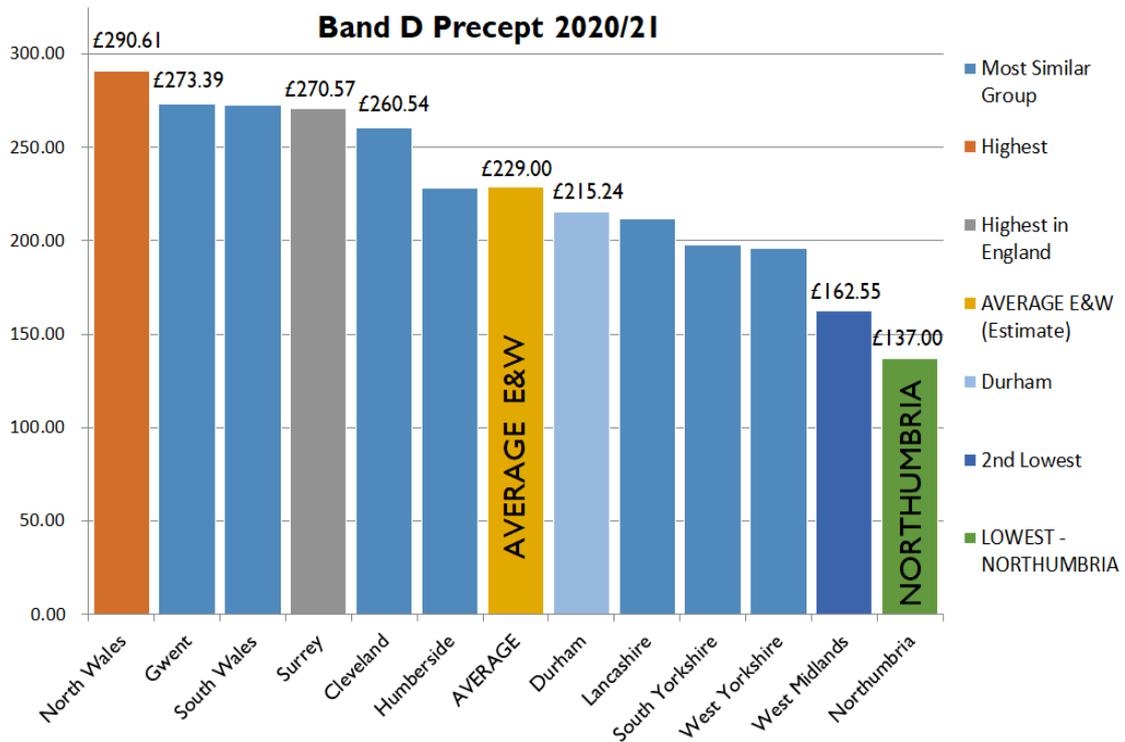
(SOC), Counter Terrorism, Serious Violence funding, National Police Technology Programmes and funding held centrally towards the national costs of delivering the 20,000 officer Uplift.

## Northumbria Settlement 2020/21

- 6.13 **Police Grant** – The one year settlement is predicated on the delivery of the national police officer Uplift and to support delivery Northumbria have received an increase in core grant of £16.387m, equivalent to 7.5%. The Uplift target allocated for Northumbria is 185 additional officers by March 2021.
- 6.14 Whilst core grant funding has been significantly increased for 2020/21, this funding has been provided to support the recruitment of the initial Uplift target by March 2021 **and** provide the necessary infrastructure improvements to deliver the Northumbria share of the full 20,000 national Uplift, by March 2023.
- 6.15 The ring-fenced Uplift grant allocation for Northumbria is £5.175m and will be accessed on a quarterly basis as the Force progresses against its recruitment target of 185 additional officers by March 2021, alongside recruitment to replace officers who have left or retired from the Force. Recruitment targets allocated at Force level beyond 2020/21 are not yet known.
- 6.16 A Special Pension Grant of £3.423m allocated in 2019/20 to cover part of the increased cost of police officer pensions (£7.700m for Northumbria) has been confirmed for one further year only; in flat cash terms only with no inflationary increase.
- 6.17 Northumbria will continue to receive legacy grants 2020/21 totalling £8.168m set out below, these are again in flat cash terms, with no recognition of an inflationary increase. Therefore represent a reduction to overall funding:
- Home Office Legacy council tax Freeze Grants totalling £1.301m, relating to the freeze in the precept for 2011/12 and 2014/15.
  - Localised Council Tax Support Grant £6.867m, relating to the transfer of responsibility for Council Tax Benefit from Government to Local Authorities on 1 April 2013. As a result of the transfer changes were required in the tax base calculation for local authorities, reducing the overall value. This grant was introduced for 2013/14 to compensate PCC's for the reduction in precept income and remains payable.
- 6.18 Capital grant funding allocated by the Government for Northumbria is £0.338m and represents less than 2% of the total funding required for capital investment in 2020/21. The grant has been cut by 74% against the level allocated for 2019/20.
- 6.19 For the Commissioner, the value of the Ministry of Justice (MOJ) grant for the commissioning of victims' services has been confirmed as £1.703m (£1.673m 2019/20), an increase of 1.84%.
- 6.20 Funding allocated to the PCC in 2019/20 to establish a Northumbria Violence Reduction Unit (VRU) has at present only been confirmed for one further year, at £1.600m for 2020/21 (£1.600m 2019/20).
- 6.21 The top-slices and reallocations set out in the police settlement 2020/21 will have no direct impact on Northumbria funding. However, there may be further allocations announced at Force level for Serious Violence Surge funding during 2020/21.

## Council Tax

- 6.22 As part of the annual police funding settlement, an element of total available funding is revenue generated by increases in council tax. The following graph shows a comparison of Northumbria's position to other Force areas for the financial year 2020/21:



- 6.23 As is clear on the graph the Northumbria Band D precept charge of £137.00 for 2020/21 (£134.33 in 2019/20) is the lowest of any PCC. Band D precept charge is the contribution paid toward policing by a homeowner in that category and is the common criteria by which information and comparison is based. It should be noted that the majority of properties in the Northumbria area are Band A, i.e. the lowest banding for which the charge is £91.33. For 2020/21 18% of our core resource funding is derived from council tax.
- 6.24 The Secretary of State sets out, as part of the Police funding settlement, what increases can be made by PCC's to council tax without requiring a referendum. For 2020/21 that amount was up to £10.00 for a Band D property.
- 6.25 When calculating the overall settlement for policing in 2020/21 the Government set a precept increase maximum of £10.00 for a Band D property precept rise. This would have meant households, at the maximum, in Northumbria experiencing a 7.44% increase in the precept for 2020/21.
- 6.26 Consideration of the Council Tax Precept has to be taken alongside both the overall funding made available to the Force and the impact on households of any increase. The PCC's view was that an increase of 7.44% was simply too much, and that moving the full cost of an adequate police budget increase to the local tax payer would be difficult to justify at a time when the Government settlement has increased. Therefore, the PCC has approved an increase of 1.99% on the Council Tax Precept for 2020/21.

- 6.27 The increase in the precept of 1.99% for 2020/21 equates to an additional £2.67 per year for a Band D property. For those in a Band A property the increase is £1.78 per year.
- 6.28 The additional income generated by the precept increase for 2020/21 is £1.065m. In addition the combined tax base across the six local authorities in the Northumbria Police area has increased by 1.55% generating additional receipts of £0.817m.
- 6.29 The MTFS has been established using the assumption that future years will also see a 1.99% rise in precept, year on year.

## 7. Medium Term Financial Strategy

- 7.1 The Medium Term Financial Strategy (MTFS) is summarised in the following table and explained in further detail in paragraphs 7.2 to 7.19:

MTFS Group Budget Forecast	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
<b>Base budget</b>	<b>280.1</b>	<b>296.2</b>	<b>306.1</b>	<b>307.0</b>
<b>Budget pressures</b>				
Pay and price increases	9.3	3.1	1.9	5.5
Budget pressures	2.8	4.5	0.9	0.3
Revenue impact of capital financing	1.4	1.2	(1.3)	-
<b>Total budget pressures</b>	<b>13.5</b>	<b>8.8</b>	<b>1.5</b>	<b>5.8</b>
<b>Budget savings</b>	<b>(3.7)</b>	<b>(0.9)</b>	<b>(0.6)</b>	<b>(0.5)</b>
<b>Investment in policing priorities</b>	<b>6.3</b>	<b>2.0</b>	-	-
<b>Total Budget</b>	<b>296.2</b>	<b>306.1</b>	<b>307.0</b>	<b>312.3</b>
Transfer to Earmarked Reserve (to maintain investment in policing priorities and support Uplift delivery)	8.2	-	-	-
<b>Net Requirement</b>	<b>304.4</b>	<b>306.1</b>	<b>307.0</b>	<b>312.3</b>
Grant Income	235.3	235.3	235.3	235.3
Special Pension Grant	3.4	3.4	3.4	3.4
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 (19/20)	52.7	52.7	52.7	52.7
Council Tax - Precept Increase	1.1	2.1	3.1	4.2
Council Tax - Tax Base Increase	0.9	1.7	2.5	3.3
Council Tax - Collection Fund surplus	0.9	0.5	0.5	0.5
<b>Total Income</b>	<b>302.5</b>	<b>303.9</b>	<b>305.7</b>	<b>307.6</b>
<b>Funding gap / (surplus) before reserves</b>	<b>1.9</b>	<b>2.2</b>	<b>1.3</b>	<b>4.7</b>
<b>Planned use of reserves:</b>				
Transfer from General Reserve	(1.9)	-	-	-
Transfer from Earmarked Reserve (to maintain investment in policing priorities and support Uplift delivery)	-	(2.2)	(1.3)	(4.7)
<b>Funding gap / (surplus) after use of reserves</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>

- 7.2 The Group forecast budget set out over the medium term shows that based on forecast income against the forecast budget requirement, there would be a funding gap to deliver the proposed investments. However, through the prudent establishment and use of an investment reserve over the term of the MTFs, this gap will be funded. Which meets the key principle of the Commissioner's Strategy that overall expenditure will be delivered within a sustainable budget over the medium term.

### **Pay and Price Increases**

- 7.3 The MTFs has prudently made assumptions about pay and price increases through national pay awards and inflation which will continue to be reviewed on an annual basis.
- 7.4 The police officer Uplift target for Northumbria is an additional 185 officers by March 2021. The costs of the additional officers are fully reflected within the workforce movements in the pay and price line, offset by a Special Grant which will be accessed as the Force progresses against its recruitment target.
- 7.5 At this time we have no information regarding the Northumbria share of the future Uplift numbers for 2021/22 and 2022/23. For the purpose of this MTFs we have assumed that when decisions are made on future allocations of the full national Uplift we will receive the same pro rata allocation as for the initial Uplift target and that funding is made available by Government in a similar way to the special grant in 2020/21. The future costs of Uplift are therefore reflected within the medium term forecast and matched by Special Grant which we expect will continue to be issued in some form, until such time that the Home Office provide a more permanent funding solution.
- 7.6 As detailed earlier, the Strategy is to deliver operational officers at the earliest opportunity. Through the use of the Precept as levied and the prudent use of an investment reserve, the Strategy will enable the front loading of officer recruitment, with a minimum of 60 additional officers over and above the nationally publicised Uplift target for 2020/21. The cost of these officers is reflected within the workforce movements in the pay and price line and is equivalent to investment of £2.1m. Discussions are ongoing to see how further increased numbers of recruits can be factored in at the earliest point.

### **Budget Pressures**

- 7.7 The Strategy is based upon known and likely pressures, hence the reduction in pressures detailed in the later years of the Strategy. The pressures are reviewed on an annual basis which ensures that any cost increases and budget pressures are identified as part of the budget setting process. This strategy therefore takes full account of all known budget pressures, many of which are prescribed nationally and therefore out of the control of the Force such as: national ICT charges; revenue implications of the national Emergency Services Network (ESN); and the National Police Air Support (NPAS) unit.

### **Revenue Impact of Capital Financing**

- 7.8 A revised four year capital programme has been produced, which is summarised in Section 8 below. The implications of this programme are fully reflected in the MTFs. Increases in capital financing over the first 2 years reflect the additional revenue cost of supporting capital investment through prudential borrowing for 2019/20 and 2020/21. This approach is set in the context of a significant cut (74%) to Government grant funding for capital in 2020/21. As such, capital receipts will be retained in the short term and focused on funding the later years of the MTFs to ensure that the medium term capital plans are affordable in full.

### **Budget Savings**

- 7.9 Force budget savings of £3.700m have been identified in 2020/21 relating to the revaluation of the police staff pension fund (LGPS), officer allowances, other non-pay budget areas and income generation. Savings are included for future years in relation to officer allowances reducing in-line with retirements and the removal of general inflation provision for non-pay expenditure.
- 7.10 Throughout the MTFs period savings and efficiencies will continue to be delivered wherever possible, to sustain the investment in policing and to continue to support local policing services, for example:
- Non pay savings.
  - Savings through procurement through the continued use of national frameworks.
  - Maximising income generation wherever possible.

### **Investment in policing priorities and transfer to reserves to maintain investment in future years**

- 7.11 The projected underspend against the Chief Constables budget in 2019/20 will be used to provide further investment in police services for 2020/21. The forecast underspend of just under £1.900m will be used to support the further front loading of officer recruitment in 2020/21, delivering operational officers as soon as possible, and in advance of future years Uplift targets being set.
- 7.12 The settlement for 2020/21 and the PCC's decision to increase the precept by 1.99% provides for further investment in policing priorities for Northumbria of £6.400m (£4.400m 2020/21 and £2.000m 2021/22), which is in addition to the increase in police officer numbers provided through Uplift. This brings total investment to £8.3m, delivered over 2021/22 and 2022/23.
- 7.13 This MTFs has therefore utilised funds available in 2020/21 in a prudent manner to ensure that decisions on investment taken by the PCC and Chief Constable remain affordable and sustainable over the 4 years of this MTFs. For this purpose £8.2m has been identified to establish a reserve that will be used in full over the following 3 years of the MTFs. This approach will also ensure that funds are available to provide the necessary support functions, training resources and infrastructure improvements to the police estate to support and maximise the benefit for local people of the future Uplift and other additional police officer numbers in 2021/22 to 2023/24. The approach is fully reflected in the planned use of reserves line and later at section 9 (Reserves).

### **Total Income**

- 7.14 **Grant Income** – Due to the one-year settlement; messaging that the CSR will be undertaken in 2020 and is likely to be tough; and the continued discussion in the policing world about the review of the Funding Formula, the projected core grant income over future years of the strategy is flat cash.
- 7.15 **Localised Council Tax Support and Council Tax Freeze Grants** – These grants were described earlier at section 6.16 and have been received for a number of years now with the earliest one commencing in 2011/12. There has been no suggestion that they will cease in the CSR 2020 and therefore the assumption is that they will continue for the medium term.
- 7.16 **Council Tax Precept** – The PCC will make decisions on the level of the precept on a year-by-year basis, and following consultation with the public. The assumption for increases in future MTFs years therefore remains prudent at 1.99%, the minimum in recent years.

- 7.17 **Tax Base Increase** – The actual tax base increase for 2020/21 is 1.55%. The assumption is set at 1.4% for future years based on the minimum experience in recent years.
- 7.18 **Collection Fund Surplus** – This is confirmed on an annual basis by each Local Authority. The surplus expected in 2020/21 is £0.938m and has been notified formally by each Local Authority. Future year estimates are included at a prudent level of £0.500m.
- 7.19 **Funding Gap and Planned Use of Reserves** – As described earlier the forecast underspend on the Chief Constables budget of £1.9m for 2019/20 will support the front loading of officer recruitment in 2020/21. The £8.2m identified in 2020/21 will provide essential funding which can be played in over 2021/22 to 2023/24 to support the delivery of the national Uplift programme, and other additional officers, ensuring that the investments in policing provided in 2020/21 remain affordable and sustainable over the medium-term.

## 8. Capital Estimates and Financing

8.1 The following table provides a summary of the 4 year capital programme:

Capital Estimates	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000
Building Schemes	8,002	4,681	938	1,047	14,668
Information Technology	4,254	10,042	12,389	3,201	29,886
Vehicles and Equipment	4,485	3,926	4,628	3,704	16,743
<b>Total</b>	<b>16,741</b>	<b>18,649</b>	<b>17,955</b>	<b>7,952</b>	<b>61,297</b>

8.2 Key areas to note in the proposed programme are:

- **Building Schemes** – This MTFs will provide capital investment of £14.668m in refurbishing the Northumbria Police estate, making sure that our buildings are fit for purpose and able to accommodate the needs of the workforce and planned officer Uplift. This investment will ensure that the estate supports the Force’s work to protect vulnerable people and deliver quality investigations by providing all staff with accessible, flexible and modern workspaces to support and encourage an effective approach to problem solving.
- **Information and Communications Technology (ICT)** – The MTFs will provide additional capital investment of £29.886m in technology, information services and solutions that enhance the efficiency and effectiveness of the Force across all aspects of policing, for the community it serves, the partners it works with and the people it employs. This investment is over and above previously mentioned revenue investments in skills and specialists, and is primarily the cost of replacing aging legacy systems which it was not possible to upgrade and replace during the previous period of austerity. The investment will ensure the provision of digital environments which provide the capability to engage and communicate; integrate operational activities, improve data quality and collaborative data sharing capabilities and support integration with key stakeholders including linking national systems. The Force will continue to prioritise ICT products and services which aim to support the vulnerable, deliver quality investigations and the application of problem solving.
- **Vehicles and Equipment** – The programme of investment in vehicle replacement will ensure that the vehicle fleet is fit for purpose and able to support the operational demands of the Force operating model and the Uplift in police officers over the medium term. Investment in material programmes for upgrading equipment including

body armour, body-worn video and Taser provision will make sure that our officers are equipped to provide an effective policing service, protect the public and keep themselves safe.

## Capital Financing

Capital Estimates	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000
Forecast Expenditure	16,741	18,649	17,955	7,952	61,297
<b>Financed by:</b>					
Grants and Contributions	403	866	526	338	2,133
Capital receipts	0	10,502	12,808	0	23,310
Use of reserves (ESN Reserve)	0	2,600	1,000	0	3,600
Prudential Borrowing	16,338	4,681	3,621	7,614	32,254
<b>Total Financing</b>	<b>16,741</b>	<b>18,649</b>	<b>17,955</b>	<b>7,952</b>	<b>61,297</b>

- 8.3 The 2020/21 settlement sees the Government cut capital grants by 74% in order to prioritise national capital schemes and infrastructure with the expectation that increases in revenue grants can be used flexibly to cover both capital and non-capital spend.
- 8.4 Capital receipts will therefore be used prudently across the MTFs period to manage overall capital investment and limit the impact on revenue budgets alongside this significant funding cut. Receipts will be applied over years 2 and 3 of the MTFs to support the concentration of capital spend profiled in those years. This will ensure that revenue costs of capital financing are affordable over the medium term and will limit the increases in capital financing to the earlier years of the MTFs, rather than pushing these out to future years where there is less certainty of funding levels.
- 8.5 The Emergency Services Network (ESN) reserve will be applied to support the capital costs of ESN implementation in Northumbria profiled over 2021/22 and 2022/23.
- 8.6 Prudential borrowing will provide the remaining requirement for capital financing over the medium term. The costs of borrowing and repayment are fully reflected in the revenue budget over the medium term. Affordability is further considered as part of the Prudential indicators approved by the Commissioner as part of the revenue budget and precept setting process.

## 9. Reserves

### Background information on Reserves

- 9.1 Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when preparing budgets.
- 9.2 In establishing reserves, the 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.
- 9.3 Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on Reserves and Balances (LAAP Bulletin No 77 November 2008) and the requirements of the Code suggest 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.

9.4 In addition, the Home Office Financial Management Code of Practice (FMCP) 2018 requires Police and Crime Commissioners to publish a reserves strategy on an annual basis. The statement provides an explanation for each reserve along with its value. Plus, a narrative explaining whether the current and projected level of reserves is appropriate, and governance arrangements for reserves are adequate and appropriate. The Reserves Strategy Statement as at 31 March 2019 is published on the PCC's website.

9.5 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.

9.6 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 Forecast

9.7 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 following table and subsequent paragraphs.

MTFS Revenue Reserves Forecast	At 31					
	March	March	March	March	March	March
	2019	2020	2021	2022	2023	2024
	£m	£m	£m	£m	£m	£m
<b>General Reserve</b>	<b>9.7</b>	<b>11.6</b>	<b>9.7</b>	<b>9.7</b>	<b>9.7</b>	<b>9.7</b>
<b>Earmarked Reserves</b>						
Insurance Reserve	3.0	3.0	3.0	3.0	3.0	3.0
Police Pension Scheme Funding Reserve	2.0	3.4	3.4	3.4	3.4	3.4
Workforce Management Reserve	1.3	1.3	1.3	1.3	1.3	1.3
Emergency Services Network (ESN) Reserve	-	3.6	3.6	1.0	-	-
Reserve to Maintain Investment over the Medium Term and Support Uplift	-	-	8.2	6.0	4.7	-
Innovation Reserve	0.4	0.3	-	-	-	-
Domestic Violence Reserve	0.1					
External Funding Reserve	0.3	0.3	0.4	0.1	0.1	0.1
NERSOU Reserve	0.3	0.2	-	-	-	-
<b>Total Earmarked Reserves</b>	<b>7.4</b>	<b>12.1</b>	<b>19.9</b>	<b>14.8</b>	<b>12.5</b>	<b>7.8</b>
<b>Total Revenue Reserves</b>	<b>17.1</b>	<b>23.7</b>	<b>29.6</b>	<b>24.5</b>	<b>22.2</b>	<b>17.5</b>

### General Reserve

- 9.8 The expected General Reserve at 1 April 2020 is £11.6m equating to 3.9% of the revenue budget of £296.2m for 2020/21. This balance represents an increase of £1.9m which reflects the projected underspend on the Chief Constables budget for 2019/20. The additional funds have been identified for further investment in 2020/21 to provide 50 new police officers over and above the basic Uplift allocated by Government. Therefore the balance will revert back to £9.7m as at March 2021 which equates to 3.2% of the revenue budget. This meets one of the key MTFS principles to seek to maintain the General Reserve at a minimum of 2.0% of the net revenue budget. The closing General Reserves at 31 March 2024 are estimated to be £9.7m equating to 3.1% of the net revenue budget of £312.0m.

#### **Insurance Reserve**

- 9.9 The Insurance Reserve is maintained for potential liabilities and costs which fall onto the Commissioner where it is more economical to keep a reserve than seek specific insurance. 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 £3.0m and it is not anticipated that this will change over the period of the MTFS.

#### **Police Pension Scheme Funding Reserve**

- 9.10 The Police Pension Scheme Funding Reserve was established as a result of the sudden shift in employer's pension costs for police officers from April 2019. Specific grant funding of £3.4m was provided by the Government for 2019/20 with no assurance given for future years and therefore the Commissioner established an earmarked reserve to provide funding for one year should the government fail to address the significant cost implication in full. Special grant funding has now been confirmed for one further year in 2020/21 and the MTFS revenue projections assume that funding will continue to be provided in some form by Government over the medium term. There remains a significant risk to funding should the Government fail to fully protect police budgets in the CSR 2020. Whilst the MTFS assumes that funding will be provided by Government in some form, the reserves strategy remains to retain this reserve until the issue is resolved. This approach will be reviewed on an annual basis until the national position is clarified.

#### **Workforce Management Reserve**

- 9.11 The Workforce Management Reserve was established to manage costs associated with workforce change. The reserve has a balance of £1.3m and was increased in 2018/19 as a precautionary measure in case there were workforce implications, should the government fail to fund Police Pensions adequately as part of the 2020 CSR. Whilst the MTFS assumes that the increased cost of police pensions will be met by Government in some form, this remains a significant risk until the national position is clarified. This reserve will be retained as a backstop to meet unexpected people related costs associated with any workforce change required over the medium term, to ensure that such pressure does not impact on the sustainability of planned investment in the revenue budget.

#### **Emergency Services Network (ESN) Reserve**

- 9.12 We do not believe that the Government will provide funding for implementation of the national Emergency Services Network (ESN) in Northumbria. To avoid the risk of the costs falling on the Force and to ensure no impact on operational policing the implementation will be funded through a mix of prudential borrowing and the use of the ESN reserve. The 2019/20 approved budget included a planned transfer to earmarked reserves to protect against specific risks for Northumbria, of which £2.600m was identified to establish the Emergency Services Network (ESN) Reserve. The projected underspend against the Commissioner's capital financing budget in 2019/20 (section 6.4) will provide further funding for the ESN project of

£1.000m. The total reserve balance of £3.600m will be used in full to manage the cost of ESN implementation expected for Northumbria over 2021/22 and 2022/23.

### **Reserve to Maintain Investment over the Medium Term and Support Uplift**

- 9.13 The revenue budget for 2020/21 includes provision for further investment in policing priorities of £4.358m. Part of the funding allocated for 2020/21 (£8.200m) has been identified to support that investment in future years, in order to ensure that it remains sustainable over the medium term. This approach will also ensure that funds are available to provide the necessary support functions, training resources and infrastructure improvements to the police estate to support and maximise the benefit for local people of the national Uplift and supplemental investment in additional police officer numbers in 2021/22 to 2023/24.

### **Innovation Reserve**

- 9.14 This reserve represents funds identified for innovative work with partner agencies through the Office of the Police and Crime Commissioner. The reserve ensures that income identified for this purpose remains available by carrying forward balances held for projects between financial years.

### **External Funding Reserve**

- 9.15 The External Funding Reserve represents receipts of income which are not time limited, and which are carried forward at the year-end to be used in future years, in-line with any terms and conditions. The reserve represents income received from external partners, which is to be used to fund specific activities and policing services.

### **NERSOU Reserve**

- 9.16 The NERSOU reserve comprises the Northumbria share of the North East Regional Special Operations Unit (NERSOU) reserve. NERSOU is the three Force collaboration with Durham and Cleveland aimed at tackling serious and organised crime in the region. The NERSOU reserve will be fully utilised in 2020/21 to manage the loss of government funding for Police Transformation Funded (PTF) regional capabilities.

## **10. Risk Assessment**

- 10.1 The MTF5 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.

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Risk Management</b>
Pensions Special Grant not being included within the 2020 CSR	Possible	High	Mitigated by the creation of a one year equivalent Pension Reserve which can provide one additional year of funding whilst reduction plans are put in place.
Capital financing charges will be higher than forecast.	Unlikely	Low	Revenue implications are considered as part of capital planning and any changes to variable rates will have minimum impact as 100% of existing debt is at fixed rates.
Capital programme is understated and funding not available to deliver plans.	Unlikely	Low	Capital monitoring updates are taken quarterly to the Commissioner to provide assurance in the accuracy of forecast and monthly monitoring is undertaken by the Chief Finance Officer and Chief Constable. Prudential borrowing gives flexibility in financing the capital programme.
Failure to deliver planned savings.	Possible	Medium	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 above 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; annual review of MTFs; regular monitoring.
Future council tax rises limited by excessiveness principles determined by the government.	Likely	Medium	Balance on General Reserve maintained at minimum of 2%; forward planning; prudent future assumption of 1.99%.
Costs associated with the outcome of the national legal challenge to the Police Pension Scheme (2015) transition arrangements are not met centrally by the Home Office.	Possible	Medium	Balance on General Reserve maintained at minimum of 2%; Insurance Reserve maintained at £3.0m; close budget monitoring; annual review of budget and MTFs; existing Police Pension Fund arrangements require the Home Office to balance the deficit on the Fund each year through a top-up grant.

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Risk Management</b>
Not all risks 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.

## **11. Conclusion**

- 11.1 The overall financial context for Northumbria Police remains extremely challenging. The increase in central government funding provided by the 2020/21 settlement does not yet undo the impact of ten years of austerity and the overall funding reductions that Northumbria have had to deliver. Indeed this is a one-year settlement which does not provide any certainty beyond March 2021. The Force may face further budget pressures in the upcoming Comprehensive Spending Review (CSR). The messaging from HM Treasury is that the CSR 2020 will be tough and future settlements will not be as favourable.
- 11.2 The approach set out in this MTFS intends to deliver a balanced budget. It sets out how all four years will be financed and general reserves can be maintained above 3.0% of the revenue budget, estimated at £9.7m at March 2024, and this is greater than the minimum set out in the reserve strategy.
- 11.3 The MTFS does indicate that a sustainable financial position can be achieved over the period 2020/21 to 2023/24 and the Commissioner is fully committed to taking the necessary decisions to achieve this outcome.