

## NORTHUMBRIA POLICE AND CRIME COMMISSIONER

### Key Decisions

#### Title and Reference

**Approval of the Medium Term Financial Strategy 2019/20 to 2022/23**

**(PCC/ 364 /2019)**

#### Summary

The Medium Term Financial Strategy (MTFS) sets out the key financial issues facing the Police and Crime Commissioner over the period 2019/20 to 2022/23, 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.

#### Recommendations/ Findings:

It is recommended that the Commissioner agrees the principles set out in the MTFS and approves the MTFS for 2019/20 to 2022/23.

#### Northumbria Police and Crime Commissioner

I hereby approve the recommendations above.

**Signature**



**Date 21/02/2019**



# **Police & Crime Commissioner for Northumbria**

## **MEDIUM TERM FINANCIAL STRATEGY**

**2019/20 – 2022/23**

**Police & Crime Commissioner for Northumbria**  
**Medium Term Financial Strategy 2019/20 – 2022/23**

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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 the challenging financial climate.
- 1.3 The MTFS sets the financial context for the Commissioner's revenue budget, capital programme and precepting decisions.
- 1.4 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 governments annual funding announcements.
  - Developing a sustainable budget over the medium term.

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

3.1 The key principles underlying the Commissioner's MTFs 2019/20 – 2022/23 are:

- (i) Overall expenditure of the Commissioner will be contained within original estimates each year.
- (ii) 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.
- (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, securing economy, efficiency and effectiveness in the use of resources; in establishing the framework for policing within Northumbria and; in commissioning and procurement decisions.
- (v) The Joint Chief Finance Officer 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 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 2019/20 to 2022/23 has been carried out under the following key themes:

- The financial context in which the Commissioner operates.
- The Commissioner's current financial position.
- The significant impact of the government's failure to resource the increased cost of employers contributions for police officer pensions.
- 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.
- Reserves policy.
- Risk assessment.

## 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 demand for policing services within the available financial resources.
- 5.2 HMICFRS (Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services) considers that a Force is efficient if it is making the best use of its resources to provide policing services that meet expectation and follow public priorities, and if it is planning and investing wisely for the future.
- 5.3 In the most recent HMICFRS PEEL inspection report (March 2018) *'Police Effectiveness 2017, An Inspection of Northumbria Police'*, Northumbria was assessed as GOOD in respect of keeping people safe and reducing crime. The overall summary includes a number of key findings:
- Investigations are generally conducted to an acceptable standard, particularly in more serious and complex cases.
  - Northumbria has a good understanding of the nature and scale of mental health problems and effective arrangements with partner organisations are in place to oversee and monitor the national crisis care arrangement. Extensive training has been delivered facilitating a good level of understanding of the role and responsibilities of the police. The force works jointly with the Northumberland, Tyne and Wear National Health Service Foundation to provide a mental health street triage service that allows for early clinical assessment and rapid access to appropriate treatment.
  - Northumbria has the necessary arrangements in place to fulfil its national responsibilities, and has a good understanding of the potential harm facing the public and has arrangements in place to respond to an attack which requires an armed response.
- 5.4 In January 2018 HMICFRS visited Northumbria Police as part of the National Child Protection Inspection, to assess the overall effectiveness of the force and its response to children who need help and protection. Key findings included:
- Northumbria has demonstrated a strong commitment to improving its services for the protection of vulnerable children and this is visible at all levels of the force – from the Chief Constable to frontline staff.
  - HMICFRS found good engagement with partner safeguarding agencies from across the six local authorities.
  - The force has invested time and resources, both to involve and support children in its services through a number of initiatives. For instance, the Safety Works interactive centre provides advice and education regarding vulnerable situations and the development of the Mini-Police and Cadets programmes are also demonstrable of this ethos.
- 5.5 Police Forces have finite resources with which to do an increasingly complicated job, and therefore must ensure that they deploy and use their resources in the best way possible. It is important that Forces make sophisticated decisions about how to spend and invest their resources in order to achieve the best value for the public.
- 5.6 Policing has changed significantly in recent years and demand on police resources is considerable, growing, and ever changing. Online and cyber-crime are increasing and there is an emergence of complex and harmful crimes such as child sexual exploitation and human

trafficking. Incidents involving people with mental health problems are increasing and more victims are reporting rape and domestic violence.

- 5.7 The Force prioritises demand through an analysis of threat, harm and risk, assessing the types of crimes which most threaten communities, as well as the Force's current capability to respond effectively.
- 5.8 The six main priorities are identified in the Commissioner's Police and Crime Plan 2017 - 2021:
- Domestic and sexual abuse.
  - Putting victims first.
  - Effective criminal justice system.
  - Reducing anti-social behavior.
  - Cutting crime.
  - Community confidence.
- 5.9 The Commissioner's MTFs is underpinned by workforce planning and capital programmes which are aligned with the delivery of the Police and Crime Plan priorities and the continued delivery of an efficient and effective police service to the communities of Northumbria.

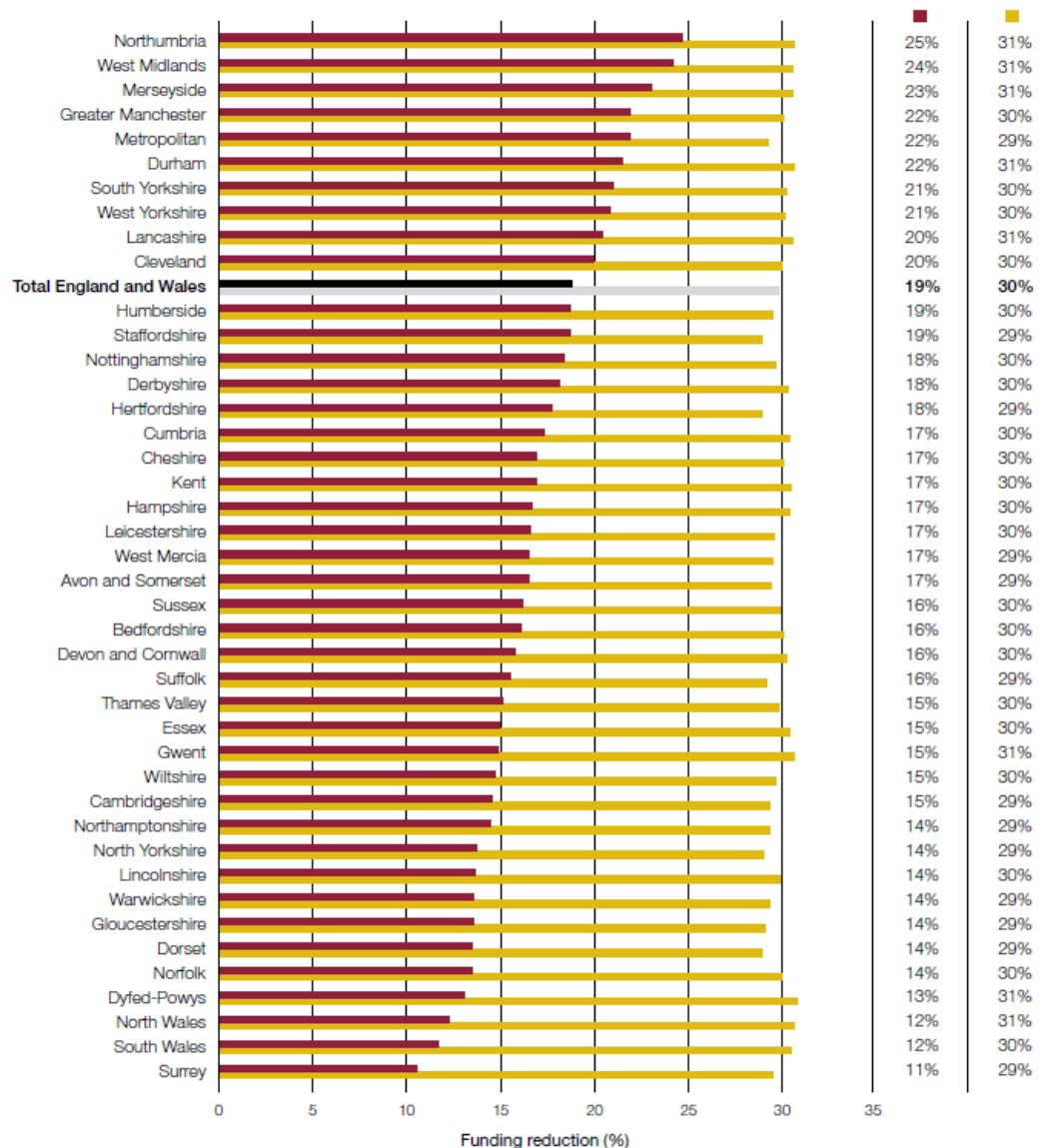
## **6. Financial Context**

- 6.1 The last 9 years have seen unprecedented cuts to the funding provided by the government for policing. The National Audit Office (NAO) report, '*Financial sustainability of police forces in England and Wales 2018*', identified that central government funding for policing in Northumbria has been reduced by 31% in real terms since 2010/11. Northumbria has had to make £142.3m of cuts and efficiencies to manage the reductions imposed by government over that period.
- 6.2 The structure of funding means those which have a lower council tax precept will suffer more as any cut from government is to the larger proportion of their funding. Northumbria experienced the largest impact of cuts because it receives more in grant in proportion to its council tax; around 84% in 2018/19 was by Home Office grant. In addition, Northumbria has the lowest precept of any PCC in England and Wales and a low yield too.
- 6.3 Northumbria has taken the biggest financial cut of all Forces in England and Wales through both the 2010 and 2015 Comprehensive Spending Review (CSR) periods. The NAO 2018 report shows that total funding for Northumbria, through grant and precept, has fallen by 25% since 2010/11, as set out in the following chart:



## Funding reductions by police force, 2010-11 to 2018-19

Police funding fell by 19% in real terms, with wide variation between forces in the level of cuts experienced



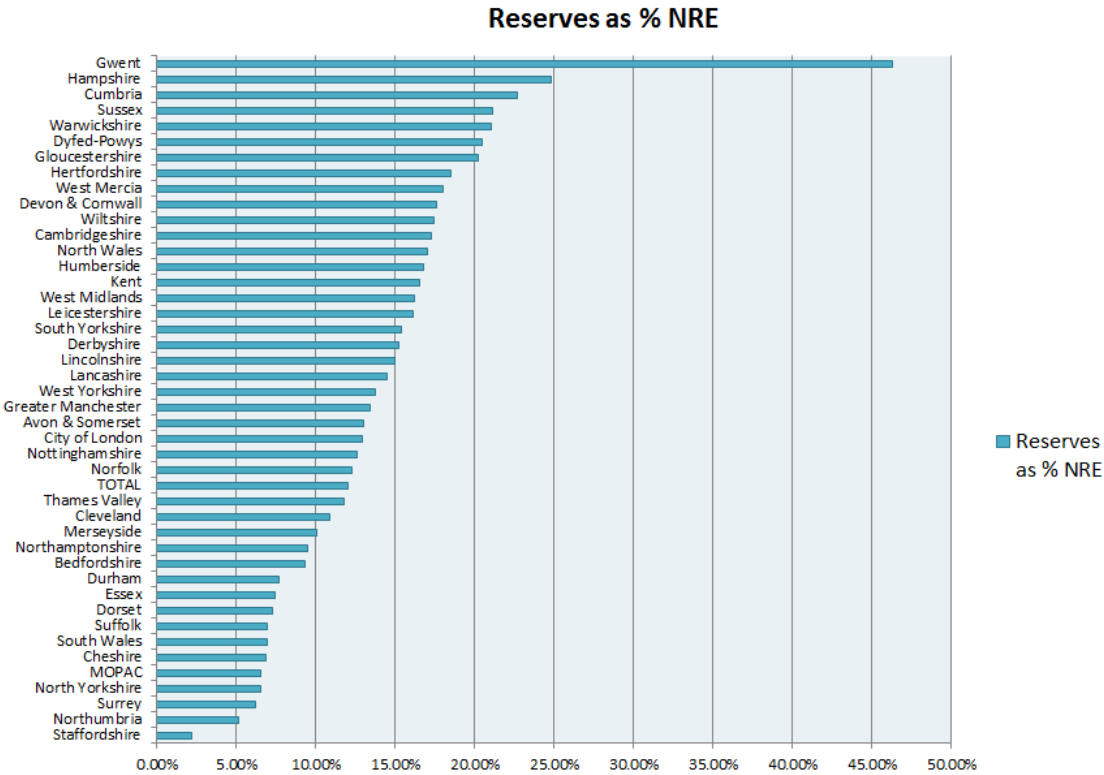
■ Total funding reduction (central government funding, council tax contributions and local council tax support grant)  
 ■ Central government funding reduction (excluding local council tax support grant)

6.4 In policing officer and staff employee pay accounts for the majority of the annual revenue budget and therefore the savings delivered to date have been mainly realised through reductions to the workforce (March 2010 to March 2018):

Workforce Reduction	March 2010	March 2018	Reduction	
	FTE	FTE	FTE	%
Police Officers	4,187	3,171	(1,016)	24%
Police Staff and PCSO	2,534	1,655	(879)	35%
<b>Workforce</b>	<b>6,721</b>	<b>4,826</b>	<b>(1,895)</b>	<b>28%</b>

6.5 General reserves have reduced from £71.0m in 2010 to an estimated £8.4m by March 2019, a reduction of 88% over that period through the need to play them in to counteract the otherwise unsustainable depth of cuts. Further use of reserves is not a sustainable option.

6.6 In October 2018 the Police and Crime Commissioners Treasurers Society (PACCTS) technical support team collated a survey of all Police and Crime Commissioners' reserves positions, based on audited year-end figures for 2017/18. The data shared by PACCTS shows that Northumbria hold the second lowest level of reserves as % of Net Revenue Expenditure (NRE) as at March 2018.



6.7 The force will continue to explore further collaboration and continue our reform in order to structure the force to align available resources with the delivery of Police and Crime Plan priorities and demand for police services.

**Funding Formula**

6.8 The Home Office failed to implement its proposed new funding formula for 2016/17 after a fundamental error was found in the data it was using for its calculations. During 2016 the government re-launched its review of the Police funding formula which continued into 2017, however, the 2018/19 settlement announcement in December 2017 stated that the formula review would be deferred to the next Comprehensive Spending Review (CSR), this is still to be formally confirmed.

6.9 Further to the CSR, work is to be undertaken on the review of the funding formula and a full consultation period is expected to take place during 2020, there is no change anticipated to the formula used to distribute core grant funding till 2021/22 at the earliest. Therefore the MTFs has made no assumptions in this regard.

**Police Pension Valuation Directions**

6.10 The final settlement for 2019/20 includes a one-off Special Pension Grant from the government of £3.4m for Northumbria to manage part of the increased costs for 2019/20. As a result of Her Majesty's Treasury revaluation of, amongst other pensions, the police one the employers contribution has risen by £7.7m per year police pension

- 6.11 Because the government has failed to commit to protecting police budgets against the revaluation of the police pension fund, the PCC will establish a pensions reserve of £3.4m. If the position does not improve in the 2019 Comprehensive Spending Review (CSR) this reserve will contribute to the management of the inevitable resulting reductions.

### **Comprehensive Spending Review (CSR) and Police Settlement**

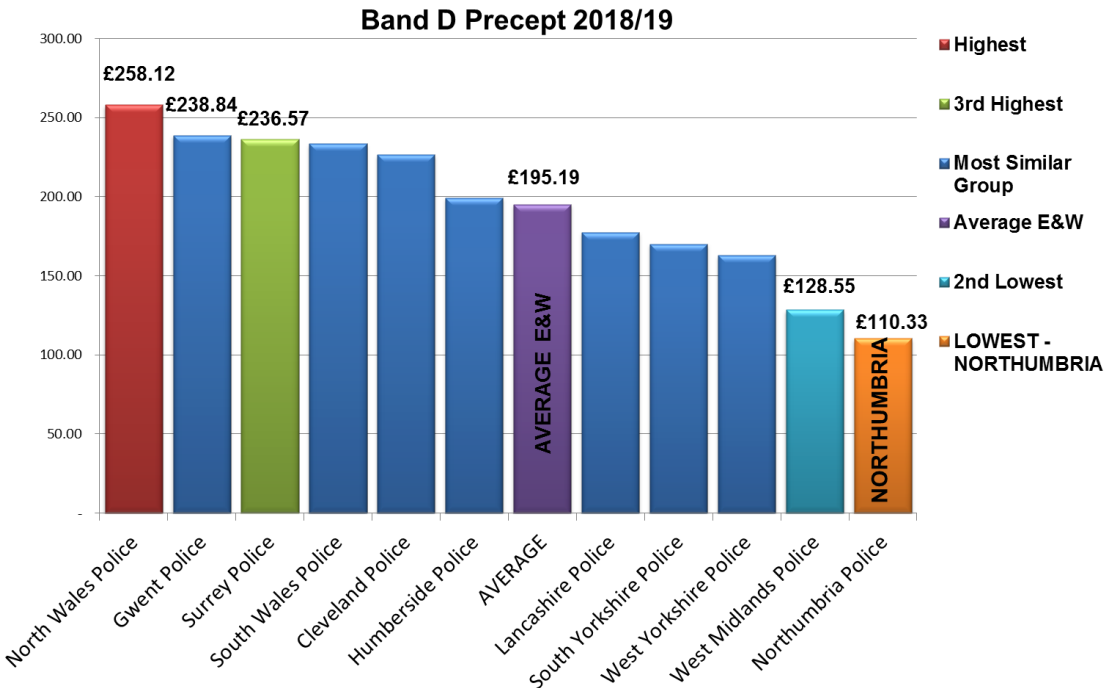
- 6.12 The last CSR (2015) set out that overall police funding was to be cut by 1.3% in real terms over four years up to 2019/20.
- 6.13 The government further took into account that PCCs can raise local council tax when determining that this would mean a flat rate settlement for policing as a whole. However PCCs can only increase council tax within the amount allowed by the government.
- 6.14 However, the financial impact for each Force was a reduction in formula grant of 2% over 2016/17 (0.6%) and 2017/18 (1.4%). For 2018/19 grant funding was maintained in flat cash terms, a further reduction in real terms when taking into account employee pay awards and inflation. Police and Crime Commissioners were required by government to increase council tax locally which still did not make up for government cuts. This represented a significant real terms cut to overall funding, with little or no provision to meet inflation and other year-on-year cost pressures.
- 6.15 The provisional national police grant settlement was published on 13 December 2018. The final figures were confirmed on 24 January 2019 and were unchanged against the provisional settlement.
- 6.16 The key headlines from the settlement are:
- Police Core Grant - General police grant allocations to PCCs to be increased by £161m, equivalent to 2.1%.
  - One-off Special Pension Grant allocations to PCCs totaling £153m to provide specific funding for part of the increased cost of police officer pensions in 2019/20.
  - Council tax Referendum Limits - All Police and Crime Commissioners have been allowed/required to increase the precept by £24 per Band D property.
  - Legacy grants relating to council tax and freeze grants for 2011/12 and 2014/15 remain payable.
  - Police capital grant maintained in flat cash terms.
  - Four priority areas identified to drive efficiency, productivity and effectiveness in 2019/20, ahead of the new CSR.
- 6.17 Top-slice and Reallocations:
- Transformation Fund maintained at £175m.
  - Investment of £90m in Serious and Organised Crime (SOC) capabilities at national, regional and local levels. With a significant proportion allocated directly to Police Forces, but no specific details.
  - Counter Terrorism funding increased by £59m to £816m (including £24m armed uplift).
  - Police Special Grant of £73m (central contingency allocated for specific events).
  - Police Technology Programmes maintained at £495m (includes: Emergency Services Network, Biometrics, and the National Law Enforcement Data Service).

6.18 For Northumbria the implications of the 2019/20 settlement are as follows:

- Home Office formula grant increased by £4.5m (2.1%) to £219.0m.
- Police Special Pension Grant of £3.4m.
- No change to legacy grants £8.2m.
- PCCs being allowed/required to increase the precept by £24 for a Band D property.
- Capital grant £1.3m maintained in cash terms against 2018/19.

**Council Tax**

6.19 Together, with cuts in the national grant council tax levels have been limited by the government, meaning a reduction in funding overall. In the last 2 years the government has allowed/required an increase in council tax so that the burden of any further investment in policing is falling on local tax payers not central government. The following graph shows a comparison of Northumbria’s position to other Force areas for the current financial year 2018/19:



6.20 As is clear on the graph the Northumbria Band D precept charge of £110.33 is the lowest of any PCC. Band D precept charge is the contribution paid toward policing by a homeowner in that category. Currently 16% of our core resource funding in 2018/19 is derived from council tax and the government is increasing the percentage paid by local tax payers every year.

6.21 The schedule below sets out the level of Band D council tax over the last 5 years:

Year	Precept (Band D)
2018/19	£110.33
2017/18	£98.33
2016/17	£93.33
2015/16	£88.33
2014/15	£86.61

- 6.22 The Secretary of State can provide what increases can be made by PCCs to council tax without requiring a referendum and in 2019-20 the sum is £24 but the assumption for the two following years is that it will be limited to £5 as it has been in some previous years.
- 6.23 The precept referendum limits for 2019/20 have allowed/required each PCC to increase the precept by £24 per year for a Band D property.
- 6.24 This MTFS as presented includes an increase in the precept of £24 for a Band D property for 2019/20. The assumption regarding future years 2020/21 to 2022/23 is that this limit is reduced to £5 for Northumbria in-line with the limit set for previous years (2016/17 and 2017/18). The MTFS further assumes that the precept is increased to the maximum permitted each year, in-line with the governments approach to total spending power over the CSR period.
- 6.25 The MTFS also includes the following Home Office legacy grants relating to the freeze in the precept (2011/12 and 2014/15) and the localisation of council tax support schemes, in addition to the constituent authorities' net surplus on collection funds:
- Home Office Legacy council tax Freeze Grants totalling £1.301m.
  - Localised Council Tax Support Grant £6.867m.
  - Collection fund surplus £0.762m in total.

#### **Police Transformation Fund**

- 6.26 The Police Transformation Fund (PTF) provides one-off grants for transformative projects, following the national grant settlement this remains at £175m for 2019/20, in-line with the previous year.
- 6.27 The Police and Crime Commissioner has been successful in securing one-off grant funding from the national PTF fund, and other one-off Home Office funding streams, of £16.506m since 2015/16. With Northumbria Police receiving £5.1m as an allocation of this funding:

	<b>Total value of Successful PTF Bids: All Forces</b>	<b>Proportion of Successful PTF Bids: Northumbria Police</b>
	<b>£m</b>	<b>£m</b>
<b>2019/20</b>	<b>1.280</b>	<b>0.777</b>
<b>2018/19</b>	<b>4.553</b>	<b>1.288</b>
<b>2017/18</b>	<b>3.432</b>	<b>0.873</b>
<b>2016/17</b>	<b>4.623</b>	<b>1.510</b>
<b>2015/16</b>	<b>2.618</b>	<b>0.693</b>
	<b>16.506</b>	<b>5.141</b>

- 6.28 Projects funded through national funds have focused on improving victim safety and confidence; multi-agency work to tackle Child Sexual Exploitation (CSE), tackling modern day slavery; safeguarding of serial victims; early youth intervention, tackling domestic abuse; preventing serial perpetrator offending and projects to support the most vulnerable, including children affected by domestic abuse.

6.29 The Commissioner will continue to maximise all opportunities to secure funding from within the Police Transformation Fund during 2019/20 and across future years.

## Ministry of Justice Grant

- 6.30 The Ministry of Justice (MOJ) allocates a grant to the Commissioner each year for local commissioning of victim services. The grant is allocated between Police and Crime Commissioners on the basis of population. A total of £1.679m was allocated to the Police and Crime Commissioner for Northumbria for 2018/19. For 2019/20 the allocation is slightly lower at £1.673m.
- 6.31 The MOJ grant is held outside of the police General Fund and the Commissioner makes decisions on the commissioning of services on an annual basis, within the grant funding available. The commissioning of victim services therefore has no impact on Force budgets.

## 7. Current 2018/19 Financial Position

- 7.1 The Commissioner's net revenue budget for 2018/19 is £266.245m. The Quarter 3 revenue monitoring report shows a projected budget underspend of £2.214m as at 31 December 2018.

2018/19 Revenue Monitoring - Quarter 3 Position			
	Approved Budget 2018/19 £m	Projected Outturn 2018/19 £m	Variance 2018/19 £m
<b>Group Position</b>			
Chief Constable	256.801	255.106	(1.695)
Police and Crime Commissioner	2.061	1.858	(0.203)
Capital Financing	7.383	7.067	(0.316)
<b>Net Expenditure</b>	<b>266.245</b>	<b>264.031</b>	<b>(2.214)</b>
Central Government Grant	(222.624)	(222.624)	0.000
Council Tax Precept	(43.621)	(43.621)	0.000
<b>Central Grant and Precept Total</b>	<b>(266.245)</b>	<b>(266.245)</b>	<b>0.000</b>
<b>Appropriations (to) / from reserves</b>	<b>0.000</b>	<b>(2.214)</b>	<b>(2.214)</b>

- 7.2 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.
- 7.3 The overall Group forecast represents an underspend of £2.214m. The underspend against the Chief Constable's revenue budget is primarily attributable to: The receipt of a one-off large value rate rebate for the Ponteland site from the Valuation Office; an underspend against the workforce profile set in January 2018 as part of the MTFs process, primarily due to the re-profiling of recruitment of staff positions until the future funding position was clarified; and a reduction in ICT product support costs, due to the re-profiling of go-live dates of new systems.
- 7.4 For capital financing, savings on interest costs have been achieved in-year mainly due to a reduction in planned capital spend, new long term borrowing secured at preferential rates and deferred to later in the financial year on advice from the Commissioner's external treasury advisers.

- 7.5 The overall Group forecast represents an underspend of £2.214m. £2.0m of this underspend will be used to establish a pensions reserve because the government has failed to commit to protecting police budgets against the revaluation of the police pension fund, Northumbria's contribution to that cost would be £3.4m each year. If this position does not improve in the 2019 CSR this reserve will contribute to the management of the inevitable resulting reductions
- 7.6 The forecast closing position on the general reserve for 2018/19 is £8.4m, as set out in the table below. This includes the planned transfer to increase the Workforce Reserve to mitigate any future workforce changes:

<b>2018/19 General Reserve - Quarter 3 Position</b>			
	<b>Approved 2018/19</b>	<b>Revised 2018/19</b>	<b>Variance 2018/19</b>
<b><u>Group Position</u></b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Opening Balance (01/04/18)	9.1	9.4	0.3
Planned Transfer to Workforce Reserve	(1.0)	(1.0)	0.0
<b>Forecast Closing Balance (31/03/19)</b>	<b>8.1</b>	<b>8.4</b>	<b>0.3</b>

## 8. Medium Term Budget Pressures in Northumbria

- 8.1 When calculating the medium term budget projections for Northumbria consideration has been given to a number of budget pressures including:
- i. Pay and price increases.
  - ii. Budget pressures.
  - iii. Revenue implications of the capital programme.
  - iv. Other.

### **Pay and price increases**

- 8.2 **Inflation** - Indicative budget forecasts for 2019/20 to 2022/23 reflect the impact of inflation on budgets wherever possible such as energy, business rates and rent increases along with known contract increases. In addition, estimates for future pay awards at 2% have been included and CPI linked inflation on Injury Pensions. From 2019/20 the significant increase in the cost of employer pension contributions for police officers of £7.7m per year is included within the Chief Constables budget.
- 8.3 Other pay and price and budget pressures - The MTFS also includes estimates of the impact of the annual cost of officer pay progression under police regulations, the triennial review of the Local Government Pension Scheme (LGPS), the police staff pay and grading review, revenue implications of the National Emergency Services Network (ESN) within Northumbria and other budget pressures.

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

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



## 9. Medium Term Savings Proposals

- 9.1 As discussed previously, there has been a period of sustained financial pressure throughout the previous CSR and Northumbria has continued to be the hardest hit force financially. The Commissioner and Chief Constable continue to take tough decisions every day to make ends meet. Following consultation with local residents the Commissioner is recommending an increase in the precept which will invest in policing, including new officers and staff, and the retention of roles that had originally been planned to be lost.
- 9.2 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 in the face of a challenging financial situation, for example:
- Non pay savings.
  - Savings through procurement through the continued use of national frameworks.
  - Maximising income generation wherever possible.

## 10. Capital Estimates and Financing

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

Capital Estimates	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Major and Minor Building Schemes	6,301	5,029	3,237	560	15,127
Information Technology	7,579	9,310	7,902	2,575	27,366
Vehicles and Equipment	3,368	3,940	2,926	3,604	13,838
<b>Total</b>	<b>17,248</b>	<b>18,279</b>	<b>14,065</b>	<b>6,739</b>	<b>56,331</b>

- 10.2 Key areas to note in the proposed programme are:
- **Building Schemes** - Estates refurbishment programme based on operational requirements and 2018 condition surveys; transition and relocation costs associated with the estates rationalisation programme; and co-location with partner agencies.
  - **Information Technology** - the Force have a number of Improvement Schemes to deliver change and efficiency through transformation, which includes considerable investment in IT systems. This includes the replacement of all core operating systems and the associated hardware and network equipment, and implementation of the National Emergency Services Network (ESN) within Northumbria.
  - **Vehicles and Equipment** - a rolling programme of vehicle replacement and material programmes for upgrading equipment including body-worn video.

## Capital Financing

Capital Estimates	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total £000
Forecast Expenditure	17,248	18,279	14,065	6,739	56,331
<b>Financed by:</b>					
Grants and Contributions	1,295	1,472	1,063	963	4,793
Capital receipts	7,746	11,208	4,216	0	23,170
Prudential Borrowing	8,207	5,599	8,786	5,776	28,368
<b>Total Financing</b>	<b>17,248</b>	<b>18,279</b>	<b>14,065</b>	<b>6,739</b>	<b>56,331</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 through minimising impact on 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 and grant income. Building works with longer asset lives will be supported by prudential borrowing as this provides the most efficient form of financing.

## 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 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 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 In addition, CIPFA along with the Home Office recommended as good practice that Police and Crime Commissioners publish an Annual Reserve Strategy Statement. Northumbria has published an Annual Reserves Strategy Statement since 2017/18. 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.

11.5 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.

11.6 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

11.7 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 paragraphs below.

### General Reserve

11.8 The expected General Reserve at 1 April 2019 is £8.4m equating to 3.0% 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 2023 are estimated to be £9.4m equating to 3.3% of the net revenue budget.

### Earmarked Reserves

11.9 Earmarked Reserves represent funds which have been set aside by the Commissioner for specific purposes. The table below shows the overall strategy for use of reserves over the MTFS period.

	At 31 March 2019 £m	At 31 March 2020 £m	At 31 March 2021 £m	At 31 March 2022 £m	At 31 March 2023 £m
<b>MTFS Reserves Forecast</b>					
<b>Earmarked Reserves</b>					
Insurance Reserve	3.0	3.0	3.0	3.0	3.0
Workforce Development Reserve	1.3	1.3	2.9	0.0	0.0
Police Pension Reserve	2.0	3.4	0.0	0.0	0.0
Emergency Services Network (ESN) Reserve	0.0	2.6	0.0	0.0	0.0
Domestic Violence Reserve - Health Advocates	0.1	0.0	0.0	0.0	0.0
Partnership Working Reserve	0.2	0.1	0.0	0.0	0.0
External Funding Reserve	0.1	0.0	0.0	0.0	0.0
NERSOU Reserve	0.2	0.0	0.0	0.0	0.0
<b>Total Earmarked Reserves</b>	<b>6.9</b>	<b>10.4</b>	<b>5.9</b>	<b>3.0</b>	<b>3.0</b>
General Reserves	<b>8.4</b>	<b>8.4</b>	<b>8.4</b>	<b>9.4</b>	<b>9.4</b>
<b>Total Reserves</b>	<b>15.3</b>	<b>18.8</b>	<b>14.3</b>	<b>12.4</b>	<b>12.4</b>

### Insurance Reserve

11.10 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.

### Workforce Development Reserve

- 11.11 The Workforce Development Reserve was set up to manage the costs associated with workforce change and was used over the last CSR to manage the workforce reductions required over that period. The reserve has an estimated balance of £2.9m by March 2021 which will be available to manage any workforce change required as a result of the 2019 CSR and any resulting funding reductions.

#### **Police Pension Reserve**

- 11.12 The Police Pension Reserve is a planned contingency to manage the increased cost of employer's pension contributions for police officers in 2020/21 if the government fails to address this significant cost implication in full, within the 2019 CSR.

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

- 11.13 The ESN Reserve holds funds set aside as a contingency to manage increasing future costs associated with the National Emergency Services Network (ESN) implementation in Northumbria.

#### **Domestic Violence Reserve – Health Advocates**

- 11.14 This reserve was set up to support work aimed at tackling domestic abuse, specifically to fund the work being undertaken by local authority Health Advocates.

#### **Partnership Working Reserve**

- 11.15 This reserve holds funds which have been set aside by the Commissioner to pilot additional support for victims in specialist domestic violence courts.

#### **External Funding Reserve**

- 11.16 The External Funding Reserve represents occasional small receipts which are not time limited, which are held between their receipt and being spent. The estimated reserve balance as at 31 March 2019 is expected to be fully used in 2019/20.

#### **NERSOU Reserve**

- 11.17 The NERSOU reserve comprises the Northumbria share of the North East Regional Special Operations Unit (NERSOU) reserve. NERSOU is the 3 force collaboration with Durham and Cleveland aimed at tackling serious and organised crime in the region. The NERSOU reserve will be fully utilised in 2019/20 to manage the loss of government funding for Police Transformation Funded (PTF) regional capabilities.

## **12. Indicative Budget Forecasts 2019/20 to 2022/23**

- 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 MTFS an important consideration is the precept proposal for 2019/20. The MTFS includes a precept increase of £24 built into the funding from 2019/20 going forward, and future increases as set out earlier in this report at section 6.24.

12.2 The group budget forecast position is set out in the following table:

<b>MTFS Group Budget Forecast</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	£m	£m	£m	£m
<b>Base budget</b>	<b>266.2</b>	<b>280.1</b>	<b>284.2</b>	<b>284.0</b>
<b>Budget pressures</b>				
Pay and price increases	10.7	3.6	2.1	3.6
Budget pressures	3.2	2.1	1.4	0.1
Revenue impact of capital financing	2.0	(0.4)	0.1	0.1
<b>Total budget pressures</b>	<b>15.9</b>	<b>5.3</b>	<b>3.6</b>	<b>3.8</b>
Proposed budget savings	(2.0)	(1.2)	(0.4)	(0.2)
Savings Requirement	-	-	(3.4)	-
<b>Proposed budget savings</b>	<b>(2.0)</b>	<b>(1.2)</b>	<b>(3.8)</b>	<b>(0.2)</b>
<b>Total Budget</b>	<b>280.1</b>	<b>284.2</b>	<b>284.0</b>	<b>287.6</b>
Police Pension Contingency	1.4	-	-	-
ESN Contingency	2.6	-	-	-
Workforce Contingency	-	1.6	-	-
Maintain General Reserve above 3.0%	-	-	1.0	-
<b>Net Requirement</b>	<b>284.1</b>	<b>285.8</b>	<b>285.0</b>	<b>287.6</b>
Grant Income	219.0	219.0	219.0	219.0
Special Pension Grant	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 (17/18)	42.7	42.7	42.7	42.7
Council Tax - Precept Increase	10.0	12.5	15.1	17.7
Council Tax - Collection Fund surplus / (deficit)	0.8	-	-	-
<b>Total Income</b>	<b>284.1</b>	<b>282.4</b>	<b>285.0</b>	<b>287.6</b>
<b>Funding gap / (surplus) before reserves</b>	<b>-</b>	<b>3.4</b>	<b>-</b>	<b>-</b>
<b>Planned use of reserves:</b>				
Transfer from Pension Reserve	-	3.4	-	-
<b>Funding gap / (surplus) after use of reserves</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

12.3 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.

12.4 The pension reserve of £3.4m, which will be in place by March 2020, will fund the pension shortfall in 2020/21. This is a one-off reserve which will support the budget for one year only. If the government fails to fund the full cost of the police pensions increase in future years there will be a requirement to deliver savings of £3.4m in 2021/22, at present these have not yet been identified and are reflected as a savings requirement in the budget forecast table above.

### 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.
Pensions Special Grant not being included within the 2019 CSR	Likely	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.
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 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	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

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Risk Management</b>
			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; 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.
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.
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.
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.

#### **14. Conclusion**

- 14.1 The overall financial context for Northumbria Police remains extremely challenging. The government continue to provide no certainty or assurance on funding over the medium term.
- 14.2 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 at or above 3.0% of the revenue budget, estimated at £9.4m at March 2023, and this is greater than the minimum set out in the reserve strategy. The management of this position has been achieved as far as possible but there remains a £3.4m cost in the event of a further pension grant not being received from the government. In this situation savings of this level will be required and are not yet identified.
- 14.3 The MTFS does indicate that a sustainable financial position can be achieved over the period 2019/20 to 2022/23 and the Commissioner is fully committed to taking the necessary decisions to achieve this outcome.