



**Key Decisions**

**Title and Reference**

**Medium Term Financial Strategy 2022/23 to 2025/26**

**(PCC/463/2022)**

**Summary**

The Medium Term Financial Strategy (MTFS) sets out the key financial issues facing the Police and Crime Commissioner over the period 2022/23 to 2025/26, 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 2022/23 to 2025/26.

**Northumbria Police and Crime Commissioner**

I hereby approve the recommendations above.

**Signature**

**Date 29/04/22**

**Police & Crime  
Commissioner for  
Northumbria**

**MEDIUM TERM  
FINANCIAL  
STRATEGY**

**2022/23 – 2025/26**

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# Police & Crime Commissioner for Northumbria

## Medium Term Financial Strategy 2022/23 – 2025/26

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## Foreword by the Police and Crime Commissioner for Northumbria

The purpose of this strategy is to ensure Northumbria Police have the financial stability they need to fight and prevent crime and deliver against the priorities identified by communities in my Police and Crime Plan.

Ours is a relatively safe region but maintaining that level of safety comes at a cost.

Since Government austerity began in 2010 Northumbria Police has lost 1,100 officers and around £148m in budget cuts and unfunded cost-pressures.

Northumbria Police has seen some of those officers replaced through the Government's Uplift programme, but to date only around half of the 1,100 have been replaced with no commitment from ministers to a full return to 2010 officer levels.

My belief is that Government should better fund local police forces, especially in areas of deprivation and unemployment. While I campaign for a fair funding settlement, I have used the last two policing precepts to invest in the force, ensuring new detectives are in post, new call handlers and long-term investment in the workforce.

As we look to the years ahead, the Government has said it will allow Police and Crime Commissioners to raise the precept by £10 a year for a Band D property, for the next two years, which we have assumed within this financial plan to sustain existing services, but this will be subject to consultation and reviewed on an annual basis as each year's funding settlement is announced.

It is already clear that difficult financial decisions will need to be taken, and a balance found between the cost pressures facing North East households and the demands placed on the force.

In this MTFS I set out the financial pressures that will need to be taken in to account in the coming years, and options to meet them.

I believe this MTFS puts the force on a sound financial footing and best enables Northumbria Police to deliver on my Police and Crime Plan.

**I. 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 anticipated funding. It describes the financial direction of the organisation and provides projections for the revenue budget and capital programme over the medium term.
- 1.2 The MTFS 2022/23 to 2025/26 will continue to deliver and build upon the investment in policing for Northumbria residents approved by the Commissioner in 2020/21 and 2021/22. The Strategy will assist the Force to become better prepared to meet future demand; deliver a much-needed increase in officer numbers through the final year of the national police officer Uplift programme; and allow Northumbria Police to invest in the right resources to protect the vulnerable, tackle crime and keep our communities safe.

**Fighting Poverty Fighting Crime - Police and Crime Plan 2021 - 2025**

<b>Fighting Crime</b>	1. Anti-social behaviour 2. Reducing crime
<b>Preventing Crime</b>	3. Preventing violent crime 4. Neighbourhood policing
<b>Improving Lives</b>	5. Support for victims 6. Tackling domestic abuse and sexual violence

- 1.3 The overall financial strategy seeks to deliver the Commissioner’s Police and Crime Plan, support the key enablers within the Northumbria Strategy 2025, deliver the strategic objectives of Northumbria Police and meet the requirements of the National Strategic Policing Requirement.

<b>Strategy 2025 Key Enablers</b>	<b>Strategic Objectives</b>
<ul style="list-style-type: none"> <li>▪ Investment in Technology</li> <li>▪ Achieving Business Sustainability</li> <li>▪ Strengthening Partnerships and Collaboration</li> <li>▪ Enhancing the Capacity, Capability and Wellbeing of our Workforce</li> <li>▪ Leadership and Culture</li> <li>▪ Embedding Customer Services</li> </ul>	<p><b>P</b>rotect the vulnerable – Protect vulnerable victims and pursue priority offenders</p> <p><b>O</b>utstanding organisation – We are efficient, inclusive, wellbeing focused and develop our people</p> <p><b>L</b>ead through intelligent policing – Use new technology and data to reduce harm, keep the public safe and to manage threat and risk</p> <p><b>I</b>nvestigations – Deliver quality investigations and support to victims of crime</p> <p><b>C</b>rime and disorder – Prevent crime &amp; disorder through problem-solving and partnership working</p> <p><b>E</b>ngaged communities – Work with our communities to maintain trust &amp; confidence</p>

**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 reserves position continues to be sustainable and aligned with the Commissioner's reserves strategy.
- 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 2022/23 to 2025/26 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 precept 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 2022/23 to 2025/26 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, Spending Review (SR) 2021 projections, the police settlement 2022/23 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. Delivery of the Strategy**

- 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 Strategy sets out how the Commissioner will provide the Chief Constable with the right resources to deliver on the priorities of Northumbria residents and keep communities safe, ensuring that Northumbria Police have the resources they need, and are efficient and cost-effective in the service they provide.
- 5.3 The MTFS financial forecast presented at section 7 sets out one scenario for what we think the overall funding might look like for Northumbria Police over the four years. However, there are many unknowns within the current economic and political environment and together with a continued lack of certainty around future funding from the Government it remains extremely difficult to predict an accurate financial picture with a high degree of confidence. The budget estimates for future years will require further consideration as the financial landscape becomes clearer and government funding support beyond the 2022/23 financial year is confirmed.
- 5.4 Whilst the financial forecast assumes that the maximum precept increase allowed by the Government for the next two years is taken to sustain existing services, this will be subject to consultation with Northumbria residents each year and reviewed on an annual basis as each year's funding settlement is announced.
- 5.5 The Strategy ensures that the 2022/23 settlement will be utilised to deliver continued support to the increase of officer numbers, through the final year of the national Uplift programme.
- 5.6 To support delivery of the Strategy the Commissioner has decided to raise the Band D Council Tax Precept by £10.00 per year in 2022/23 to raise an additional £4.0m of funding for policing in Northumbria. This funding will be used to provide investment in:
- Additional call handlers to improve performance for 999 and 101 services.
  - Extra resources to tackle cyber-crime and serious and organised crime.
  - More civilian investigators to support investigations and free up officers.
  - Workforce investment – supporting our officers to keep them on the beat and tackling crime.
- 5.7 In addition, a capital programme has been set which will ensure continued investment in estates, IT and digital infrastructure, vehicles and operational equipment over the term of the MTFS. This will include the provision and upgrading of personal issue equipment including Taser capability, body-worn video and body worn armour replacement. The Force will continue to drive change and efficiency through transformation which includes significant investment in IT, leading edge technology and digital infrastructure to aid the detection and investigation of crimes, ensuring that Northumbria is a Force fit for the future.

## 6. Financial Context

- 6.1 Since 2010, Central Government's austerity drive saw unprecedented cuts to the funding provided to policing, with Northumbria being the hardest hit of any force in England and Wales. Central Government formula funding for policing in Northumbria was reduced by more than 31% in real terms between 2010/11 and 2018/19, as confirmed independently by the National Audit Office (NAO). During that time officer numbers had reduced by around 1,100. By March 2021 Northumbria had made £148.0m of cuts and efficiencies to manage the reductions imposed by government.
- 6.2 Whilst government funding for policing has increased over the last 3 years it was made clear that no inflationary increase was being provided by government, with increases to core grant covering only part of the increased cost of police officer pensions for 2019/20 and delivery of the Police Uplift Programme (PUP) in 2020/21 and 2021/22.
- 6.3 The challenging economic and financial climate and limited funding information available to Northumbria Police beyond the current settlement year, combine to deliver a future which contains many unknowns, it is difficult to know what is coming. The MTFS has been established to make the best use of the financial settlement 2022/23, whilst making prudent assumptions on future funding levels and expected budget requirements.
- 6.4 For 2021/22 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 position has been adjusted to reflect a revised forecast underspend of £2.462m against the Chief Constable's budget as at 28 February 2022. The forecast outturn shows a projected underspend of £2.779m for the Group in 2021/22 as set out in the following table:

Revenue Budget 2021/22 Group Position	Approved Budget 2021/22 £000	Forecast Outturn 2021/22 £000	Forecast Variance 2021/22 £000
Chief Constable	305,927	303,465	(2,462)
Police & Crime Commissioner	2,309	2,309	-
Capital Financing	12,007	11,690	(317)
Group Position Total	320,243	317,464	(2,779)

6.5 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.

6.6 The Chief Constable's revenue budget is £305.927m for 2021/22. The forecast outturn is within the budget allocated by the Commissioner with phasing and recruitment of police staff contributing to the underspend position, along with external training and tuition fees and income received in respect of mutual aid (COP26).

6.7 For capital financing the underspend relates mainly to the principal repayment of capital which is lower than the original budget estimate based on reduced expenditure in the final capital outturn for 2020/21. In addition, investment income is higher than budgeted due to the rise in Bank Rate during the year earlier than anticipated, and interest on borrowing is lower than budget due to a reduced requirement for temporary borrowing and lower capital expenditure.

6.8 The overall Group forecast represents an underspend of £2.779m.

## **National Police Settlement 2022/23**

- 6.9 The final police grant settlement was published on 2 February 2022.
- 6.10 The key headlines from the settlement are:
- Police Core Grant – Core grant allocations to PCCs to be increased by £550m, to support the recruitment of an additional 8,000 officers by March 2023. This figure includes ring-fenced grant funding of £135m allocated to PCCs in-line with formula funding allocations and accessed through progression against their recruitment targets.
  - Minimum increases of £100m (2023/24) and £150m (2024/25) to police funding nationally.
  - Legacy grants relating to Council Tax and freeze grants for 2011/12 and 2014/15 remain payable.
  - The Local Council Tax Support (Covid) grant allocated in 2021/22 to compensate PCCs for a reduction in tax base has not been repeated for 2022/23.
  - Specific grant funding allocated to forces to manage part of the increased cost of employer pensions in 2019/20 has been confirmed for one further year only.
  - Council Tax Referendum Limits – The Government has proposed precept referendum limits for the 3-year spending review period 2022/23 to 2024/25, that enable PCCs to raise additional funding for local priorities through an increase of up to £10.00 for a Band D property in each year.
  - Police Capital Funding – The settlement states that capital grants to PCCs have been stopped and will be redistributed as part of wider capital reallocations.

## **Northumbria Settlement 2022/23**

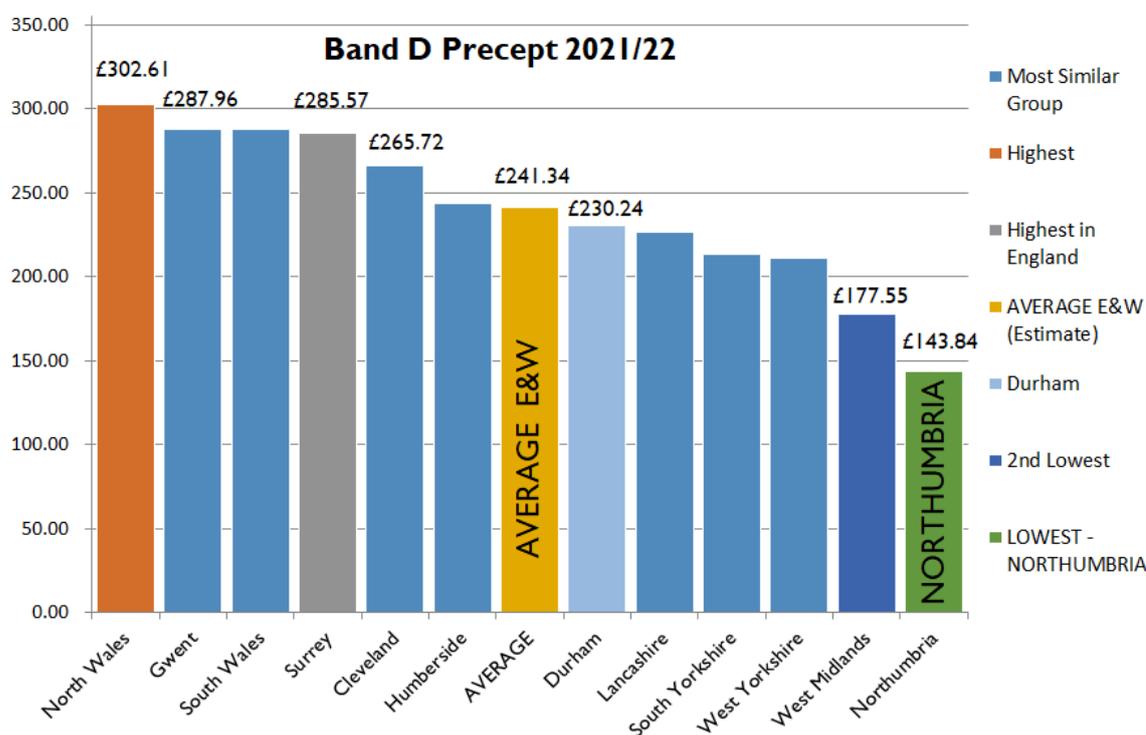
- 6.11 The core grant increase for Northumbria including the Police Uplift Programme (PUP) grant is £16.750m.
- 6.12 The increase is provided for recruitment of the Northumbria share of the national Uplift target of 8,000 officers by March 2023. The Northumbria target for Uplift during 2022/23 is an additional 246 officers.
- 6.13 The increase also includes compensation for the additional cost of Employers National Insurance, as a result of the Government's new Health and Social Care Levy effective 1 April 2022. The cost of the Levy for Northumbria is estimated at £1.950m.
- 6.14 It is important to acknowledge that the targeted central government funding to deliver the Police Uplift Programme will not return police officer numbers to the levels of 2010 or undo the overall funding reductions Northumbria Police have had to adjust to. Uplift targets allocated to date do not fully replace the 1,100 officers that Northumbria lost during that period.
- 6.15 Northumbria will continue to receive legacy grants totaling £8.168m in 2022/23 as set out below. These are again allocated in flat cash terms, with no recognition of an inflationary increase and 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.

- 6.16 Capital grant funding allocated by the Government for Northumbria is nil (£0.338m 2021/22).
- 6.17 The Office of the Police and Crime Commissioner will receive £1.700m to commission local victim support services in Northumbria during the 2022/23 financial year and £0.363m to fund independent sexual violence advisers and independent domestic violence advisers.

### Council Tax

- 6.18 As part of the annual police funding settlement, an element of total available funding is revenue generated by increases in Council Tax. The 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.
- 6.19 The following graph shows a comparison of Northumbria's position to other Force areas for the financial year 2021/22. The Northumbria Band D precept charge of £143.84 is the lowest of any PCC in England and Wales.



- 6.20 For both 2021/22 and 2022/23 18% of our core resource funding is derived from the Council Tax Precept, with the majority (82%) being through government grant.
- 6.21 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 2022/23 that amount was up to £10.00 per year for a Band D property. 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.
- 6.22 The Commissioner has stated that her primary consideration is to ensure public safety through a well-resourced police force and that this priority is reinforced in almost every consultation carried out by her office. The proposed increase to the Council Tax Precept for 2022/23 was supported by the results of a public consultation during January 2022. The Commissioner has therefore approved an increase in the Council Tax Precept of £10.00 per year for a Band D property (83 pence per month), providing additional income to continue to support local policing services in the face of a challenging financial situation.

- 6.23 For the majority of residents in the Northumbria area, those in a Band A property, the actual increase is only £6.67 per year (56 pence per month).
- 6.24 The additional income generated by the precept increase for 2022/23 is £4.0m and this will be used to deliver:
- Additional call handlers to improve performance for 999 and 101 services.
  - Extra resources to tackle cyber-crime and serious and organised crime.
  - More civilian investigators to support investigations and free up officers.
  - Workforce investment – supporting our officers to keep them on the beat and tackling crime.
- 6.25 Whilst the MTFS is presented using an assumption that the maximum precept increase allowed by the Government for the next two years is taken to sustain existing services, this will be subject to consultation with Northumbria residents each year and reviewed on an annual basis as each year's funding settlement is announced. The forecast precept increase in the final year of the MTFS is a prudent assumption of 1.99%, the minimum in recent years.

## **7. Medium Term Financial Strategy**

7.1 Whilst the Medium Term Financial Strategy (MTFS) 2022/23 to 2025/26 presents a balanced budget for all four years, the following areas of risk and uncertainty are highlighted:

- Government grant funding has been confirmed for 1 year only with only minimum increases provided for police funding nationally in 2023/24 and 2024/25.
- Government funding support for the national officer Uplift beyond 2022/23 has not been determined.
- Actual pay awards for officers and staff are not yet known.
- The current extraordinary levels of inflation emerging in the economy and the impact on the revenue budget beyond 2022/23 is unknown.
- The extent of government support (if any) for rising inflationary pressures cannot be determined.
- The extent of tax base increases for council tax in future years is uncertain.
- Council tax surplus/deficit is confirmed on an annual basis only.
- The outcome and timing of implementation of the governments review of the police funding formula is unknown.

7.2 The MTFS financial forecast presented here sets out one scenario for what we think the overall funding might look like for Northumbria Police over the four years. The budget estimates for future years will require further consideration as the financial landscape becomes clearer and government funding support beyond the 2022/23 financial year is confirmed.

7.3 The MTFS is summarised in the following table and explained in further detail in paragraphs 7.4 to 7.19:

Medium Term Financial Strategy 2022/23 to 2025/26	Approved	Future Year Estimates		
	Budget 2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
<b>Base budget</b>		<b>339.3</b>	<b>356.5</b>	<b>362.7</b>
Current assessment of net change arising from pay and price increases, budget pressures, capital financing requirements and savings across future years:		17.2	6.2	6.6
<b>Total Budget</b>	<b>339.3</b>	<b>356.5</b>	<b>362.7</b>	<b>369.3</b>
Core Grant Income (22/23)	265.2	265.2	265.2	265.2
Ring-fenced Uplift Grant moved to Core Grant	-	4.2	4.2	4.2
Increase to Core Grant 2023/24		3.1	3.1	3.1
Increase to Core Grant 2024/25			4.6	4.6
Increase to Core Grant 2025/26				4.6
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 (22/23)	61.8	61.8	61.8	61.8
Council Tax - Tax Base Increase/(Reduction)	-	0.9	1.8	2.7
Council Tax - Precept Increase	-	4.1	8.3	9.7
Council Tax - Surplus/(Deficit) on Collection Fund	0.9	0.5	0.5	0.5
Council Tax - 2020/21 Deficit	(0.2)	(0.2)	-	-
<b>Total Budget</b>	<b>339.3</b>	<b>351.2</b>	<b>361.1</b>	<b>368.0</b>
<b>Funding gap / (surplus) before reserves</b>	<b>-</b>	<b>5.3</b>	<b>1.6</b>	<b>1.3</b>
<b>Planned use of reserves:</b>				
<b>Transfer to / (from) Reserves</b>				
Investment Reserve	-	(5.3)	(1.6)	(1.3)
<b>Funding gap remaining after planned use of reserves:</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

- 7.4 The MTFs has made prudent assumptions about pay and price increases through national pay awards and inflation which will continue to be reviewed on an annual basis. Pay awards are included at 3.5% for 2022/23, 2.5% for 2023/24 and 2.0% for both 2024/25 and 2025/26. Pay awards for the SR 2021 period through to 2024/25 are provided in-line with the estimates agreed nationally by the National Police Chiefs Council (NPCC).
- 7.5 Pay progression is included for existing officers and staff throughout the MTFs period, along with inflationary increases on injury pensions, rents and utilities, known contract increases and other non-pay inflation.
- 7.6 The police officer Uplift target for Northumbria is an additional 246 officers by March 2023, in addition to the target of 369 officers by March 2022 which were successfully delivered. The costs of the additional officers are fully reflected within the revenue budget calculations, offset by a Special Grant which will be accessed as the Force progresses against its recruitment target.
- 7.7 The ring-fenced Special Grant for Uplift in 2022/23 is £4.2m and the MTFs assumption for future years is that this is baselined in core funding for 2023/24 onwards once the national Uplift programme is fully delivered.
- 7.8 In addition to delivery of the Northumbria share of the national Uplift target, the Force will replace more than 800 police officers leaving the Force through retirement and natural attrition, with new recruits over the 4-year MTFs period.
- 7.9 As the total cost of policing continues to rise, consideration has been given to all known budget pressures to make sure that the budget meets the challenge of providing Northumbria with the right resources to keep people safe. The Strategy is based upon known and likely pressures which are reviewed on an annual basis ensuring that cost increases and budget pressures are identified as part of the budget setting process. Many of the budget pressures identified by this Strategy are prescribed nationally and therefore out of the control of the Force, such as national ICT charges and revenue implications of the national Emergency Services Network (ESN).

- 7.10 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.
- 7.11 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.
- 7.12 The £8.2m earmarked reserve established in 2020/21 to support investment has been reprofiled over 2023/24 to 2025/26 to manage the anticipated funding gap in those years. The approach is fully reflected in the planned use of reserves lines and later at section 9 (Reserves).

### **Total Income**

- 7.13 **Grant Income** – In recent years, core grant income from central government has been maintained in flat cash terms with targeted increases for police officer pension costs and Uplift delivery only, there have been no inflationary increases. The SR 2021 set out minimum increases to police funding nationally for 2023/24 and 2024/25. Core grant for Northumbria is therefore based on the expected funding formula share (3.08%) for those years. The increase in 2025/26 is aligned with the estimate for 2024/25.
- 7.14 **Localised Council Tax Support and Council Tax Freeze Grants** – These grants were described earlier at section 6.15 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 SR 2021 period and therefore the assumption is that they will continue for the medium term.
- 7.15 **Council Tax Precept** – Whilst the financial forecast assumes that the precept increase for 2023/24 and 2024/25 is £10 for a Band D property, the maximum permitted by the Government for those years, the PCC will make decisions on the level of the precept on an annual basis and following consultation with the public. The assumption for the precept increase in 2025/26 remains prudent at 1.99%, the minimum in recent years.
- 7.16 **Tax Base Increase** – The actual tax base movement for 2022/23 is an increase of 1.49%. The assumption for future years is based on estimates provided by the Office for Budget Responsibility (OBR) published alongside the Spending Review 2021. These are +1.5% (23/24), +1.4% (24/25), +1.2% (25/26).
- 7.17 **Collection Fund Surplus / Deficit** – This is confirmed on an annual basis by each Local Authority and generally there is a net surplus each year across the six local authorities. The surplus on the 2021/22 collection fund was estimated at £0.9m in total for the six local authorities and this amount will be received in 2022/23. Future years are estimated at a prudent surplus of £0.5m.
- 7.18 **Council Tax Deficit 2020/21** - Due to the financial hardship caused by the Covid-19 pandemic, Council Tax receipts in 2020/21 were lower than estimated by local authorities at the start of the year. This resulted in a net deficit of £0.6m which is payable over 3 years 2021/22 to 2022/23 following a change in legislation for the 2020/21 collection fund year only. The deficit will be fully repaid by 2023/24.
- 7.19 **Funding Gap and Planned Use of Reserves** – The £8.2m earmarked reserve established in 2020/21 to support investment has been reprofiled over 2023/24 to 2025/26 to manage the anticipated funding gap in those years. The approach is fully reflected in the planned use of reserves lines and later at section 9 (Reserves).

## 8. Capital Estimates and Financing

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

Capital Estimates	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Total £000
Building Works	9,385	5,735	3,954	5,222	24,296
Information Technology and Digital Transformation	13,733	6,052	7,184	8,830	35,799
Vehicles and Equipment	7,974	6,049	3,242	2,748	20,013
<b>Total</b>	<b>31,092</b>	<b>17,836</b>	<b>14,380</b>	<b>16,800</b>	<b>80,108</b>

8.2 Key areas to note in the proposed programme are:

- **Building Schemes** – The Force has a programme of refurbishment and adaptation aimed at improving the condition of the estate with a focus on staff wellbeing as well as being able to fully accommodate the Uplift in officer numbers.
- **Information Technology and Digital Transformation** – The Force has a number of significant improvement schemes to deliver change and efficiency through transformation which includes considerable investment in IT and digital infrastructure. The Force have commenced and are continuing with a programme of replacing IT infrastructure which includes the replacement of all core operating systems; investment in data and analytics; and the future implementation of the National Emergency Services Network (ESN) within Northumbria.
- **Vehicles and Equipment** – Continued planned investment in the replacement of force vehicles, in accordance with delivery of the rolling programme of fleet investment within a challenging climate. The 2022/23 budget includes slippage of £2.703m in vehicles from the 2021/22 capital programme due to world-wide supply chain shortages and some significant price increases. The provision and upgrading of personal issue equipment including Taser capability, body-worn video and body worn armour replacement. Ensuring those who protect us are kept safe, and those who threaten our safety face well-equipped officers.

### Capital Financing

8.3 The following table sets out how the capital programme will be financed:

Capital Estimates	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Total £000
<b>Forecast Expenditure</b>	30,842	17,836	14,380	16,800	79,858
<b>Financed by:</b>					
Grants and Contributions	668	295			963
Capital Receipts	21,091	1,637			22,728
Use of Reserves (ESN Reserve)	-	-	-	2,600	2,600
Prudential Borrowing	9,333	15,904	14,380	14,200	53,817
<b>Total Financing</b>	<b>31,092</b>	<b>17,836</b>	<b>14,380</b>	<b>16,800</b>	<b>80,108</b>

8.4 Total capital expenditure over the four years is estimated at £80.108m. Capital grant funding from government has been reduced to nil for 2022/23 and future years. Capital receipts available over the MTFs period are only £22.728m and therefore the majority of spend will be financed through prudential borrowing, which must be repaid from the revenue budget over future years based on the useful life of assets.

- 8.5 Capital receipts will therefore be used across the MTFS period to manage overall capital investment and limit the impact on revenue budgets. Receipts will be applied mainly in 2022/23 to support the concentration of capital spend profiled in that year. The remainder will be applied in 2023/24 to finance short-life assets (up to 3 years).
- 8.6 The Emergency Services Network (ESN) reserve balance of £2.600m will be applied to support the capital costs of ESN implementation in Northumbria in 2025/26.
- 8.7 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 on an annual basis.

## 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 2022 will be approved alongside the MTFS and 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 summarised in the following table and subsequent paragraphs.

<b>MTFS Revenue Reserves Forecast</b>	At 31				
	March	March	March	March	March
	2022	2023	2024	2025	2026
	£m	£m	£m	£m	£m
General Reserves	<b>10.1</b>	<b>10.1</b>	<b>10.1</b>	<b>10.1</b>	<b>10.1</b>
<b>Earmarked Reserves</b>					
Insurance Reserve	3.0	3.0	3.0	3.0	3.0
Police Pension Scheme Funding Reserve	3.4	3.4	3.4	3.4	3.4
Workforce Management Reserve	1.3	1.3	1.3	1.3	1.3
Emergency Services Network (ESN) Reserve	2.6	2.6	2.6	2.6	-
Inflationary Risks	2.8	-	-	-	-
Reserve to Maintain Investment over the Medium Term and Support Uplift	8.2	8.2	2.9	1.3	-
Covid Enforcement/Operational Reserve	1.9	0.4	0.1	-	-
OPCC Innovation Reserve	0.6	0.3	-	-	-
External Funding Reserve	0.5	0.5	0.3	0.2	-
NERSOU Reserve	0.4	0.3	-	-	-
<b>Total Earmarked Reserves</b>	<b>24.7</b>	<b>20.0</b>	<b>13.6</b>	<b>11.8</b>	<b>7.7</b>
<b>Total Revenue Reserves</b>	<b>34.8</b>	<b>30.1</b>	<b>23.7</b>	<b>21.9</b>	<b>17.8</b>

### General Reserve

- 9.8 The expected General Reserve at 31 March 2022 is £10.1m equating to 3.0% of the revenue budget of £339.3m for 2022/23.
- 9.9 The forecast General Reserve balance of £10.1m 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 2026 are estimated to remain at £10.1m equating to 2.7% of the net revenue budget of £369.3m.

### Insurance Reserve

- 9.10 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.

### Police Pension Scheme Funding Reserve

- 9.11 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 was subsequently confirmed at the same level for 2020/21 and was repeated for 2021/22 and 2022/23. The MTFS revenue projections assume that funding will continue to be provided in some form by Government over the medium term. However, it is intended to retain the reserve until such time as the national position is confirmed and further clarity is provided around the likely outcome of

the next (4-year) valuation of the Police Pension Fund which will impact on contributions from 1 April 2023.

### **Workforce Management Reserve**

- 9.12 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**

- 9.13 The PCC and Force 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 total reserve balance will be used in full to manage the cost of ESN implementation expected for Northumbria in 2025/26.

### **Inflationary Risks**

- 9.14 The forecast underspend for 2021/22 against the Chief Constable's revenue budget and Capital Financing budget of £2.779m will be transferred to an earmarked reserve at 31 March 2022 to manage inflationary risks identified for 2022/23. This reserve will provide much needed support to manage the impact of the current extraordinary levels of inflation emerging in the economy for energy, fuel and prices, that were not anticipated within the approved budget for 2022/23.

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

- 9.15 Significant investment in policing services for Northumbria residents was approved by the Commissioner in 2020/21 and part of the total funding allocated for that year (£8.200m) was identified to support the investment in future years, in order to ensure that it would remain sustainable over the medium term. The previous MTFs included plans to utilise the reserve over 2 years 2023/24 and 2024/25. The use of the £8.2m has been reprofiled over 2023/24 to 2025/26 to manage the anticipated funding gap in those years.

### **Covid Enforcement / Operational Reserve**

- 9.16 An earmarked reserve of £3.1m was established in 2020/21 to meet the costs of Covid enforcement and operational policing in 2021/22. The balance on the reserve is forecast at £1.9m at 31 March 2022 and planned expenditure is now phased over 2022/23 to 2024/25.

### **OPCC Innovation Reserve**

- 9.17 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. The balance on the reserve of £0.6m is expected to be utilised over the next 2 years to support that partnership work.

## External Funding Reserve

- 9.18 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

- 9.19 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 utilised over 2022/23 and 2023/24 to support new regional capabilities and projects.

## 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:

Risk	Likelihood	Impact	Mitigation
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	High	Budget based on best information available and set at a prudent level. Earmarked reserve created to provide additional mitigation and support for Inflationary Risks for 2022/23.
Pensions Special Grant not being included within the next CSR.	Possible	High	The Police Pension Scheme Funding Reserve can provide one additional year of funding whilst reduction plans are put in place.
The next (4-year) valuation of the Police Pension Fund results in further increases in the employer's cost of pension contributions from 1 April 2023.	Likely	High	Information shared by NPCC and PACCTS suggests that the next valuation will result in a material increase to the employer's contribution rate for police officer pensions. However, in the same manner that savings were not passed to Forces under reduced contributions from April 2015 and the increase in contributions from April 2019 has been met by Government to date, the assumption is therefore that any further increase in the employer's contribution rate

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation</b>
			from April 2023 will be managed by Government in some form.
Implementation of the National Emergency Services Network (ESN) in Northumbria – risk that the costs of implementation are increased against current estimates and timescales for delivery are further delayed.	Possible	Medium	An ESN Reserve has been created which will contribute to the financing of ESN capital expenditure combined with prudential borrowing. National updates are considered as they are released and any increase will be factored into the capital programme at the earliest opportunity, with revenue implications considered as part of the overall revenue and capital budget setting process, and medium term financial planning.
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.
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 are limited by government restrictions.	Unlikely	Medium	The Spending Review 2021 set out referendum principles which give the PCC flexibility to increase the precept by £10 per year for a Band D property in each of the 3 years 2022/23 to 2024/25. Whilst the MTFS financial plan assumes the maximum increase is taken each year to sustain existing services, this will be subject to consultation with Northumbria residents and reviewed on an annual basis as each year's funding settlement is announced. The MTFS includes a prudent future assumption of 1.99% for 2025/26.

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation</b>
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.

## **11. Conclusion**

- 11.1 The approach set out in this MTFS intends to deliver a balanced budget. The MTFS financial plan demonstrates that a sustainable position can be achieved over the medium term and general reserves can be maintained above the minimum set out in the reserves strategy, estimated at £10.1m (2.7%) at March 2026.
- 11.2 However, there are many unknowns within the current economic and political environment and together with a continued lack of certainty around future funding from the Government it is difficult to predict an accurate financial picture with a high degree of confidence. The budget estimates for future years will require further consideration as the financial landscape becomes clearer and government funding support beyond the 2022/23 financial year is confirmed.
- 11.3 The Strategy is predicated on many key assumptions around resource requirements, future costs and the level of total funding. Due to the challenging economic and financial climate and limited funding information available to Northumbria Police beyond the current settlement year, there remains a level of risk throughout the period of the MTFS and the financial context for Northumbria Police remains extremely challenging.