

NORTHUMBRIA POLICE AND CRIME COMMISSIONER

Key Decisions

Title and Reference

Medium Term Financial Strategy 2024/25 to 2027/28

(PCC/560/2024)

Summary

The Medium Term Financial Strategy (MTFS) sets out the key financial issues facing the Police and Crime Commissioner over the period 2024/25 to 2027/28 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.

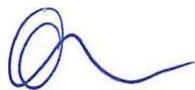
Recommendation:

It is recommended that the Commissioner agrees the principles set out in the MTFS and approves the MTFS for 2024/25 to 2027/28.

Northumbria Police and Crime Commissioner

I hereby approve the recommendations above.

Signature



Date

29/2/2024

Police & Crime Commissioner for Northumbria

MEDIUM TERM FINANCIAL STRATEGY

2024/25 – 2027/28

Police & Crime Commissioner for Northumbria
Medium-Term Financial Strategy 2024/25 – 2027/28

Contents

Foreword by the Police and Crime Commissioner for Northumbria	4
1. Purpose of the Medium-Term Financial Strategy	5
2. Benefits of the Strategy	6
3. Principles of the Strategy	6
4. Reviewing the Strategy	7
5. Delivery of the Strategy	7
6. Financial Context.....	8
7. Medium-Term Financial Strategy	11
8. Capital Estimates and Financing.....	15
9. Reserves	16
10. Risk Assessment	20

Foreword by the Police and Crime Commissioner for Northumbria

Northumbria Police continue to do a great job in keeping our region safe. They are a dedicated, proactive force that we in the North East can be proud of.

But that success is achieved against an increasingly difficult financial background. Over the course of this Medium-Term Financial Strategy (MTFS) the force will have to find multi-million pound efficiency savings and households are being asked to offset this with a precept increase.

I fundamentally disagree with the way in which policing is funded. The Government has a moral duty to ensure forces are sufficiently resourced to fight crime and protect the public, the Home Office should not be passing that burden onto local households via their council tax bills.

The police funding system has disparity built into it. Northumbria has one of the lowest council tax bases in the country, meaning the amount that can be raised from council tax payers is among the lowest. This leaves us exceptionally dependent upon Government grant.

As the finances here set out, the amount awarded to Northumbria Police by Government simply does not cover the cost of policing. The Government attempts to get round this problem by setting precept levels higher, in the hope that local decision makers will take the blame for Government failure.

As I have mentioned previously, the impact of long-term Government cuts continue. 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.

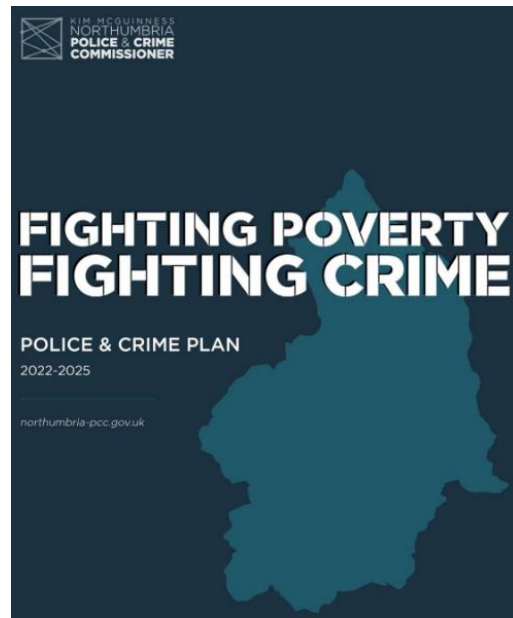
Over the last 12 months the impact of those historic funding cuts has been further compounded by a steep rise in costs facing the force as a result of inflationary pressures. Alongside this is the continued increase in demand on Northumbria Police.

Despite this, the force continues its hard work. Proactive policing continues to be the order of the day, as seen in measures such as the deployment of drones or the plans for a force-wide motorbike ASB unit.

I am confident that in this, my final MTFS, the force is well positioned to respond to challenges, both those caused by criminality and those caused by Government funding decisions.

I. Purpose of the Medium-Term Financial Strategy

I.1 This is the Medium-Term Financial Strategy (MTFS) of the Police and Crime Commissioner for Northumbria (the Commissioner). It covers a period of four years but will be reviewed annually to reflect the dynamic nature of both policing and changes in anticipated funding. It describes the financial direction of the organisation and provides projections for the revenue budget and capital programme over the medium-term.



I.2 The MTFS 2024/25 to 2027/28 will continue to deliver and build upon the investment in policing for Northumbria residents approved by the Commissioner in 2023/24. The Strategy will assist the Force to become better prepared to meet future demand; maintain the much-needed increase in police officer numbers delivered through 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.

I.3 The Strategy will ensure that the Force continues to review and transform policing services making efficient and effective use of resources and the best use of total funding available over the medium-term. The Strategy is set against a financial backdrop of significant economic uncertainty, government austerity, rising pay bills, and extraordinary levels of inflation across fuel, energy, goods and services, digital policing, and most major contracts. The financial climate is more challenging than ever and with limited additional support from government the force is planning to use reserves and targeted efficiencies alongside the vital increase in Council Tax income from local residents to balance the books each year.

I.4 The overall financial strategy seeks to deliver the Commissioner's Police and Crime Plan, to support the Purpose, Vision and Objectives of the Northumbria Force Strategy 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 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 2024/25 to 2027/28 are:

- Overall expenditure of the Commissioner will be contained within revenue and capital budget estimates each year.
- The Commissioner will maintain a General Reserve of a minimum of 2.0% 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 2024/25 to 2027/28 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, Autumn Statement 2023, the police settlement 2024/25 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 2024/25 financial year is confirmed.

5.4 The Strategy ensures that the 2024/25 settlement and total funding forecast over the medium-term will be utilised to fully maintain the Northumbria share of the National police officer Uplift.

5.5 To support delivery of the Strategy the Commissioner has decided to raise the Band D Council Tax Precept by £13.00 per year in 2024/25 to raise an additional and recurring £5.384m of funding for policing in Northumbria, which will:

- Allow Northumbria Police to introduce a force-wide Motorbike ASB Unit.
- Allow the force to safeguard and hire 30 new investigators, including digital forensic specialists.
- Potentially reopen new stations or introduce new public contact points following a review into increased openings.
- Avoid the need for further cuts to the frontline police budget.

5.6 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 digital policing, 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). As a result, police officer numbers in Northumbria reduced by more than 1,100 between March 2010 and March 2019. By March 2021 the force had made £148.000m of cuts and efficiencies to manage the reductions imposed by government.
- 6.2 Whilst government funding for policing has increased over the last 5 years there have been limited inflationary increases provided by government, with targeted core grant increases covering only part of the increased cost of police officer pensions and pay awards, and delivery of the Police Uplift Programme (PUP) over 2020/21 to 2023/24.
- 6.3 The significant levels of inflation experienced in the economy over the past two years are expected to continue to impact on force budgets over the medium-term. There has been no additional financial support from government to recognise the unprecedented scale of inflation that forces are having to deal with. Utilities, fuel, insurances, pay awards, building maintenance, digital policing and all major contracts have been significantly impacted through recent challenges to the economy, inflation, energy shortages and the cost-of-living crisis.
- 6.4 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 2024/25, whilst making prudent assumptions on future funding levels and expected budget requirements.
- 6.5 For 2023/24 revenue expenditure will be contained within the budget estimate, in-line with one of the key principles of the MTFS. The Quarter 3 revenue monitoring position as at 31 December 2023, shows a projected underspend of £1.293m for the Group as set out in the following table:

Revenue Budget 2023/24 Group Position	Approved Budget 2023/24 £000	Forecast Outturn 2023/24 £000	Forecast Variance 2023/24 £000
Chief Constable	333,645	332,907	(738)
Office of the Police & Crime Commissioner	1,823	1,823	-
OPCC Supporting Services	1,231	1,231	-
Capital Financing	12,131	11,576	(555)
Group Position Total	348,830	347,537	(1,293)

6.6 The Group budget is held by the Police and Crime Commissioner who provides financial resources to the Chief Constable to deliver operational policing. The OPCC budget covers the running costs of the Commissioner and her office, covering all administration and governance arrangements. The OPCC Supporting Services budget includes the specific budget for the Commissioners Community Fund, premises expenditure, other supporting services, and the Northumbria Sexual Assault Referral Centre (SARC). The Capital Financing budget comprises the revenue provision for repayment of borrowing, interest costs and investment income.

6.7 The Chief Constable's revenue budget for 2023/24 is £333.645m. The forecast outturn is within the budget allocated by the Commissioner with ill health pension contributions, external training, operational equipment, digital policing budgets, and vehicle recovery income contributing to the underspend position.

6.8 For Capital Financing the underspend relates to:

- The succession of Bank Rate increases during the year and higher reserve balances have led to additional investment income of £0.355m.
- There is a forecast reduction in interest payments against budget of £0.200m due to a lowered requirement for short-term loans to cover cashflow requirements in the second half of the financial year. This is a result of higher cash and reserve balances and the rephasing of capital programme spend to 2024/25.

National Police Settlement 2024/25

6.9 The final police grant settlement was published on 31 January 2024.

6.10 The key headlines from the settlement are:

- A £624.000m increase in government grant income to PCCs which includes:
 - The additional £150.000m announced at Spending Review 2021 to ensure the maintenance of officers for the Police Uplift Programme.
 - £515.000m of funding to support forces with the cost of the police officer pay award, of which £185.000m is additional to the funding provided in-year during 2023/24.
 - £259.000m to cover the increased cost of police officer pension contributions.
 - A one-off top-up funding amount of £26.800m to be provided in recognition of the software development and administrator costs associated with the delays to the implementation of the McCloud remedy.
- The Governments key priorities are outlined in the [Written Ministerial Statement](#) (WMS) on the Provisional Police Grant Report 2024/25, with the expectation that these are a focus for policing in 2024/25:
 - Maintaining 20,000 additional officers (148,433 officers in total nationally) through to March 2025.
 - Continuing to deliver on the opportunities presented by new technology and innovation to deliver improvements in productivity and drive forward efficiencies, therefore maximizing officer time and service to the public.
 - Improving the visibility of police officers and focusing on providing a targeted approach to tackling crime and antisocial behaviour to make neighbourhoods safer, which should be a priority for all forces.
- The ring-fenced grant income allocated to PCCs in 2023/24 of £275.000m is therefore increased (by the £150.000m) to £425.000m.
- £67.200m of this ring-fenced grant will be paid to the forces who volunteered to recruit above their Uplift target as an 'additional recruitment top-up grant'. This will be allocated based on the 1,400 additional officers agreed with forces on 31 March 2023.
- Force shares of the remaining £357.800m ring-fenced grant will be paid to PCCs if they have maintained their overall officer maintenance headcount, inclusive of their portion of 1,400 additional recruitment agreed on 31 March 2023.
- Specific grant funding allocated to forces to manage part of the increased cost of employer pension contributions in 2019/20 has been increased by the £259.000m to £402.000m. This is to cover the cost of a further increase to the police officer pension contribution rate from 1 April 2024.
- Legacy grants relating to Council Tax and freeze grants for 2011/12 and 2014/15 remain payable.
- Council Tax Referendum Limits – In the Autumn Budget and Spending Review 2021 referendum limits were set for the 3-year spending review period 2022/23 to 2024/25.

PCCs were told they could approve an increase of up to £10.00 for a Band D property in each year. The referendum limit for 2023/24 was subsequently increased to £15.00, and for 2024/25 the limit has been increased to £13.00 for a Band D property.

- Police Capital Funding – For the third year running there is no capital grant funding allocated to police forces in the settlement.

Northumbria Settlement 2024/25

6.11 The total grant increase for Northumbria is £21.781m.

Northumbria Settlement	£m
Core Grant – formula funding share (3.08%) of £185.000m to cover part of the 7% pay award (Sept '23).	5.672
Uplift Grant - Increase in ring-fenced grant, formula funding share (3.08%) of £150.000m.	4.621
Uplift Grant – additional recruitment top-up grant, to cover costs of 78fte officers.	3.744
Special Pension Grant – covers additional cost of police officer pension contributions.	7.044
Special Pension Grant - One-off top-up funding, Systems/Administration (McCloud Pension Remedy).	0.700
Total Increase in Funding	21,781

6.12 Whilst the increase in government grant funding appears significant, it remains targeted to pay for maintenance of the national police officer Uplift and to offset specific additional costs of pay inflation and pension contributions.

6.13 Capital grant funding allocated by the Government for Northumbria is nil, as for 2023/24. The lack of Government support for the vital capital investment needed by policing remains a significant challenge for Northumbria and indeed all forces. Investment in sustainable technologies, vehicles, and estates as well as the digital transformation required to ensure the force remains fit for the future, comes at a considerable cost. Capital investment required over the medium-term is estimated at more than £102.000m for Northumbria. Without the necessary financial support from Government the essential cost of that investment will need to be met by efficiencies, budget reductions and places further pressure on the vital funding provided by local residents.

6.14 The original Uplift target set for Northumbria of 615 officers is expected to be maintained. In addition, the force has been allocated a further 78 officers from within the 1,400 'additional recruitment' nationally. The total Uplift allocation for Northumbria in 2024/25 is therefore 693 officers.

6.15 Northumbria will continue to receive legacy grants totaling £8.168m in 2024/25 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:

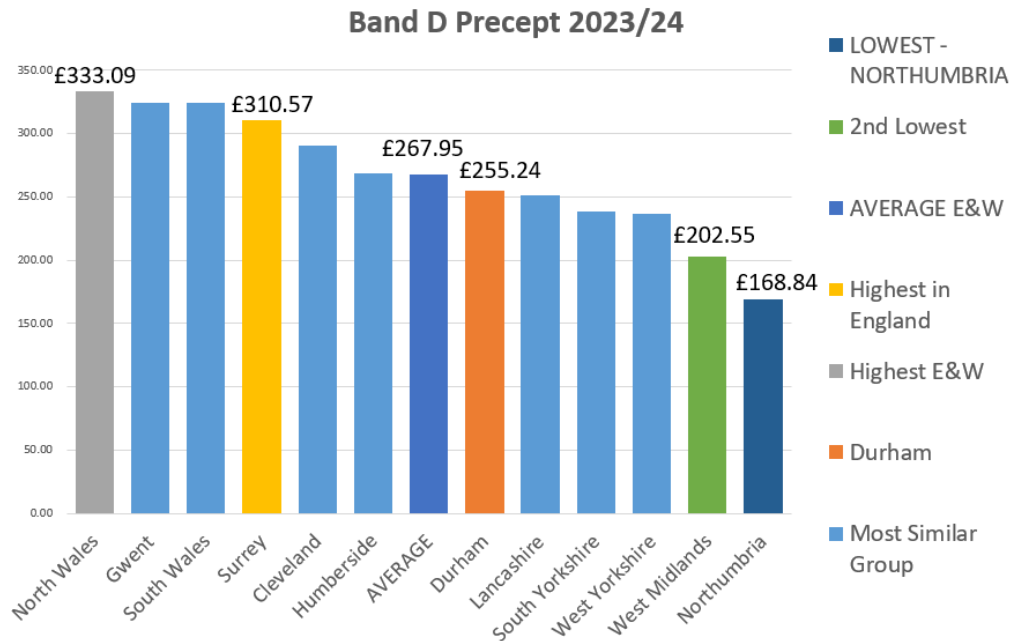
- Home Office Legacy Council Tax Freeze Grants totalling £1.301m, relating to the freeze in the precept for 2011/12 and 2014/15.
- Localised Council Tax Support Grant £6.867m, relating to the transfer of responsibility for Council Tax Benefit from Government to Local Authorities on 1 April 2013. As a 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 PCCs for the reduction in precept income and remains payable.

Council Tax

6.16 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.

- 6.17 The following graph shows a comparison of Northumbria’s position to other Force areas for the financial year 2023/24. The Northumbria Band D precept charge of £168.84 is the lowest of any PCC in England and Wales.



- 6.18 For 2023/24 20% of our core resource funding is derived from the Council Tax Precept, with the majority (80%) being through government grant.
- 6.19 The Secretary of State sets out, as part of the Police funding settlement, what increases can be made by PCCs to council tax without requiring a referendum. For 2024/25 that amount is up to £13.00 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.
- 6.20 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 2024/25 was supported by the results of a public consultation during January 2024. The Commissioner has therefore approved an increase in the Council Tax Precept of £13.00 per year for a Band D property (108 pence per month), providing additional income to continue to support local policing services in the face of a challenging financial situation.
- 6.21 For the majority of residents in the Northumbria area, those in a Band A property, the actual increase is only £8.67 per year (72 pence per month).
- 6.22 The additional income generated by the precept increase for 2024/25 is £5.384m.
- 6.23 The MTFs is presented using an assumption that the precept increase in future years will be a prudent £5.00 per year for a Band D property, the minimum referendum limit set by government in recent years. However, the precept decision will be subject to consultation with Northumbria residents each year and reviewed on an annual basis as each year’s funding settlement is announced.

7. Medium-Term Financial Strategy

7.1 Whilst the Medium-Term Financial Strategy (MTFS) 2024/25 to 2027/28 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, there is no information available for future years.
- Government funding support for the national officer Uplift beyond 2024/25 has not been confirmed.
- Actual future pay awards for officers and staff are not yet known.
- The continued significant levels of inflation in the economy and the impact on the revenue budget beyond 2024/25 is unknown.
- The extent of government support (if any) for ongoing inflationary pressures cannot be determined.
- The lack of government support for essential capital investment remains a significant challenge for policing. Capital grant funding from government was insignificant in recent years and reduced to zero from 2022/23 onwards.
- Referendum limits for Council Tax increases in future years are unknown.
- 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 2024/25 financial year is confirmed.

7.3 The MTFS is summarised in the following table and explained in further detail in paragraphs 7.4 to 7.20:

Medium Term Financial Strategy 2024/25 to 2027/28	Approved			
	Budget	Future Year Estimates		
	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m
Base budget		379.4	385.7	396.0
Current assessment of net change arising from pay and price increases, budget pressures, capital financing requirements and savings across future years:		6.3	10.3	10.3
Total Budget		379.4	385.7	396.0
Core Grant Income 2024/25	282.0	282.0	282.0	282.0
Increase to Core Grant 2025/26	-	4.6	4.6	4.6
Increase to Core Grant 2026/27	-	-	4.6	4.6
Increase to Core Grant 2027/28	-	-	-	4.6
Special Pension Grant	11.1	10.4	10.4	10.4
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 (24/25)	75.3	75.3	75.3	75.3
Council Tax - Tax Base Increase/(Reduction)	-	0.9	1.9	2.9
Council Tax - Precept Increase	-	2.1	4.2	6.3
Council Tax - Surplus/(Deficit) on Collection Fund	1.3	0.7	0.7	0.7
Total Budget	377.9	384.2	391.9	399.6
Funding gap / (surplus) before reserves	1.5	1.5	4.1	6.7
Planned use of reserves:				
Transfer to / (from) Reserves				
Investment Reserve	-	-	(1.5)	(6.7)
Inflationary Risks Reserve	(1.5)	(1.5)	(2.6)	-
Funding gap remaining after planned use of reserves:	-	-	-	-

- 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 2.5% for 2024/25, and 2.0% for 2025/26 through to 2027/28.
- 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, fuel, known contract increases and other non-pay inflation.
- 7.6 The revenue budget forecasts will fully maintain the Northumbria share of the National police officer Uplift across the medium-term.
- 7.7 The ring-fenced grant for maintaining Uplift in 2024/25 is £13.091m and in addition, the force will receive specific grant funding of £3.744m in relation to the additional Uplift recruitment allocation of 78 officers. The MTFs assumption for future years is that the Uplift grant total of £16.835m is maintained in flat cash terms each year, alongside continued maintenance of Uplift officer numbers.
- 7.8 In order to maintain officer numbers, the Force will replace more than 900 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 pay inflation.
- 7.10 The significant levels of inflation experienced in the economy over the past two years are expected to continue to impact on force budgets over the medium-term. The force began work early in

2023/24 to establish and monitor the scale of the impact of continued inflation and economic pressure on force budgets, both for the current year and looking ahead over the next medium-term financial planning period through to 2027/28.

- 7.11 A significant programme of work commenced in the spring to introduce a Priority Based Budgeting approach to business planning in Northumbria, creating efficiency savings to best invest for the future. PBB is about thinking innovatively and differently so that we deliver the best possible services to the public in the most cost-effective way.
- 7.12 Heads of Departments and Area Commanders were required to identify both cashable and non-cashable efficiencies which can be delivered whilst maintaining performance and identifying opportunities to improve policing services. Approved efficiencies and budget reductions being delivered in 2024/25 are just over £8.400m with further savings planned across the medium-term.
- 7.13 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.
- 7.14 A revised four-year capital programme has been produced, which is summarised in Section 8 below. The revenue implications of this programme are fully reflected in the MTFS.

Total Income

- 7.15 **Grant Income** – In recent years, increases in core grant income from central government have been limited to Uplift delivery and maintenance, and part of the increased cost of pay awards and officer pensions. The SR 2021 set out the minimum increase to police funding nationally for 2024/25 of £150.000m, of which the Northumbria funding formula share (3.08%) was £4.621m, as confirmed in the 2024/25 Police Grant Settlement. The assumption for future years 2025/26 to 2027/28 is that Northumbria continue to receive that formula funding share (3.08%) of an estimated £150.000m national increase each year.
- 7.16 **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 future years, they have been maintained in flat cash terms over the 4-year SR 2021 period, and therefore the assumption is that they will continue for the medium-term.
- 7.17 **Council Tax Precept** – The precept increase for 2024/25 is £13.00 per year for a Band D property, the maximum permitted by the Government for that year. The MTFS is presented using an assumption that the precept increase in future years will be a prudent £5.00 per year for a Band D property, the minimum referendum limit set by government in recent years. However, the precept decision will be subject to consultation with Northumbria residents each year and reviewed on an annual basis as each year's funding settlement is announced.
- 7.18 **Tax Base Increase** – The actual tax base movement for 2024/25 is an increase of 1.51% (1.53% 2023/24). Future year estimates are set at a prudent level of 1.2% pa which is just above the OBR (Office for Budget Responsibility) national tax base estimates.
- 7.19 **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 net position estimated on the Commissioners share of Collection Fund balances at 31 March 2024, across the six local billing authorities, is a surplus of £1.290m and this amount will be received in 2024/25. Future years are estimated at a prudent net surplus of £0.700m.

7.20 Funding Gap and Planned Use of Reserves

- The Inflationary Risks Reserve of £5.634m will be fully utilised over 2024/25 to 2026/27 to mitigate the impact of inflationary and cost pressures on the revenue budget, as appropriate efficiency programmes are implemented to meet the budgetary gap.
- The £8.200m earmarked reserve established to support investment has been reprofiled over 2026/27 and 2027/28 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	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	Total £000
Building Schemes	7,821	14,032	4,433	12,552	38,838
Digital Policing and Digital Transformation	13,352	9,607	6,368	10,571	39,898
Vehicles and Equipment	8,767	5,527	4,231	5,320	23,845
Total	29,940	29,166	15,032	28,443	102,581

8.2 Key areas to note in the proposed programme are:

- **Major and Minor 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. A significant work programme over the medium-term will focus on the delivery of energy investment schemes, fleet decarbonisation and infrastructure to support charging for electric vehicles.
- **Digital Policing 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. We have commenced the process of replacing key IT infrastructure which will include the replacement of all core operating systems; investment in data and analytics; and investment required in preparation for 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 with a focus on fleet decarbonisation, electric vehicles and sustainable technologies. The provision and upgrading of personal issue equipment including £0.161m for Taser capability, £2.624m for body-worn video and £1.597m for 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 Financing	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	Total £000
Forecast Expenditure	29,940	29,166	15,032	28,443	102,581
Financed by:					
Grants and Contributions	637	386	-	-	1,023
Capital Receipts	7,405	4,269	-	-	11,674
Use of ESN Reserve	-	-	-	2,600	2,600

Prudential Borrowing	21,898	24,511	15,032	25,843	87,284
Total Capital Financing	29,940	29,166	15,032	28,443	102,581

- 8.4 Total capital expenditure over the four years is estimated at £102.581m. Capital grant funding from government was reduced to nil from the 2022/23 financial year onwards. There is no expectation that any funding will be re-instated for future years. Capital receipts available over the MTFS period are estimated at only £11.674m and availability of earmarked reserves for capital investment is limited to the £2.600m ESN Reserve only. 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 be used prudently across the MTFS period to manage overall capital investment and limit the impact on revenue budgets. Receipts will be applied in 2024/25 and 2025/26 to support the concentration of capital spend profiled in those years.
- 8.6 Prudential borrowing will provide the remaining requirement for capital financing over the medium-term. The costs of borrowing and principal repayment through MRP are fully reflected in the revenue budget over the medium-term. Affordability of the capital programme is further considered as part of the Treasury Management Prudential Indicators, approved by the Commissioner on an annual basis, alongside the Capital Programme.

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 2024 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, considering 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.

MTFS Revenue Reserves Forecast	At 31	At 31	At 31	At 31	At 31
	March	March	March	March	March
	2024	2025	2026	2027	2028
	£m	£m	£m	£m	£m
General Reserves	10.8	10.8	10.8	10.8	10.8
Earmarked Reserves					
Insurance Reserve	3.0	3.0	3.0	3.0	3.0
Operational Systems 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	5.6	4.1	2.6	-	-
Reserve to Maintain Investment over the Medium Term and Support Uplift	8.2	8.2	8.2	6.7	-
Pay Inflation Reserve	2.1	2.1	2.1	2.1	2.1
Operational Reserve	1.1	0.7	0.3	-	-
OPCC Innovation Reserve	0.7	0.5	0.3	-	-
External Funding Reserve	0.9	0.7	0.3	0.3	0.3
Hosted Policing Services Reserve	0.9	0.8	0.8	0.8	0.8
NEROCU Reserve	0.2	0.1	-	-	-
Total Earmarked Reserves	30.0	27.5	24.9	20.2	10.9
Total Revenue Reserves	40.8	38.3	35.7	31.0	21.7

General Reserve

- 9.8 The expected General Reserve at 31 March 2024 is £10.804m equating to 2.8% of the revenue budget of £379.400m for 2024/25.
- 9.9 The forecast General Reserve balance of £10.804m 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 2028 are estimated to remain at £10.804m equating to 2.7% of the net revenue budget of £406.300m.

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 £3.000m and it is not anticipated that this will change over the period of the MTFS.

Operational Systems Reserve

- 9.11 The Operational Systems Reserve was created at the end of the 2022/23 financial year through a transfer from the Police Pension Scheme Funding Reserve.

The Operational Systems Reserve will provide £3.400m of funding to ensure the swift delivery of major transformation schemes, including the replacement of operational police systems. It will also provide one-off funding for any costs associated with the Digital Policing strategy to migrate to Cloud based solutions.

Workforce Management Reserve

- 9.12 The Workforce Management Reserve was established to manage costs associated with workforce change and has a balance of £1.320m. 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. Due to slippage in the National timeline for ESN implementation the majority of the capital costs for ESN delivery in Northumbria are expected in 2027/28 and therefore the reserve balance is fully committed in that year.

Inflationary Risks

- 9.14 The Inflationary Risks Reserve was created in 2021/22, from the underspend against the Chief Constable's revenue budget, to manage inflationary risks identified for 2022/23 and future years. The significant levels of inflation experienced in the economy over the past two years are expected to continue to impact on force budgets over the medium-term. This reserve will be fully utilised over 2024/25 to 2026/27 to mitigate the impact of inflationary and cost pressures on the revenue budget, as appropriate efficiency programmes are implemented to meet the budgetary gap.

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, to ensure that it would remain sustainable over the medium-term. The previous MTFS included plans to utilise the reserve over 4 years 2023/24 to 2026/27. The use of the £8.200m has been reprofiled over 2026/27 and 2027/28 to manage the anticipated funding gap in those years.

9.16 Pay Inflation Reserve

An earmarked reserve of £2.053m was created at the end of 2022/23 from the underspend against the Commissioner's Capital Financing budget. This reserve will continue to provide some mitigation for the risk that annual pay awards are above the current MTFS estimates, in the case that government provide no additional financial support.

Operational Reserve

9.17 An earmarked reserve of £3.100m was established in 2020/21 to meet the costs of Covid enforcement and operational policing in 2021/22. Expenditure against this reserve now relates solely to Operational policing and the reserve has been renamed accordingly. The balance on the reserve is forecast at £1.146m at 31 March 2024 and planned expenditure is phased over 2024/25 to 2026/27.

OPCC Innovation Reserve

9.18 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 £0.690m is expected to be utilised over the next 3 years to support that partnership work.

External Funding Reserve

9.19 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. Primarily, external funding reserve balances reflect timing differences only, with income received being utilised in the following financial year.

Hosted Policing Services Reserve

9.20 Balances relating to hosted national and local policing services previously held within the external funding reserve are now identified separately. The reserve balance is estimated to be £0.920m at 31 March 2024. This relates to the National Rural Crime Unit (£0.430m) and the Local Resilience Fund (LRF) (£0.490m) both of which are hosted by Northumbria Police, delivering capabilities in partnership with national policing, local authorities, and other agencies. The reserve will represent 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

NEROCU Reserve

9.21 The NEROCU reserve comprises the Northumbria share of the North East Regional Organised Crime Unit (NEROCU) reserve. NEROCU (formerly NERSOU) is the three-force collaboration with Durham and Cleveland aimed at tackling serious and organised crime in the region. The NEROCU reserve is expected to be utilised over 2024/25 and 2025/26 to support regional capabilities and projects.

10. Risk Assessment

- 10.1 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 several 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 2.0% 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 reserves created to provide additional mitigation and support for Inflationary Risks and Pay Award risk.
Pensions Special Grant not being included within the next CSR.	Unlikely	High	The Pensions Special Grant has been received from government each year since 2019/20 and it is now considered unlikely that this funding will cease. Particularly given the Government's commitment to maintaining the National Uplift in police officers. In addition, the grant has been further increased for 2024/25 to reflect the full additional cost of a further increase to the employer pension contribution rate for police officers from 1 April 2024, as a result of the 2020 Valuation.
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.	Likely	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

Risk	Likelihood	Impact	Mitigation
			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 2.0% of budget.
Further reductions in funding including unfavourable review of funding formula.	Possible	High	Balance on General Reserve maintained at minimum of 2.0%; forward planning; annual review of MTFS; regular monitoring.
Future council tax rises are limited by government restrictions.	Possible	Medium	The MTFS includes a prudent future assumption of £5.00 per year for a Band D property for 2025/26 to 2027/28 which is the lowest referendum limit set by government in recent years. Referendum limits over recent years have ranged between £10.00 to £15.00 per year for a Band D property therefore the balanced budget forecast is not reliant on an unreasonable level of annual increase to Council Tax funding.
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 2.0%; 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. Recent communication from the Home Office suggests additional grant funding for pension remedy costs will be made available and the detail is expected to be released in 2024/25.
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 the General Reserve can be maintained above the minimum set out in the reserves strategy, estimated at £10.804m (2.7%) at March 2028.
- 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 2024/25 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.