

NORTHUMBRIA POLICE AND CRIME COMMISSIONER

Key Decisions

Title and Reference

**Approval of the Medium Term Financial Strategy 2018/19 to 2021/22
(PCC/317/2018)**

Summary

The Medium Term Financial Strategy (MTFS) sets out the key financial issues facing the Police and Crime Commissioner over the period 2018/19 to 2021/22, and provides options for delivering a sustainable budget and capital programme over the medium term.

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

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

Recommendations/ Findings:

It is recommended that the Commissioner agrees the principles set out in the MTFS and approves the MTFS for 2018/19 to 2021/22.

Northumbria Police and Crime Commissioner

I hereby approve the recommendation above.

Signature



Date 22.02.18



VERA BAIRD^{QC}
POLICE & CRIME COMMISSIONER

Police & Crime Commissioner for Northumbria

MEDIUM TERM FINANCIAL STRATEGY

2018/19 – 2021/22

Police & Crime Commissioner for Northumbria
Medium Term Financial Strategy 2018/19 – 2021/22

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1. Purpose of the Medium Term Financial Strategy

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

2. Benefits of the Strategy

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

3. Principles of the Strategy

3.1 The key principles underlying the Commissioner's MTFS 2018/19 – 2021/22 are:

- (i) Overall expenditure of the Commissioner will be contained within original estimates each year.
- (ii) The Commissioner will maintain a General Reserve of a minimum of 2% of the net revenue budget to cover any major unforeseen expenditure or loss of funding. A flexible approach will be taken to the use of reserve balances above this level where appropriate, balancing the opportunity costs of maintaining reserves against the benefits of alternative approaches.
- (iii) The Commissioner will maintain earmarked reserves for specific purposes only when appropriate, and which are consistent with achieving objectives.
- (iv) The Commissioner will continue to prioritise the achievement of Value for Money, securing economy, efficiency and effectiveness in the use of resources; in establishing the framework for policing within Northumbria and; in commissioning and procurement decisions.
- (v) The Joint Chief Finance Officer and Chief Constable will prepare a rolling programme of four year budget forecasts to inform the Commissioner's budget and precepting decisions.
- (vi) The Commissioner, supported by the Joint Chief Finance Officer and Chief Constable, will continue to contribute to national reviews of police funding and 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 2018/19 to 2021/22 has been carried out under the following key themes:

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

5. Operational Context

- 5.1 The successful delivery of the Strategy requires the Chief Constable to manage a complex set of resources, demands and priorities whilst reviewing and revising plans to meet changing demand for policing services within the available financial resources.
- 5.2 HMICFRS (Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services) considers that a Force is efficient if it is making the best use of its resources to provide policing services that meet expectation and follow public priorities, and if it is planning and investing wisely for the future.
- 5.3 In the most recent HMICFRS PEEL inspection report '*Police Efficiency (including leadership) 2017 An Inspection of Northumbria Police*', Northumbria was assessed as GOOD in respect of the efficiency with which it keeps people safe and reduces crime. The overall summary includes a number of key findings, and concludes that Northumbria:
- Has a comprehensive and up-to-date model to assess demand, and it understands the wider effects of that demand for the services that it provides.
 - Has excellent administrative processes and a good governance structure, which enable it to manage projects well.
 - Has created a very positive culture of openness, the workforce feels a part of the decision making process within the organisation.
 - Is making great efforts to develop its future leaders.
 - Has extensive arrangements for collaborative working across many of its areas of work.
 - Has detailed and solid financial plans for the future that have been tested and examined independently to ensure they are fit for purpose.
- 5.4 Police Forces have finite resources with which to do an increasingly complicated job, and therefore must ensure that they deploy and use their resources in the best way possible. It is important that Forces make sophisticated decisions about how to spend and invest their resources in order to achieve the best value for the public.
- 5.5 Policing has changed significantly in recent years and demand on police resources is considerable, growing, and ever changing. Online and cyber-crime are increasing and there is an emergence of complex and harmful crimes such as child sexual exploitation and human trafficking. Incidents involving people with mental health problems are increasing. More victims are reporting rape and domestic violence. In addition, Forces have had to assist in the national response to terrorism and respond locally to the increased threat level in order to provide protection and reassurance to the communities whom we serve.
- 5.6 The change in demand for police services has required a different approach to policing, working closely with partner agencies such as Fire and Rescue

Services, Local Authorities, academic institutions, NHS and the Ambulance Service, to tackle demand and achieve common aims and objectives.

- 5.7 The Force prioritises demand through an analysis of threat, harm and risk, assessing the types of crimes which most threaten communities, as well as the Force's current capability to respond effectively.
- 5.8 Northumbria reviewed its priorities during 2017, based on a full assessment of demand and the threat, risk and harm analysis. As well as taking into consideration the views of the public gained from surveys, road shows and online communication. The six main priorities are identified in the Commissioner's Police and Crime Plan 2017 - 2021:
- Domestic and sexual abuse.
 - Putting victims first.
 - Effective criminal justice system.
 - Reducing anti-social behavior.
 - Cutting crime.
 - Community confidence.
- 5.9 Northumbria has a systematic and structured approach to understanding its demand and is also working hard to be able to predict future demand and respond accordingly. The Force considers the public's expectations when designing future services and plans to make the most of the opportunities which changes in technology present. The MTFs includes significant investment in communications and technology development over the 4 year period.
- 5.10 The Commissioner's MTFs is underpinned by a workforce plan and capital programmes which are aligned with the delivery of the Police and Crime Plan priorities and the continued delivery of an efficient and effective police service to the communities of Northumbria.

6. Financial Context

- 6.1 The last 8 years have seen unprecedented cuts to the funding provided by the Government to Police and Crime Commissioners (PCCs) in England and Wales. Northumbria has had to make £135.6m of cuts and efficiencies to manage the reductions imposed by government over that period. In addition, it has also had its ability to raise additional tax revenue from the precept restricted by the excessiveness rules and a climate of Council Tax freeze grant incentives.
- 6.2 Northumbria has taken the biggest financial cut of all Forces in England and Wales through both the 2010 and 2015 Comprehensive Spending Review (CSR) periods. Central Government formula funding for policing in Northumbria has been reduced by 37% in real terms since 2010.
- 6.3 The Forces most affected by funding reductions are those with a higher percentage of total funding coming from central government. Northumbria experienced the largest impact of cuts because it receives more in grant in

proportion to its Council Tax; around 86% is grant for 17/18. In addition, Northumbria has the lowest precept of any PCC in England and Wales and a low yield too.

- 6.4 For Northumbria employee pay accounts for the majority of the annual revenue budget and therefore the savings delivered to date have been mainly realised through reductions to the workforce (March 2010 to March 2017):
- Police Officer numbers have reduced by 904 FTE, from 4,187FTE to 3,283 FTE, a reduction of 22%.
 - PCSO numbers have reduced by 244 FTE, from 438 FTE to 194 FTE, a reduction of 56%.
 - Police Staff numbers have reduced by 679 FTE, from 2,096 FTE to 1,417 FTE, a reduction of 32%.
 - Overall reduction of 1,823 FTE, over 27%.
- 6.5 The financial reserves have played a key part in the strategy to balance costs with available funding since 2010, giving much needed head room to establish strategies and implement change. General reserves have reduced from £71.0m in 2010 to an estimated £9.1m by March 2018, a reduction of 87% over that period. The use of reserves is not a sustainable option going forward as balances are fast approaching minimum levels, beyond which our financial resilience and ability to respond to unexpected pressures will be severely limited.
- 6.6 The recent rhetoric used by government to present the current financial climate and position of police Forces nationally, of funding protection and plentiful reserves is a position that Northumbria simply do not recognise. In Northumbria the use of reserves has mitigated the scale of government funding cuts in each year since 2010 and we continue to do so in 2017/18. The recent survey by the Police and Crime Commissioners Treasurers Society (PACCTS) technical support team clearly demonstrates this, in 2017 Northumbria hold the lowest levels of all Forces in the country, of both earmarked and general reserves (as % of Net Revenue Expenditure).
- 6.7 Despite cutting its workforce by more than 27%, making efficiencies, transforming business areas through investment in technology, cutting waste, selling property and consolidating its Area Commands from six to three, Northumbria still needs to reduce expenditure further to match spend with financial resources.
- 6.8 We need to maintain our pace, continue our Force Improvement Programme (FIP), explore further collaboration and continue our reform in order to align our spend. All of this will need to take place as we constantly review and redeploy resources to meet the ever changing nature of demand for policing services and continue to protect our local communities. We will invest in extending cyber-crime capabilities, providing support to victims of crime, protecting the most vulnerable members of our communities, preventing child sexual exploitation and modern day slavery, developing anti-terrorism and firearms capabilities.

Formula Review

- 6.9 The Home Office failed to implement its proposed new funding formula for 2016/17 after a fundamental error was found in the data it was using for its calculations. During 2016 the Government re-launched its review of the Police funding formula which continued into 2017.
- 6.10 In the 2018/19 settlement announcement on 19 December 2017 the Minister for Policing and the Fire Service expressed gratitude for the work of the Core Grant Distribution Review. The Minister further clarified that, in the context of changing demand and in order to prioritise funding certainty for 2018/19 the formula review will now be revisited at the next Spending Review. Therefore there is no change anticipated to the formula used to distribute core grant funding in 2018/19 or 2019/20.

Spending Review and Police Settlement

- 6.11 The Comprehensive Spending Review (CSR) 2015 set out indicative spending settlements for each government department up to 2019/20. Overall police funding was to be cut by 1.3% in real terms over four years.
- 6.12 The Government further stated that taking into account the scope that Police and Crime Commissioners have to raise local Council Tax this would mean a flat real settlement for policing as a whole.
- 6.13 However, the financial impact for each Force was a reduction in formula grant of 2% over 2016/17 (0.6%) and 2017/18 (1.4%). Police and Crime Commissioners were required by government to increase Council Tax locally to recover this loss and protect funding in flat cash terms. This represented a significant real terms cut to overall funding, with no provision to meet inflation and other year-on-year cost pressures.
- 6.14 The final Police Grant Report for 2018/19 was published on 31 January 2018. It covers just one year and the key points are set out below:

Direct Funding:

- Flat cash settlement for Police Formula Grant – the 2018/19 grant from central government will be maintained in flat cash terms against 2017/18.
- Council Tax Referendum Limits - ALL Police and Crime Commissioners have been granted the flexibility to increase the precept by £12 per Band D property.
- The Government has calculated that each PCC who uses this flexibility will be able to increase their direct resource funding by at least 1.6%, which maintains total funding (central grant plus Council Tax Precept) in real terms.
- Legacy grants relating to Council Tax and freeze grants retained and payable but there will be no new Council Tax freeze grant offered for 2018/19.
- Police capital grant maintained in flat cash terms.

- The Government intends to maintain the protection of a broadly flat police grant in 2019/20 and repeat the same precept flexibility. However, this commitment is conditional and requires the police to deliver clear and substantial progress against productivity and efficiency milestones, yet to be determined.

Top-slice and Reallocations:

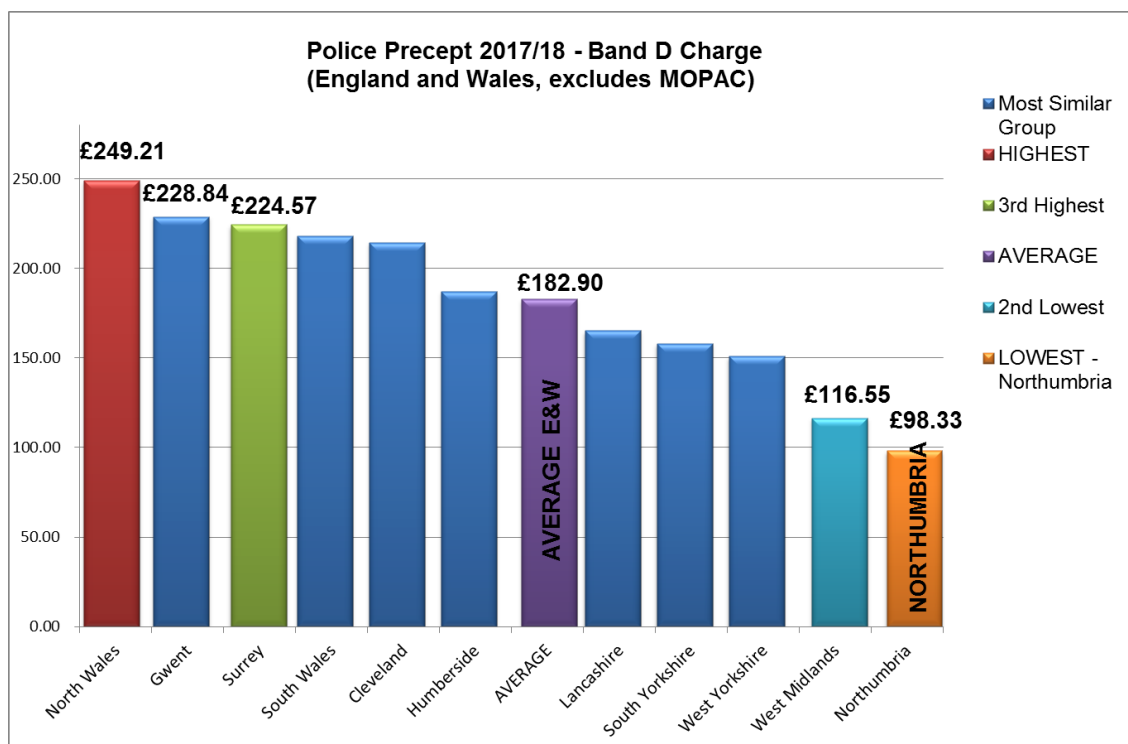
- Transformation Fund maintained at £175m.
- Investment in Regional Organised Crime Unit (ROCU) capabilities £40m, including PTF funded capabilities.
- Counter Terrorism funding increased by £50m to £757m (including £29m armed uplift).
- Police Special Grant increased by £43m to £93m.
- Police technology – national infrastructure projects increased by £87m to £495m (includes: Emergency Services Network, Biometrics, and the National Law Enforcement Data Service).

6.15 For Northumbria the implications of the 2018/19 settlement are as follows:

- Home Office formula grant £214.5m maintained in cash terms against 2017/18 – a real terms reduction in central government funding.
- No change to legacy grants £8.2m.
- Option to protect ‘spending power’ in real terms with a £12 increase to the precept.
- Capital grant £1.3m maintained in cash terms against 2017/18.

Council Tax

6.16 Since 2007/08, Council Tax increases nationally have been restricted by the Government’s capping and Council Tax excessiveness principles. Nationally the proportion of grant funding from central government has reduced, and the proportion from Council Tax has increased. However Northumbria’s Council Tax Precept is by far the lowest of policing bodies in the country at £98.33 per year (2017/18) for Band D properties. The following table shows the highest and lowest PCC precepts, Northumbria’s MSG (most similar group) and the average PCC precept for England and Wales in 2017/18:



6.17 For Northumbria Police income from the Council Tax Precept equates to only 14% of total funding in 17/18. The schedule below sets out the level of Band D Council Tax over the last 5 years:

Year	Precept (Band D)
2017/18	£98.33
2016/17	£93.33
2015/16	£88.33
2014/15	£86.61
2013/14	£86.61

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

6.19 The precept excessiveness rules for 2018/19 have provided each PCC with the flexibility to increase the precept by £12.

6.20 This MTFs as presented includes the assumption that the excessiveness rules permit a precept increase of £12 for each PCC in both 2018/19 and 2019/20. The assumption regarding future years 2020/21 to 2021/22 is that this limit is reduced to £5 for Northumbria in line with the limit set for previous years in 2016/17 and 2017/18. The MTFs further assumes that the precept is increased to the maximum permitted each year, in line with the Governments approach to protecting spending power over the CSR period.

- 6.21 The use of the precept flexibility increase to £12 in 2019/20 is conditional on yet to be determined productivity and efficiency targets. Therefore, although the MTFs for planning purposes is based upon the maximum increase in both 2018/19 and 2019/20, the increase in 2019/20 will be subject to further consultation with taxpayers.
- 6.22 The MTFs also includes the following legacy grants relating to the freeze in the precept (2011/12 and 2014/15) and the localisation of Council Tax support schemes in addition to the constituent authorities' net surplus on collection funds:
- Home Office Legacy Council Tax Freeze Grants totalling £1.301m.
 - Localised Council Tax Support Grant £6.867m.
 - Collection fund surplus £0.899m in total.

Police Transformation Fund

- 6.23 The Police Transformation Fund (PTF) nationally remains at £175m for 2018/19 in line with the previous year.
- 6.24 The Police and Crime Commissioner has been successful in securing significant investment through grant funding from within these national funds:
- 2015/16 – £2.618m
 - 2016/17 – £4.623m
 - 2017/18 – £3.432m
 - 2018/19 – £3.755m
- 6.25 Projects funded through national funds have focused on tackling domestic abuse; preventing serial perpetrator offending; improving victim safety and confidence; multi-agency work to tackle Child Sexual Exploitation (CSE), vulnerability and modern day slavery; safeguarding of serial victims; Safetyworks! and other projects which aim to protect victims and support the most vulnerable.
- 6.26 The Commissioner will continue to maximise all opportunities to secure funding from within the Police Transformation Fund during 2018/19 and across future years.

Ministry of Justice Grant

- 6.27 The Ministry of Justice (MOJ) allocates a grant to the Commissioner each year for local commissioning of Victims Support Services. The grant is allocated between Police and Crime Commissioners on the basis of population. A total of £1.685m was allocated to the Police and Crime Commissioner for Northumbria for 2017/18. For 2018/19 the allocation is slightly lower at £1.679m.
- 6.28 The MOJ grant is held outside of the police General Fund and the Commissioner makes decisions on the commissioning of services on an annual basis, within

the grant funding available. The commissioning of victim services therefore has no impact on Force budgets.

7. Current 2017/18 Financial Position

- 7.1 The Commissioner's net revenue budget for 2017/18 is £262.543m. The Quarter 3 revenue monitoring report shows a projected budget deficit of £1.179m as at 31 December 2017.

2017/18 Revenue Monitoring - Quarter 3 Position			
	Approved Budget 2017/18 £m	Projected Outturn 2017/18 £m	Variance 2017/18 £m
Group Position			
Chief Constable	252.943	254.408	1.465
Police and Crime Commissioner	2.262	2.116	(0.146)
Capital Financing	7.338	7.198	(0.140)
Net Expenditure	262.543	263.722	1.179
Central Government Grant	(222.624)	(222.624)	0.000
Council Tax Precept	(38.390)	(38.390)	0.000
Central Grant and Precept Total	(261.014)	(261.014)	0.000
Appropriations (to) / from reserves	1.529	2.708	1.179

- 7.2 The overall Group forecast represents an overspend of £1.179m. This overspend is primarily due to costs incurred in relation to the Northumbria response to the increased counter terrorism threat level in 2017, and pay settlements being in excess of the budgeted 1%.
- 7.3 Capital financing savings on interest costs have been achieved in-year mainly due to a reduction in planned capital spend and continued beneficial market rates.
- 7.4 The estimated budget deficit will result in an additional transfer from the Commissioner's general reserve in 2017/18:

2017/18 General Reserve - Quarter 3 Position			
	Approved 2017/18 £m	Revised 2017/18 £m	Variance 2017/18 £m
Group Position			
Opening Balance (01/04/17)	11.8	11.8	0.0
Planned Use of Reserve	(1.5)	(2.7)	(1.2)
Forecast Closing Balance (31/03/18)	10.3	9.1	(1.2)

8. Medium Term Budget Pressures

8.1 When calculating the medium term budget projections consideration has been given to a number of budget pressures including:

- i. Pay and price increases.
- ii. Budget pressures.
- iii. Revenue implications of the capital programme.
- iv. Other.

Pay and price increases

8.2 **Inflation** - Indicative budget forecasts for 2018/19 to 2021/22 reflect a positive approach to managing the impact of inflation on budgets wherever possible, in that there have been no automatic budget increases for inflationary pressures. Inflation provision has been included to meet energy, business rates and rent increases along with contract increases. In addition, estimates for future pay awards at 2% have been included and CPI linked inflation on Injury Pensions. The total cost increase is estimated at £4.3m per annum.

8.3 **Other pay and price** - The MTFS also provides for the annual cost of officer pay progression under police regulations, contract increases for insurance and the National Police Air Service (NPAS), custody healthcare and interpreters.

Revenue implications of the capital programme

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

9. Medium Term Savings Proposals

9.1 As discussed previously, there has been a period of sustained financial pressure throughout the previous CSR, the impact of which will continue to impact on the early years of this new MTFS.

9.2 Throughout the MTFS period savings will continue to be delivered wherever possible, for example:

- Continued rationalisation of the operational estate, including maximising collaborative opportunities.
- Workforce plan which manages reductions whilst aligning resources with changing demand.
- Non pay savings through centralised budget management.
- Savings through procurement particularly within ICT and Estates.
- Maximising income generation wherever possible, notwithstanding such opportunities being limited within the Police world.

9.3 Employee pay costs for Police Officers, Police Staff and CSOs represent a significant proportion of our annual budget requirement, and therefore there will continue to be changes required to workforce numbers and structures within the early years of the MTFS period.

10. Capital Estimates and Financing

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

Capital Estimates	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total £000
Major and Minor Building Schemes	2,806	7,079	4,358	1,502	15,745
Information Technology	8,041	12,118	2,869	7,790	30,818
Vehicles and Equipment	4,330	3,237	3,764	2,931	14,262
Total	15,177	22,434	10,991	12,223	60,825

10.2 Key areas to note in the proposed programme are:

- **Building Schemes** - Estates refurbishment programme based on operational requirements, transition and relocation costs associated with the estates rationalisation programme and co-location with partner agencies.
- **Information Technology** - the Force have a number of Improvement Schemes to deliver change and efficiency through transformation, which include considerable investment in IT systems across a number of policing areas. The estimates include a significant level of investment for: the implementation of the National Emergency Services Network (ESN) within Northumbria; the Operational Platform Implementation Project; Network Refresh; system upgrades and infrastructure changes.
- **Vehicles and Equipment** - a rolling programme of vehicle replacement and material programmes for upgrading equipment including body-worn video.

Capital Estimates	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total £000
Forecast Expenditure	15,177	22,434	10,991	12,223	60,825
Financed by:					
Grants and Contributions	1,415	1,467	1,077	863	4,822
Capital receipts	8,069	6,670	5,556	1,114	21,409
Prudential Borrowing	5,693	14,297	4,358	10,246	34,594
Total Financing	15,177	22,434	10,991	12,223	60,825

- 10.3 The capital financing approach remains to maximise the use of Capital Receipts to support the Capital Programme after the use of grant and also to maximise overall benefit through minimising impact on the revenue budget.
- 10.4 Through this MTFS it is proposed that the majority of capital spending for short life assets will be financed from capital receipts. Building works with longer asset lives will be supported by prudential borrowing as this provides the most efficient form of financing.

11. Reserves

Background information on Reserves

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

- **Earmarked Reserves** - to meet known or predicted liabilities, for example workforce management, insurance and capital development reserves.

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

Reserves

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

General Reserve

11.7 The expected General Reserve at 1 April 2018 is £9.1m equating to 3.5% of the revenue budget. This meets one of the key MTFS principles to seek to maintain the General Reserve at a minimum of 2.0% of the net revenue budget. The closing General Reserves at 31 March 2022 are estimated to be £8.2m equating to 3.0% of the net revenue budget.

Earmarked Reserves

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

	At 31 March 2018 £m	At 31 March 2019 £m	At 31 March 2020 £m	At 31 March 2021 £m	At 31 March 2022 £m
Earmarked Reserves					
Insurance Reserve	3.0	3.0	3.0	3.0	3.0
Workforce Development Reserve	0.3	0.6	0.0	0.0	0.0
External Funding Reserve	0.1	0.0	0.0	0.0	0.0
Total Earmarked Reserves	3.4	3.6	3.0	3.0	3.0
General Reserves	9.1	8.1	8.1	8.1	8.2
Total Reserves	12.5	11.7	11.1	11.1	11.2

Insurance Reserve

- 11.9 The Insurance Reserve is maintained for potential liabilities and costs which fall onto the Commissioner where no external insurance cover is arranged by or available to the Commissioner. Potential liabilities include storm damage, business interruption and claims that would fall within the Commissioner's policy excess limits. The level of this reserve is £3.0m and it is not anticipated that this will change over the period of the MTFS.

Workforce Development Reserve

- 11.10 The Workforce Development Reserve was set up to manage the costs associated with workforce change and was used over the last CSR to manage the workforce reductions required over that period. The reserve has an estimated balance of £0.3m as at 31 March 2018. The MTFS includes a further transfer to the workforce reserve of £1.0m in 2018/19 from the General Reserve. This will provide additional resilience to manage essential workforce change over 2018/19 and 2019/20.

External Funding Reserve

- 11.11 The External Funding Reserve represents timing differences between income and expenditure in relation to non-conditional revenue grant income which is to be used for specific purposes. The estimated reserve balance as at 31 March 2018 is expected to be fully used in 2018/19.

12. Indicative Budget Forecasts 2018/19 to 2021/22

- 12.1 All the budget pressures, budget savings, funding assumptions and proposed use of reserves outlined earlier in this Strategy are summarised below, to show an overall position for the Group representing the combined budget forecasts for the Commissioner and Chief Constable. Having considered the savings proposals and the availability of reserves to support the MTFS an important consideration is the precept proposal for 2018/19. The MTFS includes a precept increase of £12 built into the funding from 2018/19 going forward, and future increases as set out earlier in this report at section 6.21.

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

MTFS Group Budget Forecast	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m
Base budget	262.5	266.3	270.4	273.0
Budget pressures				
Pay and price increases	7.5	7.3	7.1	6.4
Budget pressures	2.9	2.5	0.5	1.5
Revenue impact of capital financing	0.1	1.1	0.9	(0.2)
Total budget pressures	10.5	10.9	8.5	7.7
Proposed budget savings	(6.7)	(6.8)	(5.9)	(5.3)
Total Budget	266.3	270.4	273.0	275.4
Grant Income	214.5	214.5	214.5	214.5
Council Tax Support Grant	6.9	6.9	6.9	6.9
Council Tax Freeze Grant 11/12	0.9	0.9	0.9	0.9
Council Tax Freeze Grant 14/15	0.4	0.4	0.4	0.4
Council Tax Income (17/18)	37.5	37.5	37.5	37.5
Council Tax - Precept Increase	5.2	10.2	12.8	15.3
Council Tax - Collection Fund surplus / (deficit)	0.9	0.0	0.0	0.0
Total Income	266.3	270.4	273.0	275.5
Transfer to Workforce Management Reserve	1.0	0.0	0.0	0.0
Funding gap / (surplus) before reserves	1.0	0.0	0.0	(0.1)
Planned use of reserves:				
Transfers from / (to) General Reserve	1.0	0.0	0.0	(0.1)
Funding gap / (surplus) after use of reserves	0.0	0.0	0.0	0.0

12.2 The Group forecast budget set out above shows how after the planned use of reserves, savings and the precept there is no funding gap for the period of the MTFS, which meets the key principle of the Commissioner's Strategy that overall expenditure will be delivered within a sustainable budget over the medium term.

13. Risk Assessment

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

Risk	Likelihood	Impact	Risk Management
General Reserve not sufficient to cover future unexpected costs.	Possible	High	Reserve strategy to maintain balance at a minimum of 2% of budget.

Risk	Likelihood	Impact	Risk Management
Pay awards and price inflation being higher than anticipated.	Possible	Medium	Budget based on best information available and set at a prudent level.
Capital financing charges will be higher than forecast.	Unlikely	Low	Revenue implications are considered as part of capital planning and any changes to variable rates will have minimum impact as 100% of existing debt is at fixed rates.
Interest rates on deposits lower than anticipated.	Unlikely	Low	Prudential assumptions on likely interest rates are incorporated into the MTFS and regular review, monitoring and reporting of interest takes place.
Capital programme is understated and funding not available to deliver plans.	Unlikely	Low	Capital monitoring updates are taken quarterly to the Commissioner to provide assurance in the accuracy of forecast and monthly monitoring is undertaken by the Chief Finance Officer and Chief Constable. Prudential borrowing gives flexibility in financing the capital programme.
Failure to deliver planned savings.	Possible	High	Quarterly revenue monitoring updates to the Commissioner and monthly monitoring undertaken by the Chief Finance Officer and Chief Constable; maintenance of the General Reserve balance at 2% of budget.
Further reductions in funding including unfavourable review of funding formula.	Possible	High	Balance on General Reserve maintained at minimum of 2%; forward planning; regular monitoring.

Risk	Likelihood	Impact	Risk Management
Future Council Tax rises limited by excessiveness principles determined by the Government.	Likely	Medium	Balance on General Reserve maintained at minimum of 2%; forward planning.
Reduction in Council Tax collection following the introduction of the localised Council Tax support scheme.	Unlikely	Low	Balance on General Reserve maintained at minimum of 2%; forward planning; regular monitoring.
Costs associated with the outcome of the national legal challenge to the Police Pension Scheme (2015) transition arrangements are not met centrally by the Home Office.	Possible	Medium	Balance on General Reserve maintained at minimum of 2%; Insurance Reserve maintained at £3.0m; close budget monitoring; annual review of budget and MTFs; existing Police Pension Fund arrangements require the Home Office to balance the deficit on the Fund each year through a top-up grant.
Not all risks have been identified.	Unlikely	Medium	Comprehensive insurance arrangements are in place alongside robust risk management arrangements; balance on General Reserve maintained at a minimum of 2% of budget.

14. Conclusion

- 14.1 The overall financial context for Northumbria Police remains extremely challenging.
- 14.2 The approach set out in this MTFs will deliver a balanced budget. It sets out how all four years will be financed and general reserves will be maintained at an estimated £8.1m and this is greater than the minimum set out in the reserve strategy. The management of this position is achieved through the rationalisation of estates, workforce change, a continuation of the 3 Area Command structure and operating model and significant non pay savings.
- 14.3 The MTFs does indicate that a sustainable financial position can be achieved over the period 2018/19 to 2021/22 and the Commissioner is fully committed to taking the necessary decisions to achieve this outcome.