

## **NORTHUMBRIA POLICE AND CRIME COMMISSIONER**

### **Key Decisions**

#### **Title and Reference**

**Medium Term Financial Strategy 2021/22 to 2024/25**

**(PCC/443/2021)**

#### **Summary**

The Medium Term Financial Strategy (MTFS) sets out the key financial issues facing the Police and Crime Commissioner over the period 2021/22 to 2024/25, 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 2021/22 to 2024/25.

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

I hereby approve the recommendations above.

**Signature**



**Date**

**9/3/2021**

# **Police & Crime Commissioner for Northumbria**

## **MEDIUM TERM FINANCIAL STRATEGY**

**2021/22 – 2024/25**

**Police & Crime Commissioner for Northumbria**  
**Medium Term Financial Strategy 2021/22 – 2024/25**

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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 anticipated funding. It describes the financial direction of the organisation and outlines the level of funding and subsequent investment over the four year period.
- 1.2 The MTFS 2021/22 to 2024/25 will continue to deliver and build upon the investment in policing for Northumbria residents approved by the Commissioner in 2020/21. The Strategy will assist the Force to become better prepared to meet future demand; deliver a much-needed increase in officer numbers; and allow Northumbria Police to invest in the right resources to protect the vulnerable, tackle crime and keep our communities safe.
- 1.3 The MTFS provides projections for delivering a sustainable budget and capital programme over the medium term. It also sets out how the Commissioner can provide the Chief Constable with the resources to deliver the priorities identified by Northumbria residents and set out in the Commissioner's new Police & Crime Plan:

### Police and Crime Plan 2021 to 2025

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

- 1.4 The overall financial strategy seeks to deliver the Commissioner's Police and Crime Plan, support the Northumbria Police Strategic Priorities and meet the requirements of the National Strategic Policing Requirement.

## 2. Benefits of the Strategy

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

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

3.1 To deliver against the PCC's priorities, and the Police and Crime Plan, effectively and efficiently within the available resources, the key principles underlying the Commissioner's MTFS 2021/22 to 2024/25 are:

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

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

4.1 The Commissioner's MTFS review for 2021/22 to 2024/25 has also been carried out to ensure delivery of key priorities; this approach uses the following key themes:

- The operational context for Northumbria Police.
- The financial context in which the Commissioner operates, including the Commissioner's current financial position and performance, the police settlement 2021/22 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 Strategy ensures that the 2021/22 settlement will be utilised to deliver a sustainable level of investment, including continued support to the increase of officer numbers through the national Uplift programme.
- 5.4 To support delivery of the Strategy the Commissioner has decided to raise the Council Tax Precept by 4.99% in 2021/22 to raise an additional £2.7m of funding for policing in Northumbria. This funding will be used to deliver an additional 60 police officer investigator posts in 2021/22, over and above existing recruitment plans and the Uplift target set by government. This will address the increase in demand and complexity of investigations, as well as looking to improve the quality of investigations, providing Northumbria Police with additional operational officers during 2021/22, thereby continuing to put the Force ahead of the increase in officer numbers under the Uplift programme.
- 5.5 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 personal issue equipment such as Taser and Body Worn Video and leading edge technology 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 governments '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). By March 2020 Northumbria had made £144.3m of cuts and efficiencies to manage the reductions imposed by government.
- 6.2 The challenging financial climate and continued one-year funding settlements, 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 2021/22, whilst making prudent assumptions on future funding levels and expected budget requirements, to ensure that resources remain available to meet operational demand, continue to deliver value for money and are sustainable across the period of the MTFS.
- 6.3 Significant investment in policing services for Northumbria residents of £8.3m was approved by the Commissioner last year and phased over 2020/21 (£6.3m) and 2021/22 (£2.0m). This Strategy includes earmarked reserves of £8.2m to support that investment and ensure it remains sustainable over the life of the MTFS.
- 6.4 For 2020/21 expenditure will be contained within the original budget estimate, in-line with one of the key principles of the MTFS. The Quarter 3 revenue monitoring position has been adjusted to reflect additional grant income of £1.786m from central government for managing Covid-19

financial pressures and to maintain enforcement activity. The forecast outturn shows a projected underspend of £2.237m for 2020/21 as set out in the following table:

Revenue Budget 2020/21 Group Position	Approved Budget 2020/21 £000	Forecast Outturn 2020/21 £000	Forecast Variance 2020/21 £000
Chief Constable	283,382	282,225	(1,157)
Police & Crime Commissioner	2,264	1,966	(298)
Capital Financing	10,747	9,965	(782)
<b>Group Position Total</b>	<b>296,393</b>	<b>295,942</b>	<b>(2,237)</b>

6.5 The Group budget is held by the Police and Crime Commissioner who provides financial resources to the Chief Constable to deliver operational policing. The PCC has a small specific budget for the Commissioners Community Fund and the OPCC running costs. The Capital Financing budget comprises the revenue provision for repayment of borrowing, interest costs and investment income.

6.6 Whilst the Chief Constable's position is a net underspend of £1.157m this is wholly due to the late receipt of £1.786m from central government for Covid-19 financial pressures and to maintain enforcement activity.

6.7 The underspend against the Commissioners budget reflects a reduction in forecast expenditure against the Discretionary Fund during 2020/21.

6.8 For capital financing the underspend relates mainly to the principal repayment of capital which is lower than the original budget estimate based on reduced expenditure in the final capital outturn for 2019/20. In addition, interest costs are lower than budgeted which is attributable to the reduced borrowing requirement and the two emergency cuts to Bank Rate in March 2020.

6.9 The overall Group forecast represents an underspend of £2.237m. Therefore the transfer to reserves of £8.200m has been successfully delivered and in addition the underspend against the Group budget provides additional funds available for consideration.

### **National Police Settlement 2021/22**

6.10 The final police grant settlement was published on 02 February 2021.

6.11 The key headlines from the settlement are:

- Police Core Grant – Core grant allocations to PCCs to be increased by £415m, to support the recruitment of an additional 6,000 officers by March 2022. This figure includes ring-fenced grant funding of £100m allocated to PCCs in-line with formula funding allocations and accessed through progression against their recruitment targets.
- No direct inflationary increases have been allocated to core grant funding over and above the funding provided for additional officer recruitment.
- Legacy grants relating to Council Tax and freeze grants for 2011/12 and 2014/15 remain payable.
- Specific grant funding allocated to forces to manage part of the increased cost of employer pensions in 2019/20 has been confirmed for one further year only.

- Council Tax Referendum Limits - The Government proposed precept referendum limits for 2021/22 that would enable PCCs to raise additional funding for local priorities through an increase of up to £15.00 for a Band D property.
- PCCs to receive a portion of additional grant funding for local council tax support.
- Police Capital Funding – Capital grants to PCCs remain in-line with 2020/21 allocations.

6.12 The provisional settlement announcement issued on 16 December 2020 stated that further detail for a number of funding areas would not be available till after the New Year. Whilst some additional information has been released during January and through various media, there remains at the time of writing this report no formal confirmation of funding for Serious Violence (Surge) capability.

### **Northumbria Settlement 2021/22**

6.13 The core grant increase for Northumbria including the Police Uplift Programme (PUP) grant is £12.761m, equivalent to 5.3%.

6.14 The increase is provided for recruitment of the Northumbria share of the national Uplift target of 6,000 officers by March 2022. The Northumbria target for Uplift during 2021/22 is an additional 181 officers.

6.15 It is important to acknowledge that the targeted central government funding to deliver the Police Uplift Programme will not return police officer numbers to the levels of 2010 or undo the overall funding reductions Northumbria Police have had to adjust to. Uplift targets allocated to date do not fully replace the 1,100 officers that Northumbria lost during that period.

6.16 Northumbria will continue to receive legacy grants totaling £8.168m in 2021/22 as set out below. These are again allocated in flat cash terms, with no recognition of an inflationary increase and therefore represent a reduction to overall funding:

- Home Office Legacy Council Tax Freeze Grants totalling £1.301m, relating to the freeze in the precept for 2011/12 and 2014/15.
- Localised Council Tax Support Grant £6.867m, relating to the transfer of responsibility for Council Tax Benefit from Government to Local Authorities on 1 April 2013. As a result of the transfer changes were required in the tax base calculation for local authorities, reducing the overall value. This grant was introduced for 2013/14 to compensate PCC's for the reduction in precept income and remains payable.

6.17 Capital grant funding allocated by the Government for Northumbria is £0.338m. This is a negligible amount and represents less than 2% of the total funding required for capital investment in 2021/22.

6.18 For the Commissioner, the value of the Ministry of Justice (MOJ) grant for the commissioning of victims' services has been confirmed as £1.702m, broadly in-line with last year (£1.703m 2020/21).

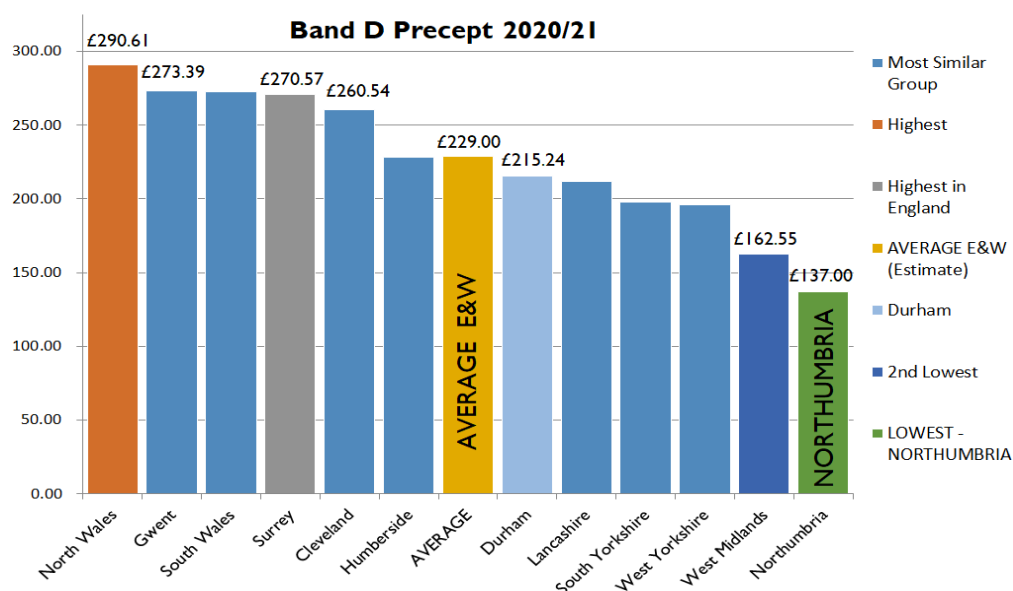
6.19 Funding allocated to the PCC in 2019/20 and 2020/21 to establish a Northumbria Violence Reduction Unit (VRU) has now been formally confirmed for a further 12 months. The funding allocated for 2021/22 is £1.600m maintained in flat cash terms against previous years.

### **Council Tax**

6.20 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. The following graph shows a comparison of Northumbria's



position to other Force areas for the financial year 2020/21. The Northumbria Band D precept charge of £137.00 is the lowest of any PCC in England and Wales.



- 6.21 For 2021/22 18% of our core resource funding is derived from the Council Tax Precept, with the majority (82%) being through government grant.
- 6.22 The Secretary of State sets out, as part of the Police funding settlement, what increases can be made by PCC's to council tax without requiring a referendum. For 2021/22 that amount was up to £15.00 for a Band D property (10.95% for Northumbria residents). 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.
- 6.23 The Commissioner has stated that she is mindful that this last year has been one of financial challenge for many households and a smaller increase would be fairer to households while still ensuring Northumbria Police is well placed for the future. Therefore, the PCC has approved an increase of 4.99% on the Council Tax Precept for 2021/22.
- 6.24 The increase in the precept of 4.99% for 2021/22 equates to an additional £6.84 per year (57 pence per month) for a Band D property. For the majority of residents, those in a Band A property, the increase is £4.56 per year (38 pence per month).
- 6.25 The additional income generated by the precept increase for 2021/22 is £2.7m and this will be used to deliver an additional 60 police officer investigator posts in 2021/22, providing Northumbria Police with additional operational officers and continuing to put the Force ahead of the increase in officer numbers under the Uplift programme.
- 6.26 The MTFs has been established using the prudent assumption of an increase of 1.99% in Council Tax precept, year on year.

## 7. Medium Term Financial Strategy

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

Medium Term Financial Strategy 2021/22 to 2024/25	Approved Budget			
	2021/22		Future Year Estimates	
	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m
<b>Base budget</b>		<b>320.3</b>	<b>333.6</b>	<b>346.1</b>
Current assessment of net change arising from pay and price increases, budget pressures, capital financing requirements and savings across future years:		13.3	12.5	4.1
<b>Total Budget</b>		<b>320.3</b>	<b>333.6</b>	<b>346.1</b>
Core Grant Income (21/22)	250.2	250.2	250.2	250.2
Increase to Core Grant - Uplift Only (ESTIMATE)	-	13.0	20.4	20.4
Special Pension Grant	3.4	3.4	3.4	3.4
Council Tax Support Grant	6.9	6.9	6.9	6.9
Council Tax Support Grant (Covid)	1.7	-	-	-
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 (21/22)	57.0	57.0	57.0	57.0
Council Tax - Tax Base Increase/(Reduction)	-	0.9	1.8	2.6
Council Tax - Precept Increase	-	1.1	2.2	3.3
Council Tax - Collection Fund Surplus/(Deficit)	(0.2)	(0.2)	(0.2)	-
<b>Total Budget</b>		<b>320.3</b>	<b>333.6</b>	<b>343.0</b>
<b>Funding gap / (surplus) before reserves</b>		<b>-</b>	<b>-</b>	<b>3.1</b>
<b>Planned use of reserves:</b>				
Transfer from Earmarked Reserve (to maintain investment in policing priorities and support Uplift delivery) TOTAL £8.2M	-	-	(3.1)	(5.1)
<b>Funding gap remaining after planned use of reserves:</b>		<b>-</b>	<b>-</b>	<b>-</b>

7.2 The estimated Group budget set out over the medium term shows that based on forecast income from Government grants and Council Tax Precept, there would be a funding gap to maintain the level of investment within the approved budget 2021/22. However, through the prudent establishment of the investment reserve in 2020/21 and use of this reserve over the term of the MTFs, this gap will be funded. Which meets the key principle of the Commissioner's Strategy that overall expenditure will be delivered within a sustainable budget over the medium term.

7.3 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. In the Spending Review 2020 the Government announced a pay freeze for the majority of public sector workers, including police officers and staff with the exception of low paid workers, those earning less than £24,000 per year. Therefore there is no general pay award included for 2021/22; however, the assumption for future years is a pay award of 2.5%, unchanged against the previous MTFs estimate.

7.4 Pay progression is included for existing officers and staff throughout the MTFs period, along with the full year effect of the 2020 pay award in 2021/22, inflationary increases on injury pensions, rents and utilities, known contract increases and other non-pay inflation.

7.5 The police officer Uplift target for Northumbria is an additional 181 officers by March 2022, in addition to the target of 185 officers by March 2021 which were successfully delivered. The costs of the additional officers are fully reflected within the workforce movements in the pay and price calculations, offset by a Special Grant which will be accessed as the Force progresses against its recruitment target.

7.6 Whilst there has been no formal announcement of the final year Uplift allocations for 2022/23, the MTFs includes a reasonable assumption that Northumbria will be allocated a percentage of the remaining 8,000 officer target by March 2023 in the same manner as previous year Uplift

targets, and that funding is made available by Government through a similar increase to core funding as for 2021/22. The ring-fenced Uplift grant is assumed to be maintained in flat cash terms for 2022/23 only, accessed as the Force progresses against its recruitment target for that year in the same manner as previous years.

- 7.7 In addition to delivery of the Northumbria share of the national Uplift target, and the 60 additional police officer investigator posts funded through the increase in Council Tax in 2021/22, the Force will replace more than 800 police officers leaving the Force through retirement and natural attrition, with new recruits over the 4-year MTFS period.
- 7.8 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; revenue implications of the national Emergency Services Network (ESN); and the National Police Air Support (NPAS) unit.
- 7.9 A revised four year capital programme has been produced, which is summarised in Section 8 below. The implications of this programme are fully reflected in the MTFS. Increases in capital financing over the first 2 years reflect the additional revenue cost of supporting capital investment through prudential borrowing for 2020/21 and 2021/22. This approach is set in the context of a significant cut (74%) to Government grant funding for capital in 2020/21 with capital grant maintained in flat cash terms for 2021/22. As such, capital receipts have been retained in the short term and will be focused on funding the later years of the MTFS in 2022/23 to 2024/25, to ensure that the medium term capital plans are affordable in full. This will limit significant increases to capital financing costs in later years when overall funding estimates are less certain.
- 7.10 Throughout the MTFS period savings and efficiencies will continue to be delivered wherever possible, to sustain the investment in policing and to continue to support local policing services, for example:
- Non pay savings.
  - Savings through procurement through the continued use of national frameworks.
  - Maximising income generation wherever possible.
- 7.11 This MTFS has utilised funds available in 2021/22 in a prudent manner to ensure that decisions on investment taken by the PCC and Chief Constable remain affordable and sustainable over the 4 years of this MTFS.
- 7.12 The £8.2m earmarked reserve established in 2020/21 to support investment will be used in full over the MTFS period, balancing the budget across 2023/24 and 2024/25. The approach is fully reflected in the planned use of reserves line and later at section 9 (Reserves).

## **Total Income**

- 7.13 **Grant Income** – In recent years, core grant income from central government has been maintained in flat cash terms with targeted increases for police officer pension costs and Uplift delivery only, there have been no inflationary increases. Therefore the Strategy does not change that position going forward with core grant each year maintained in flat cash against 2021/22. However, an increase is reflected year-on year which is what is expected to be received to deliver the Northumbria share of the police officer Uplift in future years, based on the allocations in the first 2 years of Uplift delivery.

- 7.14 **Localised Council Tax Support and Council Tax Freeze Grants** – These grants were described earlier at section 6.16 and have been received for a number of years now with the earliest one commencing in 2011/12. There has been no suggestion that they will cease in the CSR 2020 and therefore the assumption is that they will continue for the medium term.
- 7.15 **Council Tax Support Grant (Covid)** – The PCC will receive a share of additional grant funding for local council tax support in 2021/22 of £1.686m. This is a one-off grant for 2021/22 only. This funding is being provided to compensate precepting and billing authorities for losses in Council Tax income as a result of the impact of the Covid-19 Pandemic on Tax Base.
- 7.16 **Council Tax Precept** – The PCC will make decisions on the level of the precept on a year-by-year basis, and following consultation with the public. The assumption for increases in future MTFS years therefore remains prudent at 1.99%, the minimum in recent years.
- 7.17 **Tax Base Increase** – The actual tax base movement for 2020/21 is a reduction of 0.74%. The assumption for future years is based on estimates provided by the Office for Budget Responsibility (OBR) published alongside the Spending Review 2020. These are +1.5% (22/23), +1.6% (23/24), +1.4% (24/25).
- 7.18 **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. However, due to the financial hardship caused by the Covid-19 pandemic, Council Tax receipts in 2020/21 were lower than estimated by local authorities at the start of the year and therefore the net collection fund position is a deficit with the Commissioner’s share being £0.608m. Regulations governing the recovery of a deficit would ordinarily require the full amount to be paid to the Local Authority Collection Fund over the following financial year. However, on 1 December 2020, ‘The Local Authorities (Collection Fund: Surplus and Deficit) (Coronavirus) (England) Regulations 2020’ were implemented and the changes to regulations require that an element of this deficit is spread across 3 years. The net deficit payable by the Commissioner in 2021/22 is £0.170m with £0.438m deferred to the following 2 years. Future year estimates are included at nil.
- 7.19 **Funding Gap and Planned Use of Reserves** – As described earlier the £8.2m transferred to an earmarked reserve in 2020/21 will provide essential funding which can be played in over 2023/24 and 2024/25 to support the delivery of the national Uplift programme, and ensure that the investments in policing provided in 2020/21 and 2021/22 remain affordable and sustainable over the medium-term.

## 8. Capital Estimates and Financing

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

Capital Estimates	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	Total £000
Building Works	4,012	6,109	3,468	3,667	17,256
Information Technology and Digital Transformation	9,852	18,720	5,607	6,362	40,541
Vehicles and Equipment	3,783	5,213	3,271	3,661	15,928
<b>Total</b>	<b>17,647</b>	<b>30,042</b>	<b>12,346</b>	<b>13,690</b>	<b>73,725</b>

8.2 Key areas to note in the proposed programme are:

- **Building Schemes** – The Force has a programme of refurbishment and adaptation aimed at improving the condition of the estate with a focus on staff wellbeing as well as being able to fully accommodate the Uplift in officer numbers.

- **Information Technology and Digital Transformation** – The Force have a number of significant improvement schemes to deliver change and efficiency through transformation which includes considerable investment in IT and digital infrastructure. The Force have commenced and are continuing with a programme of replacing IT infrastructure which includes the replacement of all core operating systems; investment in data and analytics; and the future implementation of the National Emergency Services Network (ESN) within Northumbria..
- **Vehicles and Equipment** – Continued planned investment in replacement of Force vehicles in accordance with delivery of the rolling programme of fleet investment. The provision and upgrading of personal issue equipment including body armour replacement, an Uplift in Taser capability and body-worn video. Ensuring those who protect us are kept safe, and those who threaten our safety face well-equipped officers.

## Capital Financing

Capital Estimates	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	Total £000
<b>Forecast Expenditure</b>	17,647	30,042	12,346	13,690	73,725
<b>Financed by:</b>					
Grants and Contributions	493	338	338	338	1,507
Capital Receipts	-	16,512	2,584	3,014	22,110
Use of Reserves (ESN Reserve)	-	2,600	-	-	2,600
Prudential Borrowing	17,154	10,592	9,424	10,338	47,508
<b>Total Financing</b>	<b>17,647</b>	<b>30,042</b>	<b>12,346</b>	<b>13,690</b>	<b>73,725</b>

- 8.3 Total capital expenditure over the four years is estimated at £73.725m. Capital grant funding from government has been reduced to an insignificant amount over recent years. The capital grant for Northumbria in 2021/22 is £0.338m which represents less than 2% of the total capital requirement for the year. Capital receipts available over the MTFS period are only £22.110m and therefore the majority of spend will be financed through prudential borrowing, which must be repaid from the revenue budget over future years based on the useful life of assets.
- 8.4 Capital receipts will therefore be used prudently across the MTFS period to manage overall capital investment and limit the impact on revenue budgets. Receipts will be applied mainly in 2022/23 to support the concentration of capital spend profiled in that year. The remainder will be applied in the following two years to finance short-life assets (up to 3 years). This will ensure that revenue costs of capital financing are affordable over the medium term and will limit the increases in capital financing to the earlier years of the MTFS, rather than pushing these out to later years where there is less certainty of funding levels.
- 8.5 The Emergency Services Network (ESN) reserve balance of £2.600m will be applied to support the capital costs of ESN implementation in Northumbria in 2022/23.
- 8.6 Prudential borrowing will provide the remaining requirement for capital financing over the medium term. The costs of borrowing and repayment are fully reflected in the revenue budget over the medium term. Affordability is further considered as part of the Prudential Indicators approved by the Commissioner on an annual basis.

## 9. Reserves

### Background information on Reserves

- 9.1 Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when preparing budgets.
- 9.2 In establishing reserves, the Commissioner must comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Chief Finance Officer is required as part of the budget setting process to provide a statement on the adequacy of reserves.
- 9.3 Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on Reserves and Balances (LAAP Bulletin No 77 November 2008) and the requirements of the Code suggest twice yearly reviews of reserves. By doing this, the visibility of reserves are increased and consideration of their use is placed at the forefront of the decision making process. Reserves are cash backed balances, held on the balance sheet until they are spent or released for other purposes. As such, they can only be spent once, and are not part of the base budget.
- 9.4 In addition, the Home Office Financial Management Code of Practice (FMCP) 2018 requires Police and Crime Commissioners to publish a reserves strategy on an annual basis. The statement provides an explanation for each reserve along with its value. Plus, a narrative explaining whether the current and projected level of reserves is appropriate, and governance arrangements for reserves are adequate and appropriate. The Reserves Strategy Statement as at 31 March 2021 will be approved alongside the MTFs and published on the PCC's website.
- 9.5 The Commissioner's balance sheet reserves are summarised as follows:
- **General Reserves** – A contingency for unexpected events or emergencies and a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
  - **Earmarked Reserves** – To meet known or predicted liabilities, for example workforce management, insurance and capital development reserves.
- 9.6 CIPFA guidance issued in June 2003 confirms that relevant bodies should make their own judgements on such matters, taking into account relevant local circumstances and an assessment of risk and the advice of the Chief Finance Officer.

### Reserves Forecast

- 9.7 The Commissioner must retain adequate reserves so that unexpected budget pressures can be met without adverse impact on the achievement of key objectives and council tax payers. The Commissioner's policy for reserves and balances is based on a thorough understanding of the organisation's needs and risks. Part of this process is to give a clear explanation of the existing and proposed use of reserves and this is summarised in the following table and subsequent paragraphs.

<b>MTFS Revenue Reserves Forecast</b>	At 31	At 31	At 31	At 31	At 31
	March	March	March	March	March
	2021	2022	2023	2024	2025
	£m	£m	£m	£m	£m
General Reserve	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>
<b>Earmarked Reserves</b>					
Insurance Reserve	3.0	3.0	3.0	3.0	3.0
Police Pension Scheme Funding Reserve	3.4	3.4	3.4	3.4	3.4
Workforce Management Reserve	1.3	1.3	1.3	1.3	1.3
Emergency Services Network (ESN) Reserve	2.6	2.6	-	-	-
Reserve to Maintain Investment over the Medium Term and Support Uplift	8.2	8.2	8.2	5.1	-
Covid Enforcement/Operational Reserve	2.1	-	-	-	-
OPCC Innovation Reserve	0.3	-	-	-	-
External Funding Reserve	0.3	0.3	0.4	0.2	-
NERSOU Reserve	0.3	0.1	-	-	-
<b>Total Earmarked Reserves</b>	<b>21.5</b>	<b>18.9</b>	<b>16.3</b>	<b>13.0</b>	<b>7.7</b>
<b>Total Revenue Reserves</b>	<b>31.5</b>	<b>28.9</b>	<b>26.3</b>	<b>23.0</b>	<b>17.7</b>

### General Reserve

9.8 The expected General Reserve at 31 March 2021 is £10.0m equating to 3.1% of the revenue budget of £320.3m for 2021/22. This balance represents a net reduction of £2.1m during 2020/21 (£12.1m at March 2020) which includes:

- The planned use of £1.9m to support the revenue budget in 2020/21.
- A planned transfer of £1.0m to create a new earmarked reserve for Covid enforcement and operational policing.
- The forecast underspend of £0.8m against the capital financing budget in 2020/21 will be transferred to the general reserve.

9.9 The forecast General Reserve balance of £10.0m 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 2025 are estimated to remain at £10.0m equating to 2.9% of the net revenue budget of £350.2m.

### Insurance Reserve

9.10 The Insurance Reserve is maintained for potential liabilities and costs which fall onto the Commissioner where it is more economical to keep a reserve than seek specific insurance. Potential liabilities include storm damage, business interruption and claims that would fall within the Commissioner's policy excess limits. The level of this reserve is £3.0m and it is not anticipated that this will change over the period of the MTFS.

### Police Pension Scheme Funding Reserve

9.11 The Police Pension Scheme Funding Reserve was established as a result of the sudden shift in employer's pension costs for police officers from April 2019. Specific grant funding of £3.4m was provided by the Government for 2019/20 with no assurance given for future years, and therefore the Commissioner established an earmarked reserve to provide funding for one year should the government fail to address the significant cost implication in full. Special grant funding was subsequently confirmed at the same level for 2020/21 and has been repeated again for 2021/22. The MTFS revenue projections assume that funding will continue to be provided in some form by Government over the medium term. However, it is intended to retain the reserve until such

time as the national position is confirmed and further clarity is provided around the likely outcome of the next (4-year) valuation of the Police Pension Fund which will impact on contributions from 1 April 2023.

### **Workforce Management Reserve**

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

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

- 9.13 The PCC and Force do not believe that the Government will provide funding for implementation of the national Emergency Services Network (ESN) in Northumbria. To avoid the risk of the costs falling on the Force and to ensure no impact on operational policing the implementation will be funded through a mix of prudential borrowing and the use of the ESN reserve. The 2019/20 approved budget included a planned transfer to earmarked reserves to protect against specific risks for Northumbria, of which £2.600m was identified to establish the Emergency Services Network (ESN) Reserve. The total reserve balance will be used in full to manage the cost of ESN implementation expected for Northumbria in 2022/23.

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

- 9.14 Significant investment in policing services for Northumbria residents of £8.3m was approved by the Commissioner last year and phased over 2020/21 (6.3m) and 2021/22 (£2.0m). In addition, part of the total funding allocated for 2020/21 (£8.200m) was identified to support that investment in future years, in order to ensure that it would remain sustainable over the medium term. This approach will also ensure that funds are available to provide the necessary support functions, training resources and infrastructure improvements to the police estate to support and maximise the benefit for local people of the national Uplift.

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

- 9.15 Includes the planned transfer of £1.0m contingency from the general reserve, plus the forecast underspend of £1.1m against the Chief Constable's revenue budget in 2020/21. Based on the forecast outturn position this reserve will not be required in 2020/21 and will therefore be available to meet the costs of Covid enforcement and operational policing in 2021/22.

### **Innovation Reserve**

- 9.16 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 forecast underspend on the Commissioner's Discretionary Fund in 2020/21 will be carried forward to be utilised in support of such projects in 2021/22.

### **External Funding Reserve**

- 9.17 The External Funding Reserve represents receipts of income which are not time limited, and which are carried forward at the year-end to be used in future years, in-line with any terms and



conditions. The reserve represents income received from external partners, which is to be used to fund specific activities and policing services.

### **NERSOU Reserve**

- 9.18 The NERSOU reserve comprises the Northumbria share of the North East Regional Special Operations Unit (NERSOU) reserve. NERSOU is the three-force collaboration with Durham and Cleveland aimed at tackling serious and organised crime in the region. The NERSOU reserve will be utilised over 2021/22 and 2022/23 to support new 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 a number of significant financial pressures that could affect the position over the medium term. An assessment of the likelihood and impact of each risk and the management controls in place are shown in the following table:

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation</b>
General Reserve not sufficient to cover future unexpected costs.	Possible	High	Reserve strategy to maintain balance at a minimum of 2% of budget.
Pay awards and price inflation being higher than anticipated.	Possible	Medium	Budget based on best information available and set at a prudent level.
Pensions Special Grant not being included within the next CSR.	Possible	High	The Police Pension Scheme Funding Reserve can provide one additional year of funding whilst reduction plans are put in place.
The next (4-year) valuation of the Police Pension Fund results in further increases in the employer's cost of pension contributions from 1 April 2023.	Likely	High	Information shared by NPCC and PACCTS suggests that the next valuation will result in a material increase to the employer's contribution rate for police officer pensions. However, in the same manner that savings were not passed to Forces under reduced contributions from April 2015 and the increase in contributions from April 2019 has been met by Government to date, the assumption is therefore that any further increase in the employer's contribution rate from April 2023 will be managed by Government in some form.
Implementation of the National Emergency Services Network (ESN) in Northumbria – risk that the costs of implementation are	Possible	Medium	An ESN Reserve has been created which will contribute to the financing of ESN capital expenditure combined with prudential borrowing. National

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation</b>
increased against current estimates and timescales for delivery are further delayed.			updates are considered as they are released and any increase will be factored into the capital programme at the earliest opportunity, with revenue implications considered as part of the overall revenue and capital budget setting process, and medium term financial planning.
Capital financing charges will be higher than forecast.	Unlikely	Low	Revenue implications are considered as part of capital planning and any changes to variable rates will have minimum impact as 100% of existing debt is at fixed rates.
Failure to deliver planned savings.	Possible	Medium	Quarterly revenue monitoring updates to the Commissioner and monthly monitoring undertaken by the Chief Finance Officer and Chief Constable; maintenance of the General Reserve balance above 2% of budget.
Further reductions in funding including unfavourable review of funding formula.	Possible	High	Balance on General Reserve maintained at minimum of 2%; forward planning; annual review of MTFS; regular monitoring.
Future council tax rises are limited by excessiveness principles determined by the government.	Likely	Medium	The MTFS includes a prudent future assumption of 1.99% for future years.
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.

## II. Conclusion

- 11.1 The approach set out in this MTFS intends to deliver a balanced budget. It sets out how all four years will be financed and general reserves can be maintained above the minimum set out in the reserves strategy, estimated at £10.0m (2.9%) at March 2025.
- 11.2 The MTFS does indicate that a sustainable financial position can be achieved over the period 2021/22 to 2024/25 and the Commissioner is fully committed to taking the necessary decisions to achieve this outcome.
- 11.3 This Strategy will ensure that in addition to the successful delivery of the Northumbria share of the national Police Uplift Programme by March 2023, an additional 60 police officer investigator posts will be recruited, funded by the increase in Council Tax for 2021/22. This will address the increase in demand and complexity of investigations, providing Northumbria Police with additional operational officers during 2021/22, over and above existing recruitment plans and the Uplift target set by government. Notwithstanding the targeted central government funding to deliver the Police Uplift Programme does not fully replace the 1,100 officers that Northumbria has lost since 2010 the Strategy will deliver a significant level of investment in policing for Northumbria residents.
- 11.4 However, it must be noted that the balanced sustainable nature of this Strategy is predicated on many key assumptions around resource requirements, future costs and levels of total funding. Given that yet again, Northumbria are faced with a one-year settlement which does not provide any certainty beyond March 2022, there remains a level of risk throughout the period of the MTFS and therefore the financial context for Northumbria Police remains extremely challenging.

