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violence  
reduction  
unit

# **Police & Crime Commissioner for Northumbria**

## **MEDIUM TERM FINANCIAL STRATEGY**

**2023/24 – 2026/27**

## Police & Crime Commissioner for Northumbria

### Medium Term Financial Strategy 2023/24 – 2026/27

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## Foreword by the Police and Crime Commissioner for Northumbria

If we are to prevent and fight crime in the Northumbria Police force area it is essential our force has the resources available to support our communities.

In this document I set out how Northumbria Police will be funded to meet the day to day needs of our region.

The strategy set out here should be viewed against both the ongoing backdrop of Government austerity and the more recent challenges of soaring inflation and the Cost of Living crisis.

The historic facts remain as pressing as ever. 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.

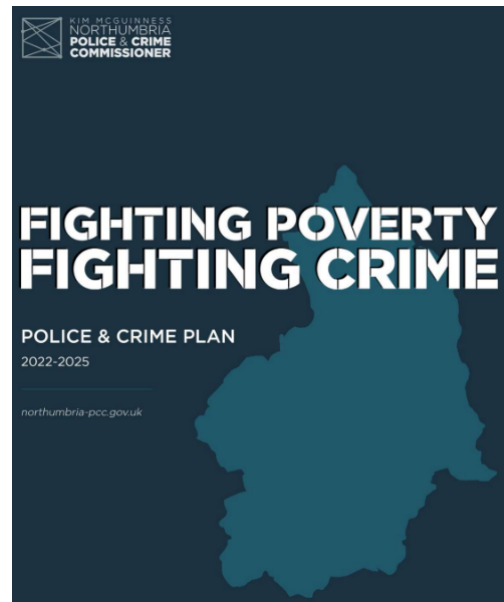
It is my belief that the Government should be fully funding local policing, especially during a period of vastly increased costs. Despite calls from myself and other Police and Crime Commissioners for this funding, the Home Office has refused to provide the investment needed.

With this in mind, this Medium Term Financial Strategy sets out both how we will ensure the police have the resources they need and the measures which will have to be taken to reduce the £15 million funding gap.

I will ensure that the public's policing priorities as set out in my Police and Crime Plan remain a key objective when taking these resourcing decisions, a commitment which can be seen for example in the decision to increase the number of new Uplift officers deployed to neighbourhood policing teams. While there are difficult decisions ahead, our region remains a safe place to live and visit, and I know the staff and officers of Northumbria Police remain dedicated to keeping us all safe.

**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 provides projections for the revenue budget and capital programme over the medium term.



1.2 The MTFS 2023/24 to 2026/27 will continue to deliver and build upon the investment in policing for Northumbria residents approved by the Commissioner in 2022/23. 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 to March 2023; and allow Northumbria Police to invest in the right resources to protect the vulnerable, tackle crime and keep our communities safe.

1.3 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, worldwide supply chain shortages 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 no 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.

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

| Your Priorities   |  |  |
|---|--|--|
| Fighting Crime  | Preventing Crime   | Improving Lives  |
| <p>‘The North East is one of the safest places in the country and my job is to ensure Northumbria Police maintain their great record here.</p> <p>That’s why my number one priority is fighting crime in our region.’</p> | <p>‘I will continue to fight for a well resourced police force to ensure public safety, but we cannot simply arrest our way out of crime.</p> <p>As your Police and Crime Commissioner I have worked with the Chief Constable to ensure we are intervening to stop crime in its tracks.’</p> | <p>‘Crime, and the fear of crime, can cause far reaching damage both to individuals and local communities.</p> <p>I want to make sure no one suffers alone, and that there is always support available for victims of crime or parts of our region that have been hit by crime.’</p> |
| Your Plan in Action   |  |  |
| <p>Addressing Anti-social Behavior</p> <p>Reducing Crime</p>  | <p>Preventing Violent Crime</p> <p>Neighbourhood Policing</p>  | <p>Support for Victims</p> <p>Tackling Domestic Abuse and Sexual Violence</p>  |

## **2. Benefits of the Strategy**

### **2.1 The MTFS assists in:**

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

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

### **3.1 To deliver against the PCC's priorities, and the Police and Crime Plan, effectively and efficiently within the available resources, the key principles underlying the Commissioner's MTFS 2023/24 to 2026/27 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 2023/24 to 2026/27 has also been carried out to ensure delivery of key priorities; this approach uses the following key themes:

- The operational context for Northumbria Police.
- The financial context in which the Commissioner operates, including the Commissioner’s current financial position and performance, Spending Review (SR) 2021 projections, Autumn Statement 2022, the police settlement 2023/24 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 2023/24 financial year is confirmed.

5.4 The Strategy ensures that the 2023/24 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 £15.00 per year in 2023/24 to raise an additional and recurring £6.1m of funding for policing in Northumbria, which will:
- Deliver a restructure of neighbourhood policing, allocating 134 new officers into specialist frontline roles to take on the fight against crime, and;
  - Help protect the force from the impact of significant budget pressures and spiraling inflation.
- 5.6 Whilst the financial forecast assumes that the maximum precept increase allowed by the Government for the 2024/25 financial year, is taken to sustain existing services, this will be subject to consultation with Northumbria residents each year and reviewed on an annual basis as each year's funding settlement is announced.
- 5.7 In addition, a capital programme has been set which will ensure continued investment in estates, IT and digital infrastructure, vehicles and operational equipment over the term of the MTFS. This will include the provision and upgrading of personal issue equipment including Taser capability, body-worn video and body worn armour replacement. The Force will continue to drive change and efficiency through transformation which includes significant investment in 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 4 years there have been no inflationary increases provided by government, with core grant covering only part of the increased cost of police officer pensions for 2019/20 and delivery of the Police Uplift Programme (PUP) over 2020/21 to 2022/23.
- 6.3 The significant levels of inflation emerging in the economy over 2022/23 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. Inflation and other budget pressures identified for 2023/24 are now more than £15.000m greater than anticipated within the Medium-Term Financial Strategy (MTFS) approved last year. 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 2022/23, whilst making prudent assumptions on future funding levels and expected budget requirements.

6.5 For 2022/23 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 as at 31 December 2022, shows a projected underspend of £2.758m for the Group as set out in the following table:

| Revenue Budget 2022/23<br>Group Position  | Approved<br>Budget<br>2022/23<br>£000 | Forecast<br>Outturn<br>2022/23<br>£000 | Forecast<br>Variance<br>2022/23<br>£000 |
|---|---------------------------------------|--|---|
| Chief Constable                           | 322,788                               | 322,216                                | (572)                                   |
| Office of the Police & Crime Commissioner | 1,829                                 | 1,765                                  | (64)                                    |
| OPCC Supporting Services                  | 1,121                                 | 1,020                                  | (101)                                   |
| Capital Financing                         | 13,594                                | 11,573                                 | (2,021)                                 |
| <b>Group Position Total</b>               | <b>339,332</b>                        | <b>336,574</b>                         | <b>(2,758)</b>                          |

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 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.

6.7 The Chief Constable’s revenue budget for 2022/23 is £322.788m. The forecast outturn is within the budget allocated by the Commissioner with phasing and recruitment of police staff contributing to the underspend position along with additional grant income from government relating to Uplift delivery. Significant inflationary pressures of £4.661m have been managed during the year, within the outturn position. These include pressures on utilities, fuel, office supplies, software, and vehicle recovery contracts.

6.8 For capital financing the underspend relates to:

- The principal repayment of capital which is lower than the original budget estimate by £1.011m, based on reduced expenditure in the final capital outturn for 2022/23.
- The succession of Bank Rate increases during the year and higher reserve balances have led to an increase in investment income of £0.767m.
- Prudential borrowing requirements for the year were reduced as a result of slippage in the capital programme and interest on borrowing has contributed £0.243m to the underspend position.

6.8 The overall Group forecast represents an underspend of £2.758m.

**National Police Settlement 2023/24**

6.9 The final police grant settlement was published on 31 January 2023.

6.10 The key headlines from the settlement are:

- Police Core Grant – Core grant allocations to PCCs to be increased by £174.000m, comprising:
  - The additional £100.000m committed in the 2021 Spending Review.



- The £140.000m allocated to cover the additional cost of the 2022 police officer pay award has been added to the ring-fenced Uplift grant.
- A reduction of £69.000m due to the reversal of the employer NI increase in relation to the Health and Social Care Levy.
- Minor increase of £5.000m to legacy council tax grants.
- The Governments key priorities are outlined in the [Written Ministerial Statement](#) (WMS) on the Provisional Police Grant Report 2023/24, with the expectation that these are a focus for policing in 2023/24:
  - Ensuring overall police officer numbers are maintained at the agreed Police Uplift baseline plus force level allocations of the 20,000 additional officers.
  - Deploying these additional officers to reduce crime and honour this Government’s commitment to keep the public safe.
  - Delivering improvements in productivity and driving forward efficiencies, maximizing the value of the Government’s investment.
- The ring-fenced grant income allocated to PCCs in 2022/23 of £135.000m is therefore increased (by the £140.000m) to £275.000m. Allocation of this ring-fenced grant is in-line with formula funding percentages, and in previous years it has been accessed through progression against force Uplift targets. For 2023/24 the ring-fenced grant will be ‘paid out subject to forces maintaining their officer numbers’.
- The Police and Crime Commissioners Treasurers Society (PACCTS) have raised concerns on this matter with the Home Office, in their response to the 2023/24 provisional settlement. Specifically, that this significant and crucial funding stream for policing has not been baselined in core grant, providing a lack of certainty for the future.
- The minimum increase of £150.000m committed to police funding nationally for 2024/25 (Police Settlement 2022/23) was not specifically re-confirmed. However, the WMS on the Provisional Police Grant Report states that the ‘Chancellor confirmed at the Autumn Statement that departmental budgets set out at Spending Review 2021 will be maintained to 2024/25’. On that basis it is assumed that the commitment to the £150.000m in 2024/25 remains.
- 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 pension contributions in 2019/20 has been confirmed for a further year.
- 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. In December 2022, the referendum limit for 2023/24 was increased to £15.00 for a Band D property, with no change to the £10.00 limit for 2024/25.
- Police Capital Funding – For the second year running there is no capital grant funding allocated to police forces in the settlement.

#### **Northumbria Settlement 2023/24**

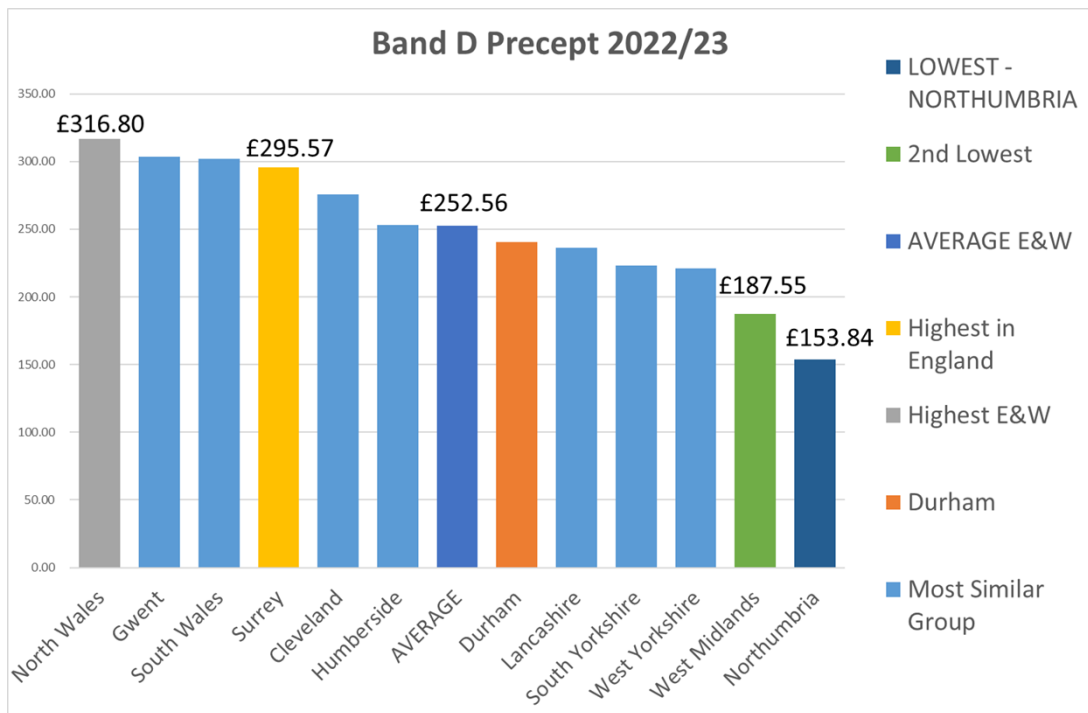
- 6.11 The total grant increase for Northumbria including the ring-fenced grant and the reduction for the removal of the Health and Social Care Levy is £5.232m.

|  | £m           |
|--|--------------|
| Core Grant – formula funding share (3.08%) of £100.000m committed in SR 2021 | 3.080        |
| Increase in ring-fenced grant - formula funding share (3.08%) of £140.000m   | 4.312        |
| Removal of funding associated with the Health and Social Care Levy           | (2.160)      |
| <b>Total Increase in Funding</b>   | <b>5.232</b> |

- 6.12 The Uplift target set for Northumbria of 615 officers is expected to be maintained. Ring-fenced grant income of £8.470m will be paid as Special Grant during the year. This comprises the level of grant allocated in 2022/23 of £4.158m, plus the increase of £4.312m for 2023/24. For 2023/24 the ring-fenced grant will be 'paid out subject to forces maintaining their officer numbers'. As set out previously in this report, the Government are yet to provide the details, mechanism and payment points associated with the receipt of this funding.
- 6.13 The 2022/23 settlement included £69.000m for police forces to manage the cost of the Health and Social Care Levy effective 1 April 2022. As this Levy was removed from November 2022, the 2023/24 settlement has reduced police funding by this amount. The reduction for Northumbria is approximately £2.160m.
- 6.15 Northumbria will continue to receive legacy grants totaling £8.168m in 2022/23 as set out below. These are again allocated in flat cash terms, with no recognition of an inflationary increase and therefore represent a reduction to overall funding:
- Home Office Legacy Council Tax Freeze Grants totalling £1.301m, relating to the freeze in the precept for 2011/12 and 2014/15.
  - Localised Council Tax Support Grant £6.867m, relating to the transfer of responsibility for Council Tax Benefit from Government to Local Authorities on 1 April 2013. As a result of the transfer changes were required in the tax base calculation for local authorities, reducing the overall value. This grant was introduced for 2013/14 to compensate PCC's for the reduction in precept income and remains payable.
- 6.16 Capital grant funding allocated by the Government for Northumbria is nil, as for 2022/23.

### **Council Tax**

- 6.18 As part of the annual police funding settlement, an element of total available funding is revenue generated by increases in Council Tax. The Band D precept charge is the contribution paid toward policing by a homeowner in that category and is the common criteria by which information and comparison is based.
- 6.19 The following graph shows a comparison of Northumbria's position to other Force areas for the financial year 2022/23. The Northumbria Band D precept charge of £153.84 is the lowest of any PCC in England and Wales.



- 6.20 For 2023/24 20% of our core resource funding is derived from the Council Tax Precept, with the majority (80%) being through government grant.
- 6.21 The Secretary of State sets out, as part of the Police funding settlement, what increases can be made by PCC's to council tax without requiring a referendum. For 2023/24 that amount was up to £15.00 per year for a Band D property. Consideration of the Council Tax Precept has to be taken alongside both the overall funding made available to the Force and the impact on households of any increase.
- 6.22 The Commissioner has stated that her primary consideration is to ensure public safety through a well-resourced police force and that this priority is reinforced in almost every consultation carried out by her office. The proposed increase to the Council Tax Precept for 2023/24 was supported by the results of a public consultation during January 2023. The Commissioner has therefore approved an increase in the Council Tax Precept of £15.00 per year for a Band D property (125 pence per month), providing additional income to continue to support local policing services in the face of a challenging financial situation.
- 6.23 For the majority of residents in the Northumbria area, those in a Band A property, the actual increase is only £10.00 per year (83 pence per month).
- 6.24 The additional income generated by the precept increase for 2023/24 is £6.1m and this will be used to:
- Deliver a restructure of neighbourhood policing, allocating 134 new officers into specialist frontline roles to take on the fight against crime, and;
  - Help protect the force from the impact of significant budget pressures and spiraling inflation.
- 6.25 Whilst the MTFs is presented using an assumption that the maximum precept increase allowed by the Government for 2024/25 (£10.00 per year for a Band D property) is taken to sustain existing services, this will be subject to consultation with Northumbria residents each year and reviewed on an annual basis as each year's funding settlement is announced. The forecast precept increase in each of the final two years of the MTFs is a prudent assumption of £5.00

per year for a Band D property, the minimum referendum limit set by government in recent years.

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

7.1 Whilst the Medium Term Financial Strategy (MTFS) 2023/24 to 2026/27 presents a balanced budget for all four years, the following areas of risk and uncertainty are highlighted:

- Government grant funding has been confirmed for 1 year only with only a minimum increase provided for police funding nationally in 2024/25.
- Government funding support for the national officer Uplift beyond 2023/24 has not been determined.
- Actual pay awards for officers and staff are not yet known.
- The current extraordinary levels of inflation in the economy and the impact on the revenue budget beyond 2023/24 is unknown.
- The extent of government support (if any) for rising inflationary pressures cannot be determined. For 2023/24 there has been no additional financial support from government to recognise the unprecedented scale of inflation that forces are having to deal with.
- 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 2023/24 financial year is confirmed.

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

| Medium Term Financial Strategy 2023/24 to 2026/27  | Approved Budget |                       |               |               |
|--|-----------------|-----------------------|---------------|---------------|
|  | 2023/24         | Future Year Estimates |               |               |
|  | £m              | 2024/25<br>£m         | 2025/26<br>£m | 2026/27<br>£m |
| <b>Base budget</b>   |                 | <b>355.6</b>          | <b>360.8</b>  | <b>365.3</b>  |
| Current assessment of net change arising from pay and price increases, budget pressures, capital financing requirements and savings across future years: |                 | 5.2                   | 4.5           | 7.7           |
| <b>Total Budget</b>  |                 | <b>355.6</b>          | <b>360.8</b>  | <b>365.3</b>  |
| Core Grant Income (23/24)  | 266.1           | 266.1                 | 266.1         | 266.1         |
| Increase to Core Grant 2024/25   |                 | 4.6                   | 4.6           | 4.6           |
| Increase to Core Grant 2025/26   |                 |                       | 4.6           | 4.6           |
| Increase to Core Grant 2026/27   |                 |                       |               | 4.6           |
| Special Pension Grant  | 3.4             | 3.4                   | 3.4           | 3.4           |
| Council Tax Support Grant  | 6.9             | 6.9                   | 6.9           | 6.9           |
| Council Tax Freeze Grant 11/12   | 0.9             | 0.9                   | 0.9           | 0.9           |
| Council Tax Freeze Grant 14/15   | 0.4             | 0.4                   | 0.4           | 0.4           |
| Council Tax Income (23/24)   | 68.9            | 68.9                  | 68.9          | 68.9          |
| Council Tax - Tax Base Increase/(Reduction)  | -               | 1.0                   | 1.9           | 2.8           |
| Council Tax - Precept Increase   | -               | 4.2                   | 6.3           | 8.4           |
| Council Tax - Surplus/(Deficit) on Collection Fund   | 1.1             | 0.7                   | 0.7           | 0.7           |
| Council Tax - 2020/21 Deficit  | (0.2)           | -                     | -             | -             |
| <b>Total Budget</b>  | <b>347.5</b>    | <b>357.1</b>          | <b>364.7</b>  | <b>372.3</b>  |
| <b>Funding gap / (surplus) before reserves</b>   | <b>8.1</b>      | <b>3.7</b>            | <b>0.6</b>    | <b>0.7</b>    |
| <b>Planned use of reserves:</b>  |                 |                       |               |               |
| <b>Transfer to / (from) Reserves</b>   |                 |                       |               |               |
| Investment Reserve   | (4.5)           | (2.4)                 | (0.6)         | (0.7)         |
| Inflationary Risks Reserve   | (3.6)           | (1.3)                 | -             | -             |
| <b>Funding gap remaining after planned use of reserves:</b>  | <b>-</b>        | <b>-</b>              | <b>-</b>      | <b>-</b>      |

- 7.4 The MTFS has made prudent assumptions about pay and price increases through national pay awards and inflation which will continue to be reviewed on an annual basis. Pay awards are included at 3.0% for 2023/24, and 2.0% for 2024/25 through to 2026/27.
- 7.5 Pay progression is included for existing officers and staff throughout the MTFS period, along with inflationary increases on injury pensions, rents and utilities, known contract increases and other non-pay inflation.
- 7.6 The revenue budget forecasts will fully maintain the Northumbria share of the National police officer Uplift across the medium term.
- 7.7 The ring-fenced Special Grant for maintaining Uplift in 2023/24 is £8.5m and the MTFS assumption for future years is that this is maintained in flat cash terms each year.
- 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 challenging financial climate and extraordinary levels of inflation which have emerged over the past 18 months are expected to continue to impact on force budgets over the medium-term. The force began work early in 2022/23 to establish and monitor the scale of the impact of inflation and economic pressure on force budgets, both for the current year and looking ahead to the next medium term financial planning period through to 2026/27. Whilst inflationary pressures of £4.661m have been managed within the revenue budget for 2022/23 it was recognised that this could not be sustained in future years.
- 7.11 A significant programme of work commenced in the summer to review the capacity across the force operating model to deliver efficiencies whilst maintaining performance and identifying opportunities to improve policing services. Approved efficiencies and budget reductions being delivered in 2023/24 are just over £9.600m with further savings planned across the medium-term.
- 7.12 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.
- 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 The £8.2m earmarked reserve established in 2020/21 to support investment has been reprofiled over 2023/24 to 2026/27 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).
- 7.15 The Inflationary Risks Reserve was established in 2021/22 of £4.325m. This reserve will be fully utilised over 2023/24 and 2024/25 to manage the inflationary and pay increases on budgets as the full impact of inflationary and cost pressures are understood and appropriate efficiency programmes are implemented to meet the budgetary gap.

### **Total Income**

- 7.16 **Grant Income** – In recent years, core grant income from central government has been maintained in flat cash terms with targeted increases for police officer pension costs and Uplift delivery only, there have been no inflationary increases. The SR 2021 set out the minimum increase to police funding nationally for 2024/25. Core grant for Northumbria is therefore based on the expected funding formula share (3.08%) for that year. The increase for both 2025/26 and 2026/27 is aligned with the estimate for 2024/25.
- 7.17 **Localised Council Tax Support and Council Tax Freeze Grants** – These grants were described earlier at section 6.15 and have been received for a number of years now with the earliest one commencing in 2011/12. There has been no suggestion that they will cease in the SR 2021 period and therefore the assumption is that they will continue for the medium term.
- 7.18 **Council Tax Precept** – Whilst the financial forecast assumes that the precept increase for 2024/25 is £10 per year for a Band D property, the maximum permitted by the Government for that year, the PCC will make decisions on the level of the precept on an annual basis and

following consultation with the public. The assumption for the precept increase in both 2025/26 and 2026/27 remains prudent at £5.00 (Band D), the minimum excessiveness limit set in recent years.

- 7.19 **Tax Base Increase** – The actual tax base movement for 2023/24 is an increase of 1.53%. The assumption for future years is based on estimates provided by the Office for Budget Responsibility (OBR) published alongside the Spending Review 2021. These are +1.4% (2024/25), +1.2% (2025/26), with the final year (2026/27) being matched with 2025/26.
- 7.20 **Collection Fund Surplus / Deficit** – This is confirmed on an annual basis by each Local Authority and generally there is a net surplus each year across the six local authorities. The surplus on the 2022/23 collection fund was estimated at £1.1m in total for the six local authorities and this amount will be received in 2023/24. Future years are estimated at a prudent surplus of £0.7m.
- 7.21 **Council Tax Deficit 2020/21** - Due to the financial hardship caused by the Covid-19 pandemic, Council Tax receipts in 2020/21 were lower than estimated by local authorities at the start of the year. This resulted in a net deficit of £0.6m which is payable over 3 years 2021/22 to 2022/23 following a change in legislation for the 2020/21 collection fund year only. The deficit will be fully repaid by 2023/24.
- 7.22 **Funding Gap and Planned Use of Reserves** – The £8.2m earmarked reserve established in 2020/21 to support investment has been reprofiled over the medium term to manage the anticipated funding gap each year. 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                                 | 2023/24<br>£000 | 2024/25<br>£000 | 2025/26<br>£000 | 2026/27<br>£000 | Total<br>£000 |
|---|-----------------|-----------------|-----------------|-----------------|---------------|
| Building Works                                    | 9,583           | 7,903           | 5,530           | 12,659          | 35,675        |
| Information Technology and Digital Transformation | 13,863          | 4,555           | 7,883           | 6,411           | 32,712        |
| Vehicles and Equipment                            | 9,930           | 3,297           | 3,679           | 3,603           | 20,509        |
| <b>Total</b>                                      | <b>33,376</b>   | <b>15,755</b>   | <b>17,092</b>   | <b>22,673</b>   | <b>88,896</b> |

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.
- **Information Technology** – 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 within a challenging climate. The 2023/24 budget includes slippage of £2.343m in vehicles from the 2022/23 capital programme due to on-going supply chain shortages and some significant price increases. The provision and upgrading of personal issue equipment including Taser capability, £0.900m for body-worn video and £1.391m 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 Estimates           | 2023/24<br>£000 | 2024/25<br>£000 | 2025/26<br>£000 | 2026/27<br>£000 | Total<br>£000 |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|---------------|
| <b>Forecast Expenditure</b> | 33,376          | 15,755          | 17,092          | 22,673          | 88,896        |
| <b>Financed by:</b>         | 252             | -               | 180             | -               | 432           |
| Grants and Contributions    |                 |                 |                 |                 |               |
| Capital Receipts            | 8,016           | 2,988           | 1,796           | -               | 12,800        |
| Prudential Borrowing        | 25,108          | 12,767          | 15,116          | 22,673          | 75,664        |
| <b>Total Financing</b>      | <b>33,376</b>   | <b>15,755</b>   | <b>17,092</b>   | <b>22,673</b>   | <b>88,896</b> |

- 8.4 Total capital expenditure over the four years is estimated at £88.896m. Capital grant funding from government has been reduced to nil. Capital receipts available over the MTFS period are estimated at £12.800m and therefore the majority of spend will be financed through prudential borrowing, which must be repaid from the revenue budget over future years based on the useful life of assets.
- 8.5 Capital receipts will therefore be used prudently across the MTFS period to manage overall capital investment and limit the impact on revenue budgets. Receipts will be applied mainly in 2023/24 to support the concentration of capital spend profiled in that year. The remainder will be applied in 2024/25 and 2025/26 to finance short-life assets (up to 3 years).
- 8.7 Prudential borrowing will provide the remaining requirement for capital financing over the medium term. The costs of borrowing and repayment are fully reflected in the revenue budget over the medium term. Affordability is further considered as part of the Prudential Indicators approved by the Commissioner on an annual basis.

## 9. Reserves

### Background information on Reserves

- 9.1 Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when preparing budgets.
- 9.2 In establishing reserves, the Commissioner must comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Chief Finance Officer is required as part of the budget setting process to provide a statement on the adequacy of reserves.



- 9.3 Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on Reserves and Balances (LAAP Bulletin No 77 November 2008) and the requirements of the Code suggest twice yearly reviews of reserves. By doing this, the visibility of reserves are increased and consideration of their use is placed at the forefront of the decision making process. Reserves are cash backed balances, held on the balance sheet until they are spent or released for other purposes. As such, they can only be spent once, and are not part of the base budget.
- 9.4 In addition, the Home Office Financial Management Code of Practice (FMCP) 2018 requires Police and Crime Commissioners to publish a reserves strategy on an annual basis. The statement provides an explanation for each reserve along with its value. Plus, a narrative explaining whether the current and projected level of reserves is appropriate, and governance arrangements for reserves are adequate and appropriate. The Reserves Strategy Statement as at 31 March 2023 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       |
|   | 2023        | 2024        | 2025        | 2026        | 2027        |
|   | £m          | £m          | £m          | £m          | £m          |
| General Reserves  | 10.6        | 10.6        | 10.6        | 10.6        | 10.6        |
| <b>Earmarked Reserves</b>   |             |             |             |             |             |
| Insurance Reserve   | 3.0         | 3.0         | 3.0         | 3.0         | 3.0         |
| Operational Systems Reserve   | 3.4         | 3.0         | -           | -           | -           |
| 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         | 2.6         |
| Inflationary Risks Reserve to Maintain Investment over the Medium Term and Support Uplift | 4.9         | 1.3         | -           | -           | -           |
| Pay Inflation Reserve   | 8.2         | 3.7         | 1.3         | 0.7         | -           |
| Covid Enforcement/Operational Reserve   | 2.0         | 2.0         | 2.0         | 2.0         | 2.0         |
| OPCC Innovation Reserve   | 1.4         | 0.6         | -           | -           | -           |
| External Funding Reserve  | 0.7         | 0.4         | -           | -           | -           |
| NERSOU Reserve  | 1.0         | 0.8         | 0.6         | 0.4         | 0.2         |
|   | 0.4         | -           | -           | -           | -           |
| <b>Total Earmarked Reserves</b>   | <b>28.9</b> | <b>18.7</b> | <b>10.8</b> | <b>10.0</b> | <b>9.1</b>  |
| <b>Total Revenue Reserves</b>   | <b>39.5</b> | <b>29.3</b> | <b>21.4</b> | <b>20.6</b> | <b>19.7</b> |

### General Reserve

- 9.8 The expected General Reserve at 31 March 2023 is £10.6m equating to 3.0% of the revenue budget of £355.6m for 2023/24.
- 9.9 The forecast General Reserve balance of £10.6m 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 2027 are estimated to remain at £10.6m equating to 2.8% of the net revenue budget of £373.0m.

### 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.

### Operational Systems Reserve

- 9.11 The Operational Systems Reserve will be created at the end of the 2022/23 financial year through a transfer of £3.400m from the Police Pension Scheme Funding Reserve.

The Police Pension Scheme Funding Reserve was established because of the sudden shift in employer's pension costs for police officers from April 2019. Specific grant funding of £3.400m 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 has subsequently been confirmed at the same level for each year since and the MTFS revenue projections assume that funding will continue to be provided in some form by Government over the medium term. On that basis the Commissioner feels that this risk is sufficiently mitigated, and the Police Pension Scheme Funding Reserve is no longer required.

The full balance of £3.400m has therefore been used to create the Operational Systems Reserve.

The Operational Systems Reserve will provide £3.400m of reserve funding to support the transformational approach to the replacement of operational police systems and is expected to be fully utilised over 2023/24 and 2024/25.

#### **Workforce Management Reserve**

- 9.12 The Workforce Management Reserve was established to manage costs associated with workforce change. 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. However, due to slippage in the National timeline for ESN implementation the capital costs for ESN delivery in Northumbria are now expected beyond the current medium term in 2027/28 and/or 2028/29.

#### **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. This reserve will provide much needed support to manage the impact of the current extraordinary levels of inflation emerging in the economy for energy, fuel and prices. It is expected to be fully utilised over 2023/24 and 2024/25.

#### **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 (£8.2m) 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 3 years 2023/24 to 2025/26. The use of the £8.2m has been reprofiled over 2023/24 to 2026/27 to manage the anticipated funding gap in those years.

#### **9.16 Pay Inflation Reserve**

An earmarked reserve of £2.021m will be created at the end of 2022/23 from the underspend against the Commissioner's Capital Financing budget. This reserve will 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.

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

- 9.17 An earmarked reserve of £3.1m was established in 2020/21 to meet the costs of Covid enforcement and operational policing in 2021/22. Total expenditure against this reserve to date is £1.7m. The balance on the reserve is forecast at £1.4m at 31 March 2023 and planned expenditure is phased over 2023/24 and 2024/25.

### **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 £0.7m is expected to be utilised over the next 2 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.

### **NEROCU Reserve**

- 9.20 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 will be utilised in 2023/24 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 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:

| <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          | High          | Budget based on best information available and set at a prudent level. Earmarked reserves created to provide additional mitigation |

| Risk  | Likelihood | Impact | 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.   |
| The next valuation of the Police Pension Fund results in further increases in the employer's cost of pension contributions.   | Possible   | High   | Information shared by NPCC and PACCTS suggests that the next valuation could 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 will be managed by Government in some form. |
| Implementation of the National Emergency Services Network (ESN) in Northumbria – risk that the costs of implementation are increased against current estimates and timescales for delivery are further delayed. | 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 impact as 100% of existing debt is at fixed rates.   |

| <b>Risk</b>   | <b>Likelihood</b> | <b>Impact</b> | <b>Mitigation</b>   |
|---|-------------------|---------------|---|
| Failure to deliver planned savings.   | Possible          | Medium        | Quarterly revenue monitoring updates to the Commissioner and monthly monitoring undertaken by the Chief Finance Officer and Chief Constable; maintenance of the General Reserve balance above 2% of budget.   |
| Further reductions in funding including unfavourable review of funding formula.   | Possible          | High          | Balance on General Reserve maintained at minimum of 2%; forward planning; annual review of MTFS; regular monitoring.  |
| Future council tax rises are limited by government restrictions.  | Unlikely          | Medium        | The Spending Review 2021 set out referendum principles which gave the PCC flexibility to increase the precept by £10 per year for a Band D property in each of the 3 years 2022/23 to 2024/25. For 2023/24 the limit was subsequently increased to £15.00, with no change to 2024/25. Whilst the MTFS financial plan assumes the maximum increase is taken in 2024/25 to sustain existing services, this will be subject to consultation with Northumbria residents and reviewed next year alongside the settlement announcement. The MTFS includes a prudent future assumption of £5.00 per year for a Band D property for 2025/26 and 2026/27 which is the lowest referendum limit set by government in recent 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   |

| Risk | Likelihood | Impact | Mitigation   |
|------|------------|--------|--|
|      |            |        | management arrangements; balance on General Reserve maintained at a minimum of 2% of budget. |

## 11. Conclusion

- 11.1 The approach set out in this MTFS intends to deliver a balanced budget. The MTFS financial plan demonstrates that a sustainable position can be achieved over the medium term and general reserves can be maintained above the minimum set out in the reserves strategy, estimated at £10.6m (2.8%) at March 2027.
- 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 2023/24 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.