

NORTHUMBRIA POLICE AND CRIME COMMISSIONER

Key Decisions

Title and Reference

**Approval of the Medium Term Financial Strategy 2017/18 to 2020/21
(PCC/263/2017)**

Summary

The Medium Term Financial Strategy (MTFS) sets out the key financial issues facing the Police and Crime Commissioner over the period 2017/18 to 2020/21, and provides options for delivering a sustainable budget and capital programme over the medium term.

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

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

Recommendations/ Findings:

It is recommended that the Commissioner agrees the principles set out in the MTFS and approves the MTFS for 2017/18 to 2020/21.

Northumbria Police and Crime Commissioner

I hereby approve the recommendation above.

Signature



Date 23.02.17



VERA BAIRD^{QC}
POLICE & CRIME COMMISSIONER

Police & Crime Commissioner for Northumbria

MEDIUM TERM FINANCIAL STRATEGY

2017/18 – 2020/21

Police & Crime Commissioner for Northumbria
Medium Term Financial Strategy 2017/18 – 2020/21

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1. Purpose of the Medium Term Financial Strategy

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

2. Benefits of the Strategy

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

3. Principles of the Strategy

- 3.1 The key principles underlying the Commissioner's MTFS 2017/18 – 2020/21 are:-
 - (i) Overall expenditure of the Commissioner will be contained within original estimates each year;
 - (ii) The Commissioner will maintain a General Reserve of a minimum of 2% of the net revenue budget to cover any major unforeseen

expenditure or loss of funding. A flexible approach will be taken to the use of reserve balances above this level where appropriate, balancing the opportunity costs of maintaining reserves against the benefits of alternative approaches.

- (iii) The Commissioner will maintain earmarked reserves for specific purposes only when appropriate and which are consistent with achieving objectives;
- (iv) The Commissioner will continue to prioritise the achievement of Value for Money, securing economy, efficiency and effectiveness in the use of resources; in establishing the framework for policing within Northumbria and; in commissioning and procurement decisions.
- (v) The Joint Chief Finance Officer and Chief Constable will prepare a rolling programme of four year budget forecasts to inform the Commissioner's budget and precepting decisions.
- (vi) The Commissioner, supported by the Joint Chief Finance Officer and Chief Constable, will continue to contribute to national reviews of police funding and take every opportunity to engage in order to pursue the fair and equitable funding of Northumbria Police.

4. Reviewing the Strategy

4.1 The Commissioner's MTFS review for 2017/18 to 2020/21 has been carried out under the following key themes:

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

5. Operational Context

5.1 The successful delivery of the Strategy requires the Chief Constable to manage a complex set of resources, demands and priorities whilst reviewing and revising plans to meet changing demand for policing services within the available financial resources.

5.2 HMIC considers that a force is efficient if it is making the best use of its resources to provide policing services that meet expectation and follow public priorities and if it is planning and investing wisely for the future.

5.3 In the most recent HMIC PEEL inspection report '*Police Efficiency 2016 An Inspection of Northumbria Police*', Northumbria was assessed as GOOD in respect of the efficiency with which it keeps people safe and reduces crime.

- 5.4 Demand for police services is changing as new types of crime emerge which often require a different approach to policing, and working closely with partner agencies such as Fire and Rescue Services, Local Authorities, the NHS and Ambulance Service, to achieve common aims and objectives. The force has undertaken an assessment of changing crime types as part of its annual strategic assessment which gives a detailed picture of emerging demand for police response throughout Northumbria. The main areas of growing demand include Cyber-crime, Child Sexual Exploitation, Domestic Violence, Organised Immigration Crime, 'Honour Based Violence', Hate Crime and Antisocial Behaviour.
- 5.5 Detailed below in sections 5.6 to 5.10 are examples of how the force is changing the way it works to meet the demands of changing crime types and free up resources to provide an effective police response which meets the expectations of the public.
- 5.6 The Force has introduced a new more rigorous approach to the risk assessment of all 999 and 101 calls to ensure that the most appropriate police response is deployed. This approach is known as 'THRIVE' (threat, harm, risk, investigation, vulnerability and engagement). It aims to gather enough information to make an informed decision as to the best response in every case, with a shift to placing an emphasis on a response that is focused on the victim and the risks posed.
- 5.7 The introduction of a new 'resolution without deployment' (RWD) unit has also enhanced the handling of initial calls. The RWD unit deals with calls for service by telephone without sending a police officer to attend. The unit is staffed by experienced officers and relevant calls for service are effectively managed in-line with the customer's wishes without the need for the deployment of police officers. This is an example of change that has been implemented to improve efficiency and allows the Force to reinvest staff in areas of significant and emerging demand.
- 5.8 In 2016 Northumbria created a new Strategic Safeguarding Department within the Force Operating Model to co-ordinate the police response to the most vulnerable members of our community. The force has implemented a revised approach to safeguarding which reduces the demands placed upon Neighbourhood Policing Teams. The focus of this approach is on longer term partnership working and aims to embed effective working practices and relationships between Northumbria Police and each Local Authority.
- 5.9 A Force Improvement Team has been created to increase understanding of overall demand for police services, including hidden and under-reported demand. An important role of the team is to thoroughly understand the demand from safeguarding vulnerable people, and to develop multi-agency operating models that will enhance service provision and maximise efficiency savings.
- 5.10 Neighbourhood Policing remains at the heart of Northumbria Police's approach to delivering effective police services to all communities within the

Northumbria Police area. The force continues to work hard to break down barriers with those communities that traditionally have little trust in policing. Well established links through community cohesion teams and partner organisations have helped to increase levels of public confidence.

- 5.11 Underpinning this is a workforce plan that includes recruitment, training and development of officers and police staff, aligning resources with changing demand, whilst continuing to manage organisational change through the prudent use of reserves.

6. Financial Context

- 6.1 The last 6 years have seen unprecedented cuts to the funding provided by the Government to Police and Crime Commissioners (PCCs) in England and Wales. Northumbria has had to make £123.4m of cuts and efficiencies to manage the reductions imposed by government over that period. In addition it has also had its ability to raise additional tax revenue from the precept restricted by the excessiveness rules and a climate of council tax freeze grant incentives.
- 6.2 Northumbria were the hardest hit of any force in England and Wales over the last CSR period with total funding reduced by over 23% to 2015/16. The forces most affected by funding reductions are those with a higher percentage of total funding coming from central government. Northumbria experienced the largest impact of the cuts because it receives more in grant in proportion to its council tax; around 86% is grant for 16/17 but this proportion is reducing year on year with continued grant cuts. In addition Northumbria has the lowest precept of any PCC in England and Wales and a low yield too.
- 6.3 The financial reserves have played a key part in the strategy to balance costs with available funding, giving much needed head room to establish strategies and implement change.
- 6.4 Despite cutting its workforce by more than 26%, making efficiencies, transforming business areas through investment in technology, cutting waste, selling property and consolidating its Area Commands from six to three, Northumbria still needs to reduce expenditure further to match spend with financial resources.
- 6.5 We need to maintain our pace, continue our Force Improvement programme, explore further collaboration and continue our reform in order to align our spend. All of this will need to take place as we constantly review and redeploy our resources to meet the ever changing nature of demand for policing services and continue to protect our local communities. We will invest in extending our cyber-crime capabilities, providing support to victims of crime, protecting the most vulnerable members of our communities, preventing child sexual exploitation and modern day slavery, developing anti-terrorism and firearms capabilities.

Formula Review

- 6.6 In July 2015 the Home Office launched a very short 8 week consultation on its proposals to revise the acknowledged outdated police funding formula. The identification of fundamental errors in the data used within the published exemplifications forced the Home Office to halt the review process in November 2015 with the Minister publicly apologising for the errors.
- 6.7 During 2016 the Government re-launched its review of the Police funding formula. If the Home Office decide to implement a new formula it is expected that it will be introduced from 2018/19. We await the outcome of this and will ensure that we are fully engaged to pursue the best outcome for Northumbria from 2018/19 onwards.

Spending Review and Police Settlement

- 6.8 The Comprehensive Spending Review (CSR) 2015 set out indicative spending settlements for each government department up to 2019-20. Overall police funding was to be cut by 1.3% in real terms over four years.
- 6.9 The Government further stated that taking into account the scope that Police and Crime Commissioners have to raise local Council Tax this would mean a flat real settlement for policing as a whole.
- 6.10 The Police Grant settlement for 2016/17 reduced core grant funding for police forces by 0.6%, a loss of £1.25m for Northumbria.
- 6.11 The final Police Grant Report for 2017/18 was published on 1st February 2017. It covers just one year and the key points are set out below:

Key Points:

- A flat rate reduction in grant funding of 1.4% in cash terms, core grant funding for police forces cut by £99m in total.
- The impact for Northumbria is a loss of £3.0m.
- No PCC to face a cash reduction in total funding (core grant plus legacy council tax grants plus precept income), when compared to 2015/16 and providing that they maximise their precept increase.
- The council tax referendum limit for English forces to remain at 2% with continuation of the additional flexibility for the ten lowest precepting forces to raise the precept by £5. The lowest ten precepting PCCs are Northumbria, West Midlands, West Yorkshire, Sussex, Essex, Kent, Hertfordshire, South Yorkshire, Greater Manchester and Hampshire (unchanged against 2016/17 other than Cheshire which have now been replaced by Hampshire).
- Grants relating to previous council tax and freeze grants retained and payable but there will be no new council tax freeze grant for 2017/18.
- Police capital grant allocated to forces is reduced by 15%.

Top-slice and Reallocations:

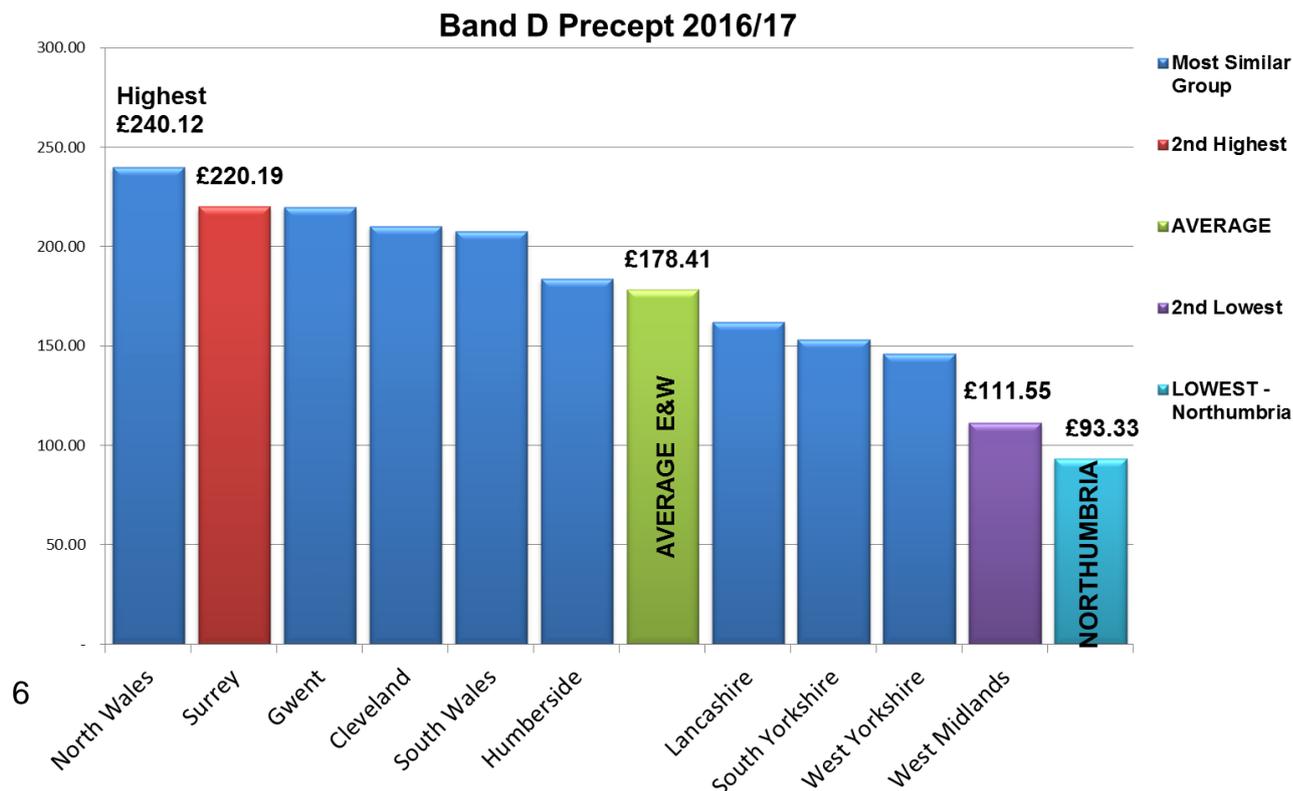
- Emergency Services Network (ESN) top slice increased by £100m to £180m.
- Transformation Fund merged with Innovation Fund, increased by £44m overall to £175m.
- Counter Terrorism funding increased by £30m to £670m.
- Special Grant top slice increased by £25m to £50m.
- New top slice of £15m for Pre-Charge Bail and £28m for Strengthening the Response to Organised Crime.

6.12 For Northumbria the implications of the 2017/18 settlement are as follows:

- Grant cut by £3.0m (1.4%) to £214.5m (£217.5m 16/17)
- Option to protect 'spending power' with a £5 increase to the precept;
- Capital grant has been cut by 15% to £1.26m (£1.49m 16/17).
- No recognition of the implications of budget pressures – Inflation including the pay award of £2.5m, the Apprenticeship Levy £0.8m, Insurance Tax increase and a significant rise in Employer Pension costs of £1.0m.
- No recognition of the impact of significant capital investment required in respect of National IT projects such as ESN (Emergency Services Network). For Northumbria the estimated investment is nearly £6 million.

Council Tax

6.13 Since 2007/08, council tax increases nationally have been restricted by the Government's capping and Council Tax excessiveness principles. Nationally the proportion of grant funding from Central Government has reduced, and the proportion from Council Tax has increased. However Northumbria's Council Tax precept is by far the lowest of policing bodies in the country at £93.33 per year (2016/17) for Band D properties. The following table shows the highest and lowest PCC precepts, Northumbria's MSG (most similar group) and the average PCC precept for England and Wales:



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

- 6.15 The Localism Act 2011 introduced a power for the Secretary of State for Communities and Local Government to issue principles that define what should be considered excessive Council Tax, including proposed limits. From 2013 onwards, any billing or major precepting body that wishes to raise its Council Tax above the limits that apply to them will have to hold a referendum.
- 6.16 The precept excessiveness rules for 2017/18 are unchanged against those in 2016/17. The majority of PCCs will be limited to a maximum 1.99% increase to their precept for 2017/18. The 10 PCCs with the lowest precept, of which Northumbria is the lowest, have the flexibility to increase their precept by up to £5 per year (per Band D property).
- 6.17 This MTFS as presented includes the assumption that for each of the four years 2017/18 to 2020/21 the excessiveness rules continue to permit a precept increase of £5 for Northumbria and the precept is increased to that maximum each year, in order to protect 'Spending Power' in line with the Governments CSR assumption.
- 6.18 Northumbria will remain in the lowest 10 precept grouping throughout the MTFS period.

6.19 The MTFs also includes the following legacy grants relating to the freeze in the precept (11/12 and 14/15) and the localisation of council tax support schemes in addition to the constituent authorities' net surplus on collection funds:

- Home Office Legacy Council Tax Freeze Grants totalling £1.301m.
- Localised Council Tax Support Grant £6.867m.
- Collection fund surplus £0.872m in total.

Police Transformation Fund

6.20 The Innovation Fund introduced in recent years has now been subsumed into the Transformation Fund and funds have been increased overall by £44m to £175m for 2017/18.

6.21 The Police and Crime Commissioner has been successful in securing significant investment through grant funding from within these national funds:

- 2015/16 – £2.618m
- 2016/17 – £4.622m
- 2017/18 – £0.430m

6.22 Projects funded through national funds have focused on tackling domestic abuse; preventing serial perpetrator offending; improving victim safety and confidence; multi-agency work to tackle Child Sexual Exploitation (CSE), vulnerability and modern day slavery; safeguarding of serial victims; Safetyworks!; and other projects which aim to protect victims and support the most vulnerable.

6.23 The Commissioner will continue to maximise all opportunities to secure funding from within the Transformation Fund during 2017/18 and across future years.

Ministry of Justice Grant

6.24 The Ministry of Justice (MOJ) allocates a grant to the Commissioner each year for local commissioning of Victims Support Services. The grant is allocated between Police and Crime Commissioners on the basis of population. A total of £1.685m has been allocated to the Police and Crime Commissioner for Northumbria for 2017/18 (£1.696m in 2016/17).

6.25 The MOJ grant is held outside of the police General Fund and the Commissioner makes decisions on the commissioning of services on an annual basis, within the grant funding available. The commissioning of victim services therefore has no impact on force budgets.

7. Current 2016/17 Financial Position

7.1 The Commissioner's net revenue budget for 2016/17 is £266.840m. The Quarter 3 revenue monitoring report shows a projected budget surplus of £1.188m as at 31 December 2016.

2016/17 Revenue Monitoring - Quarter 3 Position			
	Approved Budget	Projected	Variance
	2016/17	2016/17	2016/17
Group Position	£m	£m	£m
Chief Constable	256.080	256.080	0
Police and Crime Commissioner	2.262	2.212	(0.05)
Capital Financing	8.498	7.360	(1.14)
Net Expenditure	266.840	265.652	(1.188)
Central Government Grant	(225.666)	(225.666)	0
Council Tax Precept	(35.482)	(35.482)	0
Central Grant and Precept Total	(261.148)	(261.148)	0
Appropriations (to) / from reserves	5.692	4.504	(1.188)

- 7.2 Both the Chief Constable and Police and Crime Commissioner's revenue budgets are in line with the approved budget for 2016/17.
- 7.3 Capital financing savings on interest costs have been realised in-year mainly as a result of the base rate reduction in August 2016, following the Brexit vote. In addition, principal repayment of capital is less than the original estimate due to an under-spend against the capital programme in 2015/16.
- 7.4 The estimated budget surplus will allow the Commissioner to draw less than was planned from the reserves in 2016/17.

2016/17 General Reserve - Quarter 3 Position			
	Approved	Revised	Variance
	2016/17	2016/17	2016/17
Group Position	£m	£m	£m
Opening Balance (01/04/16)	15.1	15.4	0.3
Planned Use of Reserve	(5.7)	(4.5)	1.2
Forecast Closing Balance (31/03/17)	9.4	10.9	1.5

8. Medium Term Budget Pressures

- 8.1 When calculating the medium term budget projections consideration has been given to a number of budget pressures including (i) reductions in grant funding, (ii) pay and price increases, (iii) revenue implications of the capital programme and (iv) other.

Reductions in Grant Funding

- 8.2 The police grant settlement for 2017/18 has cut Northumbria's core grant from government by £3.0m (1.4%) to £214.5m (£217.5m 16/17).

- 8.3 For the years 2018/19 to 2020/21 we have assumed that grant cuts continue at a level which maintains 'total funding' at the same level as for 2015/16. All future year precept increases are therefore offset by a further grant reduction. This is in line with the Government's commitment to maintain total funding for forces in line with 2015/16 when precept increases are taken into account.

Pay and price inflation

- 8.4 The 2017/18 revenue budget adopts a positive approach to managing the impact of inflation on budgets wherever possible, in that there have been no automatic budget increases for inflationary pressures. Inflation provision has been included to meet energy, business rates and rent increases along with contract increases. In addition, estimates for future pay awards at 1% have been included and CPI linked inflation on Injury Pensions. The total cost increase is estimated at £2.5m per annum.

Revenue implications of the capital programme

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

Other

- 8.6 **Employers Pension Contributions** - The triennial review of the Police Staff LGPS (Local Government Pension Scheme) took place during 2016 and the final report by the Fund actuary is expected in March 2017. The revaluation takes place every 3 years and sets the required level of employer contribution rate for the next 3 years. The Fund actuary has provided formal notification of the rates required for 2017/18 to 2019/20, ahead of the final report, to allow the cost implications to be taken into account within budget preparation. The required contribution rate has increased from 13.6% to 16.5% which results in an additional cost of £1.0m per annum.
- 8.7 **Apprenticeship Levy** - The Government is planning to introduce an Apprenticeship Levy from 1st April 2017. The cost of the levy is based on a percentage of an employers' 'pay bill'. The estimated cost for Northumbria is £0.8m from 2017/18 onwards.

9. Medium Term Savings Proposals

- 9.1 As discussed previously, there has been a period of sustained financial pressure throughout the previous CSR, the impact of which will continue to work through impacting on the early years of this new MTFS.
- 9.2 In addition, savings will continue to be delivered wherever possible, for example:
- Continued rationalisation of the operational estate, including maximising collaborative opportunities;

- Comprehensive workforce plan which manages reductions whilst aligning resources with changing demand;
- Non pay savings through centralised budget management;
- Savings through procurement particularly within ICT and Estates;
- Maximising income generation wherever possible, notwithstanding such opportunities being limited within the Police world.

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

10. Capital Estimates and Financing

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

Capital Estimates	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000	Total £,000
Major and Minor Building Schemes	2,504	5,750	1,600	1,500	11,354
Information Technology	7,884	13,824	3,584	1,425	26,717
Vehicles and Equipment	2,804	2,862	3,060	2,696	11,422
Total	13,192	22,436	8,244	5,621	49,493

10.2 Key areas to note in the proposed programme are:

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

10.3 Capital Financing

	2017/18	2018/19	2019/20	2020/21	Total
Capital Estimates	£,000	£,000	£,000	£,000	£,000
Forecast Expenditure	13,192	22,436	8,244	5,621	49,493
Financed by:					
Grants and Contributions	1,401	1,785	876	663	4,725
Capital receipts	9,377	12,015	5,768	3,458	30,618
Prudential Borrowing	2,414	8,636	1,600	1,500	14,150
Total Financing	13,192	22,436	8,244	5,621	49,493

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

11. Reserves

Background information on Reserves

- 11.1 Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when preparing budgets.
- 11.2 In establishing reserves, the Commissioner must comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Chief Finance Officer is required as part of the budget setting process to provide a statement on the adequacy of reserves.
- 11.3 CIPFA guidance on Reserves and Balances (LAAP Bulletin No 77 November 2008) and the requirements of the Code suggests twice yearly reviews of reserves. By doing this, the visibility of reserves are increased and consideration of their use is placed at the forefront of the decision making process. Reserves are cash backed balances, held on the balance sheet until they are spent or released for other purposes. As such, they can only be spent once, and are not part of the base budget.
- 11.4 The Commissioner's balance sheet reserves are summarised as follows:
- General Reserves – a contingency for unexpected events or emergencies and a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
 - Earmarked Reserves – to meet known or predicted liabilities, for example workforce management, insurance and capital development reserves,
- 11.5 CIPFA guidance issued in June 2003 confirms that relevant bodies should make their own judgements on such matters, taking into account relevant

local circumstances and an assessment of risk and the advice of the Chief Finance Officer.

Reserves

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

General Reserve

- 11.7 The expected General Reserve at 1 April 2017 is £10.9m equating to 4.1% of the revenue budget. This meets one of the key MTFS principles to seek to maintain the general reserve at a minimum of 2% of the revenue budget. The closing general reserves at March 2021 are estimated to be £9.3m equating to 3.6% of the revenue budget.

Earmarked Reserves

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

	At 31 March 2017 £m	At 31 March 2018 £m	At 31 March 2019 £m	At 31 March 2020 £m	At 31 March 2021 £m
Earmarked Reserves					
Insurance Reserve	3.0	3.0	3.0	3.0	3.0
Workforce Development Reserve	1.3	1.3	1.3	1.3	1.3
External Funding Reserve	0.1	0.1	0.1	0.1	0.1
Total Earmarked Reserves	4.4	4.4	4.4	4.4	4.4
General Reserves	10.9	9.4	8.3	9.3	9.3
Total Reserves	15.3	13.8	12.7	13.7	13.7

Insurance Reserve

- 11.9 The Insurance Reserve is maintained for potential liabilities and costs which fall onto the Commissioner where no external insurance cover is arranged by or available to the Commissioner. Potential liabilities include storm damage, business interruption and claims that would fall within the Commissioner's policy excess limits. The level of this reserve is £3m and it is not anticipated that this will change over the period of the MTFS.

Workforce Development Reserve

11.10 The Workforce Development Reserve was set up to manage the costs associated with workforce change and was used over the last CSR to manage the workforce reductions required over that period. The reserve has an estimated balance of £1.3m as at 31 March 2017. There has been no direct requirement identified for use of this reserve however the Commissioner's approach will remain flexible and the prudent use of balances will remain an option to manage the MTFs risks set out at section 13.

External Funding Reserve

11.11 The External Funding Reserve comprises unspent non-conditional revenue grant income which is to be used for specific purposes in future years. The reserve is expected to be fully used in 2016/17, however it is also anticipated that at 31 March 2017 there will again be non-conditional revenue grant income to be carried forward therefore there will be an external funding reserve on an annual basis. The reserve value for 2017/18 is estimated to be maintained at £0.100m and for planning purposes this level has been retained for the MTFs period.

12. Indicative Budget Forecasts 2017/18 to 2020/21

12.1 All the budget pressures, budget savings, funding assumptions and proposed use of reserves outlined earlier in this Strategy are summarised below, to show an overall position for the Group representing the combined budget forecasts for the Commissioner and Chief Constable. Having considered the savings proposals and the availability of reserves to support the medium term plan an important consideration is the precept proposal for 2017/18. The MTFs includes a precept increase of £5 built into the funding from 2017/18 going forward.

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

MTFS Group Budget Forecast	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m
Base budget	266.8	262.5	260.6	258.5
Budget pressures				
Pay and price increases	6.8	4.4	4.1	5.5
Budget pressures	2.3	1.3	0.6	0.6
Revenue impact of capital financing	(1.2)	(0.1)	0.7	(0.6)
Total budget pressures	7.9	5.6	5.4	5.5
Proposed budget savings	(12.2)	(7.5)	(7.5)	(4.5)
Total Budget	262.5	260.6	258.5	259.5
Grant Income	214.5	211.7	209.5	207.4
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 (16/17)	34.9	34.9	34.9	34.9
Council Tax - Precept Increase	2.5	4.7	6.9	9.0
Council Tax - Collection Fund surplus / (deficit)	0.9	0.0	0.0	0.0
Total Income	261.0	259.5	259.5	259.5
Funding gap / (surplus) before reserves	1.5	1.1	(1.0)	0.0
Planned use of reserves:				
Transfers from / (to) General Reserve	1.5	1.1	(1.0)	0.0
Funding gap / (surplus) after use of reserves	0.0	0.0	0.0	0.0

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

13. Risk Assessment

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

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

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

14. Conclusion

- 14.1 The overall financial context for Northumbria Police remains extremely challenging.
- 14.2 The approach set out in this MTFS will deliver a balanced budget. It sets out how all four years will be financed and general reserves will be maintained at an estimated £9.3m and this is greater than the minimum set out in the reserve strategy. The management of this position is achieved through the rationalisation of estates, workforce change, a continuation of the 3 Area Command structure and operating model and significant non pay savings.
- 14.3 The MTFS does indicate that a sustainable financial position can be achieved over the period 2017/18 to 2020/21 and the Commissioner is fully committed to taking the necessary decisions to achieve this outcome.