



# Police and Crime Commissioner **Northumbria**

## Key Decisions

### **Title and Reference**

Approval of the Medium Term Financial Strategy 2014/15 to 2016/17  
(PCC/70/2014)

### **Summary**

The Medium Term Financial Strategy (MTFS) sets out the key financial issues facing the Police and Crime Commissioner over the period 2014/15 to 2016/17, 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 within a challenging financial climate.

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

### **Recommendation / Findings**

It is recommended that the Commissioner agrees the principles set out in the MTFS and approves the MTFS for 2014/15 to 2016/17.

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

I hereby approve the recommendations above.

**Signature**

**Date 27.02.14**



**VERA BAIRD**<sup>QC</sup>  
POLICE & CRIME COMMISSIONER

## **Police & Crime Commissioner for Northumbria**

### **MEDIUM TERM FINANCIAL STRATEGY 2014/15 – 2016/17**

Victory House, Balliol Business Park, Benton Lane, Newcastle Upon Tyne, NE12 8EW

Tel: 0191 221 9817

E: [enquiries@northumbria-pcc.gov.uk](mailto:enquiries@northumbria-pcc.gov.uk)

**Police & Crime Commissioner for Northumbria**  
**Medium Term Financial Strategy 2014/15 – 2016/17**

<b>Contents</b>	<b>Page</b>
1. Purpose of the Medium Term Financial Strategy	2
2. Benefits of the Strategy	2
3. Principles of the Strategy	3
4. Reviewing the Strategy	3
5. Financial Context	3
6. Current Financial Position	6
7. Medium Term Pressures	6
8. Medium Term Savings Proposals	8
9. Capital and Prudential Borrowing	11
10. Reserves	12
11. Indicative Budget Forecast 2013/14 to 2016/17	14
12. Risk Assessment	16
13. Conclusion	17

## **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 three 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 and capital programme and precepting decisions.
- 1.4 The overall financial strategy will be to ensure that the Commissioner's resources are directed toward achieving the Police & Crime Plan.

## **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 2014/15 – 2016/17 are:-

- (i) Overall expenditure of the Commissioner will be contained within original estimates each year;
- (ii) The Commissioner will seek to maintain the General Reserve at a minimum of 2% of the revenue budget to cover any major unforeseen expenditure or loss of funding but will review on a regular basis the opportunity cost of maintaining reserves at this level against the benefits of alternative approaches. A flexible approach will be adopted appropriate to circumstances.
- (iii) The Commissioner will maintain earmarked reserves for specific purposes when appropriate which are consistent with achieving objectives;
- (iv) The Commissioner will continue to prioritise the achievement of value for money and efficiency in establishing the framework for policing within Northumbria and in commissioning and procurement decisions.
- (v) The Chief Finance Officer and Chief Constable will prepare a rolling programme of three year budget forecasts to inform the Commissioner's budget and precepting decisions.
- (vi) The Commissioner, supported by the Chief Finance Officer and Chief Constable, will continue to contribute to national reviews of police funding and lobby on a national basis for the fair and equitable funding of Northumbria Police.

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

4.1 The Commissioner's MTFS review for 2014/15 to 2016/17 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. Financial Context**

#### **Spending Reviews 2010 and 2013**

5.1 The Chancellor of the Exchequer set out the Government's priorities and spending plans for the period 2011/12 – 2014/15 in his Spending Review on 20 October 2010, which forecast a real terms reduction of 20% in Central Government funding to police by 2014/15.

- 5.2 On 26 June 2013, the Chancellor announced the outcome of the Spending Review 2013 (SR2013) which set out public spending totals for the financial year 2015/16. On the same day, the Home Office provided provisional police funding figures for 2014/15 and 2015/16, which increased the Grant cut in 2014/15 and gave an additional indicative cut for 2015/16, which equates to an additional £10m per annum.
- 5.3 The financial settlement announced in December 2013 gave additional advice that a number of new funding streams have been created through top-slices from main police grant, i.e. Innovation Fund, National Police Coordination Centre, IPCC (Independent Police Complaints Commission), College of Policing. The effect of top slicing the main grant for these new funding streams is a cash reduction of 4.8% to Forces' Main Grant. The impact of this change to Northumbria is an additional loss of £3.6m per annum from 2014/15. In total this reflects an annual reduction of £13.6m over and above previous planning assumptions.
- 5.4 The Chancellor's 2013 Spending Round did not provide government departmental totals are the medium term, however the Chancellor has stated that for 2016/17 and beyond, reductions will continue on the same trajectory as previous spending reviews.
- 5.5 The MTFS reflects no change to funding formula or damping mechanism. A government review has been commissioned; however, it is not anticipated to be implemented until 2016/17 at the earliest.

### **Council Tax**

- 5.6 Since 2007/08, council tax increases nationally have been constrained by the Government's capping and excessive council tax principles. The proportion of funding from formula grant and specific Home Office grants has reduced, and the proportion from council tax has increased. Northumbria's council tax is by far the lowest of policing bodies in the country at £86.61 per annum for Band D properties. The average Band D of English police bodies (excluding London) in 2013/14 was £159. Income from council tax accounts for only 11% of funding. The schedule below sets out the level of Band D council tax over the last 5 years and reflects the freeze grant accepted in 2011/12 and 2012/13.

<b>Year</b>	<b>Band D Council Tax</b>
	<b>£</b>
2013/14	86.61
2012/13	83.68
2011/12	83.68
2010/11	83.68
2009/10	81.32

- 5.7 The Localism Act 2011 provides for council tax referendums. The Chancellor announced in the Spending Review 2013 that the government will propose a council tax referendum threshold of 2% for 2014/15 and 2015/16; however, there has been no further announcement to date on this issue.
- 5.8 A council tax freeze grant is available for a further two years, covering 2014/15 and 2015/16. Commissioners who freeze or reduce their Band D council tax will receive a baselined grant equivalent to a 1% increase on their Band D council tax levels.

Commissioners entitled to 2014/15 grant will receive it in both 2014/15 and 2015/16, with a separate grant for 2015/16 for commissioners who freeze the council tax in that financial year. If council tax was frozen in both years, grant of £0.384m in 2014/15 and £0.768m in 2015/16 would be received.

- 5.9 Home Office Legacy Council Tax Grant of £0.912m and the loss of the council tax transition grant have been fully reflected in the MTFS.
- 5.10 Provisional council tax bases for Local Authorities in the Northumbria area reflect an increase in the tax base of approximately 7,698 which will result in an additional forecast of £0.667m.
- 5.11 In addition, the Local Authorities in the Northumbria area have also advised of surpluses on collected funds, which equate to £0.266m for 2014/15 which is fully reflected in the MTFS.
- 5.12 The MTFS is based on the proposed acceptance of the 1% council tax freeze grant for 2014/15 and for Medium Term planning purposes an assumption has been made that the precept increase will be at this level throughout the three years

### **Localisation of Council Tax Support**

- 5.13 At the Spending Review 2010 the Government announced it would replace the council tax benefit system with localised schemes of discounts to be designed and administered by local authorities from April 2013. Responsibility for funding transferred from the Department for Work and Pensions to the Department for Communities and Local Government (DCLG), which funded the cost of the local discounts by giving a grant to all principal authorities, including policing bodies. However, the grant assumed a 10% reduction and this meant that local authorities either had to design schemes that were less generous, or find additional resources to make up the deficit
- 5.14 Under the localised schemes, the council tax base reduced. In order to make up the shortfall in council tax income as a result, an equivalent sum, subject to a 10% reduction, was paid as a grant. The grant allocation from DCLG for Northumbria for 2013/14 was £6.845m and £6.867m has been awarded for 2014/15.

### **Commissioning Victims Services and Restorative Justice**

- 5.15 The Ministry of Justice published the Victim's Services Commissioning Framework in May 2013. Although the framework is not mandatory, it gives commissioners advice on best practice. The Ministry of Justice will provide commissioners with grant funding for the commissioning of services and commissioners will need to tailor outcome requirements to the funding provided.
- 5.16 Restorative justice is the process of bringing together those harmed by crime or conflict with those responsible for the harm, to find a positive way forward. Following engagement by the Ministry of Justice with commissioners, it has been decided that commissioners will also receive funding directly to build restorative capacity where required.

- 5.17 The Ministry of Justice in November 2013 notified the Commissioner of funding in 2013/14 of £0.3m for preparatory funding for commissioning services and £0.1m for restorative justice. Confirmed funding in 2014/15 is £0.6m for commissioning services and £0.2m for restorative justice. An indicative allocation has been given for 2015/16 of £1.2m for commissioning services; this excludes restorative justice funding which is not expected to be lower than 14/15 allocation.

### **Police Innovation Fund**

- 5.18 Home Office proposals on the allocation of the police funding settlement in 2014/15 identified the establishment of a Police Innovation Fund worth £50m, this is to be funded through a top slice from Police Main Grant, which builds on the recently announced £20m Precursor Fund for 13/14. The Police Innovation Fund will provide Police and Crime Commissioners with the opportunity to submit bids on initiatives that will promote collaboration, including with other forces, emergency services, criminal justice agencies and local government, and improve their use of digital working and technology in order to deliver sustainable improvements and efficiencies in the way their police force operates in future.
- 5.19 The Commissioner has been successful in securing £0.42m from the Precursor fund to assist with the funding of Northumbria Police's Street to Strategic (S2S) programme which will transform and improve the way policing services are delivered to communities. The intention is for further bids to be submitted to the main Innovation Fund during 2014/15.

## **6. Current 2013/14 Financial Position**

- 6.1 The Commissioner's net revenue budget for 2013/14 after the use of reserves is £278.1m. The second quarterly revenue monitoring report shows a projected under spend of £3m as at 30 September 2013. Whilst quarter three has not yet been formally reported there will be no significant change from this position.
- 6.2 The main reasons for the variance were savings on pay and pensions, savings on other non-pay spend and additional income over and above that known about at the start of the financial year.
- 6.3 This underspend against the revenue budget has allowed the Commissioner's financial strategy to be positively reviewed.
- 6.4 The second quarter capital monitoring report outlined a revised capital estimate of £20.69m as at 30 September 2013, compared to the original estimate of £22.8m. The reduction in the revised estimate for the year reflects some minor slippage of schemes to 2014/15.

## **7. Medium Term Budget Pressures**

- 7.1 When calculating the 2014/15 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 on the capital programme and (iv) pensions and pension reform.



## **Reductions in Grant Funding**

- 7.2 The financial settlement announced prior to Christmas gave additional advice on changes to Home Office funding with effect from 2014/15 whereby Police Funding would be top sliced to directly support a range of national policing initiatives. The impact of this change is an additional £3.6m per annum.
- 7.3 In 2013/14 the PCC received an un-ring fenced Community Safety Grant of £2.789m. This Community Safety Funding is being rolled into the main police grant for 2014/15 therefore there is no specific funding for Community Safety activity.

## **Pay and price inflation**

- 7.4 The Retail Price Index (RPI) for September 2013 showed a 3.2% increase over the last twelve months; The Consumer Price Index (CPI) increased by 2.7%. By reference to the Office of Budgetary Responsibility Economic and Fiscal Outlook Report March 2013, the CPI inflation measure is forecast to be around 2.4%, placing additional pressures on the Commissioner's finances.
- 7.5 The indicative budget forecasts for 2014/15 reflect a positive approach to managing the impact of inflation on budgets wherever possible, in that there have been no automatic budget increases for inflationary pressures other than inflation provision has been provided to meet energy, business rates and rent increases. In addition, from September 2013 a 1% increase in police officer and police staff pay was implemented and this has been reflected in the three year MTFS.

## **Pensions and Pension Reform**

- 7.6 A new police pension scheme is to be introduced from April 2015, which will replace the 1987 and 2006 schemes. The Government is anticipating savings from increased member contributions but a full actuarial review is anticipated ahead of the introduction of the new scheme.
- 7.7 The Tyne and Wear Local Government Pension Scheme (LGPS) is subject to triennial review from 2014/15. The implications are a 0.6% increase in the superannuation rate. This equates to approximately £0.24 m per annum and this has been reflected in the MTFS projections.
- 7.8 A new LGPS will be introduced in April 2014 the main change to the current scheme is that non contractual overtime will become pensionable, therefore an increase in employers contribution may arise which has been factored into the MTFS projections
- 7.9 The current two-tier system of a basic state pension and an earnings-related additional state pension will be replaced with a single flat-rate state pension, referred to as the single-tier pension. The changes will mean increased national insurance contributions for contracted out employees and higher contributions for employers. The impact has not been reflected in the MTFS projections at this stage.

## **Revenue implications of the capital programme**

- 7.10 A revised three year capital programme has been produced, details of which are included in Section 9. The implementation of this revised programme will result in increased revenue costs as set out in section 11 showing the indicative budget forecasts.
- 7.11 The current strategy for funding the revenue implications of prudential borrowing is to use the earmarked capital development reserve. Further detail of this reserve is set out in 10.10.
- 7.12 The rationalisation of the estate set out in paragraph's 8.4 to 8.6 will release capital receipts which will be available to fund future capital programmes and reduce the need to borrow beyond the MTFS.

## **8. Medium Term Savings Proposals**

- 8.1 Agreed budget savings in 2014/15 of £16.9m have been factored into the MTFS. Beyond this, there is a proposal for further budget savings in excess of £25m over the period of the MTFS which have been built into the strategy to meet the challenging financial position.
- 8.2 The future savings will be realised by a combination of:
- Rationalisation of Estates
  - A reduction in police officers through natural wastage, with a programme of recruitment to protect the frontline;
  - A reduction in police staff through natural wastage and targeted Voluntary Redundancy Scheme (VRS).
  - ICT transformation
  - Scrutiny of non pay costs throughout the Force
  - Identifying opportunities for collaboration and / or strategic partnerships
- 8.3 The additional national funding changes announced during 2013 have fundamentally changed the level of savings required resulting in a fresh approach to how services could be delivered to the public whilst maintaining confidence in performance and delivering the Police and Crime Plan of the Commissioner.

## **Rationalisation of the Estate**

- 8.4 A planned new approach to locating Neighbourhood policing teams within their communities. Stations are to remain open where there is a Custody and Response primary use. Other stations are to remain open where support is needed to the main Custody/Response stations, these will include the accommodation of central departments including crime.
- 8.5 Where stations are not required as set out above, the decision will be made to dispose of surplus stations. No station will be closed until community based locations have been found for the Neighbourhood Policing Teams (NPTs). NPTs will work from new locations within the communities they serve, potentially sharing facilities with other services. Further information is set out in 8.8 detailing the new operating model.
- 8.6 Changes to the operating estate will save an estimated £3.5m per annum.

## **Neighbourhood Policing**

- 8.7 There will be no change to core Neighbourhood Policing principles as follows:
- No change to Neighbourhood Policing staffing levels
  - The number of neighbourhoods will be unchanged
  - No change to the arrangement for Neighbourhood Inspectors and Neighbourhood Sergeants
  - No change in the number of CSO (patrol)
  - Neighbourhood Detectives to remain

## **New Operating Model**

- 8.8 The rationalisation of the Estate will result in a new operating model shown below:

Merged Command Units based around a centralised Custody model and a centralised Response model.

Reduce from 6 Area Commands to 3 – North, South and Central.

North: Northumberland and North Tyneside Area Commands  
HQ will be at Middle Engine Lane

South: Sunderland and South Tyneside Area Commands  
HQ will be at Millbank, South Shields

Central: Newcastle and Gateshead Area Commands  
HQ will be at Etal Lane

Chief Superintendents will provide strategic lead to the new BCU model with each former command area having a named Superintendent as a partnership lead.

## **Workforce Implications**

### **Police Officers:**

- 8.9 Since the start of the Comprehensive Spending Review period police officer numbers have reduced by approximately 389; there is a further need to reduce officers by approx a further 200 posts by April 2017 whilst protecting as far as possible front line policing.

### **Police Staff:**

- 8.10 In 2011 the decision to reduce police staff posts by 825 by March 2013 was announced. To date 614 police staff posts have been removed and there are approximately 80 vacancies.

The need to remove posts has slowed, however a further 230 posts are expected to be removed over the next 3 years. This will be achieved through retirement, natural turnover and a targeted VRS.

### **Other Savings:**

- 8.11 In addition to the above there has been a continuation of the non pay budget review resulting in further savings. The main areas are set out below:
- ICT Transformation - Street to Strategic: Investing in modern technology to enable transformation in how Northumbria Police delivers service to its communities.
  - Fleet Reductions – there will be further reviews in the Force fleet but not from Response and Neighbourhood vehicles. Estimated savings are £0.2m over 3 years to 2016/17
  - Procurement – The Force has in the region of 190 contracts for goods and services. A full appraisal has been undertaken to reduce costs, resulting in further estimated savings of £0.2m over three year to 2016/17
  - Collaboration – work is being commissioned to develop potential collaboration opportunities. Estimated savings of £0.5m have been included 2015/16 – 2016/17.
  - Departmental Reviews – work is ongoing to identify further savings be further departmental reviews and a continuous review of all Non pay budgets.
  - Income – Review of all income streams and funding opportunities
- 8.12 Through the above identified plans, the Force is proposing to deliver non pay savings of £4.4m in 2014/15. The delivery of the proposed savings will be a challenge however, the savings are proposed with the aim of protecting frontline services and maintaining operational performance.
- 8.13 The delivery of further savings beyond those proposed is going to become increasingly difficult; taking the proposed 2014/15 revenue budget as an example; non pay budgets will represent only 12% of the gross revenue budget.

- 8.14 Further details on the strategy for delivering budget savings, including any constraints and the outcome of the service reviews, will need to be considered during the life of the MTFS.
- 8.15 In addition to the Force led savings, the Commissioner also intends to save £2.28m in 2014/15 based on a further review of office costs and new ways of working with partners following the ending of the grant for Community Safety Fund; this has been factored into the financial projections.

## 9. Capital and Prudential Borrowing

9.1 The following table summarises the 3 year capital programme:

	2014/15 £m	2015/16 £m	2016/17 £m
<b>High Priority Proposals</b>			
Major Building Schemes	3.08	0.43	0.0
Minor Building Schemes	3.11	0.99	0.65
ICT	3.91	5.17	1.54
Vehicles/Equipment	3.11	3.47	3.43
<b>Total</b>	<b>13.21</b>	<b>10.06</b>	<b>5.62</b>

9.2 Key areas to note in the proposed programme are:

- Major Building schemes – Continuation of the existing Forth Banks building work is due to end 2014/15. There are no further major building works expected.
- Minor Building Schemes – Includes the ongoing programmes of the cell refurbishment and work associated with implementing the new operating model and vacation of the HQ site at Ponteland.
- Computer and Communications - Street to Strategic, as previously identified, which is the ICT Transformation through the use of mobile access, modernisation and core operational systems and improvement of Information Management.
- Other - Capital provision for the annual refresh and replacement of IT and Airwave equipment as well as replacement of Force vehicles.

9.3 The provisional finance settlement 2014/15 set out the provisional allocation of central government capital grant to Northumbria for 2014/15 of £3m. Grant allocations beyond the Spending Review period are not known so for 2015/16 and 2016/17 they have been assumed to continue at the same level as 2014/15.

9.4 The revised operating model will realise revenue savings and capital receipts from the sale of surplus properties, including significant capital receipts from the Ponteland Headquarters site. A number of options are available on the use of these capital receipts, namely:

- Use receipts to fund the future capital programme
- Use receipts to repay borrowing early or restructure borrowing and invest the capital receipts
- Invest the capital receipts and borrow to fund the future capital programme.

The options will need to be finalised once the receipts become more certain.

- 9.5 Once account is taken of the provisional capital grant, and assumed capital receipts over the period of the MTFs, then there is only a need for additional prudential borrowing of £6.4m in 2014/15; beyond this period it is anticipated that capital receipts will fund the programme, and there will be no further borrowing over the medium term.

## **10. Reserves**

### **Background information on Reserves**

- 10.1 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.
- 10.2 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.
- 10.3 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.
- 10.4 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,
- 10.5 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**

- 10.6 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**

- 10.7 The expected General Reserve of £21.6m at 1 April 2014 is 7.8% 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. Over the financial years 2014/15 to 2016/17 there is an expected use of general reserves of £9.9m; this will be used to support the budget and contribute to meeting the funding gap and will result in closing general reserves at March 2017 estimated at £11.7m.

## **Earmarked Reserves**

### **Insurance Reserve**

- 10.8 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.

### **Capital Development Reserve**

- 10.9 The Capital Development Reserve is used to fund the revenue implications of prudential borrowing to support the delivery of the capital programme. The reserve is anticipated to be fully utilised during 2014/15 as a result of existing commitments.

### **External Funding Reserve**

- 10.10 The External Funding Reserve was created in 2012/13 from 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 2013/14, however it is also anticipated that at 31 March 2014 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 2013/14 was £0.7m and for planning purposes this level has been retained for the MTFS period.

### **Workforce Management Reserve**

- 10.11 The Workforce Management Reserve was set up to assist workforce changes and has a balance of £1.8m. As part of the changes discussed in section 8 (8.10), the changes to the Police staff workforce will be supported by a targeted VR scheme which will be funded through this reserve. The balance of £1.8m is planned to be fully used by 31 March 2017.
- 10.12 The table overleaf shows the strategy for use of reserves over the next 3 years.

	<b>At 31 March 2014 £m</b>	<b>At 31 March 2015 £m</b>	<b>At 31 March 2016 £m</b>	<b>At 31 March 2017 £m</b>
<b>Earmarked Reserves</b>				
Insurance Reserve	3.0	3.0	3.0	3.0
Workforce Development Reserve	1.8	1.8	1.8	0.0
Capital Development Reserve	1.7	0.0	0.0	0.0
External Funding Reserve	0.7	0.7	0.7	0.7
<b>Total Earmarked Reserves</b>	<b>7.2</b>	<b>5.5</b>	<b>5.5</b>	<b>3.7</b>
<b>General Reserves</b>	<b>21.6</b>	<b>16.8</b>	<b>15.0</b>	<b>11.7</b>
<b>Total Reserves</b>	<b>28.8</b>	<b>22.3</b>	<b>20.5</b>	<b>15.4</b>

## 11. Indicative Budget Forecasts 2014/15 to 2016/17

- 11.1 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 OPCC and CC. Having considered the savings proposals and the availability of reserves to support the medium term, consideration has been given to the precepting proposals for 2014/15. Given the availability of a further freeze grant the MTFs is based upon provisional acceptance of the freeze grant in 2014/15 and further 1% annual increases throughout the remaining MTFs period.

The group position is set out on the following page:



## Group Budget forecast

	2014/15 £m	2015/16 £m	2016/17 £m
<b>Base budget (before reserves)</b>	<b>290.2</b>	<b>277.7</b>	<b>266.3</b>
<b>Budget pressures</b>			
Pay and price increases	3.6	3.5	3.4
Budget pressures / loss of specific grants	1.3	0.1	0.0
Revenue impact of capital strategy	1.0	1.4	0.0
Commissioning victims services expenditure	0.6	0.6	0.0
Restorative Justice expenditure	0.2	0.0	0.0
<b>Proposed budget savings</b>	<b>-19.2</b>	<b>-17.0</b>	<b>-8.6</b>
<b>Total Budget</b>	<b>277.7</b>	<b>266.3</b>	<b>261.1</b>
Commissioning victims services funding	0.6	1.2	1.2
Restorative Justice expenditure	0.2	0.2	0.2
Projected total grant income	230.5	223.1	216.0
Localised council tax support grant	6.9	6.9	6.9
Legacy council tax grant	0.9	0.9	0.9
Council Tax Freeze grant	0.3	0.7	1.1
Council Tax income	31.5	31.5	31.5
Surplus on Council Tax fund	0.3	0.0	0.0
<b>Total Income</b>	<b>271.2</b>	<b>264.5</b>	<b>257.8</b>
<b>Funding Gap before reserves</b>	<b>6.5</b>	<b>1.8</b>	<b>3.3</b>
<b>Planned use of reserves:</b>			
General Reserve	4.8	1.8	3.3
Capital Development Reserve	1.7	0.0	0.0
<b>Funding gap after use of reserves</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

11.2 The Group forecast budget set out above shows how after the planned use of reserves 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.

## 12. Risk Assessment

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

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Risk Management</b>
General Reserve not sufficient to cover future unexpected costs	Possible	High	Reserve strategy to maintain balance at a minimum of 2% of budget.
Pay awards and price inflation being higher than anticipated	Possible	Medium	Budget based on best information available and set at a prudent level.
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	Medium	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	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 at 2% of budget.
Further reductions in funding including	Possible	High	Balance on General Reserve maintained at minimum of 2%;

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Risk Management</b>
unfavourable review of funding formula			forward planning; regular monitoring.
Future council tax rises limited by excessiveness principles determined by the Government	Likely	Medium	Balance on General Reserve maintained at minimum of 2%; forward planning.
Reduction in council tax collection following the introduction of the localised council tax support scheme	Unlikely	Low	Balance on General Reserve maintained at minimum of 2%; forward planning; regular monitoring.
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.

### **13. Conclusion**

- 13.1 The overall financial context for Northumbria Police remains extremely challenging.
- 13.2 The approach set out in this MTFS will deliver a balanced budget. It sets out how all three years will be financed and general reserves will be maintained at an estimated £11.7m which equates to 4.5% of the revenue budget; 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 reduction plans, new operating model and significant non pay savings.
- 13.3 The MTFS does indicate that a sustainable financial position can be achieved over the period 2014/15 to 2016/17 and the Commissioner is fully committed to taking the necessary decisions to achieve this outcome.