



Police and Crime Commissioner for Northumbria

Reserves Strategy Statement

31 March 2021

I. The Reserves Strategy

I.1 The Police and Crime Commissioner for Northumbria (the Commissioner) has a reserves strategy which is underpinned by the following key principles:

I.1.1 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. For budgetary purposes the Medium Term Financial Strategy (MTFS) 2021/22 to 2024/25 is based on a prudent General Reserve level maintained at or above 2.9% of net revenue budget.

I.1.2 The Commissioner will maintain an Insurance Reserve of £3.0m to protect against potential liabilities and costs where no external insurance cover is arranged or available.

I.1.3 The Commissioner will maintain additional earmarked reserves for specific purposes only when appropriate, and which are consistent with achieving the objectives set within the term of the MTFS.

I.1.4 The Commissioner will not retain earmarked reserves which are unnecessarily high or for projects and programmes beyond the four year medium term financial planning period.

I.1.5 Where appropriate the Commissioner will hold capital reserves which are necessary for and consistent with MTFS plans. Capital reserves will be applied to support operational plans, to deliver Police and Crime Plan objectives and in accordance with the Local Authorities (Capital Finance and Accounting) Regulations. The planned use of capital reserves will be reviewed and approved by the Commissioner on an annual basis as part of setting the Budget, Precept, Capital Strategy and Medium Term Financial Strategy.

I.2 The Commissioner's reserves strategy is reviewed twice yearly:

- I. As part of the MTFS, precept and budget setting process.
- II. In the Commissioner's Reserves Strategy Statement.

I.3 The Reserves Strategy Statement in previous years has been approved by the Commissioner and published following completion of the annual Statements of Account. However, for the 2019/20 financial year the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 changed the date of completion for audited accounts for 2019/20 only, from 31 July (2015 Regulations) to 30 November. In order to avoid publication of the Statement based on the MTFS 2020/21 to 2023/24 reserves projection, which was about to be reviewed for 2021/22 to 2024/25. Also taking into account the impact of the Coronavirus pandemic, the Government settlement due for 2021/22 and imminent decisions on Budget and Precept, the

Statement has been deferred until 31 March 2021 and has been approved following completion of the MTFS 2021/22 to 2024/25.

- 1.4 The Reserves Strategy Statement as at 31 March 2021 is therefore based on the current MTFS 2021/22 to 2024/25. It includes an estimated reserves position as at 31 March 2021 and will be updated in October 2021 following completion of the Statements of Account 2020/21 and the annual external audit.

2. Medium Term Reserves Forecast

- 2.1 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 table at 2.2 with further detail provided for specific reserves in section 3.
- 2.2 The Commissioners MTFS 2021/22 to 2024/25 sets out the planned use of reserves over the medium-term period. Usable reserves estimated at £53.9m as at 31 March 2021 are forecast to reduce to £17.7m by 31 March 2025 under the MTFS, a reduction of £36.2m (55%). The Commissioners forecast usable reserve balances through to March 2025 are set out in the following table:

| Reserves Forecast | March 2021 £m | March 2022 £m | March 2023 £m | March 2024 £m | March 2025 £m |
|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| General Reserve | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| Earmarked Reserves | 21.5 | 18.9 | 16.3 | 13.0 | 7.7 |
| Capital Reserves | 22.4 | 22.2 | 5.6 | 3.0 | - |
| Total Usable Reserves | 53.9 | 51.1 | 31.9 | 26.0 | 17.7 |

- 2.3 The forecast General Reserve balance of £10.0m as at 31 March 2025 represents 2.9% of the net revenue budget under the Commissioner's MTFS. This meets one of the key MTFS principles to seek to maintain the General Reserve at a minimum of 2.0% of the net revenue budget has been met.
- 2.4 The MTFS sets out the planned use of reserves which are necessary to protect police budgets from the impact of funding uncertainty over the medium-term. Specific earmarked reserves have been established to manage the anticipated costs of police pension contributions, workforce change and the national implementation of the Emergency Services Network (ESN), in addition to reserves established to support investment in policing over the medium-term and to manage Covid enforcement and operational policing in 2021/22.
- 2.5 The forecast balance of £7.7m earmarked reserves as at 31 March 2025 reflects the police pension scheme funding reserve of £3.4m, the workforce management reserve of £1.3m and the insurance reserve of £3.0m.
- 2.6 Capital reserves comprise mainly the sale proceeds received in 2018/19 to 2020/21 for the disposal of the former headquarters site at Ponteland. As set out in the MTFS 2021/22 to 2024/25 those Capital Receipts will be used prudently across the MTFS period to manage

overall capital investment and limit the impact on revenue budgets. Receipts will be applied mainly in 2022/23 to support the concentration of capital spend profiled in that year and the remainder will be applied in the following two years 2023/24 – 2024/25 to finance short-life assets. Capital reserves are therefore forecast to reduce to nil by 31 March 2025.

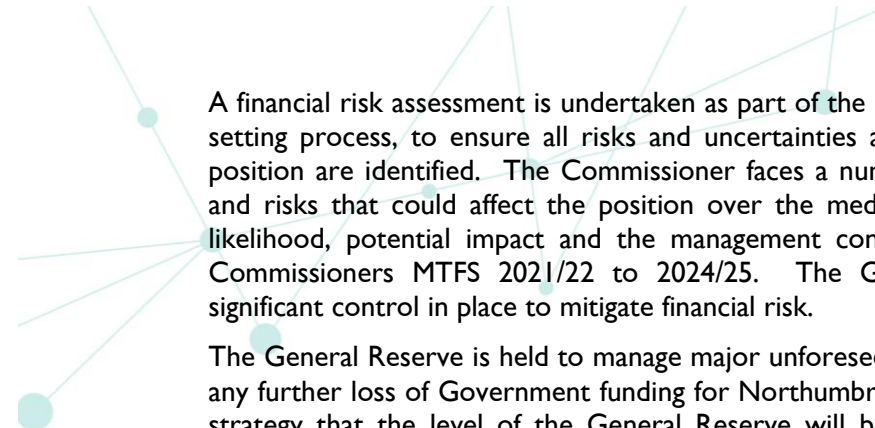
3. Reserves Position as at 31 March 2021

- 2.1 As at 31 March 2021 the Police and Crime Commissioner's usable reserves are estimated at £53.898m. The balance includes capital receipts of £22.110m, and a capital grant of £0.280m relating to the delivery of Emergency Services Network (ESN), and the remaining £31.508m represents the General Fund.
- 2.2 The General Fund is further divided into the General Reserve £10.000m, and Earmarked Reserves (sums set aside for a specific purpose) of £21.508m. The title of each of the Earmarked Reserves explains the purpose of that reserve and further detail is provided in the table at section 3.4. As set out within the MTFs key principles, the Commissioner maintains Earmarked Reserves for specific purposes only when appropriate and which are consistent with achieving objectives within the term of the MTFs.
- 2.3 Capital reserves will be fully utilised by March 2025 to fund the capital programme, under the capital financing plans set out in the MTFs 2021/22 to 2024/25.
- 2.4 The estimated usable reserves held by the Police and Crime Commissioner as at 31 March 2021 are set out in the following table and described in detail at sections 3.5 to 3.16:

| Total Usable Reserves | | 31 March 2021 £m |
|--|--|---------------------------------|
| General Fund (Revenue) Reserves | General Reserve | 10.000 |
| | Earmarked Reserves | |
| | Insurance Reserve | 3.000 |
| | Police Pension Scheme Funding Reserve | 3.400 |
| | Workforce Management Reserve | 1.320 |
| | Emergency Services Network (ESN) Reserve | 2.600 |
| | Reserve to Maintain Investment over the Medium Term and Support Uplift | 8.200 |
| | Covid Enforcement/Operational Reserve | 2.157 |
| | OPCC Innovation Reserve | 0.298 |
| | External Funding Reserve | 0.272 |
| | NERSOU Reserve | 0.261 |
| | | Total Earmarked Reserves |
| | Total General Fund Reserves | 31.508 |
| Capital Reserves | Capital Receipts Reserve | 22.110 |
| | Capital Grants Unapplied Reserve | 0.280 |
| Total Usable Reserves | | 53.898 |

2.5 General Reserve

The Police and Crime Commissioner is legally required to hold reserves. Although any value above nil is legally acceptable, the minimum level agreed in the Commissioners Medium Term Financial Strategy (MTFS) is 2% of the Net Revenue Budget.



A financial risk assessment is undertaken as part of the MTFS and revenue and capital budget setting process, to ensure all risks and uncertainties affecting the Commissioners financial position are identified. The Commissioner faces a number of significant financial pressures and risks that could affect the position over the medium-term. A full assessment of the likelihood, potential impact and the management controls in place, are published in the Commissioners MTFS 2021/22 to 2024/25. The General Reserve provides the most significant control in place to mitigate financial risk.

The General Reserve is held to manage major unforeseen expenditure, budget pressures and any further loss of Government funding for Northumbria. The Commissioner has an agreed strategy that the level of the General Reserve will be influenced by the balance of risks inherent in the budget and MTFS, the robustness of budget monitoring, past experience of outturn spending, the extent of earmarked reserves and any funding cuts anticipated over the medium term.

As a result, the MTFS 2021/22 to 2024/25 plans to maintain the General Reserve at or above 2.9% of the revenue budget over the medium-term, which is above the 2% minimum set out in the Reserves Strategy.

The expected General Reserve at 31 March 2021 is £10.0m equating to 3.1% of the revenue budget of £320.3m for 2021/22. The General Reserve is forecast to remain at £10.0m over the term of the MTFS. At 31 March 2025 the General Reserve of £10.0m represents 2.9% of the net revenue budget estimated at £350.2m for 2024/25.

2.6 Insurance Reserve

The Insurance Reserve is maintained for potential liabilities and costs which fall on 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 Commissioners policy excess limits. The level of the reserve held as at 31 March 2021 represents approximately 0.9% of the approved 2021/22 revenue budget.

2.7 Police Pension Scheme Funding Reserve

The Police Pension Scheme Funding Reserve was established as a result of the sudden shift in employer's pension costs for police officers from April 2019. Specific grant funding of £3.4m was provided by the Government for 2019/20 with no assurance given for future years, and therefore the Commissioner established an earmarked reserve to provide funding for one year should the government fail to address the significant cost implication in full. Special grant funding was subsequently confirmed at the same level for 2020/21 and has been repeated again for 2021/22.

The MTFS revenue projections assume that funding will continue to be provided in some form by Government over the medium-term. However, it is intended to retain the reserve until such time as the national position is confirmed and further clarity is provided around the likely outcome of the next (4-year) valuation of the Police Pension Fund which will impact on contributions from 1 April 2023.

2.8 **Workforce Management Reserve**

The Workforce Management Reserve was established to manage costs associated with workforce change. The reserve has a balance of £1.3m and was increased in 2018/19 as a precautionary measure in case there were workforce implications, should the government fail to fund Police Pensions adequately as part of the 2020 CSR. Whilst the MTFS assumes that the increased cost of police pensions will be met by Government in some form, this remains a significant risk until the national position is clarified.

This reserve will be retained as a backstop to meet unexpected people related costs associated with any workforce change required over the medium-term, to ensure that such pressure does not impact on the sustainability of planned investment in the revenue budget.

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

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

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

Significant investment in policing services for Northumbria residents of £8.3m was approved by the Commissioner in February 2020 and phased over 2020/21 (£6.3m) and 2021/22 (£2.0m). In addition, part of the total funding allocated for 2020/21 (£8.2m) was identified to support that investment in future years, in order to ensure that it would remain sustainable over the medium term. This approach will also ensure that funds are available to provide the necessary support functions, training resources and infrastructure improvements to the police estate to support and maximise the benefit for local people of the national Uplift.

2.11 **Covid Enforcement/Operational Reserve**

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

2.12 **OPCC Innovation Reserve**

This reserve represents funds identified for innovative work with partner agencies through the Office of the Police and Crime Commissioner (OPCC). The reserve ensures that income identified for this purpose remains available by carrying forward balances held for projects between financial years. The forecast underspend on the Commissioner's Discretionary Fund in 2020/21 will be carried forward to be utilised in support of such projects in 2021/22 to deliver against priorities in the Police and Crime Plan.

2.13 External Funding Reserve

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.

2.14 NERSOU Reserve

The NERSOU Reserve comprises the Northumbria share of the North East Regional Special Operations Unit (NERSOU) Reserve. NERSOU is the 3-force collaboration with Durham and Cleveland, tackling serious and organised crime across the region. The balance held at 31 March 2020 mainly represents the underspend against the NERSOU revenue budget in 2019/20 which the NERSOU Joint Committee agreed to utilise in 2020/21 to manage anticipated reductions in government grant funding.

2.15 Capital Receipts Reserve

The Capital Receipts Reserve represents a temporary reserve created primarily from the sale proceeds on disposal of the former headquarters site at Ponteland. Capital receipts were received in 3 instalments over the financial years 2018/19 to 2020/21.

The capital financing strategy is to apply capital receipts to fund short-life assets within the capital programme over the MTFS period 2021/22 to 2024/25, in order to minimise the impact of borrowing costs on the revenue budget in the most cost effective manner.

Under the current MTFS all capital receipts will be fully utilised by March 2025 as described earlier at section 2.5.

2.16 Capital Grants Unapplied Reserve

This represents grant funding provided by the Home Office to forces in relation to specific capital costs for ESN (Emergency Services Network), to be used at the appropriate time within the programme.

4. Change in Usable Reserves During 2020/21

2.17 The reserves position as at 31 March 2020 is fully explained within the audited Statements of Account 2019/20. Given the gap between the previous reserves strategy statement and this one, a brief explanation is set out below as to the movement during 2020/21.

2.18 As at 31 March 2021, the Police and Crime Commissioner's usable reserves are estimated at £53.898m. This balance represents an increase of £14.835m over the reserves held at 31 March 2020 (£39.063m). The increase can be further broken down into £7.781m revenue reserves and £7.054m capital receipts and is summarised in the following table:

| Usable Reserves | March 2020 £m | March 2021 £m | Movement £m |
|----------------------------------|------------------|------------------|----------------|
| General Fund (Revenue Reserves) | 23.727 | 31.508 | 7.781 |
| Capital Receipts Reserve | 15.056 | 22.110 | 7.054 |
| Capital Grants Unapplied Reserve | 0.280 | 0.280 | - |
| Total Usable Reserves | 39.063 | 53.898 | 14.835 |

2.19 The net increase in General Fund (Revenue) Reserves of £7.781m is a temporary position only and reflects primarily the following movements:

- The planned use of £1.9m to support the revenue budget in 2020/21.
- The planned use of £0.6m from the OPCC Innovation Reserve to support innovative work with partner agencies during 2020/21.
- The planned transfer to earmarked reserves of £8.2m to support investment in policing services over the medium term and support Uplift delivery. As set out in the MTFS 2021/22 to 2024/25 this reserve will be used in full over the MTFS period.
- The forecast underspend of £1.1m against the Chief Constable's revenue budget in 2020/21 will be held in an earmarked reserve at 31 March 2021. This reserve will be available to meet the costs of Covid enforcement and operational policing in 2021/22.
- The forecast underspend of £0.8m against the capital financing budget in 2020/21 will be transferred to the general reserve.
- The forecast underspend of £0.3m on the Commissioner's Discretionary Fund in 2020/21 will be carried forward in the OPCC Innovation Reserve to support work with partner agencies in 2021/22.
- Other minor movements - £0.1m use of reserves.

2.20 The Capital Receipts Reserve at 31 March 2020 represented primarily the first two instalments (received in 2018/19 and 2019/20) on the disposal of the former headquarters site at Ponteland. The increase of £7.054m relates mainly to the third and final instalment received during the 2020/21 financial year. Capital receipts will be used in full over the MTFS period as explained earlier at section 2.5.

3. Home Office Reserve Categories

3.1 The Home Office published guidance, 'Police Finance Reserves Guidance' and the 'Financial Management Code of Practice', set out the Government's expectations around the information to be published by Police and Crime Commissioners on their financial reserves strategies. The guidance requires reserves information to be presented in three specific categories as provided in the following table:

| Reserves Forecast | March 2021 £m | March 2022 £m | March 2023 £m | March 2024 £m | March 2025 £m |
|---|------------------|------------------|------------------|------------------|------------------|
| Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan | 40.9 | 38.1 | 18.9 | 13.0 | 4.7 |
| Funding for specific projects and programmes beyond the current planning period | - | - | - | - | - |
| Funding held as a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management | 13.0 | 13.0 | 13.0 | 13.0 | 13.0 |
| Total Usable Reserves | 53.9 | 51.1 | 31.9 | 26.0 | 17.7 |

3.2 In-line with the Commissioners reserves strategy, the forecast set out in the table above reflects the intention to utilise all earmarked reserves held for specific projects and programmes, within the term of the current MTFS and not to hold unnecessary reserves or balances allocated for purposes beyond the medium term planning horizon.

3.3 *'Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan'* – the forecast balance of £4.7m as at 31 March 2025 reflects the police pension scheme funding reserve of £3.4m and the workforce management reserve of £1.3m. Whilst these balances are reflected in full at each year-end, the intention remains to either utilise them for their intended purpose, re-purpose those reserves to mitigate new emerging risks, or preferably re-invest in policing, once clarity is provided by government on the future funding of police pensions.

3.4 *'Funding held as a general contingency.....in accordance with sound principles of financial management'* - the forecast balance of £13.0m as at March 2025 represents the General Reserve of £10.0m and the Insurance Reserve of £3.0m.

4. Key Considerations

4.1 The highest risk for both the Police and Crime Commissioner and the Force concerns the adequacy of financial resources. This includes the amount of government grant received by the Police and Crime Commissioner and the expected income generated through precept. Further reductions in total funding, either as a result of government grant cuts or restrictions on the precept increase beyond those projected, will put added pressure on reserves which cannot be sustained. Further savings will need to be delivered to meet any such pressure as resilience to meet unexpected demand is already limited.

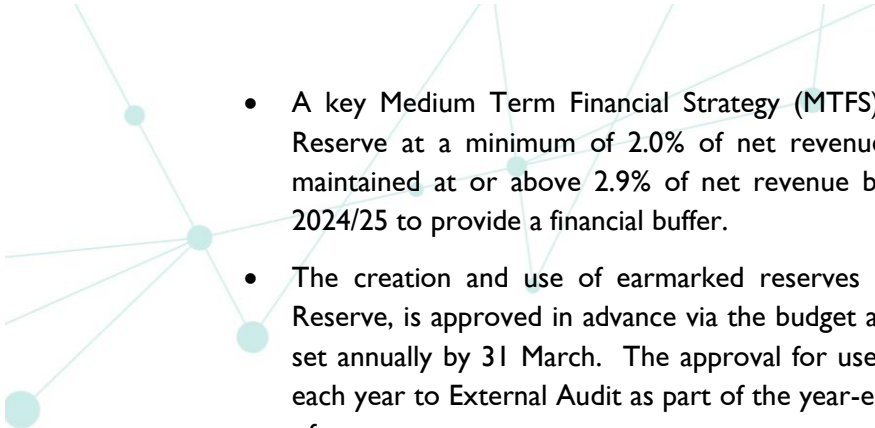
4.2 The Commissioners capital programme and capital financing plans include a finite level of capital receipts of £22.1m available to finance capital investment over the MTFS period. Once capital receipts are exhausted the annual capital programme will be mainly funded through prudential borrowing, as the capital grant from government represents a small proportion (on average less than 2%) of the overall annual capital programme requirement. This will limit the capital programme to what is affordable in revenue terms for the minimum repayment of borrowing (MRP) and annual interest costs.

4.3 The Commissioners reserves strategy provides key principles which support the Commissioners Medium Term Financial Strategy (MTFS). The MTFS 2021/22 to 2024/25 does deliver a balanced budget and sets out how a sustainable financial position can be achieved over the four year period. However, it must be noted that the balanced sustainable nature of the MTFS is predicated on many key assumptions around resource requirements, future costs and levels of total funding. Given that yet again, Northumbria are faced with a one-year settlement for 2021/22 which does not provide any certainty beyond March 2022, there remains a level of risk throughout the period of the MTFS and the financial context for Northumbria Police remains extremely challenging.

3 Conclusions

3.1 It is the opinion of the Chief Finance Officer that the current processes for the management of the Commissioners reserves are appropriate. This opinion takes into account:

- The requirement for the Police and Crime Commissioner to have overall control of all reserves (as the Chief Constable is not permitted to hold usable reserves).

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- A key Medium Term Financial Strategy (MTFS) principle to maintain the General Reserve at a minimum of 2.0% of net revenue budget. In practice, this level is maintained at or above 2.9% of net revenue budget within the MTFS 2021/22 to 2024/25 to provide a financial buffer.
 - The creation and use of earmarked reserves as well as the use of the General Reserve, is approved in advance via the budget and Medium Term Financial Strategy, set annually by 31 March. The approval for use of all reserves is further evidenced each year to External Audit as part of the year-end outturn report and approved use of reserves.
 - The information, reserves position and key considerations set out in this report.

3.2 It is the opinion of the Chief Finance Officer that the estimated level of reserves held at 31 March 2021 is appropriate. However, whilst the current MTFS plan includes a number of specific earmarked reserves, these will be used to manage specific financial pressures and risks identified in relation to:

- Increased cost of police pension contributions and potential workforce change.
- Implementation of the national Emergency Services Network (ESN) in Northumbria.
- Ensuring that investment in police services in 2020/21 and 2021/22 can be sustained across the full MTFS period to 2024/25.
- Support Covid enforcement and operational policing in 2021/22.
- Planned financing of the capital programme across 2022/23 to 2024/25.

3.3 The use of reserves to meet future funding shortfalls and other pressures (such as the cost of additional/above inflation pay increases or further increases to the cost of officer and staff pension contributions) is unsustainable and general reserves are approaching the minimum level outlined within the MTFS.