



NORTHUMBRIA POLICE AND CRIME COMMISSIONER

Key Decisions

Title and Reference

Reserves Strategy Statement 31 March 2024

(PCC/562/2024)

Summary

The Home Office Revised Financial Management Code of Practice (FMCP) 2018 is issued under section 17 of the Police Reform and Social Responsibility Act 2011, which permits the Secretary of State to issue codes of practice to all Police and Crime Commissioners (PCCs), the Mayor's Office for Policing and Crime (MOPAC), the Combined Authority Mayor for Greater Manchester, and Chief Constables.

The FMCP requires each PCC to produce an annual reserves strategy and publish this on their website.

The Reserves Strategy Statement 31 March 2024 includes details of current and future planned reserve levels, for both revenue and capital reserves, and provides information for the period of the Commissioners Medium Term Financial Strategy (MTFS) 2024/25 to 2027/28.

The Reserves Strategy Statement 31 March 2024 is fully aligned with the Commissioners Budget 2024/25, MTFS and Capital Strategy 2024/25 to 2027/28.

It is recommended that the Commissioner:

- I. Approves the Reserves Strategy Statement 31 March 2024.

Northumbria Police and Crime Commissioner

I hereby approve the recommendations above.

Signature

Date 29/2/2024



Police and Crime Commissioner for Northumbria

Reserves Strategy Statement

31 March 2024

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 2.0% of the net revenue budget to cover any major unforeseen expenditure or loss of funding. For budgetary purposes the Medium-Term Financial Strategy (MTFS) 2024/25 to 2027/28 is based on a prudent General Reserve level maintained at or above 2.8% of the 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 commencing 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 as at 31 March 2024 is based on the current MTFS 2024/25 to 2027/28. It includes an estimated reserves position as at 31 March 2024 and will be reviewed and updated each year alongside the MTFS.

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 taxpayers. 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 2024/25 to 2027/28 sets out the planned use of reserves over the medium-term period. Usable reserves estimated at £52.8m as at 31 March 2024 are forecast to reduce to £21.7m by 31 March 2028 under the MTFs, a reduction of £31.1m (59%). The Commissioners forecast usable reserve balances through to March 2028 are set out in the following table:

Reserves Forecast	March 2024 £m	March 2025 £m	March 2026 £m	March 2027 £m	March 2028 £m
General Reserve	10.8	10.8	10.8	10.8	10.8
Earmarked Reserves	30.0	27.5	24.9	20.2	10.9
Capital Reserves	12.0	4.6	0.2	0.2	-
Total Usable Reserves	52.8	42.9	35.9	31.2	21.7

- 2.3 The forecast General Reserve balance of £10.8m as at 31 March 2028 represents 2.7% of the forecast net revenue budget 2027/28 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 maintain investment in policing services and protect police budgets from the impact of significant inflation and cost pressures over the medium-term. Specific earmarked reserves have been established to manage inflationary risks including pay awards, support the transformational approach to the replacement of operational police systems and the national implementation of the Emergency Services Network (ESN).
- 2.5 The forecast balance of £10.9m earmarked reserves as at 31 March 2028 reflects the Pay Inflation Reserve £2.1m, the Workforce Management Reserve £1.3m, the Operational Systems Reserve £3.4m, External Funding Reserve £0.3m, the Hosted Policing Services Reserve £0.8m and the Insurance Reserve of £3.0m.
- 2.6 Capital reserves comprise mainly the remainder of 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 2024/25 to 2027/28 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 in 2024/25 and 2025/26 to support the concentration of capital spend profiled in those years. Total capital reserves are forecast to reduce to nil by March 2028. Further detail is provided in sections 3.18 and 3.19.

3. Reserves Position as at 31 March 2024

- 3.1 As at 31 March 2024 the Police and Crime Commissioner’s usable reserves are estimated at £52.815m. The balance includes capital receipts of £11.674m, and a capital grant of £0.340m relating to the delivery of Emergency Services Network (ESN), and the remaining £40.801m represents the General Fund.
- 3.2 The General Fund is further divided into the General Reserve £10.804m, and Earmarked Reserves (sums set aside for a specific purpose) of £29.997m. 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.
- 3.3 Capital reserves will be fully utilised by March 2026 to fund the capital programme, under the capital financing plans set out in the Commissioners Capital Strategy 2024/25 to 2027/28 and the MTFS.
- 3.4 The estimated usable reserves held by the Police and Crime Commissioner as at 31 March 2024 are set out in the following table and described in detail at sections 3.5 to 3.19:

Total Usable Reserves		31 March 2024
		£m
General Fund (Revenue) Reserves	General Reserve	10.804
	Earmarked Reserves	
	Insurance Reserve	3.000
	Operational Systems Reserve	3.400
	Workforce Management Reserve	1.320
	Emergency Services Network (ESN) Reserve	2.600
	Inflationary Risks	5.634
	Reserve to Maintain Investment over the Medium-Term and Support Uplift	8.200
	Pay Inflation Reserve	2.053
	Operational Reserve	1.146
	OPCC Innovation Reserve	0.690
	External Funding Reserve	0.850
	Hosted Policing Services Reserve	0.920
	NEROCU Reserve	0.184
	Total Earmarked Reserves	29.997
Total General Fund Reserves	40.801	
Capital Reserves	Capital Receipts Reserve	11.674
	Capital Grants Unapplied Reserve	0.340
	Total Capital Reserves	12.014
Total Usable Reserves		52.815

3.5 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 2.0% 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 2024/25 to 2027/28. 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 2024/25 to 2027/28 plans to maintain the General Reserve at or above 2.7% of the revenue budget over the medium-term, which is above the 2.0% minimum set out in the Reserves Strategy.

The expected General Reserve at 31 March 2024 is £10.804m equating to 2.8% of the revenue budget of £379.464m for 2024/25.

The closing General Reserve at 31 March 2028 is estimated to remain at £10.804m equating to 2.7% of the net revenue budget estimated at £406.300m for 2027/28.

3.6 Insurance Reserve

The Insurance Reserve is maintained for potential liabilities and costs which fall onto the Commissioner where it is more economical to keep a reserve than seek specific insurance. Potential liabilities include storm damage, business interruption and claims that would fall within the Commissioner's policy excess limits. The level of this reserve is £3.000m, which represents approximately 0.8% of the approved 2024/25 revenue budget, and it is not anticipated that this will change over the period of the MTFs.

3.7 Operational Systems Reserve

The Operational Systems Reserve was created at the end of the 2022/23 financial year through a transfer from the Police Pension Scheme Funding Reserve.

The Operational Systems Reserve will provide £3.400m of funding to ensure the swift delivery of major transformation schemes, including the replacement of operational police systems. It will also provide one-off funding for any costs associated with the Digital Policing strategy to migrate to Cloud based solutions.

3.8 Workforce Management Reserve

The Workforce Management Reserve was established to manage costs associated with workforce change and has a balance of £1.320m. 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.

3.9 Emergency Services Network (ESN) Reserve

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

implementation the majority of the capital costs for ESN delivery in Northumbria are expected in 2027/28 and therefore the reserve balance is fully committed in that year.

3.10 Inflationary Risks

The Inflationary Risks Reserve was created in 2021/22, from the underspend against the Chief Constable's revenue budget, to manage inflationary risks identified for 2022/23 and future years. The significant levels of inflation experienced in the economy over the past two years are expected to continue to impact on force budgets over the medium-term. This reserve will be fully utilised over 2024/25 to 2026/27 to mitigate the impact of inflationary and cost pressures on the revenue budget, as appropriate efficiency programmes are implemented to meet the budgetary gap.

3.11 Reserve to Maintain Investment over the Medium-Term and Support Uplift

Significant investment in policing services for Northumbria residents was approved by the Commissioner in 2020/21 and part of the total funding allocated for that year (£8.200m) was identified to support the investment in future years, to ensure that it would remain sustainable over the medium-term. The previous MTFs included plans to utilise the reserve over 4 years 2023/24 to 2026/27. The use of the £8.200m has been reprofiled over 2026/27 and 2027/28 to manage the anticipated funding gap in those years.

3.12 Pay Inflation Reserve

An earmarked reserve of £2.053m was created at the end of 2022/23 from the underspend against the Commissioner's Capital Financing budget. This reserve will continue to provide some mitigation for the risk that annual pay awards are above the current MTFs estimates, in the case that government provide no additional financial support.

3.13 Operational Reserve

An earmarked reserve of £3.100m was established in 2020/21 to meet the costs of Covid enforcement and operational policing in 2021/22. Expenditure against this reserve now relates solely to Operational policing and the reserve has been renamed accordingly. The balance on the reserve is forecast at £1.146m at 31 March 2024 and planned expenditure is phased over 2024/25 to 2026/27.

3.14 OPCC Innovation Reserve

This reserve represents funds identified for innovative work with partner agencies through the Office of the Police and Crime Commissioner. The reserve ensures that income identified for this purpose remains available by carrying forward balances held for projects between financial years. The balance on the reserve of £0.690m is expected to be utilised over the next 3 years to support that partnership work.

3.15 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. Primarily, external funding reserve balances reflect timing differences only, with income received being utilised in the following financial year.

3.16 Hosted Policing Services Reserve

Balances relating to hosted national and local policing services previously held within the external funding reserve are now identified separately. The reserve balance is estimated to be £0.920m at 31 March 2024. This relates to the National Rural Crime Unit (£0.430m) and the Local Resilience

Fund (LRF) (£0.490m) both of which are hosted by Northumbria Police, delivering capabilities in partnership with national policing, local authorities, and other agencies. The reserve will represent 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.

3.17 **NEROCU Reserve**

The NEROCU reserve comprises the Northumbria share of the North East Regional Organised Crime Unit (NEROCU) reserve. NEROCU (formerly NERSOU) is the three-force collaboration with Durham and Cleveland aimed at tackling serious and organised crime in the region. The NEROCU reserve is expected to be utilised over 2024/25 and 2025/26 to support regional capabilities and projects.

3.18 **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.

Capital receipts available in 2023/24 are £17.280m with planned use of receipts to finance the capital programme of £5.729m and new receipts of £0.123m relating to the sale of vehicles. Therefore, the estimated balance as at 31 March 2024 is £11.674m.

The capital financing strategy is to apply capital receipts to fund short-life assets within the capital programme over the MTFS period 2024/25 to 2027/28, to minimise the impact of borrowing costs on the revenue budget in the most cost-effective manner.

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 in 2024/25 and 2025/26 to support the concentration of capital spend profiled in those years.

Under the current MTFS all capital receipts will be fully utilised by March 2026 as described earlier at section 2.6.

3.19 **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. **Home Office Reserve Categories**

- 4.1 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 2024 £m	March 2025 £m	March 2026 £m	March 2027 £m	March 2028 £m
Funding for planned expenditure on projects and programmes over the period of the current medium-term financial plan.	39.0	29.1	22.1	17.4	7.9
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	13.8	13.8	13.8	13.8	13.8
Total Usable Reserves	52.8	42.9	35.9	31.2	21.7

- 4.2 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, commencing within the term of the current MTFS, and not to hold unnecessary reserves or balances allocated for purposes/projects commencing beyond the medium-term planning horizon.
- 4.3 **‘Funding for planned expenditure on projects and programmes over the period of the current medium-term financial plan’** – the forecast balance of £7.9m as at 31 March 2028 reflects the Pay Inflation Reserve £2.1m, the Workforce Management Reserve £1.3m, the Operational Systems Reserve £3.4m, External Funding Reserve £0.3m and Hosted Policing Services Reserve £0.8m. Whilst these balances are reflected in full at each year-end, they are substantially (Pay Inflation, Workforce Management and Operational Systems) held to mitigate risk of additional financial costs over the medium-term and any associated workforce change. 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 major digital policing and transformation schemes are completed and clarity is provided by government on future pay awards and funding beyond the 2024/25 financial year.
- 4.4 **‘Funding for specific projects and programmes beyond the current planning period’** – the balance on this line is now zero. In the previous Reserve Strategy Statement (31 March 2023) the ESN Reserve balance of £2.6m was reflected in this line as it was expected to be utilised in the 2027/28 financial year, which was at that time beyond the scope of the medium-term financial planning period to 2026/27.
- 4.5 **‘Funding held as a general contingency.....in accordance with sound principles of financial management’** - the forecast balance of £13.8m as at March 2028 represents the General Reserve of £10.8m and the Insurance Reserve of £3.0m.

5. Key Considerations

- 5.1 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. The MTFS 2024/25 to 2027/28 is set against a backdrop of extraordinary levels of inflation, supply chain shortages and economic uncertainty, rising pay awards and the cost of living crisis. Budget reductions and efficiencies are being delivered alongside a planned use of reserves to balance budgets over the medium-term. However, there remains a risk that inflationary increases are sustained for longer than anticipated and actual future pressures are underestimated or unknown. Further savings will need to be delivered to meet any such pressure as resilience to meet unexpected demand through reserves is already limited.
- 5.2 The Commissioners capital programme and capital financing plans include a finite level of capital receipts of £11.674m 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 was reduced to nil from 2022/23, with no expectation that funding will be reinstated for future years. This will limit the capital programme to

what is affordable in revenue terms for the minimum repayment of borrowing (MRP) and annual interest costs.

- 5.3 The Commissioners reserves strategy provides key principles which support the Commissioners Medium-Term Financial Strategy (MTFS). The MTFS 2024/25 to 2027/28 does deliver a balanced budget and sets out how a sustainable financial position can be achieved over the four year period.
- 5.4 The MTFS is predicated on many key assumptions around resource requirements, future costs and the level of total funding. Due to the challenging economic and financial climate and limited funding information available to Northumbria Police beyond the current settlement year, there remains a level of risk throughout the period of the MTFS and the financial context for Northumbria Police remains extremely challenging

6 Conclusions

- 6.1 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).
 - 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 2.7% of net revenue budget within the MTFS 2024/25 to 2027/28 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 MTFS, 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.
- 6.2 It is the opinion of the Chief Finance Officer that the estimated level of reserves held at 31 March 2024 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:
- Inflationary Risks.
 - Ensuring that investment in police services can be sustained across the full MTFS period to 2027/28.
 - Support operational policing activity.
 - Operational systems and major transformation schemes delivery.
 - Additional costs of employee pay awards above those levels forecast in the 2024/25 budget and MTFS 2024/25 to 2027/28.
 - Costs associated with workforce change.
 - Planned financing of the capital programme across 2024/25 through to 2027/28.
 - Implementation of the national Emergency Services Network (ESN) in Northumbria.

6.3 The use of reserves to meet future funding shortfalls and other pressures (such as sustained additional/above inflation annual pay increases) is unsustainable and general reserves are approaching the minimum level outlined within the MTFS.