



Police and Crime Commissioner for Northumbria

Reserves Strategy Statement

31 March 2025

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) 2025/26 to 2028/29 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 2025 is based on the current MTFS 2025/26 to 2028/29. It includes an estimated reserves position as at 31 March 2025 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 2025/26 to 2028/29 sets out the planned use of reserves over the medium-term period. Usable reserves estimated at £54.7m as at 31 March 2025 are forecast to reduce to £21.0m by 31 March 2029 under the MTFS, a reduction of £33.7m (62%). The Commissioners forecast usable reserve balances through to March 2029 are set out in the following table:

| Reserves Forecast | March 2025 £m | March 2026 £m | March 2027 £m | March 2028 £m | March 2029 £m |
|------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| General Reserve | 12.3 | 12.3 | 12.3 | 12.3 | 12.3 |
| Earmarked Reserves | 36.9 | 27.5 | 23.0 | 14.2 | 8.7 |
| Capital Reserves | 5.5 | 1.1 | 0.2 | - | - |
| Total Usable Reserves | 54.7 | 40.9 | 35.5 | 26.5 | 21.0 |

2.3 The forecast General Reserve balance of £12.3m as at 31 March 2029 represents 2.8% of the forecast net revenue budget 2028/29 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 £8.7m earmarked reserves as at 31 March 2029 reflects the Insurance Reserve of £3.0m, the Pay Inflation Reserve £2.1m, the Workforce Management Reserve £1.3m, Investment Reserve £1.0m, the External Funding Reserve £0.5m, the Hosted Policing Services Reserve £0.5m, OPCC Innovation Reserve £0.2m and NEROCU Reserve £0.1m.

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 2025/26 to 2028/29 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 2025/26 and 2026/27 to support the concentration of capital spend profiled in those years. Total capital reserves are forecast to reduce to nil by March 2027. Further detail is provided in sections 3.18 and 3.19.

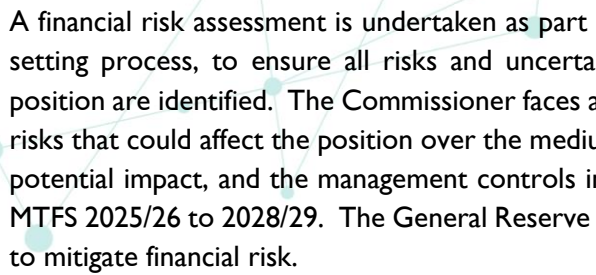
3. Reserves Position as at 31 March 2025

- 3.1 As at 31 March 2025 the Police and Crime Commissioner's usable reserves are estimated at £54.704m. The balance includes capital receipts of £5.162m, and a capital grant of £0.361m relating to the delivery of Emergency Services Network (ESN), and the remaining £49.181m represents the General Fund.
- 3.2 The General Fund is further divided into the General Reserve £12.295m, and Earmarked Reserves (sums set aside for a specific purpose) of £36.886m. 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 2027 to fund the capital programme, under the capital financing plans set out in the Commissioners Capital Strategy 2025/26 to 2028/29 and the MTFS.
- 3.4 The estimated usable reserves held by the Police and Crime Commissioner as at 31 March 2025 are set out in the following table and described in detail at sections 3.5 to 3.17:

| Total Usable Reserves | | 31 March 2025 £m |
|---------------------------------------|--|---------------------|
| General Fund (Revenue) Reserves | General Reserve | 12.295 |
| | Earmarked Reserves | |
| | Insurance Reserve | 3.000 |
| | Operational Systems Reserve | 3.400 |
| | Workforce Management Reserve | 1.320 |
| | Emergency Services Network (ESN) Reserve | 2.600 |
| | Investment Reserve | 21.535 |
| | Pay Inflation Reserve | 2.053 |
| | OPCC Innovation Reserve | 0.771 |
| | External Funding Reserve | 0.957 |
| | Hosted Policing Services Reserve | 0.822 |
| | NEROCU Reserve | 0.428 |
| | Total Earmarked Reserves | 36.886 |
| | Total General Fund Reserves | 49.181 |
| Capital Reserves | Capital Receipts Reserve | 5.162 |
| | Capital Grants Unapplied Reserve | 0.361 |
| | Total Capital Reserves | 5.523 |
| Total Usable Reserves | | 54.704 |

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 2025/26 to 2028/29. 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 2025/26 to 2028/29 plans to maintain the General Reserve at or above 2.8% 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 2025 is £12.295m equating to 3.0% of the revenue budget of £405.444m for 2025/26.

The closing General Reserve at 31 March 2029 is estimated to remain at £12.295m equating to 2.8% of the net revenue budget estimated at £436.400m for 2028/29.

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 0.7% of the approved 2025/26 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, to provide £3.400m of funding to ensure the swift delivery of major transformation schemes, including the replacement of operational police systems and IT.

The Operational Systems Reserve of £3.400m will be used to support Digital Policing capital expenditure in 2025/26.

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 approved budget for 2019/20 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.

To reduce the extent of costs falling on the Force and to minimise the impact on operational policing, the implementation of ESN in Northumbria will be funded through a mix of prudential borrowing and the use of the 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 **Investment Reserve**

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 was identified to support the investment in future years, to ensure that it would remain sustainable over the medium-term.

The Investment Reserve will be increased at 31 March 2025, through transfers from the Operational Reserve and the Inflationary Risks Reserve, both of which will be discontinued. The balance on the Investment Reserve at 31 March 2025 is therefore estimated at £21.535m.

The Investment Reserve will provide funding over the 4-year MTFS period to sustain investment in policing services whilst efficiency plans are developed to meet the budgetary gap. The forecast use of £20.500m has been profiled over the 4-year MTFS period through to 2028/29, leaving a small balance remaining of £1.035m.

3.11 **Pay Inflation Reserve**

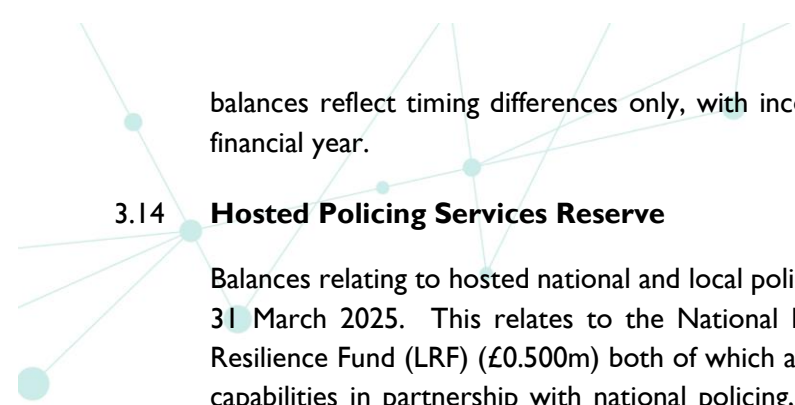
An earmarked reserve of £2.053m was created at the end of 2022/23 from the underspend against the Commissioner's Capital Financing budget. This reserve will continue to provide some mitigation for the risk that annual pay awards are above the current MTFS estimates, in the case that government provide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

3.12 **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 is estimated at £0.771m and is expected to be utilised over the MTFS period to support that partnership work.

3.13 **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. Primarily, external funding reserve



balances reflect timing differences only, with income received being utilised in the following financial year.

3.14 **Hosted Policing Services Reserve**

Balances relating to hosted national and local policing services are estimated to be £0.822m at 31 March 2025. This relates to the National Rural Crime Unit (£0.322m) and the Local Resilience Fund (LRF) (£0.500m) 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.

3.15 **NEROCU Reserve**

The NEROCU reserve comprises the Northumbria share of the North East Regional Organised Crime Unit (NEROCU) reserve. NEROCU is the three-force collaboration with Durham and Cleveland aimed at tackling serious and organised crime in the region. The NEROCU reserve primarily comprises income received through the Asset Recovery Incentivisation Scheme (ARIS) and is expected to be utilised over the MTFS period to support multi-year regional capabilities and projects.

3.16 **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 available in 2024/25 are £11.926m with planned use of receipts to finance the capital programme of £6.863m and new receipts of £0.099m relating to the sale of vehicles. Therefore, the estimated balance as at 31 March 2025 is £5.162m. A further receipt is expected in 2025/26 in relation to the disposal of property.

The capital financing strategy is to apply capital receipts to fund short-life assets within the capital programme over the MTFS period 2025/26 to 2028/29, 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 2025/26 and 2026/27 to support the concentration of capital spend profiled in those years.

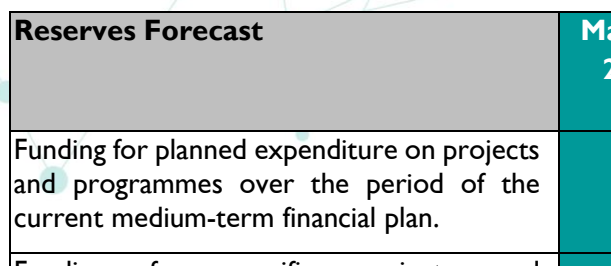
Under the capital financing plans set out in the Commissioners Capital Strategy 2025/26 to 2028/29 and the MTFS, capital receipts will be fully utilised by 31 March 2026.

3.17 **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 2025 £m | March 2026 £m | March 2027 £m | March 2028 £m | March 2029 £m |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Funding for planned expenditure on projects and programmes over the period of the current medium-term financial plan. | 39.4 | 25.6 | 20.2 | 11.2 | 5.7 |
| 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 | 15.3 | 15.3 | 15.3 | 15.3 | 15.3 |
| Total Usable Reserves | 54.7 | 40.9 | 35.5 | 26.5 | 21.0 |

- 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 £5.7m as at 31 March 2029 reflects the Workforce Management Reserve £1.3m, Investment Reserve £1.0m, Pay Inflation Reserve £2.1m, External Funding Reserve £0.5m and Hosted Policing Services Reserve £0.5m, OPCC Innovation Reserve £0.2m and NEROCU Reserve £0.1m. Whilst these balances are reflected in full at each year-end, they are substantially held to mitigate risk of additional financial costs over the medium-term and any associated workforce change.
- 4.4 ***‘Funding for specific projects and programmes beyond the current planning period’*** – the balance on this line is zero.
- 4.5 ***‘Funding held as a general contingency.....in accordance with sound principles of financial management’*** - the forecast balance of £15.3m as at March 2029 represents the General Reserve of £12.3m and the Insurance Reserve of £3.0m.

5. Key Considerations

- 5.1 A significant 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 the Council Tax 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 2025/26 to 2028/29 is set against a backdrop of high 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 around the level of future funding estimates within MTFS projections and that actual future pressures might be 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 estimated at £6.462m available to finance capital investment over the four-year 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 2025/26 to 2028/29 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

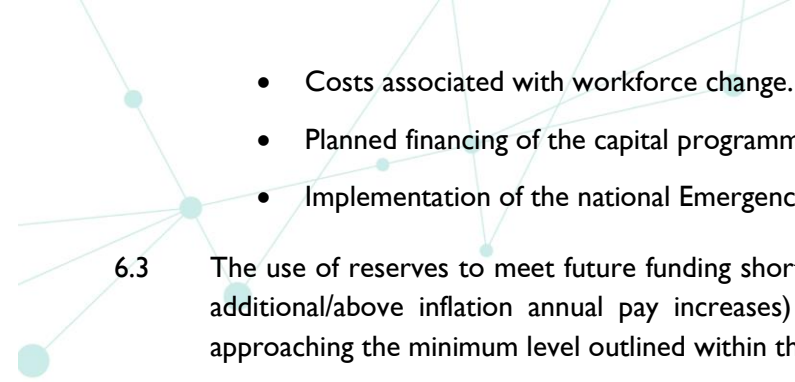
6 Conclusions

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 2.8% of net revenue budget within the MTFS 2025/26 to 2028/29 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 2025 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:

- Ensuring that investment in police services can be sustained across the full MTFS period to 2028/29.
- Operational systems and major transformation schemes delivery.
- Additional costs of employee pay awards above those levels forecast in the 2025/26 budget and MTFS 2025/26 to 2028/29.

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- Costs associated with workforce change.
 - Planned financing of the capital programme across 2025/26 through to 2028/29.
 - 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.