

## **Report of the Chief Finance Officer of the PCC to the Police and Crime Commissioner**

**28<sup>th</sup> February 2018**

**Executive Officer: Michael Porter, CFO**

**Status: For Approval**

### **Robustness of Estimates and Adequacy of Financial Reserves**

#### **1. Purpose of the Report**

- 1.1 The Local Government Act 2003 requires the Chief Financial Officer (CFO) of the Police and Crime Commissioner (PCC) to report formally on the robustness of the budget for consideration immediately prior to setting the Budget. This report aims to ensure that the PCC is aware of the opinion of the CFO of the PCC regarding the robustness of the budget as proposed, including the longer term revenue and capital plans, the affordability of the capital programme when determining prudential indicators and the adequacy of general balances and reserves. The PCC is required to take account of this report when determining its budget.

#### **2. Recommendations**

The PCC is asked to:

- 2.1 Note the contents of this report and take them into account when setting the 2018/19 Revenue and Capital Budgets, and when considering the Medium Term Financial and Capital Plans.
- 2.2 Approve the Reserves Strategy as set out in Appendix A.

### 3. Background

- 3.1 There is a requirement for the PCC's CFO to report formally and specifically on the robustness of estimates and the adequacy of the level of reserves contained within any budget proposals being considered by the PCC.

### 4. Robustness of Estimates

#### 4.1 Financial Strategy

- 4.2 The PCC has established a framework, whereby the Medium Term Financial Plan (MTFP) regime seeks to provide stability and confidence in supporting the achievement of the PCC's priorities and objectives. These are set out in the Police and Crime Plan. The MTFP looks in detail at the forthcoming year and projects forward over the following three years.

##### 4.1.1 Available Funding

The £156,923k of funding forecast to be available to the PCC in 2018-19, to support expenditure, is expected from the following sources, and is shown in comparison to the 2017/18 budgeted figure of £154,680k:

	2017/18	2018/19	Mvmt Year on Year	%age Mvmt Year on Year
<b>Funding</b>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>%age</u>
Government Grant	(67,762)	(67,762)	0	0.0%
Council Tax Precept	(66,029)	(69,661)	(3,631)	5.5%
Council Tax Freeze Grant	(2,152)	(2,152)	0	0.0%
Council Tax Support Grant	(5,746)	(5,746)	0	0.0%
<b>Funding for Net Budget Requirement</b>	<b>(141,689)</b>	<b>(145,320)</b>	<b>(3,631)</b>	<b>2.6%</b>
Specific Grants	(3,021)	(2,900)	121	-4.0%
Partnership Income/Fees and Charges	(9,970)	(8,702)	1,268	-12.7%
<b>Total Funding</b>	<b>(154,680)</b>	<b>(156,923)</b>	<b>(2,243)</b>	<b>1.4%</b>
%age change in Total Funding	0.6%	1.4%		

- 4.1.2 The Government Grant, Council Tax Freeze Grants, Council Tax Support Grant and Specific Grants are based predominantly on national settlement figures and therefore the risks to these sources of funding are minimal. There are a number of specific grants for which allocations have yet to be announced, such as the Counter Terrorism grant and therefore this could be less than assumed.

- 4.1.3 As a precepting Authority the PCC receives a proportion of the Council Tax paid within North Yorkshire based on the Band levels that were proposed and agreed with the Police and Crime Panel. These receipts have generally been a very secure source of income and this shouldn't change for 2018/19. Any shortfall due to lower than expected collection rates or from reductions in the number of properties within North Yorkshire would not impact on the finances for 2018-19 but would have to be taken into account in 2019-20.

- 4.1.4 Over the last 11 years there have been no instances where Council Tax receipts over the 8 councils collectively have been less than forecast. Now that the changes resulting from the Localisation of Council Tax support have been embedded it is unlikely that any issues will arise that change this position.
- 4.1.5 The £8,702k of income that is factored into the 2018-19 budget for Partnership Income and Fees and Charges, is significantly lower than budgeted in 2017-18. This results from a review of the level of budget for income relating to the Driver Re-Training scheme. This has been a significant financial pressure throughout 2017/18 and therefore this area has been re-assessed and revised to ensure that it is in line with the expected expenditure in this area. This area will need to be kept under close review to ensure that the problems of 2017/18 do not continue into 2018/19.
- 4.1.6 The overall income budget in this area is however around £1m higher than forecast to be received in 2017/18 and will therefore need to be very closely monitored throughout 2018/19 to ensure that all areas deliver.
- 4.1.7 While there are likely to be variances against the budgeted amounts, at a specific level, the risk that the income received by the PCC in total from these and other sources being significant lower than budgeted is low.
- 4.1.8 The total funding that the 2018/19 budget is based upon can therefore be described as very secure and the PCC can take a high level of assurance that the budget is based on robust income assumptions.
- 4.1.9 Government Funding for 2019/20 and beyond
- 4.1.10 Beyond 2018-19 there is more information about future levels of government grant settlements than there has been in previous years. While allocations have not been provided for individual PCC's a reasonable amount of information has been provided to allow reasonable grant forecasts.
- 4.1.11 In announcing the final settlement figures for 2018/19 the government also stated that **'If the police deliver clear and substantial progress against agreed milestones on productivity and efficiency in 2018, as well improve transparency about reserves, then the Government intends to maintain the protection of a broadly flat police grant in 2019/20 and repeat the same flexibility of the precept.'**
- 4.1.12 Given this, there is a clearer indication on the level of future grant levels than there has been in many of the last 8 years and therefore in theory the future grant forecasts should be less variable than in previous years.
- 4.1.13 The MTFP therefore assumes that the level of Government Grant remains at the same level in 2019/20 as it will be in 2018/19 and was in 2017/18. This is a realistic assumption given the correspondence from the Government.
- 4.1.14 Beyond 2019/20 the MTFP assumes that Government Grants will begin to increase in line with inflation of 2%. There is clearly a risk that this might not happen as by 2020/21 it will have been almost a decade since Government Grant funding for Policing last saw any increase.

4.1.15 The 2% increase in 2020/21 is worth £1.3-£1.4m therefore if this doesn't happen the current plans would need to be re-visited. This is clearly an area that will be kept under review as the MTFP is developed for future years.

4.1.16 Precept

Despite the difficult economic situation, and the changes to the levels of Council Tax Support given to individuals, the Councils have collectively managed to collect more Council tax than they had assumed for at least the last 11 years.

4.1.17 The average collection surplus payable to the 'Police' in relation to the amounts that the 8 councils managed to collect in excess of their forecasts has been £403k over the last 11 years. The MTFP has assumed that this collection surplus will be £400k each year and as such this is a reasonable estimate.

4.1.18 In addition to incorporating an annual collection surplus the precept plans also incorporate annual growth in the underlying tax base of 1.0% per annum. This is in line with forecast from the Local Councils. Average tax base growth over the last 10 years has been 1.1% and therefore the 1.0% growth per annum is a reasonable assumption although could prove to be a prudent estimate if housebuilding continues to develop at a quicker pace.

4.1.19 Future Precept Plans

The government have stated that the precept flexibility provided to PCC's in 2018/19 will be provided to them in 2019/20 subject to previously discussed need to deliver on efficiency, productivity and transparency.

4.1.20 The planning assumption within the MTFP is based on an assumption that the level of precept charged to each household will increase £12 next year before reverting to a limit of 1.99% per annum. This is however an annual decision for the PCC.

4.1.21 These are reasonable assumptions based on current information, with the forecast increases beyond 2019/20 likely to be on the prudent side given current policy.

4.1.22 Expenditure Plans

Preparation of the budget, including decisions on key assumptions, while based on the most up to date information and forecasts will always have a degree of uncertainty and risk. This risk is managed by having a robust budget process and having balances and reserves that are set to take into account the financial and operational uncertainty that exists.

4.1.23 There are a number of key estimates within the 2018/19 budget and MTFP, these are set out below along with the potential risks where applicable:

4.1.24 Police Pay Awards and Levels of Police Officers

The MTFP assumes that Police Pay will increase by 2% in September 2018 and that the current non-consolidated bonus awarded to Police Officers for the period September 2017 to August 2018 will not be consolidated when the pay award is made in September 2018. The MTFP then assumes a 2% increase each September thereafter.

4.1.25 There is a risk that it may not be possible for national negotiations to contain Police Officer pay within these limits, as has been the case in 2017/18 when Pay Awards to

Police Officers were in excess of previously indicated Government caps. These increases were unfunded from the Government and therefore the additional costs had to be met by the PCC and Police Force.

- 4.1.26 While the assumption within the MTFP is in line with the 'Employers' side offer this is significantly below the 'Employees' side request.
- 4.1.27 The Employees side have put forward proposals to have the 1% non-consolidated payment from 2017/18 consolidated as at the 1<sup>st</sup> September 2018 and then for a further 3.4% increase thereafter.
- 4.1.28 To provide an indication of the potential pressure that could develop from pay awards that are beyond those factored into the financial plans then each 0.5% increase over the 2% budgeted within 2018/19 would cost around £210k during 2018/19 and £360k per annum thereafter.
- 4.1.29 Should the Employees side proposal be accepted then the impact would be a pressure of £1.0m in 2018/19 and a recurring pressure of £1.7m per annum thereafter.
- 4.1.30 As in 2017/18 both general inflation and wage inflation are increasing at levels above a 2% increase in pay. The Consumer Price Index level of inflation was 2.7% in January 2018, the Retail Price Index measure of inflation was 4.0% and UK wage inflation was measured as increasing by 2.5% per annum in January 2018.
- 4.1.31 While it is the ambition of the organisation to increase Police Officer numbers to 1,400 FTEs this has taken some time, there are forecast to be around 1,364 FTEs at the start of 2018/19. This is forecast to increase throughout 2018/19, with 96 FTEs planned for recruitment across 4 in-takes, and with 40 of these planned to be transfers.
- 4.1.32 On average it is forecast that there will be around 1,390 FTE Police Officers being paid throughout 2018/19 and the budget is based on this amount.
- 4.1.33 Based on the plans in place there is no reason to expect that an underspend will develop in this area in 2018/19, based on the number of FTE's in place, or that the resources won't be available to the Police Force to deliver against the Police and Crime Plan, provided that recruitment plans are delivered in line with current plans.
- 4.1.34 The final area to consider in relation to Police Pay is the average pay costs that are factored into the MTFP, these are currently projected to be:
- 2018/19 - £52,528
  - 2019/20 - £53,245
  - 2020/21 - £54,621
  - 2021/22 - £55,714
- 4.1.35 It would be reasonable to assume that given 2% pay awards that average pay would increase by around £1,000 per annum. Therefore the movement's year on year seem reasonable.

4.1.36 The assumptions that underpin these calculations are reasonable but will need to be kept under review. Should the organisation recruit less student police officers, due to fewer leavers than expected and/or take on more transferees than planned then this could have an impact on the average pay levels and ultimately the overall pay costs.

4.1.37 As has been experienced in previous years taking 20 more transferees than planned could cost the organisation around £400k per annum, in the short term, more than currently budgeted.

4.1.38 PCSO and Staff Pay Awards and FTE's

The number of staff and PCSO's factored into the financial plans are as per the table below.

<u>Employee Numbers</u>	FTEs	FTEs	FTEs	FTEs	FTEs
PCSOs	200	200	200	200	200
Police Staff - Police Force	877	838	874	871	870
Corporate Services, Commissioning and Projects	292	214	219	219	219
PCC Private Office Staff	13	13	13	13	13

4.1.39 As at December 2017 there were 199 FTE PCSOs employed by the Force and therefore the Force will start 2018/19 quite close to full establishment in this area and therefore significant underspends should not materialise in this area based on FTE's

4.1.40 The financial plan factors in 91 FTE vacancies being held on average across the organisation, with an expectation that 68 FTE vacancies will be held within the Force and 23 FTEs held within the Corporate Services area.

4.1.41 As at December 2017, Corporate Services are showing as employing less FTEs than factored into the budget and therefore the delivery of the financial savings from these vacancies should not be too much of a problem. It is essential that this is closely managed in the short term while in the longer term that Transformation takes place to enable the organisation to deliver the required output without the need to fill all of the current Established posts.

4.1.42 Holding 68FTE vacancies within the Force is likely to be more of a challenge however, despite this being a smaller percentage of the overall work force than compared to Corporate Services, given that it was reported in December that the Force has 877 FTEs in place.

4.1.43 This area will need to be closely monitored during 2018/19.

4.1.44 The assumptions in relation to the Pay Award for staff and PCSOs are the same as for Police Officers, in that there is an assumption that there will be an annual increase of 2% each year in September. The risk is the same as for Police Officer pay in that national negotiations may settle at a higher level which is something that the PCC and CC have little to no control over and should this occur then the current budgets will come under some pressure. Each 0.5% increase in pay beyond the 2% factored into Staff and PCSO budgets would cost the organisation around £125k in 2018/19 and £215k per annum thereafter.

4.1.45 Unlike Police Officer pay, the 2017/18 pay negotiations have not yet concluded which provides for an additional risk to the budget for 2018/19 and beyond. The 2018/19 budget assumes, for planning purposes, that a 2% pay award will be agreed for September 2017.

4.1.46 Inflation

The 2018/19 budget allows for specific allocations of inflation where necessary in line with either contractual arrangements or estimates however inflation in general is higher than the increases in funding that have been possible this year and if inflation does not begin to plateau or reduce then this could provide for additional pressures during 2018/19.

4.1.47 From an income perspective inflation has been applied on fees and receivables for 2018/19 onwards, subject to known variances. Specific grants have no inflation assumed unless notified by the payer, while any anticipated reductions have been accounted for.

4.1.48 Inflation has increased quite significantly over the last couple of years, CPI was 0.3% in January 2016 – now it is 2.7% and RPI was 1.3% in January 2016 – now it is 4.0% and therefore there has been a requirement to factor in higher levels of inflation into future years of the MTFP.

4.1.49 Savings Requirements

The balanced 2018/19 budget has circa £5m of savings proposals included within it.

4.1.50 The vast majority of these relates to staffing across the organisation and have been discussed elsewhere however a summary of the savings are included below:

- Savings from agreed staffing changes - £500k
- Staff Vacancies - £2,000k
- DISG savings, including Unified Comms - £660k
- Estates - £300k
- Supplies and Services - £400k
- Police Officer Rank Review - £750k

4.1.51 It is important to recognise that the savings from the Rank Review, which is in part linked to the review of the shift pattern, will deliver significantly more than the £750k savings that are factored into the MTFP.

4.1.52 The current assumption is that this piece of work might lead to the removal of 37 Supervisor posts within the Police Officer structures. This would lead to savings of circa £2.5m. It is currently assumed that these savings will be used to invest in areas of priority within the organisation through increasing Police Officers in other areas. If however the savings are not delivered elsewhere then this is an area that would need to be reviewed.

4.1.53 The PCC will see from the Budget and MTFP report that based on the current funding assumptions, as set out in this report, that the budget for 2018/19 will balance providing the above savings plans are delivered. There are some risks from the savings being delivered in the specific areas and therefore the organisation may need to adopt a flexible approach to where the savings are actually delivered from. It will

be important to keep a tight focus on how all of the savings plans develop across the year to ensure that the overall financial plan is delivered.

- 4.1.54 The current MTFP is showing a balanced budget across the next 4 financial years based on current plans and assumptions however, as indicated within this report when discussing pay there are significant areas of the budget that may increase beyond the assumptions within the budget that neither the PCC nor Chief Constable have any real control over.
- 4.1.55 It is also vital to appreciate that the Government have been very clear in providing the additional Precept flexibility to PCC's that *'A number of you (PCC's) have raised the costs of the 2017 police officer pay settlement. Today's police funding settlement enables PCCs to increase funding by over a quarter of a billion pounds in 2018/19 and identifies opportunities for efficiencies, which should enable you to make appropriate provision for likely cost increases next year within your financial plans. This includes both the remaining costs of additional 1% non-consolidated element of the 2017 pay award and the likely costs of the 2018 pay award. It is for police leaders to make proposals in relation to the 2018 pay award, reflecting what is affordable and fair to officers and taxpayers, based on robust evidence about the state of the workforce.'* Therefore if pay awards are agreed at a level that is beyond the assumptions within this plan that they will have to be found from within the funding available and that no additional funds will be provided by Government to pay for these.
- 4.1.56 The organisation has a secure and stable financial platform from which to deliver against the Police and Crime Plan for both next year and beyond. This is a stronger position than the one reported a year ago however there continue to be a number of significant areas that will need to be closely monitored over the coming months and years.
- 4.1.57 Capital Expenditure and Financing  
The capital and revenue development programme to 2021/22 is based on spending just over £28m over the next 4 years, assuming that current plans for 2017/18 are all delivered within the current year. The organisation continues to see significant 'slippage' of expenditure from one year to another. This year there is expected to be around £5m of slippage. This follows on from around £10m in 2016/17, £15m in 2015/16 and in 2014/15 the figure was nearly £9m.
- 4.1.58 It is important that multiple year schemes are appropriately planned from the start, from a financial perspective, so that the delivery plans and the financial plans align to reduce this level of slippage.
- 4.1.59 The levels of underspend delivered on the overall capital programme have also been significant, in 2014/15 it was £2m, in 2015/16 it was £1.3m, in 2016/17 it was £0.9m and in 2017/18 it is forecast to be £2.1m. This would tend to suggest an element of over budgeting by project managers from a financial perspective which can therefore 'tie up' scarce financial resources.
- 4.1.60 Both of these areas can be improved upon to increase the effectiveness and efficiency of the organisation going forward.

4.1.61 In terms of the funding of this investment and expenditure, the £28.1m will be funded as follows:

- Government Grants - £1.75m
- Capital Receipts - £4.1m
- Contributions from Revenue - £12.3m
- Borrowing - £6.1m
- Use of Reserves and External Funding - £3.85m

4.1.62 In terms of the robustness of these funding sources the Government Grant for Capital purposes seems to have reduced as far as it will and only provides the PCC with £431k per annum. While no future reductions are factored into the plans there is now so little left of the Capital Grant that any future changes are likely to be marginal.

4.1.63 The level and timing of Capital Receipts will need to be kept under close scrutiny to ensure that this funding is available to support the expenditure plans. The sale of Newby Wiske is now factored into the 2018/19 capital receipts assumptions and therefore this will need to be kept under review. As with Newby Wiske the remaining Capital Receipts factored into the plans are for buildings where decisions to dispose have already been made and that alternative accommodation is already in place and/or firm plans are in place to relocate into Partner buildings.

4.1.64 There is a risk that the capital receipts will not be received in line with the plans, or at the level included within the plans. If this is the case the PCC may need to borrow more funds to support the capital programme than is currently factored into the MTFP. This will incur both additional costs as well as a need to revisit borrowing levels.

4.1.65 The contributions from revenue are factored into the balanced MTFP. These contributions are therefore as robust as the overall revenue plans which has been discussed in detail within this paper.

4.1.66 The financial implications of borrowing are factored into the revenue plans, decisions as to whether/when to borrow will be made at the most appropriate time and in line with cash flow needs. The PCC has access to the Public Works Loans Board (PWLB) for borrowing and therefore the availability of the finances needed to fund the plans will not cause any issues.

4.1.67 Capital Reserves is discussed further in section 5 of this report.

## **5. Adequacy of Financial Provisions, Reserves and Balances**

5.1 The adequacy of financial reserves is the second requirement on which the CFO must have confidence. In reality, there is no real difference between the factors that determine both the level of reserves and the estimates themselves. Reserves are simply longer term planning mechanisms to set aside resources for a future use. As such, the section above dealing with robustness of estimates can be fully applied to arriving at a confident statement that reserves are adequate in nature i.e. the Financial Strategy and processes and procedures within the overall budget strategy all culminate in determining the level of reserves required to support the Medium Term Financial Plan.

## 5.2 Reserves & Provisions

The PCC maintains a number of reserves with the main ones discussed below.

### 5.2.1 General Fund

At the 31<sup>st</sup> March 2016, the General Fund stood at £9,697k. Based on the MTFP for 2018/19 to 2021/22 the level of General Fund is expected to reduce to £4,643k by 2019/20. By 2021/22 the General Fund would then equate to the equivalent of 3.0% of the forecast Net Budget Requirement for that same year.

5.2.2 These levels and percentages are as low as I would recommend that the organisation plans to have and it is therefore vital that should any pressures materialise either during 2018/19 and/or over the planning period that they are addressed within the current resources. There is no capacity within reserves to absorb any further costs without the reserves then being replaced.

5.2.3 In terms of the general reserve of the PCC, it is both adequate and robust for the current projected financial position over the next 4 years based on the current risks and the potential risks as referenced within this report.

### 5.2.4 Capital Reserves and Capital Receipts

At the 31<sup>st</sup> March 2016 the PCC held Capital Reserves that totalled £14.7m; this is expected to reduce to £3.3m by the end of 2017/18. Based on forecasts it is then due to reduce to nil in 2020/21.

5.2.1 There are undoubtedly areas of investment that the organisation will need, or want, to make that are currently unknown and there will also be changes to the timing and amounts of the funding estimated within the plans, however based on current plans the level of Capital reserves is sufficient to fund the known plans of the organisation for the next 4 years.

5.2.2 Is it important to recognise that where new and/or additional priorities are identified that are not included within the previous forecasts that they will need to come at the expense of current schemes as there is no additional funding to support them.

5.2.3 It is also vitally important to recognise that there is no scope for any new schemes or additional expenditure that are proposed either in year or across the MTFP to be accommodated within the current resources unless these are minor in nature – so less than £25k – which could be funded from the small items fund.

5.2.4 Specifically the current CRDP plans do not include any costs for future phases of Body Worn Video, it does not include any costs to enable the Transformation programme and does not include any of the costs of any National IT development work.

5.2.5 The proposed capital financing plans and reserves should prove to be sufficient to underpin the investments the organisation plans to make, provided all aspects are delivered however it will need to be very closely monitored.

### 5.2.6 Insurance Fund

The PCC maintains Insurance and Legal Reserves totalling £0.3m, these make provision for the extent of our theoretical exposure in respect of our insurance claims in so far as they are not covered by the Commissioner's insurers Fund.

5.2.7 The level of these reserves will be the subject of regular reviews to ensure that the fund is at an adequate level. At this stage the PCC's CFO is content that the level of the reserve will be sufficient to meet the current needs of the organisation.

5.2.8 Further Earmarked Reserves

The PCC has additional earmarked reserves that are detailed within Appendix A along with the projected movements over the MTFP period.

Useable Reserves

5.2.9 These reserves are collectively known as 'Useable' Reserves. The definition being reserves that 'can be used to fund expenditure or reduce local taxation'. As at the 31<sup>st</sup> March 2017 the Audited Statement of Accounts for the PCC showed that the organisation had Total Useable Reserves of £16.2m and based on the current plans I expect this to reduce significantly to a balance of £6.5m by the end of 2019/20.

5.2.10 While £6.5m may still seem like a significant amount of money I would not recommend that the PCC seeks to reduce this significantly below this level.

## **6. Statement of the PCC's Chief Finance Officer**

6.1 As CFO to the PCC it is my duty to specifically comment on the robustness of the estimates put forward for the PCC's consideration. For the reasons set out in this report and from my own review of the estimates process I am satisfied that the proposed spending plan for 2018/19 is sound and robust. There are however a number of areas of savings that will need to be delivered from a revenue perspective in 2018/19 to deliver a balanced financial position. The likely risk from a financial perspective, however, in terms of revenue spending is likely to be similar to 2017/18 where the biggest risk will be in relation to the levels of pay awards agreed during the year and also the management and spend on Police Overtime, beyond this area the management of vacancies will need to be closely monitored and the income from the National Driver Training scheme will also need to be closely monitored.

6.2 It will be vital to continue to closely monitor the financial position throughout 2018/19 to ensure that the finances support the delivery and achievement of the Police and Crime Plan objectives.

6.3 The funding available to deliver the Capital plans of the organisation are robust and the focus will continue to be on delivering the schemes and the benefits that are expected from those scheme.

6.4 A review has been undertaken of the PCC's reserves and general balances. The PCC's general balances and reserves are an important part of the PCC's risk management strategy giving the financial flexibility to deal with unforeseen costs or liabilities. Assuming the approval of the plan set out in the budget report, I am satisfied that the PCC would have adequate levels of financial reserves and general balances through 2018/19 provided that service restructuring is delivered and future growth, if any, is managed and funded from sustainable savings.

6.5 In 2019/20 and beyond there is less risk around future levels of funding than there has been for most of the last 7 years and as such, in the same way as last year, I recommend that the level of general reserves can reduce to around 3% of the Net

Budget Requirement. This is reflected in the reserves strategy that is attached at Appendix A.

## **7. Implications**

### **Finance**

- 7.1 Other than the references made above there are no specific financial or staffing implications in respect of this report.

### **Risk**

- 7.2 There will always be an element of risk that estimates are not fully robust or accurate which may lead to unfunded budget pressures becoming apparent during the year. This report sets out the process and basis for ensuring robustness and minimising the risk of unforeseen problems. As outlined in the report the PCC should ensure that it sets aside sufficient balances to ensure that any problems and liabilities can be dealt with.

## **8. Conclusion**

- 8.1 The PCC's budget setting process has been designed to ensure that estimates brought forward for approval are sound and robust. This report confirms that approach.
- 8.2 Similarly, the PCC's policy is to ensure that it has sufficient levels of reserves and balances to provide for known, anticipated and unforeseen costs and liabilities. I am satisfied that the proposals emerging from the 2018/19 budget process are clear, soundly based and deliverable, and that the approach to reserves and balances contained therein are appropriate.
- 8.3 In setting a budget for 2018/19 the PCC will need to continue to have regard to the underlying level of available resources. The budget report requires the PCC to take a robust approach to this issue by agreeing a medium term financial plan aimed at maintaining a sustainable position through the Plan period.
- 8.4 While the financial position for 2018/19 is relatively challenging, the estimates they are based on are robust. This is also the same for the remaining period covered by the MTFP.

## Appendix A

### Reserves Strategy

As part of the 2018/19 financial settlement PCC's have been informed by the Government that "If the police deliver clear and substantial progress against agreed milestones on productivity and efficiency in 2018, as well improve transparency about reserves, then the Government intends to maintain the protection of a broadly flat police grant in 2019/20 and repeat the same flexibility of the precept."

The Government has gone on to say that "As part of our commitment to work with the police on these reforms, today the Government is taking steps to improve transparency around financial reserves. It is necessary for police to hold financial reserves, including for emergencies and major change costs. As at March 2017 police forces held usable resource reserves of over £1.6 billion, compared to £1.4 billion in 2011. This is public money and the public are entitled to high quality and easily accessible information about reserves."

As part of these steps to improve transparency:

- Each PCC should publish their reserves strategy on their website, either as part of their medium term financial plan or in a separate reserves strategy document. The reserves strategy should include details of current and future planned reserve levels, setting out a total amount of reserves and the amount of each specific reserve held for each year. The reserves strategy should cover resource and capital reserves and provide information for the period of the medium term financial plan (and at least two years ahead).
- Sufficient information should be provided to enable understanding of the purpose(s) for which each reserve is held and how holding each reserve supports the PCC's medium term financial plan.

The strategy should be set out in a way that is clear and understandable for members of the public, and should include:

- how the level of the general reserve has been set;
- justification for holding a general reserve larger than five percent of budget;
- details of the activities or items to be funded from each earmarked reserve, and how these support the PCC and Chief Constable's strategy to deliver a good quality service to the public.
- Where an earmarked reserve is intended to fund a number of projects or programmes (for example, a change or transformation reserve), details of each programme or project to be funded should be set out.

The information on each reserve should make clear how much of the funding falls into the following three categories:

- Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan.
- Funding for specific projects and programmes beyond the current planning period.
- As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance).

## Reserves Policy

The PCC has had a Reserves Policy in place throughout her time in office, which has been updated annually as part of the Budget Setting Process. The principles that underpin this area are as follows:

Reserves are maintained to:-

- (a) Create a contingency to help cushion the impact of unexpected events or emergencies - the General Reserve.
- (b) Build up funds (often referred to as earmarked reserves) to meet specific future requirements, including the smoothing out of peaks in costs and the effect of loss of external funding.

The level of reserves is taken into account when calculating the council tax requirement. This ensures a balanced budget position is maintained and enables regard to be given to affordability when considering future revenue requirements and capital programmes.

The reserves must be reported to the Police and Crime Commissioner on a regular basis as part of budget and financial monitoring. Part of this exercise is to ensure continuing relevance and adequacy and to enable the Medium Term Financial Plan to be up-dated.

The actual level of reserves, earmarking and utilisation are considered when up-dating the MTFP and as part of its on-going review.

### General Reserve

In setting the level of the General Reserve, consideration is given to the adequacy of financial control, the overall financial position, medium-term plans and strategic, operational and financial risks facing the Police and Crime Commissioner. The level of the General Reserve is reviewed by the Police and Crime Commissioner on the advice of the PCC's Chief Finance Officer having regard to these matters.

Key Principles are:-

- (a) The General Reserve will not be used to meet on-going revenue items.
- (b) The General Reserve may be used, on an exceptional basis, as a short-term option to balance the budget, particularly where major operations are experienced.
- (c) The Police and Crime Commissioner will aim to maintain the level of General Reserves at not less than 3% of the net revenue budget.
- (d) The level of the General Reserve is re-assessed annually as part of the annual budget-setting process.

## Reserves Forecast

The following schedule sets out the forecast movements on reserves over the life of the current medium term financial plan, it is important to recognise that whilst the schedule sets out the expected use of the current reserves circumstances will change and all reserves will be reviewed at least annually. It is also important to recognise that there will undoubtedly be a need to create new reserves, in future years, to deal with risks that are currently unknown; therefore while the current schedule shows that the overall level of risks will reduce significantly, the likelihood is that they will not reduce in overall financial terms as exactly planned and that while current reserves are spent new reserves are likely to be needed to manage future risks.

	Balance at 31 March 2017 £000	Tranfers In 2017/18 £000	Tranfers Out 2017/18 £000	Balance at 31 March 2018 £000	Tranfers In 2018/19 £000	Tranfers Out 2018/19 £000	Balance at 31 March 2019 £000	Tranfers In 2019/20 £000	Tranfers Out 2019/20 £000	Balance at 31 March 2020 £000	Tranfers In 2020/21 £000	Tranfers Out 2020/21 £000	Balance at 31 March 2021 £000
Insurance Reserve	326			326			326			326			326
Capital Reserve	2,853	2,970	(4,967)	856	1,492	(2,348)	0	3,048	(3,048)	0	3,713	(3,713)	0
PCC Community Fund Reserve	1,049		(250)	799		(250)	549		(250)	299		(299)	0
Cost of Change Reserve	582		(314)	268		(18)	251			251			251
Commissioned Services Reserve	322			322		(161)	161		(161)	0			0
Major Incident Reserve	500		(500)	0	500		500			500			500
Revenue Initiatives	347	238	(180)	405	184	(570)	19	19		38	19		57
Revenue CRDP Reserve	174		(174)	0			0			0			0
Confiscated Monies Reserve	358		(254)	105	130	(130)	105	130	(100)	135	130	(100)	165
<b>Total Earmarked Reserves</b>	<b>6,511</b>	<b>3,208</b>	<b>(6,638)</b>	<b>3,081</b>	<b>2,306</b>	<b>(3,476)</b>	<b>1,910</b>	<b>3,197</b>	<b>(3,559)</b>	<b>1,549</b>	<b>3,862</b>	<b>(4,112)</b>	<b>1,299</b>
<b>General Reserves</b>	<b>9,697</b>	<b>(2,150)</b>	<b>(1,104)</b>	<b>6,443</b>	<b>0</b>	<b>(1,800)</b>	<b>4,643</b>	<b>0</b>	<b>0</b>	<b>4,643</b>	<b>0</b>	<b>0</b>	<b>4,643</b>
<b>Total Usable Reserves</b>	<b>16,208</b>	<b>1,058</b>	<b>(7,742)</b>	<b>9,524</b>	<b>2,306</b>	<b>(5,276)</b>	<b>6,553</b>	<b>3,197</b>	<b>(3,559)</b>	<b>6,192</b>	<b>3,862</b>	<b>(4,112)</b>	<b>5,942</b>
<b>Capital Receipts Reserve</b>	<b>1,515</b>	<b>949</b>		<b>2,464</b>	<b>3,112</b>	<b>(3,033)</b>	<b>2,543</b>	<b>713</b>	<b>(1,547)</b>	<b>1,709</b>	<b>169</b>	<b>(1,878)</b>	<b>0</b>

## **Why have these Reserves been established and what will they used for?**

### **Insurance Reserve (General Contingency Reserve)**

The Police and Crime Commissioner operate on a self-insurance basis determined by the level of excess on the cover provided by external policies. This reserve is ring-fenced for insurance requirements only and cannot be used for other purposes. It is calculated based on an historic assessment of claims history and is subjected to an actuarial audit to validate the fund level on a three-yearly basis. This reserve is available should the Police and Crime Commissioner face exceptional costs or suffer a major catastrophic incident or face premium increases which cannot be met by budget in year.

### **Capital Reserve (Funding for Planned Expenditure over MTFP)**

This reserve is held to meet the forecast costs of capital schemes which will enable the capital needs of the organisation to be funded in a sustainable manner, without the need to increase borrowing beyond what is determined to be a prudent level and to also provide some contingency to fund unknown investments whether these be from local changes or national initiatives.

### **PCC Community Fund (General Contingency Reserve)**

The PCC has established the reserve to support local community safety initiatives over the period of her term in Office. £250k per annum has been set aside to support this initiative.

### **Cost of Change Reserve (General Contingency Reserve)**

This reserve is held to meet the forecast costs of change and held to enable future change programmes that might be required to help transform the organisation.

### **Commissioned Services Reserve (General Contingency Reserve)**

To help manage the variable nature of and short term nature of some grants provided for this area of work this Reserve has been established from previous underspends in this area to help manage the uncertainties of funding changes and invest initially in new areas of work.

### **Major Incident Reserve (Contingency Reserve)**

This reserve was established by transfer from revenue, and is held to contribute to the funding of any one off major incident revenue costs over and above the annual budget set aside for major incidents. This reserve has been used in 2017/18 to part fund the costs policing at the Kirby Misperton (Fracking) site. This reserve has then been replaced as part of the 2018/19 budget setting to maintain this reserve.

### **Revenue Initiatives and Revenue CRDP Reserve (Funding for Planned Expenditure over MTFP)**

These reserves are held to meet the forecast costs of some on-going revenue initiatives to enable one off schemes/expenditure to be funded

### **Confiscated Monies Reserve**

These reserves hold monies raised from confiscated assets generated through the proceeds of crime, either directly or via grant from Central Government. The reserve is utilised to support crime fighting work, subject to statutory restrictions on usage.