

Reserves Strategy 2018/19

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
Total Earmarked Reserves	6,511	3,208	(6,638)	3,081	2,306	(3,476)	1,910	3,197	(3,559)	1,549	3,862	(4,112)	1,299
General Reserves	9,697	(2,150)	(1,104)	6,443	0	(1,800)	4,643	0	0	4,643	0	0	4,643
Total Usable Reserves	16,208	1,058	(7,742)	9,524	2,306	(5,276)	6,553	3,197	(3,559)	6,192	3,862	(4,112)	5,942
Capital Receipts Reserve	1,515	949		2,464	3,112	(3,033)	2,543	713	(1,547)	1,709	169	(1,878)	0

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.