

**OFFICE OF THE POLICE AND CRIME COMMISSIONER
FOR HUMBERSIDE
DECISION RECORD**

Decision Record Number: **11/2017**

Title: **Reserves Strategy**

Executive Summary: The policy on reserves formed part of the Medium Term Resource Strategy 2018/19-2022/23 (MTRS) which supported the decision to increase the precept for 2018/19.

The level of reserves held by PCCs was the subject of debate ahead of publication of the Police Grant Report 2018/19 and the Home Office issued guidance on Police finance reserves on 31 January 2018.

This guidance requires PCCs to publish a reserves strategy as part of their medium term financial plans or in a separate reserves strategy document covering the period of the MTRS to ensure transparency. It indicates that information should be provided on how much of each reserve falls into each of the following categories:-

- Funding for planned expenditure on projects and programmes
- Funding for specific purposes and programmes beyond the current planning period
- As a general contingency or resource to meet other expenditure needs held in accordance with sound financial principles

Details of the proposed Reserves Strategy are set out in the attached report.

Approval is sought to the Strategy which brings together the information included within the approved MTRS in a format that complies with the latest Home Office Guidance.

Decision: (a) That Reserve Strategy be approved and published on the PCC's website.

Background Reports: Open

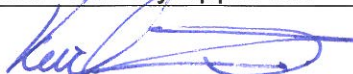
Police and Crime Commissioner for Humberside

I confirm I have considered whether or not I have any personal or prejudicial interest in this matter and take the proposed decision in compliance with my code of conduct.

Any such interests are recorded below.

The above decision has my approval.

Signature



Date

30-3-2018

Police and Crime Commissioner for Humberside Reserves Strategy

1. Background

- 1.1. This paper sets out the Reserves Strategy approved by the Police and Crime Commissioner for Humberside. It sets out details in respect of the use of the General Reserve and specific reserves (earmarked reserves).
- 1.2. The requirement for financial reserves is acknowledged in statute. The Local Government Finance Act 1992 requires billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 1.3. There are also a range of safeguards in place that help to prevent local authorities, including PCCs over-committing themselves financially. These include:-
 - The requirement to set a balanced budget;
 - Chief Finance Officers' duty to report on the robustness of estimates and the adequacy of reserves;
 - The legislative requirement for each local authority and PCC to make arrangements for the proper administration of their financial affairs and that the chief finance officer / proper officer has responsibility for the administration of those affairs (section 151 of the Local Government Act 1972) and
 - The requirements of the Prudential Code.
- 1.4. These requirements are reinforced by section 114 of the Local Government Finance Act 1988 which requires the Chief Finance Officer to report to the PCC if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year. The issue of a section 114 notice cannot be taken lightly. It has serious operational implications. Indeed, the PCC must consider the s114 notice within 21 days and during that period the OPCC and the Force is prohibited from entering into new agreements involving the incurring of expenditure.
- 1.5. It is primarily the responsibility of the PCC and the Chief Finance Officer to maintain a sound financial position. External auditors will review the position as part of their consideration of the narrative report within the annual accounts. This is part of the wider role auditors have to report on and it is not their responsibility to prescribe the optimum or minimum level of reserves for individual organisations or for authorities in general.
- 1.6. CIPFA's Prudential Code requires Chief Finance Officers to have full regard to affordability when making recommendations about the Commissioner's future capital programme. Such consideration includes the level of long term revenue commitments. Indeed, in considering the affordability of capital plans, the Commissioner is required to consider all of the resources available and estimated for the future, together with the totality of his capital plans and revenue forecasts for the forthcoming year and future years as set out in financial forecasts within the Medium Term Resource Strategy (MTRS).
- 1.7. Within the existing statutory and regulatory framework, it is the responsibility of the Commissioner's Chief Finance Officer to advise on the level of reserves that should be held and to ensure that there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose.
- 1.8. There is no statutory guidance on the right level of reserves. Guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) confirms that PCCs should, on the advice of their Chief Finance Officers, make their own judgements on such matters, taking into account relevant local circumstances and an assessment of risk.

- 1.9. The PCC must retain adequate reserves so that unexpected demand-led pressures on budgets and known areas where financial implications are uncertain, such as is currently the case with major incidents, regional and sub-regional collaborative working and more widely in respect of risks associated with assumptions of external support and income from Council Tax increases, can be met without adverse impact on the achievement of the outcomes and objectives set out in the Police and Crime Plan.
- 1.10. The policy for reserves and balances has to be based on a thorough understanding of needs and risks. Part of this process is to give clearer explanation of the existing and proposed use of reserves and this is factored into the model supporting the projections within the MTRS.
- 1.11. CIPFA and the Local Authority Accounting Panel consider that PCCs should establish reserves, including the level of those reserves based on the advice of their Chief Finance Officers. Authorities and PCCs should make their own judgements on such matters taking into account all the relevant local circumstances. A well-managed organisation, for example, with a prudent approach to budgeting should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. In assessing the appropriate level of reserves, a well-managed organisation will ensure that the reserves are not only adequate but are also necessary.
- 1.12. Section 26 of the Local Government Act 2003 gives Ministers in England and Wales a general power to set a minimum level of reserves for local authorities and these arrangements would apply to PCCs. However, the government has undertaken to apply this only to individual authorities in the circumstances where an authority does not act prudently, disregards the advice of the Chief Finance Officer and is heading for serious financial difficulty.
- 1.13. CIPFA's view is that a generally applicable minimum level is inappropriate.
- 1.14. On 31 January 2017 the Home Office issued guidance on reserves held by PCCs which indicated that each reserve should make clear how much of the funding falls into the following three categories:-
- Funding for planned expenditure on projects and programmes
 - Funding for specific purposes and programmes beyond the current planning period
 - As a general contingency or resource to meet other expenditure needs held in accordance with sound financial principles
- 1.15. As indicated above, billing and precepting authorities in England and Wales are to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. In establishing reserves, the PCC must also comply with the Code of Practice on Local Authority Accounting in the United Kingdom.

2. Financial Planning

- 2.1. The Chief Constable and the PCC are required to review the reserves policy and the holding of contingencies on an annual basis as part of the budget process. This is reflected in medium term financial planning and the annual budget setting process. It is important that the use and retention of the PCC's reserves is visible and that consideration of their use is placed at the forefront of the decision making process. Revenue reserves are balances, held on the balance sheet until they are spent or released for other purposes. As such, they can only be used once, and should not be routinely used as part of the base budget.

2.2. The PCC's policy on reserves is set out in the MTRS 2018/9 – 2022/23. The principles are as follows:

- To hold a General Reserve of a minimum of 3% of the Net Revenue Budget in any financial year to cover any major unforeseen expenditure
- To maintain earmarked reserves for specific purposes
- To review the level of reserves at least annually

2.3. The PCC holds these balances for two main purposes:

- (a) A contingency to cushion the impact of unexpected events or emergencies and
- (b) A means of building up funds to meet known or predicted liabilities or to smooth expenditure requirements – known as earmarked reserves. In Humberside for the PCC this includes a Risk Management Reserve (RMR), Partnership Reserve, Performance Improvement Reserve (PIR) and Technology and Capability Reserve.

3. Types of Reserves

- 3.1. The PCC has maintained a simplified approach to holding reserves for the benefit of all stakeholders. The General Reserve is intended to meet the purposes under (a) above.
- 3.2. The RMR is retained for specified issues, including providing cover for potential liabilities that have been identified but have not yet crystallized and any shortfall in self-insurance provisions. The level of this Reserve will be the subject of regular review.
- 3.3. The PIR is the PCC's main reserve. It is used to support the revenue budget, to help to facilitate business change and to pump prime initiatives, including those that are spend to save. More recently it has been used to enable the recruitment of additional police officers at a faster rate than originally planned to support delivery of the Police and Crime Plan.
- 3.4. The Partnership Reserve allows the PCC to have flexibility to support community safety partners and to supplement monies from the MoJ for victims' services provision. Partnership projects are key factors in delivering the outcomes in the PCC's Police and Crime Plan. The Partnership Reserve will be the mechanism which will be used to carry forward resources for partnership initiatives.
- 3.5. Access to the Partnership Reserve will need to be strictly controlled. As this is a reserve, then the risks associated with committing the PCC to long term support must be recognized. It should not be used as a simple substitute for existing funding that is being withdrawn as a result of budget cuts elsewhere. The Reserve includes the £1.5m committed in the 2017/18 financial year which will now be carried forward into 2018/19. It will also be the source for the additional £1m that the PCC proposes to pledge for further development of partnership working next year.
- 3.6. Temporary funding of this nature can be a powerful driver to encourage partnership working. Sustaining infrastructure that has been and will continue to support the progress in reducing crime is an important consideration along with seeking out opportunities for improving performance. It also enables new and innovative initiatives to be progressed, piloted and evaluated. As a result, the PCC may, at some stage, want to make additional transfers from the PIR to the Partnership Reserve to carry on this work if it proves successful.
- 3.7. The Technology and Capability Reserve which also aims to support new investment plans has already shown its worth. It has been partly utilised and there are ongoing commitments to support investment in Body Worn Video, the introduction of the new crime recording system

CONNECT and improvements in the call handling system SMARTContact. The Reserve will also support further investment in technology and capability.

- 3.8. Typically figures for general reserves of between 2% and 5% of net revenue spending have been the norm. Networking around the Police Service has shown that a General Reserve equivalent to 3% of its net revenue budget is widely regarded as appropriate. This takes into account the fact that when the Home Office provides support for major incidents via a special grant, forces are routinely expected to be able to meet up to 1% of the Net Revenue Budget from their own resources. Consideration can be given to reducing the level of reserve to 2% if and when there is more certainty over longer term grant settlements and special grant conditions.
- 3.9. As a result of the actions taken in previous years the PCC continues to have a level of reserves that can address budget reductions in a planned and managed way in the short term. There will be a continuing need for savings programmes to address budget gaps which needs to be balanced with the use of reserves.
- 3.10. The PCC has indicated that he is prepared to invest monies from reserves to make funding available to increase police officer numbers. Reserves have been used in 2017/18 to support the recruitment of officers at a faster rate than originally envisaged and for the time limited investment already committed to support the deployment of additional officers and PCSOs in priority areas.
- 3.11. At this time the PCC does not hold any capital reserves.

4. Reserves

- 4.1. The MTRS sets out details of the reserves held at the end of each financial year and their projected use over the period 2018/19 to 2022/23 as follows:-

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
General Reserve	5,220	5,550	5,550	5,550	5,550	5,550
Earmarked Reserve						
- Risk management Reserve	1,800	1,800	1,800	1,800	1,800	1,800
- Performance Improvement Reserve	16,213	8,989	5,669	3,605	640	261
- Partnership Reserve	2,082	82	0	0	0	0
- Technology and Capability Reserve	4,147	3,575	3,560	3,545	3,530	15
Total Earmarked Reserves	24,242	14,446	11,029	8,950	5,970	2,076
Total Reserves	29,462	19,996	16,579	14,500	11,520	7,626
Earmarked Reserves are held for:-						
- To meet insurance and other risks	1,800	1,800	1,800	1,800	1,800	1,800
- To help to support the medium term budget	1,221	803	483	1,564	2,465	276
- To facilitate change programmes	21,221	11,843	8,746	5,586	1,705	0
Total Earmarked Reserves	24,242	14,446	10,029	8,950	5,970	2,076

4.2. From the above table it can be seen that that over the period covered by the MTRS, the PCC intends to use £21.836m after taking into account a transfer of £330k of earmarked reserves to top up the General Reserve..

4.3. In terms of the guidance on Police finance reserves the MTRS assumes that the reserves will be used as follows:-

	£'000
Funding for planned expenditure on projects and programmes	
- Base Budget Support	9,194
- Commitments against specific projects/programmes*	12,642
<i>*Details are set out in Appendix 1</i>	
TOTAL	21.836
Funding for specific purposes and programmes beyond the current planning period	
- Commitments against specific projects/programmes beyond 2022/23	0

4.4. The above table shows that there will be an estimated combined residual balance of £276k held in the PIR and Technology and Capability Reserves at the end of 2022/23. At this stage this is not committed to any specific projects or programmes.

4.5. In terms of general contingency or resource to meet other expenditure needs held in accordance with sound financial principles the PCC holds the General Reserve and the Risk Management Reserve. As indicated above the General Reserve is held at 3% of the net revenue budget and the Risk Management Reserve has been held at £1.8m. Taken together the total of these reserves ranges between 3.89% and 4.02% of the net revenue budget during the 5 years of the financial forecast. This is considered to be reasonable and well within the figure of 5% which would require justification as detailed in the recent Home Office guidance.

4.6. The holding of reserves has the added benefit of providing a working balance to help to cushion the impact of uneven cashflows and avoids unnecessary borrowing. The MTRS and treasury management strategy outlines how the cash backing the reserves to date has been used to defer borrowing which, whilst there has been a low interest rate environment has allowed capital financing to be undertaken cost effectively.

4.7. The MTRS assumes that external borrowing will be undertaken to replenish the cash used in this way as reserves are drawn down to support the revenue budget and new investment.

Appendix 1

Project/Programme	£'000
Recruitment Up Lift Acceleration	4,484
Police Officers 2017 Non-Consolidated Award	300
Police Staff 2017 Non-Consolidated Award	153
PCSO's 2017 Non-Consolidated Award	35
Force Management Statement Analytical	34
Positive Action	90
Investigating Officers per POCA report	414
PCSOs to Enhance Community Policing	2,000
Body Worn Video	47
Home Agile Working	151
Tasers	45
Queue Buster	60
Smart Contact	465
Partnership Working	4,500
TOTAL COMMITMENTS	12,642

PLEASE COMPLETE AND APPEND THE FOLLOWING TABLE TO ALL REPORTS THAT REQUIRE A DECISION FROM THE COMMISSIONER

This matrix provides a simple check list for the things you need to have considered within your report. If there are no implications please state

I have informed and sought advice from HR, Legal, Finance, OPCC officer(s) etc. prior to submitting this report for official comments	Legal Advice has not been sought from the Head of Legal Services. The strategy is a requirement of the most recent Home Office Guidance.
Is this report proposing an amendment to the budget?	No changes to the budget are required as the report and the strategy represents information already considered and approved.
Value for money considerations have been accounted for within the report	The report articulates information already included in the MTRS that has been the subject of debate and scrutiny, including by the Police and Crime Panel.
The report is approved by the relevant Chief Officer	The Deputy Chief Executive and Treasurer and T/ACO(R) have discussed the report and it is supported.
I have included any procurement/commercial issues/implications within the report	There are no procurement/commercial issues.
I have liaised with Corporate Communications on any communications issues	Yes - The strategy needs to be posted onto the PCC's website for transparency as per the Home Office Guidance.
I have completed an Equalities Impact Assessment and the outcomes are included within the report	There are no equalities issues arising from the report.
I have included any equalities, diversity and or human rights implications within the report	There are no equalities issues arising from the report.
Any Health and Safety implications are included within the report	There are no health and safety issues arising from the report.
I have included information about how this report contributes to the delivery of the Commissioner's Police and Crime Plan	The report sets out information already considered in terms of the MTRS which provides details of the resources available for delivery of the Police and Crime Plan.