



## AGENDA NO: 7

### INDEPENDENT AUDIT COMMITTEE – 8<sup>th</sup> December 2017

#### POLICE RESERVES – THE RESULTS OF A SURVEY BY THE PACCTS TECHNICAL SUPPORT TEAM

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#### 1.0 INTRODUCTION AND BACKGROUND

Following a request by the Association of Police and Crime Commissioners, the police treasurers and/or force finance directors have provided the Police and Crime Commissioners Treasurers' Society Technical Support Team with information on police reserve levels between March 2017 and March 2020. This information has been shared with the policing minister and the Home Office civil servants to inform future discussions on the resourcing of the police service.

Information was gathered using the survey as set out in the database given below. A 100% response rate has been achieved with police chief finance officers (CFO) in all 43 force areas in England and Wales having responded to the survey.

For ease, a database has been produced showing each force's survey response. In addition this database (Appendix A) includes total service statistics.

Please note that the original survey requested forecasts from March 2017 to March 2022. As some forces were unable to provide reliable forecasts for March 2021 and March 2022, these years have been excluded from the database. This briefing will focus primarily on forecasts up to March 2019.

#### 2.0 GENERAL RESERVES POLICY

In the absence of any formal or statutory guidance the survey began by asking what level of general reserves the PCC maintains. Many responses referred to an annual appraisal of risk when setting general reserve levels. As well as the risks that might be expected (unforeseen emergencies, uneven cash flow etc.) three CFOs also reported risks specifically associated with uncertain funding streams and the outcome of a potential police formula review.

If those that provided specific figures, the majority (20 out of 30) reported holding general reserves worth just **3% of net revenue budget or less**. Responses indicate a high level of mindfulness that reserves must not keep money away from front-line policing.

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CIPFA advise that local circumstances should be considered when deciding on appropriate levels of reserves. As such many police treasurers are guided by their external auditor's assessment and by HMIC in their PEEL inspections as to the appropriateness of reserve levels. In most cases either no comment was made or the assessment was that reserve levels were appropriate. However in many cases the auditors and inspectors noted the rapid depletion of reserves over the medium term. One force area (Kent) was advised to increase their threshold from 2% of NRB to between 3% and 5% of NRB.

### 3.0 RESERVES FORCAST BY SUB-CATEGORIES

The following table illustrates how levels of reserves are forecast to change dramatically over the next two years. As one would expect, given the thresholds mentioned above, general reserves are not expected to change significantly (staying at approximately 3% of Net Revenue Budgets).

This said, total earmarked reserves are forecasted to fall by almost half (49%) whilst capital reserves are forecasted to be cut by over three-quarters. Looking within these categories one observes cuts to reserves to facilitate change programmes of almost 60%, and the depletion in funding available to support the medium term budget by nearly 50%. The Total Service Reserves Forecasts as broken down by the PACCTS survey are given in Table 1a below.

**Table 1a - Total Police Service Reserves Forecasts 2017-2019**

	Mar-17	Mar-18	Mar-19	2017 to 2019
<b>Earmarked Reserves</b>	<b>£1,225,970,225</b>	<b>£818,757,300</b>	<b>£625,248,235</b>	<b>-49.0%</b>
To meet budgetary risks	£96,420,981	£67,478,818	£46,992,818	-51.3%
To support the medium term budget	£345,409,416	£238,266,731	£179,464,820	-48.0%
To facilitate change programmes	£290,597,524	£176,052,829	£117,503,339	-59.6%
Pending future deficits on PFI contracts	£68,321,794	£68,218,317	£68,455,170	0.2%
To fund future capital programmes	£227,188,612	£110,804,050	£66,840,958	-70.6%
Other Earmarked Reserves	£143,361,006	£109,265,437	£98,767,321	-31.1%
Reserves for Others	£54,670,892	£48,671,117	£47,223,809	-13.6%
<b>General Reserves</b>	<b>£390,340,945</b>	<b>£359,676,309</b>	<b>£352,344,896</b>	<b>-9.7%</b>
<b>Total Revenue Reserves</b>	<b>£1,616,311,170</b>	<b>£1,178,433,609</b>	<b>£977,593,131</b>	<b>-39.5%</b>
<b>Capital Grants and Reserves*</b>	<b>£500,670,634</b>	<b>£153,648,743</b>	<b>£54,864,535</b>	<b>-89.0%</b>
Capital Grants Unapplied*	£46,743,191	£9,197,056	£4,629,483	-90.1%
Capital Receipts Reserve*	£444,516,631	£143,772,687	£50,222,052	-88.7%
Other Capital Grants and Reserves*	£9,410,812	£679,000	£13,000	-99.9%
<b>Total Reserves*</b>	<b>£2,116,981,804</b>	<b>£1,332,082,352</b>	<b>£1,032,457,666</b>	<b>-51.2%</b>

\* Please note that some forces forecasts regarding Capital Reserves were incomplete – Using multiple methods the results presented above show the most conservative change.

**Table 1b - Total Police Service Reserves Forecasts 2017-2019 (as percentages of Net Revenue Budget)**

	Mar-17	Mar-18	Mar-19	2017 to 2019
<b>Earmarked Reserves</b>	<b>10.1%</b>	<b>6.8%</b>	<b>5.2%</b>	<b>-5.0pp</b>
To meet budgetary risks	0.8%	0.6%	0.4%	-0.4pp
To support the medium term budget	2.9%	2.0%	1.5%	-1.4pp
To facilitate change programmes	2.4%	1.5%	1.0%	-1.4pp
Pending future deficits on PFI contracts	0.6%	0.6%	0.6%	0.0pp
To fund future capital programmes	1.9%	0.9%	0.6%	-1.3pp
Other Earmarked Reserves	1.2%	0.9%	0.8%	-0.4pp
Reserves for Others	0.5%	0.4%	0.4%	-0.1pp
<b>General Reserves</b>	<b>3.2%</b>	<b>3.0%</b>	<b>2.9%</b>	<b>-0.3pp</b>
<b>Total Revenue Reserves</b>	<b>13.4%</b>	<b>9.7%</b>	<b>8.1%</b>	<b>-5.3pp</b>
<b>Capital Grants and Reserves*</b>	<b>4.1%</b>	<b>1.3%</b>	<b>0.5%</b>	<b>-3.7pp</b>
Capital Grants Unapplied*	0.4%	0.1%	0.0%	-0.3pp
Capital Receipts Reserve*	3.7%	1.2%	0.4%	-3.3pp
Other Capital Grants and Reserves*	0.1%	0.0%	0.0%	-0.1pp
<b>Total Reserves*</b>	<b>17.5%</b>	<b>11.0%</b>	<b>8.5%</b>	<b>-9.0pp</b>

*\* Please note that some forces forecasts regarding Capital Reserves were incomplete – Using multiple methods the results presented above show the most conservative change*

Table 1a shows that by March 2019 the proportion of earmarked reserves held in relation to PFI contracts is forecasted to be 10.9% (compared to 5.6% in 2017). In total, ten forces are holding PFI reserves. For these ten forces, these reserves are equivalent to an average 3% of NRB with individual values ranging between 0.2% and 10% of NRB in March 2018. Comparatively, the total reserves earmarked to facilitate change programmes is forecasted to fall as a percentage of total earmarked reserves - from 24% in 2017 to 19% in 2019.

Excluding the PFI reserves and money held on behalf of others, earmarked reserves are planned to fall by 53.8% from £1.12bn to £520m over the two year reporting period. This level of financial support to revenue and capital programmes clearly cannot continue at the same pace and scale beyond March 2019.

As a proportion of Net Revenue Budget (with the assumption of flat cash settlements used for 2018 and 2019 forecasts), Total Reserves are forecasted to fall from 17.5% to 8.5% of NRB over the two-year period. This means that whilst General Reserves represent 18% of Total Reserves in 2017, this is forecasted to rise to 34% by 2019 despite no significant change in the actual level of General Reserves.

#### **4.0 RESERVES FALLING OVER TIME**

An earlier PACCTS survey reported total reserves of just over £2.1bn at the end of March 2015 however this figure excluded Capital Grants and Reserves. In the interim two years total revenue reserves have already fallen by 28.5% to £1.6bn in March 2017.

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That same survey (June 2015) estimated revenue reserves levels would fall by 66% between March **2015** and March 2019. A survey carried out in October 2016 found revenue reserve levels predicted to fall by 53% between March **2016** and March 2019. This survey (August 2017) which predicts 40% falls in levels of revenue reserve between March **2017** and March 2019 is consistent with the trend identified in past surveys.

**5.0 A BREAKDOWN OF “EARMARKED RESERVES”**

As highlighted above, general reserves are typically worth approximately 3% of net revenue budgets.

Earmarked Reserves at March 2017 expressed in relation to Net Revenue Budget was 10.1% and this is forecasted to fall to 5.2% by March 2019, assuming the “flat cash” settlement is reflected in NRB.

Individual force areas held earmarked reserves ranging from 2% to 39% of their NRB in March 2017, falling to between 0% and 29% of NRB by March 2019 (and between 0% and 19% in 2020). Despite this broad spread, the majority (28) of earmarked reserve levels lie between 5% and 20% of NRB in 2017; as demonstrated by the following chart.

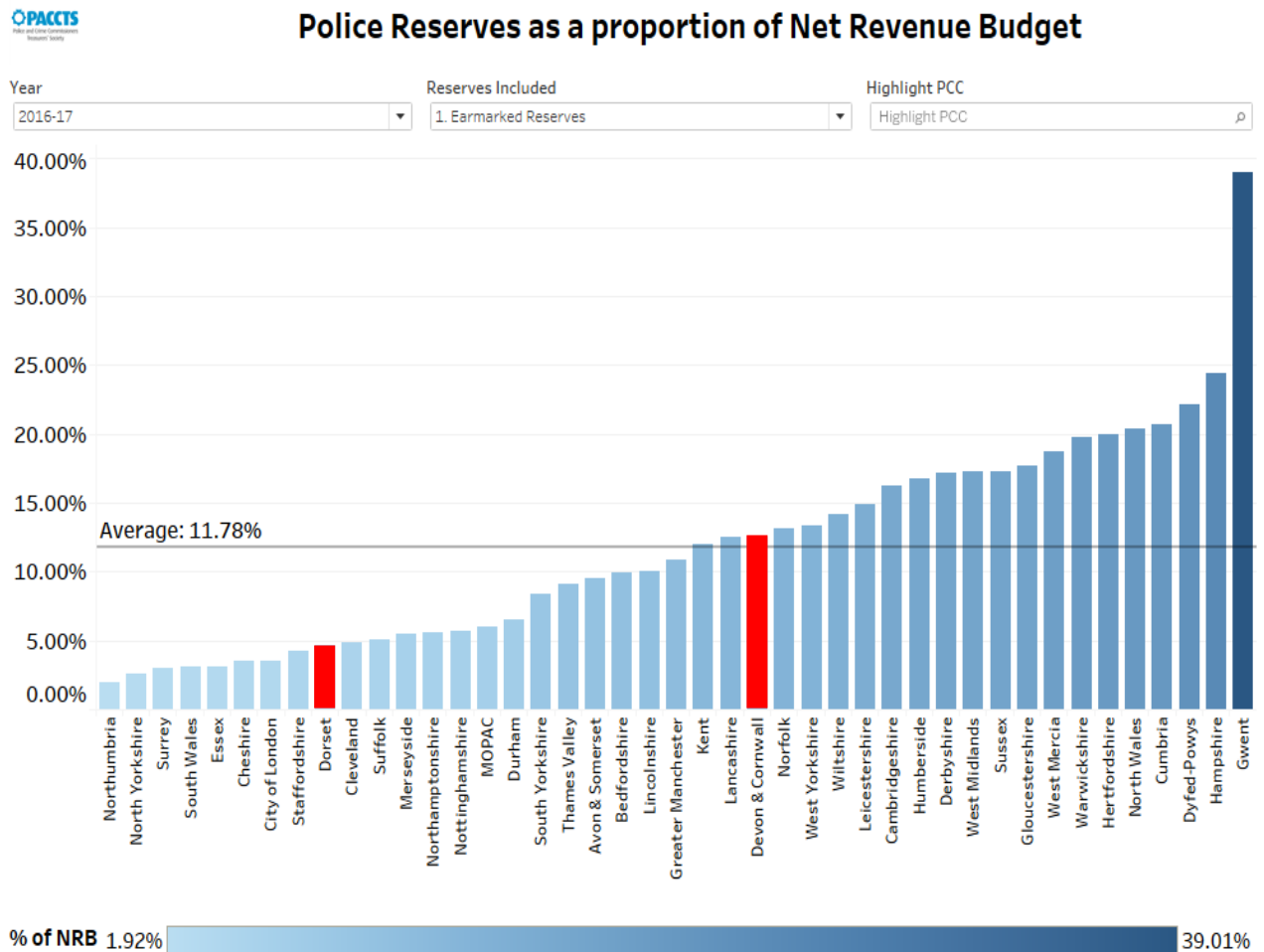


Figure 1 – March 2017 Earmarked Reserves

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From Figure 2 one observes a large positive skew due to Gwent. The unweighted average Earmarked Reserve percentage of NRB drops from 11.8% to 11.1% when one excludes Gwent.

**6.0 A BREAKDOWN OF “CAPITAL RESERVES”**

Capital reserves are much smaller and in March 2017 are worth the equivalent of just 4.1% of NRB, falling to 1.3% in March 2018 and just 0.5% of NRB by March 2019 (assuming a flat spending profile).

The following chart (Figure 3) demonstrates the spread of Capital Reserves held as a proportion of NRB. The largest Capital Reserve as a proportion of NRB is 10.8%. By March 2019 the largest is just 4.8% of NRB. Please note that (unlike in Table 1b) Figure 3 gives blank incomplete capital responses as zero values when using the interactive graph.

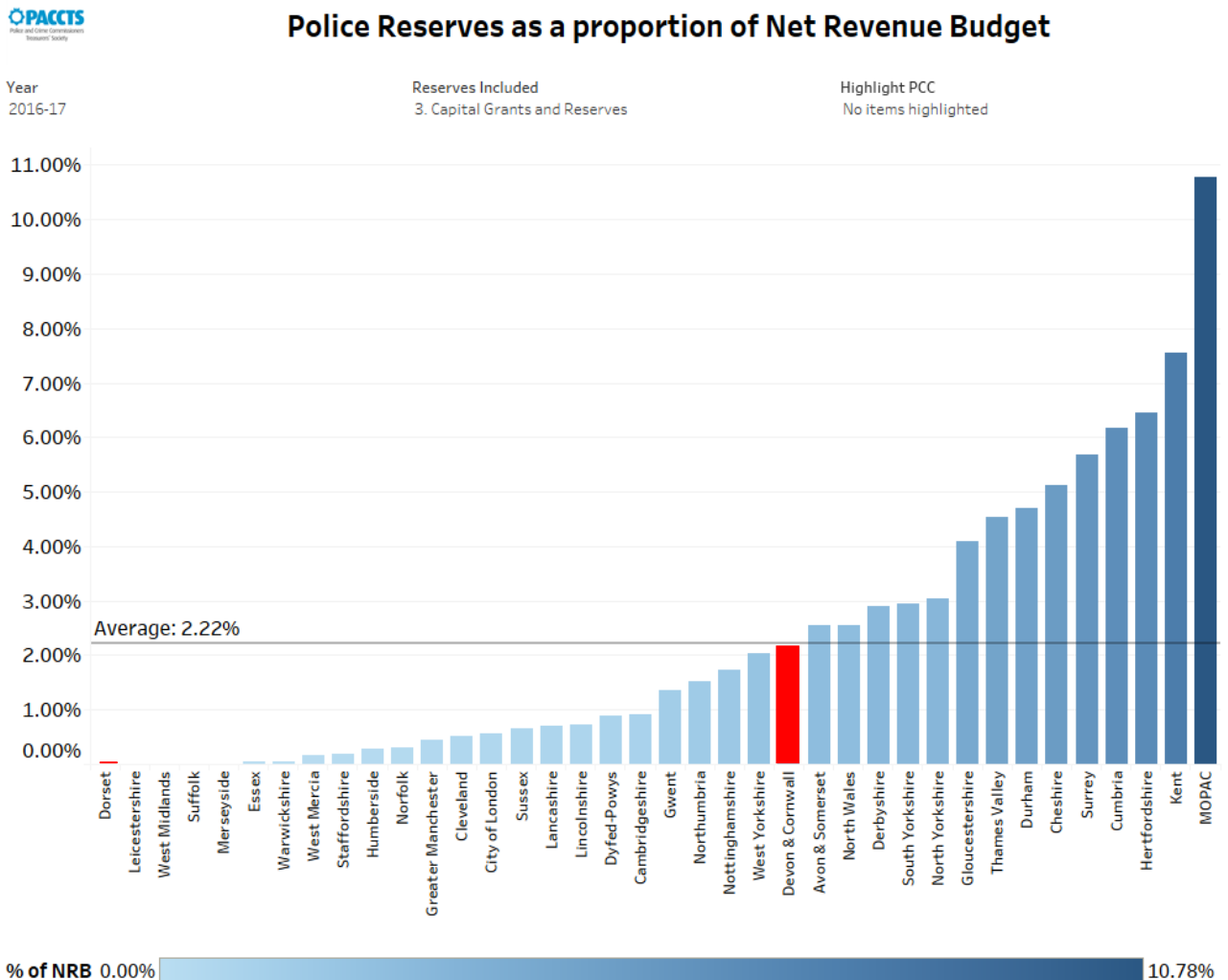


Figure 2 – March 2017 Capital Reserves

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Excluding non-responses and MOPAC, forces average 1.99% of NRB in 2017. Even from this low baseline, a significant fall in Capital Reserves is forecasted with the majority of forces forecasting zero capital reserves in 2019.

## 7.0 SUPPORTING THE MTFP

The survey ended by asking police treasurers to describe how reserves are being spent to buy additional service provision and/or support the revenue budget and capital programme.

The most commonly cited reserve spending categories are shown in Table 2 below. Please note that these categories may not be mutually exclusive – for example there may be significant cross over between certain areas e.g. ICT and change programmes. One force responded by highlighting the importance of ICT investment saying that “*digital transformation...is key to the delivery of savings in future years and the delivery of a transformed organisation*”.

*Table 2 - Most commonly explicitly expressed MTFP Reserves Spending categories*

<b>Reserves Spending</b>	<b>Number of Forces</b>
ICT/Mobile/Digital	22
Change/transformation services/programme	16
Estates change/strategy and/or repairs and maintenance	12
Wider capital programme	12
Support day to day spending/Support revenue budget	6
New building (moving to or being built)	5
Redundancy/Organisational Change Costs	5
Road safety programmes	4
Collaboration/partnership	4
Smooth impact of savings	3
Fleet	3