

RESERVES STRATEGY 2018/19 TO 2021/22

1. The Chartered Institute of Public Finance & Accountancy (CIPFA) maintains guidance on the establishment and maintenance of local authority reserves and balances, which is a foundation for good financial management, and is followed by PCCs.

The Guidance identifies that Reserves can be held for 3 main purposes:

- As a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
- As a contingency to cushion the impact of unexpected events or emergencies –this also forms part of general reserves;
- As a means of building up funds to meet known or predicted requirements; these specific reserves are known as earmarked reserves and remain legally part of the total “General Fund”.

In addition, PCCs hold the following usable reserves:

- Capital Receipts Reserve – this reserve holds the proceeds from the sale of assets, and can only be used for capital purposes (as specified in the capital finance and accounting regulations).

2. In addition, the Home Office issued specific **Police finance reserves guidance** on 31 January this year, which is provided in full below.

Guidance

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).

3. At 31st March 2017, Devon and Cornwall Police held reserves, provisions and balances of £66.9m. These are broken down by type in the table below.

Table 1: Total Reserves and Their Use.

Ref	Reserve Type	31/03/2017 £m	Notes
11.1	Revenue Support Fund	11.2	Specific use identified
11.2	Other Earmarked Reserves	35.7	Specific use identified
11.3	Capital Reserves	6.1	May only be used for capital purposes
11.4	Provisions	2.0	Fully committed
10.5	General Balances	11.9	Used to address specific financial needs
11.6	Total	66.9	

4. Earmarked reserves relate to specific projects or liabilities, where the anticipated extent of the liability, and the timescales involved, are estimated. Reserves have been set aside for significant areas and items of expenditure, and will be brought into revenue in the year in which expenditure is incurred.
5. The use of capital reserves relates to setting aside unused capital finances that are expected to have been received, but not applied, in any year. It is currently expected that this will relate to unused capital grant and capital receipts. These reserves may only be used for capital purposes.
6. Provisions are made for liabilities where there is a reasonable projection of the amount required and the timescale involved. Provisions are accounted for in the year in which the provision is made, and future liabilities funded from this.
7. General balances cover the general financial risks faced by the Force. This will include unexpected or unavoidable additional costs, such as a major operations, uninsured liabilities,

or treasury management risks. The balance as at 31 March 2017 equates to approximately two weeks of expenditure.

Planned Use of Reserves

8. Earmarked reserves, capital reserves and provisions all have a planned use to cover risks or liabilities. General balances provide a source of funding for more general risks facing the organisation.
9. The key risks and liabilities covered by reserves and provisions are shown in Table 15. In each case, the timing and amount cannot be exactly predicted, but the figures shown reflect the latest assessment of potential cost.
10. The reserves position is shown in Appendix 1 and indicates that overall level of reserves will reduce from £66.9m as at 31/03/17 to £14.3m as at 31/03/22.

Table 2: Projected Reserve Levels to 31/03/2021

Ref	Reserves	% of net expenditure at 31 March 2018	31 March 2019 £m	31 March 2020 £m	31 March 2021 £m	31 March 2022 £m
12.1	General Balances	3.3%	9.4	12.2	12.2	12.3
12.2	Earmarked Reserves: Revenue Support Fund and Other Reserves	7.4%	21.1	10.7	3.0	0.5
12.3	Sub total Revenue Reserves	10.7%	30.5	22.9	15.2	12.8
12.4	Specific capital reserves	0.1%	0.3	0.6	1.6	0.0
12.5	Provisions	0.5%	1.5	1.5	1.5	1.5
12.6	Total	11.4%	32.3	25.0	18.3	14.3

11. The provisional settlement specifically mentioned the level of reserves being held by PCC's. Whilst it is understood that financial reserves are necessary for contingency reasons the level of these reserves held nationally is currently £1.6bn (15% of annual police funding) as at 31 March 2017. There are wide variations between different PCC's and range from 42% to 6% and average 15%. Devon and Cornwall levels as at that date were 21%. The minister is proposing greater transparency in how this public money is to be used locally through enhanced guidance and comparable reserve data. Devon and Cornwall already provide a significant amount of data on the reserves held and it is proposed that this be published online to enhance the transparency.
12. The reserves policy for Devon and Cornwall will be looking to maintain general balances at no more than 5% and no less than 3% of overall funding levels each year.

Table 3: Contributions to and From General Balances to Support Revenue

Ref	Summary	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total Net Movement £m
13.3	Contribution to() and From Balances – Table 2 line (2.16)	(2.9)	2.7	0.1	0.1	0.0

Adequacy of Reserves

13. Table 4 provides a historical perspective of reserve holdings over the last 5 years and the forecast position for the current year.

Table 4: Historical Summary of Revenue Reserve Trends

Ref	Type	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
14.1	Earmarked	32.0	43.8	59.0	50.7	46.9	30.1
14.2	General	6.2	6.2	6.2	6.2	11.9	12.3
14.3	Total	38.2	50.0	65.2	56.9	58.8	42.4

14. The definition of general reserves changed in 2016/17 resulting in a higher figure for general reserves. This related to the amalgamation of reserves increasing the risk level on the general balances.

15. Reserves are based upon the risks individual policing organisations face, these do not always correlate to budget size and therefore benchmarking can only be a broad indicator. Nearly £39m of reserves held at 31/03/17 is destined for use on infrastructure improvements to deliver better services over the next four years.

Review of Reserves & Risk Assumptions

16. The main financial risks contained on the joint force/OPCC risk register are shown below and inform the reserves policy:

- Agreed pay awards exceed the budget assumptions.
- Agreed milestones for 2018/19 are not achieved therefore jeopardising the ability to enjoy further council tax flexibilities in 2019/20.
- Insufficient grant and council tax by 2021/22 to fund the Police and Crime plan.
- Alliance savings are not achieved at the levels predicated.
- Demand increases above the levels that are affordable within the set budget.
- The council tax base does not increase as assumed.
- The council tax surplus is not generated to the levels assumed.

17. In addition to these wider risks the following areas are kept under review:

- Increased funding is required for the Force change programme.

- Revenue savings are not delivered on time.
- Increases in long term interest rates.
- Over reliance on internal borrowing to temporarily fund the capital programme.
- The review of Home Office formula grant funding introduces annual losses of grant.
- The top-slice funding in future years depletes resources without reciprocal benefit to the revenue budget.
- Budget uncertainty through assumption changes.
- Major incident cost overrun.
- Further cost transfers from the centre (e.g. Emergency Services Network and IT company costs).
- Reductions in local authority funding placing pressure on the police service.

Assessing Adequacy

18. Appendix 1 shows current expected use of earmarked reserves and shows a significant reduction in the balance available by the end of 2021/22. This assumes that the capital programme is delivered on time and within budget. There are some major projects within the capital programme which are due for completion over the next four years. The new Exeter custody suite on Middlemoor being one of those significant projects.
19. Full information on Earmarked Reserve and General Balances are provided in Appendix 2.
20. In addition to the risks covered by earmarked reserves, there are further, unquantified risks and liabilities. The main source of funding for these risks is General Balances.
21. The key financial risks are summarised below. For each, an assessment of potential risk is shown, but clearly, in each case the actual risk could be significantly different, and an assessment of these risks will need to be reviewed regularly. Full details of each risk are set out in the Reserves Policy.

Table 5: The Financial Risks

Ref	Identified Risk	£m's
15.1	Non-achievement of milestones in 2018/19 jeopardising the second year council tax flexibility	5.0
15.2	Future capital funding	2.0
15.3	Increased pay award above assumptions	2.3
15.4	Major Operations	2.9
15.5	Uninsured Liabilities and claims	2.0
15.6	Treasury Management	1.5
15.7	Other Unexpected Expenditure / Working Capital	2.0
15.8	Total Financial Liability	17.7

22. The financial risks shown in the table above would be temporary one off funding. For those items that have an impact annually the funding would be used to allow time to deliver permanent savings.

23. The actual limit of general risks, such as major operations or uninsured losses, could of course be significantly more than the assessment shown. Risks around significant major operations in particular are increasing, with increased reliance on more costly resourcing options such as overtime or mutual aid.
24. If such a significant risk were realised, further funding would be sought in the first instance by re-prioritising the use of earmarked reserves.
25. The above risks can be mitigated by the funding allocation on General Balances. General Balances exists to cover the general financial risks faced by the Force, such as major operations, uninsured liabilities, or treasury management risks.
26. The total funding available on General Balances does not fully meet the assessed risks and liabilities. The level of General Balances is forecast to be £12.3m as at 31 March 2018. This represents approximately 70% of the overall risk identified in the table above.
27. On the basis of the above, and given that risk calculation is not an exact science, the reserves and balances generally cover known liabilities and commitments and provide adequate cover for unknown liabilities at the assessed level for 2018/19.
28. Reserves will continue to be monitored and reviewed regularly throughout the year and, as stated above, will be the subject of more transparency.
29. The Treasurer as statutory Section 151 officer confirms that these reserves provide an adequate level for 2018/19 given the identified financial risks in the budget.

Year Reserves and Provisions EARMARKED RESERVES

Appendix 1

	Programme and Projects Reserve £000	Estates Development Reserve £000	Capital Financing Reserve £000	Strategic Alliance Reserve £000	Workforce Modernisation Reserve £000	Budget Management Fund £000	Police and Crime Plan Reserve £000	Earmarked Revenue Reserves Excluding Revenue Support Fund £000	Revenue Support Fund £000	Earmarked Reserves incl Revenue Support Fund £000's
Closing Balance 31/3/2017	5,605	1,259	14,438	8,774	670	4,432	547	35,725	11,200	46,925
2017/18										
Budgeted contributions			750					750		750
Budgeted applications	(1,749)	(468)		(702)	(228)	(4,432)	(100)	(7,679)		(7,679)
Support to Revenue Budget							0		(400)	(400)
Transfers			10,800					10,800	(10,800)	0
Financing capital programme	(1,261)		(6,163)	(1,607)				(9,031)		(9,031)
Transfers to General Reserves					(442)			(442)		(442)
Closing Balance 31/3/2018	2,595	791	19,825	6,465	0	0	447	30,123	0	30,123
2018/19										
Budgeted contributions			750					750		750
Budgeted applications	(1,166)	(230)						(1,396)		(1,396)
Support to Revenue Budget							0			0
Financing capital programme			(8,147)	(200)				(8,347)		(8,347)
Closing Balance 31/3/2019	1,429	561	12,428	6,265	0	0	447	21,130	0	21,130
2019/20										
Budgeted contributions			750					750		750
Budgeted applications	(979)	(235)						(1,214)		(1,214)
Support to Revenue Budget							0			0
Financing capital programme	(450)		(4,229)	(5,265)				(9,944)		(9,944)
Closing Balance 31/3/2020	0	326	8,949	1,000	0	0	447	10,722	0	10,722
2020/21										
Budgeted contributions			750					750		750
Budgeted applications		(326)						(326)		(326)
Support to Revenue Budget							0			0
Financing capital programme			(7,145)	(1,000)				(8,145)		(8,145)
Closing Balance 31/3/2021	0	0	2,554	0	0	0	447	3,001	0	3,001
2021/22										
Budgeted contributions			750					750		750
Budgeted applications								0		0
Financing capital programme			(3,254)					(3,254)		(3,254)

Closing Balance 31/3/2022	0	0	50	0	0	0	0	447	497	0	497
2022/23											
Budgeted contributions			750						750		750
Budgeted applications									0		0
Financing capital programme			(800)						(800)		(800)
Closing Balance 31/3/2023	0	0	0	0	0	0	0	447	447	0	447

Appendix 3

RESERVES AND BALANCES (1 of 2)

	Total Earmarked Revenue Reserves	Capital Reserves			Provisions			Total Provisions	General Balances	Total Reserves Balances and Provisions
		Capital Grant	Capital Receipts	Total Capital Reserves	Insurance	Remuneration	Other			
		£000	£000	£000	£000	£000	£000			
Closing Balance 31/3/2017	46,925	1,750	4,367	6,117	1,457	528	0	1,985	11,892	66,919
2017/18										
Budgeted contributions	750									750
Budgeted applications	(7,679)									(7,679)
Support to Revenue Budget	(400)									(400)
Grants and Contributions Received		1,104		1,104						1,104
Capital receipts			1,468	1,468						1,468
Financing capital programme	(9,031)	(2,601)	(4,796)	(7,397)						(16,428)
Transfers	(442)					(528)		(528)	442	(528)
Closing Balance 31/3/2018	30,123	253	1,039	1,292	1,457	0	0	1,457	12,334	45,206
2018/19										
Budgeted contributions	750									750
Budgeted applications	(1,396)									(1,396)
Support to Revenue Budget	0								(2,919)	(2,919)
Grants and Contributions Received		1,104		1,104						1,104

Budgeted contributions	750									750
Budgeted applications	0									0
Support to Revenue Budget	0									0
Grants and Contributions Received	0	1,468		1,468						1,468
Capital receipts	0		1,150	1,150						1,150
Financing capital programme	(800)	(1,273)	0	(1,273)						(2,073)
3Closing Balance 31/3/2022	447	195	1,150	1,345	1,457	0	0	1,457	12,334	15,583



PCC

Office of the Police and
Crime Commissioner
Devon and Cornwall