

AGENDA NO: 11



INDEPENDENT AUDIT COMMITTEE – 13 MARCH 2018

RESERVES POLICIES FOR 2018/19

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PURPOSE OF THE REPORT

The reserves policies for 2018/19 for both Dorset and Devon and Cornwall are appended to this report, for consideration by the Audit Committee.

1.0 INTRODUCTION

- 1.1 Police reserves have come under some scrutiny in recent months. At its meeting in December the Committee received a report on the results of a survey by the PACCTS technical support team.
- 1.2 Since then the Home Office has published information on **Police financial reserves** for the past 7 years, together with further guidance with the aim of providing greater transparency.
- 1.3 Police and Crime Commissioners must decide the level of general reserves to be retained before the level of Council Tax precept is determined.
- 1.4 The Independent Audit Committee has a responsibility to consider any policy or strategy regarding reserves.
- 1.5 For 2018/19 this Committee is receiving this report after the budget and the precept has been set (in February). However, for future years it is proposed that the Committee considers the draft Reserves Policy and Strategy and has the opportunity to comment before finalisation (i.e. in December/January).

2.0 ALIGNMENT

- 2.1 Wherever possible, we are seeking to align policies and avoid duplication. Whilst some alignment has been achieved for 2018/19, it is expected that some further alignment can be achieved next year.

- 2.2 The respective reserves policies and strategies for Dorset and for Devon and Cornwall are provided at Appendix A and Appendix B.

3.0 GUIDANCE

- 3.1 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).
- 3.2 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).*

4.0 RESERVES POLICIES / STRATEGIES

- 4.1 Although the Home Office guidance was issued after the Budget and Medium Term Strategy reports the treatment of reserves by each of the PCCs / Treasurers is compliant with the guidance (see Appendix A and Appendix B). However, Devon and Cornwall will be expanding the information to cover the breakdown of specific projects within the “Programmes and Projects” earmarked reserve.

5.0 RISK/THREAT ASSESSMENT

5.1 Financial/Resource/Value for Money Implications

The maintenance of adequate reserves is an essential element of good financial management.

5.2 Legal Implications

Sections 32 and 43 of the Local Government Finance Act 1992 require precepting bodies to have regard to the level of resources needed to meet estimated future expenditure when calculating the annual budget requirement. This is further supported by the balanced budget requirement: England, sections 31A, 42A of the Local Government Finance Act 1992.

[The Local Government Act 2003](#) requires all Chief Finance Officers (s.151) to make a statement on the robustness of estimates and the adequacy of reserves at the time the budget is set. The PCC has a statutory duty to have regard to this when making decisions about such calculations.

5.3 Implications for Policing Outcomes

Holding an adequately level of reserves can de-risk the budget by avoiding crisis management when unexpected items occur e.g. a nationally agreed pay award higher than estimated. Reserves can also allow the “smoothing” of expenditure across years.

5.4 Equality

No direct implications.

6.0 RECOMMENDATIONS

- 6.1 It is recommended that the Internal Audit Committee considers the Reserves Policies and Strategies and provides any comments for that could be taken into account for future development.

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