

# RESERVES STRATEGY 2018/19

## Background

- 1 The Home Office issued guidance setting out the government's expectations around the information to be published by Police and Crime Commissioners on their financial reserves strategies, in January 2018 (see Appendix B). At the same time information on the level of usable financial reserves held by each Police and Crime Commissioner for the financial years 2011 to 2017 was [published](#) on the HO website, which will continue to be published annually from here on.
- 2 The reserves strategy for Dorset has previously been published as part of the Medium Term Financial Strategy and Budget Papers which are reported to the Police and Crime Panel in February each year.
- 3 The reserves policy that was published in February 2018 has been revised (and re-titled 'strategy') to clearly demonstrate compliance with the recent HO guidance. The financial forecasts have also been updated to reflect the final audited outturn position for 2017/18.

## Scope

- 4 Police and Crime Commissioners (PCCs) can keep part of their funding in reserves to help manage financial risk and to fund major future costs such as change programmes aimed at improving services to the public.
- 5 Reserves are required to be classified as either Usable or Unusable. Usable reserves are those that can be used to support future service provision. Unusable reserves are not available to be used to support services; they include unrealised gains and losses which will only become available if for example assets are sold, and accounting timing differences which will be realised at a future date.
- 6 This Reserves Strategy sets out the PCC's approach to the management of Usable Reserves.

## Guidance

- 7 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. Moreover as part of the budget setting process, the Chief Financial Officer is required to comment on the adequacy of reserves. This relates to earmarked reserves as well as the General Balance, and is a critical part in making the statutory Section 25 judgement on the robustness and sustainability of the PCC's budget proposals.
- 8 This strategy has regard to [LAAP Bulletin 99](#) 'Local Authority Reserves and Balances', issued in July 2014, and complies with the Home Office Guidance issued in January 2018.
- 9 Reserves are sums of money held to meet future expenditure. When reviewing the medium term financial plan and preparing the annual budget PCCs should consider the establishment and maintenance of reserves.

10 Reserves can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
- a contingency to cushion the impact of unexpected events or emergencies. This also forms part of general reserves;
- a means of building up funds, often referred to as earmarked reserves to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund.

11 CIPFA recommends that for each earmarked reserve held there should be a clear protocol setting out:

- the reason for / purpose of the reserve;
- how and when the reserve can be used;
- procedures for the reserve's management and control; and
- a process and timescale for review of the reserve to ensure continuing relevance and adequacy.

## **Responsibilities**

12 The respective responsibilities in relation to reserves are set out in the Financial Regulations (see Appendix C).

## **Policy Statement**

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The PCC will not plan to hold significant reserves above those required by the Medium Term Financial Plan.

In considering earmarked reserves, the Chief Financial Officer will have regard to relevant matters in respect of each reserve, and will advise the PCC accordingly.

The key principles to be adopted in setting reserves are:

### **General Balances**

The PCC will seek to maintain a general reserve at between 3% and 5% of Net Revenue Expenditure. This will be supported by an annual budget risk assessment\* which will also identify the need for any specific earmarked reserves.

### **Earmarked Reserves**

The need for earmarked reserves will be assessed annually through the budget setting process, to confirm the continuing relevance and adequacy of each earmarked reserve in addition to identifying any new reserves that may be required.

This Strategy will be reviewed annually by the OPCC Treasurer and consulted on with the Force Chief Finance Officer and the Joint Executive Board.

## Earmarked Reserves

The following earmarked reserves balances are held:

Name of earmarked reserve	Purpose	Opening balance 1 April 2018	Target level
Budget Management Fund	To hold year end underspends for carry forward to the following year.	£200k	nil annually
Capital financing Reserve	To fund capital investment.	£203k	
Major Operations Reserve	To meet the costs of major policing operations.	£738k	Between £600k and £1.2m [maximum 1% of Net Revenue Expenditure]
Police and Crime plan	To fund planned Police and Crime Plan developments.	£857k	
Revenue Support Fund	To smooth the impact of ongoing funding reductions as a result of the national reduction in public service spending in line with the medium term financial plan.	nil	As determined in the medium financial planning process.
Workforce Change Reserve	To fund one-off and transitional costs of change programmes including the Strategic Alliance with Devon & Cornwall Police.	£1,810k	Nil by 2021

## Home Office Classifications

The Earmarked reserves in the table above meet the HO classification: *Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan.*

In addition **General Balances** are held: *As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management.*

There is no material: *Funding for specific projects and programmes beyond the current planning period.*

## Forecast Usable Reserves

The updated forecast for Usable Reserves is provided in the Table below. This is the 2018 Medium Term Financial Plan, updated to reflect the 2017/18 final outturn position.

	Opening Balance at 1 April 2018	Forecast closing balance 31/3/19	Forecast closing balance 31/3/20	Forecast closing balance 31/3/21
	£'000	£'000	£'000	£'000
Budget Management Fund <sup>1</sup>	200	0	0	0
Capital Financing reserve	203	203	203	203
Major Operations reserve	738	738	738	738
Police & Crime Plan reserve <sup>2</sup>	857	387	0	0
Revenue Support Fund <sup>3</sup>	0	(1,040)	(900)	0
Workforce Change reserve	1,810	910	450	0
<b>Total Earmarked reserves</b>	<b>3,808</b>	<b>1,198</b>	<b>491</b>	<b>941</b>
General Fund balance <sup>4</sup>	4,974	4,974	4,974	4,974
<b>Total Revenue Reserves</b>	<b>8,782</b>	<b>6,172</b>	<b>5,465</b>	<b>5,915</b>
Capital Receipts Reserve	1,211	270	590	1,160
<b>Total Usable reserves</b>	<b>9,993</b>	<b>6,442</b>	<b>6,055</b>	<b>7,075</b>

Notes:

1. The Budget Management Fund has been set up to hold year end underspends for carry forward to the following year.
2. The Police and Crime Plan earmarked reserve was set up at 31 March 2018. The purpose of this is to fund planned Police and Crime Plan developments. It is expected to be spent across the remaining 2 years of the Police and Crime Plan.
3. The apparent debit balance on the Revenue Support Fund will be offset against the General Fund balance.
4. The General Balance at 31 March 2018 was 4% of Net Revenue Expenditure.

The next medium term financial plan will consider future plans for the maintenance and replenishment of reserves.

## 2018/19 Budget – Reserves Assessment

The assessment of reserves for the 2018/19 budget takes into account the key financial risks arising, as identified in the Budget 2018/19 and Medium Term Financial Strategy report.

<b>Risk title</b>	<b>Financial risk</b>	<b>Mitigation</b>
2017/18 outturn	Force overspends higher than estimated resulting in further diminution of opening reserves.	Review minimum reserve requirements. Force – close management of costs.
Police Officer numbers	The workforce turnover assumptions are not achieved, resulting in an overspend.	Set realistic budget & maintain adequate General Balances. Monthly monitoring and cost reduction plans.
Police overtime costs	Costs continue to run higher than budget.	Set realistic budget & maintain adequate General Balances. Monthly monitoring and management actions.
Police staff pay	Police staff pay may vary to the estimates used.	Set budget based on workforce design task and finish group.
Strategic Alliance savings	Savings not achieved in either amount or timescales assumed.	Earmarked reserve for one-off costs (workforce change). Close management to ensure savings are delivered. Maintain adequate General Balance to cover potential slippage.
Government Police Grant funding	Reductions may be higher than estimated.	Use Provisional settlement figures for budget preparation.
Council tax base	1% annual increases may not be sustained.	Use final Council tax base figures as far as possible.
Pay award	A 2.6% increase wef Sept 2018 may not be affordable.	Keep under review in final stages of setting budget and may need to reduce assumption and carry some of this risk
Pension	Employer's contribution to scheme increases at next triennial review.	Keep under review and develop further savings plans as required.
Inflation	Notional rate of 1 % insufficient.	Maintain adequate General Balance.
Capital programme & financing	Capital programme is not sustainable	Develop Capital Strategy (incl. disposals) in 2018. Maintain Capital financing reserve.
Major operations	Costs and timing are unpredictable.	Earmarked reserve.
Other – including lower income, Brexit, insurance	Estimates used for budget could prove to be optimistic	Maintain adequate General Balances

# Police finance reserves guidance

Published 31 January 2018

## Context

This guidance has been issued to Police & Crime Commissioners by the Minister for Policing & the Fire Service, following engagement with the policing sector. This sets out the Government's expectations around the information to be published by Police & Crime Commissioners on their financial reserves strategies. The Government intends to include this guidance in the next version of the Financial Management Code of Practice (statutory guidance) to be placed before Parliament.

## 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).

**FINANCIAL REGULATIONS [extract]**

**B4 MAINTENANCE OF BALANCES AND RESERVES**

Overview

9. The Commissioner must decide the level of general reserves he/she wishes to retain before he/she can decide the level of Council Tax precept. Reserves are maintained as a matter of prudence. They enable the organisation to provide for cash flow fluctuations and unexpected costly events and thereby help protect it from overspending the annual budget, should such events occur. Reserves for specific purposes may also be maintained where it is likely that a spending requirement will occur in the future.

**Responsibilities of the Treasurer**

10. To advise the Commissioner on reasonable levels of balances and reserves.
11. To report to the Commissioner on the adequacy of reserves and balances before he/she approves the annual budget and precept.
12. To approve appropriations to and from each earmarked reserve. These will be separately identified in the Annual Statement of Accounts.

**Responsibilities for the Director of Finance**

13. To ensure that the annual revenue budget is sufficient to finance foreseeable operational needs without having to request additional approval.
14. To present a business case to the Treasurer and Commissioner for one-off expenditure items to be funded from earmarked and/or general reserves.

**Responsibilities of the Commissioner**

15. To approve a policy on reserves and balances, including the minimum acceptable level of general balances.
16. To approve the creation of each earmarked reserve. The purpose, usage and basis of transactions should be clearly identified for each reserve established.
17. To approve the allocation of monies to and from general and earmarked reserves, as part of the annual budget setting process.

**C6 TREASURY MANAGEMENT AND BANKING ARRANGEMENTS**

**Responsibilities of the Audit Committee**

11. To consider any policy or strategy regarding loans, investments or borrowing.
12. Consider any policy or strategy regarding reserves