



DECISION PAPER

DECISION: 2017/32	DATE: 13 NOVEMBER 2017
TITLE: PCC Reserves Strategy	
REPORT BY: Steve Freeman, Chief Finance Officer Appendix A refers	

Executive Summary

This report sets out the Commissioner's Reserve Strategy. This strategy forms an integral part of the Commissioner's Medium Term Financial Planning process that enables the effective planning and control of the revenue budget and the capital programme.

Recommendations

The Police and Crime Commissioner is asked to approve the Reserves strategy and the specific recommendations included within it as follows:

- The Commissioner is recommended to maintain a general reserve at a level that is between 3% and 5% of the annual revenue budget.
- The Commissioner is recommended to approve the use of earmarked reserves to support organisational change and provide investment in the capital investment programme as set out in appendix A.
- The Commissioner is recommended to review the reserves strategy on an annual basis.
- The Commissioner is recommended to make contributions into specific reserves if the opportunity arises.

Signature 

Police and Crime Commissioner

Date 

Appendix A

1. Introduction

- 1.1. This paper proposes a Reserves Strategy for approval by the Commissioner. It sets out the use of general reserves and specific reserves (which are earmarked for a specific purpose and are also referred to as Earmarked Reserves). The strategy on general and specific reserves forms part of the Medium Term Financial Plan which is updated regularly and reviewed by the Commissioner and Chief Constable.
- 1.2. In preparing this Strategy the legislative and other requirements for the holding of reserves has been reviewed. The current financial position, assessments of current and future risk, reserve levels in other Forces and views expressed by government, peers and the public have also been considered.
- 1.3. The financial outlook for the PCC's Revenue Budget and Capital programme has also been reflected in the development of the reserves strategy being presented to the Commissioner for consideration.

2. Legislation and guidance regarding the holding of a general reserve

- 2.1. Legislation and CIPFA guidance require that a general reserve is maintained but do not stipulate the level of that general reserve. However, the guidance does require the PCC to consider strategic, operational and financial risk when determining reserve levels with advice from the Treasurer. In addition the Local Government Act 2003 requires the S151 officer (the PCCs Treasurer) to report on the level of reserves annually, the planned usage and the opportunity cost of holding those reserves.
- 2.2. CIPFA's Guidance Note on Local Authority Reserves and Balances(1) states that a general reserve is required to act as "a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves". A general reserve is also required to act as "a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves."
- 2.3. Maintaining a general reserve ensures compliance with the Local Government Finance Act 1992 (2) which states that authorities must "have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement."
- 2.4. As part of the annual audit of the Commissioner's Statement of Accounts the external auditors provide an opinion on the level of reserves held by the Commissioner thereby providing an external scrutiny of the level of reserves being held.

3. Factors to consider in deciding on reserve levels

3.1. Overall financial position and adequacy of financial control

- 3.1.1. In setting the level of the general reserve it is important to bear in mind Lancashire's overall financial position and the adequacy of financial control in operation.
- 3.1.2. The overall financial position has been considered by the PCC as part of the budget process and medium term financial planning, which has taken account of the impact of the government's austerity measures.
- 3.1.3. It is also important to remember the context of the medium term financial plan agreed as part of the budget process so that the PCC continues to comply with CIPFA's Guidance Note on Local Authority Reserves and Balances which suggests that "Advice should be given on the adequacy of reserves over the lifetime of the medium term financial plan".
- 3.1.4. The use of general reserves does afford the PCC some flexibility in managing the Medium Term Financial Strategy and the Capital Programme over a number of years where future investment is considered against the pressure placed upon the annual revenue budget.

3.2. Risk exposure and risk assessment

- 3.2.1. Reserve levels must be considered in the context of risk if we are to comply with CIPFA's guidelines which state that "in order to assess the adequacy of unallocated general reserves.....Chief Financial Officers should take account of the strategic, operational and financial risks facing the organisation."
- 3.2.2. Whilst risk exposure and mitigation of that risk may not necessarily drive a material increase in spending, it will influence the level of general reserves year by year.
- 3.2.3. The key risks currently relevant to the level of general reserves now and in the future are;
 - Future Funding Gap – the risk that due to the increase in Demand faced by the force and the real reduction in funding from government, the increased resource requirements will have a significant effect on already stretched financial resources. This pressure is likely to impact on operational policing which in turn has an impact on the achievement of targets in the PCCs Policing Plan.
 - Uncertain central funding after 2018/19 due to proposed changes to the police funding formula.
 - The ongoing use of "top slicing" that has increased every year since its introduction which in turn increases uncertainty over the level of funding individual forces will have in future years.

3.3. Public opinion

3.3.1. A key factor in determining a General Reserves Strategy continues to be public opinion. The public's acceptance of the precept is partly reliant on the understanding that the precept is spent on policing and that only a reasonable and prudent amount of any over-funding is being stored away as a General Reserve. Conversely, when unforeseen expenditure arises, such as with the Fracking protest in Lancashire, it is likely that the public would expect the organisation to have sufficient resources to cover the expense without recourse to overspend.

3.4. There have been a number of statements from Home Office ministers in recent weeks that have led to a belief that the level of reserves held by some PCCs can be used as a means to meet additional ongoing cost pressures. This is considered a risk as the PCC's plans to employ reserves could be disrupted by any initiative from central government to rely on our reserves. It is also a flawed argument as it can only ever deliver over the short term and cannot provide a sustainable position.

4. General reserve levels and their use

4.1. Use of General Reserves

4.1.1. The current strategy for general reserves levels is a level between 3% and 5% of the annual revenue budget. This reflects the consideration of the factors set out above and has been confirmed as appropriate by the external auditors in their review of the Statement of Accounts for 2016/17. At 31 March 2017 general reserves stood at £12m (4.8%) of the Net Budget Requirement.

4.1.2. The Commissioner's general reserves are available to support the medium term financial planning process and to provide a source of funding for investment in the capital programme if required.

4.1.3. The use of general reserves does not provide an on-going revenue funding stream to support the revenue account position. However, notwithstanding issues related to risk and medium term planning, it is reasonable to use reserves to fund initiatives in the short term that themselves had on-going positive revenue funding implications. These initiatives are known as "invest to save" options.

4.2. The level of a General Reserve is a matter for the Police and Crime Commissioner as advised by his Treasurer (CFO). It is **recommended that the Commissioner agree a strategy to maintain a general reserve at a level between 3% and 5% of the revenue budget.**

4.3. The use of reserves is a valuable tool to manage cost pressures potentially for more than one year and as issues arise we should be flexible in their creation. A specific example is the potential pressure faced in respect of the anti-fracking protests in Lancashire. As a major incident the force must meet the cost of the operation up to a level equivalent to 1% of the revenue budget (£2.6m) and then apply for assistance via special grant. There is no guarantee that special grant will be provided so any further costs could also fall upon the revenue budget. As an unexpected pressure on the budget the availability of reserves to meet these costs if required is vital for effective financial management.

5. Specific Reserves

5.1. Reserves are also held to meet specific purposes, they are currently grouped together as "Specific Reserves"; they are included here to allow the full picture of financial risks covered to be considered alongside general reserves. The table below sets out the specific reserves held.

	Position as at 1/4/17	Forecast use in year	Forecast position 31/3/18
	£m	£m	£m
<u>EARMARKED RESERVES</u>			
Capital Funding Reserve	1.458	1.458	0
Transition Reserve	19.475	11.514	7.961
PCC Strategic Investment reserve	6.144	-	6.144
Forensic Partnership reserve	0	-0.500	0.500
Protective Clothing Reserve	0.623	0.050	0.573
POCA Equalisation Reserve	0.652	0.013	0.639
POCA/Drugs Forfeiture Reserves	0.176	-	0.176
Vehicle Workshop Reserve	0.040	-	0.040
Operational Policing Reserve	2.584	-	2.584
Road Safety Reserves	3.176	1.550	1.626
Total Earmarked Reserves	34.328	14.085	20.243
<u>GENERAL RESERVES</u>			
DFM	2.542	0.431	2.111
General Fund	9.873	-	9.873
Total General Reserves	12.415	0.431	11.984

5.2. The Capital Funding Reserve, the Transition Reserve and the PCC Strategic Investment reserve are held to manage the transformation of the Constabulary and to fund investment in the Commissioner's capital programme.

5.3. POCA reserves are held for investment in Crime reduction schemes within the Communities of Lancashire, the Protective Clothing Reserve is set aside for protective clothing for officers and the Vehicle Workshop reserve is held for investment in VMU workshop specialist equipment.

5.4. The Forensic Partnership Reserve is held for investment in the delivery of the Forensics Partnership with UCLAN.

5.5. The Operational Policing reserve is held to meet unexpected demand placed upon the force in any discrete financial year that might require a Special Grant claim. The rules for special grant require the force to meet the costs of such incidents up to an amount equivalent to 1% of the net budget and then make a claim for any additional costs above this amount. The amount held in this reserve is approximately 1% of the current net budget.

5.6. Road Safety Reserves are held on behalf of Lancashire Road Safety Partnership and are not available for use by the PCC.

5.7. The current forecast of the application of these specific reserves in future years is set out in the table below:

	Forecast position 31/3/18 £m	Forecast Use of reserves			Forecast position 31/3/21 £m
		2018/19	2019/20	2020/21	
		£m	£m	£m	
<u>EARMARKED RESERVES</u>					
Capital Funding Reserve	0				-
Transition Reserve	7.961	7.961			-
PCC Strategic Investment reserve	6.144	1.527	4.617		-
Forensic Partnership reserve	0.500	0.500			-
Protective Clothing Reserve	0.573	0.050	0.050	0.050	0.423
POCA Equalisation Reserve	0.639	0.213	0.213	0.213	-
POCA/Drugs Forfeiture Reserves	0.176	0.052	0.052	0.072	-
Vehicle Workshop Reserve	0.040				0.040
Operational Policing Reserve	2.584		2.584		-
Road Safety Reserves	1.626				1.626
Total Earmarked Reserves	20.243	10.303	7.516	0.335	2.089
<u>GENERAL RESERVES</u>					
DFM	1.680				1.680
General Fund	9.873				9.873
Total General Reserves	11.553	-	-	-	11.553

5.8. It is recommended that the Commissioner approve the application of specific reserves as set out in the table above.

5.9. From this forecast it is clear that the vast majority of specific reserves will be used by 2020/21. This enables the Commissioner to meet the funding commitments that have been made for the capital investment programme. This means that the operational policing reserve will need to be used for this purpose and therefore leaves only general reserves from 2020/21 to meet any extraordinary demands on resources.

5.10. As specific reserves are limited it is recommended that the Commissioner review the reserves strategy on an annual basis.

5.11. It is recommended that the Commissioner agrees to make contributions into specific reserves if the opportunity arises.

6. Risks

- 6.1. The inability to maintain an adequate general reserve to cover future uncertainties puts the PCC and Force at risk of government sanction and intervention.
- 6.2. The amount of funding for future years' capital programme will be significantly reduced as reserves are utilised and alternative investment strategies will need to be developed.

7. Decision[s] Required

- 7.1. The level of a General Reserves is a matter for the Police and Crime Commissioner as advised by his Treasurer (CFO). The Commissioner is recommended to maintain a general reserve level that is between 3% and 5% of the annual revenue budget.
- 7.2. The Commissioner is recommended to approve the use of earmarked reserves to support organisational change and provide investment in the capital investment programme as set out in 5.1 and 5.7.
- 7.3. The Commissioner is recommended to review the reserves strategy on an annual basis.
- 7.4. The Commissioner is recommended to make contributions into specific reserves if the opportunity arises.

1. Links to the Police and Crime Plan

The reserves strategy informs the Commissioner's Medium Term Financial Strategy which enables effective financial planning and control. This is essential to ensure the delivery of operational policing in Lancashire and the delivery of the Commissioner's statutory responsibilities.

2. Consultation

N/A

3. Implications

a. Legal

There are no legal comments associated with this paper.

b. Financial

The financial implications are set out in the report

c. Equality considerations

There are no Equality comments associated with this paper.


4. Background Papers

None.

5. Public access to information

Information in this form is subject to the Freedom of Information Act 2000 and other legislation.

Part 1 of this form will be made available on the PCC website within 3 working days of approval. Any facts/advice/recommendations that should not be made available on request should not be included in Part 1 but instead on the separate Part 2 form.

Officer declaration	Date
LEGAL IMPLICATIONS – As above	
FINANCIAL IMPLICATIONS – As above	
EQUALITIES IMPLICATIONS – As above	
CONSULTATION – As above	
<p>Director to the Office of the Police and Crime Commissioner (Monitoring Officer)</p> <p>I have been informed about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner for Lancashire.</p> <p>Signature. .....Date. 20.11.2017.</p>	