



**POLICE & CRIME
COMMISSIONER**
for Leicestershire

Prevention | Partnership | Protection

Reserves Strategy 2018

Introduction

1. On the 31 March 2018 the following level of reserves were held by the Police and Crime Commissioner for Leicestershire:

- General Fund Balances £6m
- Earmarked Reserves £21.6m
- Capital Grants Unapplied £0.5m

Total Reserves Held £28.1m

2. It is good financial management to regularly review the reserves held and be clear as to the reasons why they are being held.
3. It is also important to estimate how these reserves are expected to be used over the life of the medium term financial plan.
4. On 31 January 2018 the Rt. Hon Nick Hurd MP wrote to all Police and Crime Commissioners and Chief Constables setting out details of the financial settlement for 2018-19. Within that he highlighted the possibility of allowing the Council Tax for a Band D property to increase by £12.00 in 2018-19 and a further £12.00 in 2019-20 for Policing Services.
5. However, this was subject to a number of conditions one of them relating to transparency over the level of reserves held by Police and Crime Commissioners. Home office guidance on the Police Reserves was issued at the same time and this strategy seeks to demonstrate that the criteria contained within the guidance has been met.

Reserves Information

6. Appendix A details the reserves that were held on 31 March 2018 and estimates how these reserves are currently expected to be used over the next five years. These projections are based on current plans and assumptions built into the latest budget and updated Medium Term Financial Plan.
7. The analysis splits the reserves into various categories highlighting the different reason why reserves are held. The categories contained within the analysis include reserves held for:
 - Maintaining Service Delivery
 - Partnership Projects
 - Earmarked Contingencies
 - The OPCC's specific use
 - Miscellaneous Reserves
 - Jointly Controlled Operations
 - Funds held on behalf of partners

These are in addition to the general fund balances held and the remaining unapplied capital receipts.

A description of what each reserve is held for is contained at Appendix B.

8. The guidance from the Home Office is contained at Appendix C. Within it, it asks for the reserves to be categorised further to split them between reserves that are held for particular projects and those that are held for good financial management purposes.
9. This analysis can be summarised below and fulfils the requirement within the Home Office guidance:

	31/03/2018	31/03/2019	31/03/2020	31/03/2021	31/03/2022	31/03/2023
Planned Expenditure on projects and programmes over the life of the medium term financial plan	4,916,102	2,124,266	1,302,266	480,266	0	0
Planned Expenditure on projects and programmes beyond the current planning period	3,548,375	3,221,579	2,991,282	2,780,485	2,780,485	2,780,485
Reserves held to meet sound principles of good financial management	19,639,233	15,353,215	13,629,709	13,026,988	13,207,011	13,207,011
Grand total	28,103,710	20,699,060	17,923,257	16,287,739	15,987,496	15,987,496

General Reserves

10. General reserves can be described as ‘the contingency of last resort’. It is the level of cash balances that have not been earmarked for any specific purpose and is held to deal with any unplanned emergency or exceptional item of expenditure for which there is no other funding available.
11. The level of general fund reserves held should not be excessive but should be held at a level in order for there to be sufficient funds available to deal with any urgent costs of emergency expenditure that arises. The respective Chief Financial Officers of the Police and Crime Commissioner and Chief Constable apply their professional judgement to recommend a level of general fund balances to hold.
12. It is recommended that the level of General Fund Balances is maintained at £6m.
13. It is considered prudent for the level of general fund balances to be between 2% and 5% of the total net budget. Home Office guidance states that justification should be provided for general fund balances exceeding 5%.
14. The total net budget for 2018-19 is £176.3m and therefore this level of general fund balances represents 3.4% which is comfortably within this range.

Medium Term Financial Plan

15. The medium term financial plan has been refreshed. The latest figures show an increasing deficit on the Police Budget. This will either need to be met through efficiencies, a reduced service or the use of reserves.

16. If reserves are used to temporarily fund a deficit then there needs to be a plan to move reliance away from the reserves over a period of time. The tables below demonstrate the impact on reserves if the forecast deficit is met through utilisation of reserves.
17. There are two analyses contained below. The first one shows the impact on just the Budget Equalisation Reserve (BER) and the general reserve if the forecast deficit is funded through just these two reserves. The second analysis shows the impact if all reserves were used to fund the forecast deficits.

Impact of the Medium Term Deficit on the Budget Equalisation Reserve and General Fund Balances

	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m
Opening balance General Reserve and Budget Equalisation (BER)	12.6	7.4	(4.7)	(18.7)
Use of BER already factored into MTFP	(1.7)	(0.5)	0.0	
	10.9	6.9	(4.7)	(18.7)
Medium Term Financial Plan Deficit	(3.5)	(11.6)	(14.0)	(17.6)
Closing balance General Fund and Budget Equalisation	7.4	(4.7)	(18.7)	(36.3)

18. This table demonstrates that if the BER and General reserve is utilised to fund the deficit then they will last through to the end of 2019-20 but will be completely used part way through 2020-21.

Impact of the Medium Term Deficit on all Revenue Reserves

	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m
All reserves	20.7	14.4	1.2	(13.1)
Use of all reserves already factored into MTFP	(2.8)	(1.6)	(0.3)	0.0
	17.9	12.8	0.9	(13.1)
Medium Term Financial Plan Deficit	(3.5)	(11.6)	(14.0)	(17.6)
Closing balance General Fund and Budget Equalisation	14.4	1.2	(13.1)	(30.7)

19. Should the decision be taken to un-earmark all reserves (which is **not** a position advocated by the respective CFO's) and use them to fund the budget deficits then the reserves will last until the end of 2020-21 but not much further beyond that.

20. The point these tables are seeking to illustrate is that we should only rely on reserves on a temporary basis and always have a plan to move reliance away from them over a period of time. They are not a sustainable answer to funding budget deficits as they will quickly be used up.
21. Efficiencies should continue to be sought to balance budget pressures and the use of reserves should be on a temporary and cautious basis.

Reserves Management – Guiding Principles

22. The following ‘guiding principles’ are recommended in relation to the management of reserves.
23.
 - General fund reserves should be in the range of 2% to 5% of the total net budget (Between £3.5m and £8.8m based on the 2018-19 budget)
 - The budget equalisation reserve can be used to support the budget but there must be a strategy to move reliance away from the reserve over a period of time.
 - Other earmarked reserves should only be used for specific time limited projects, to provide financial cover for potential future financial liabilities and for ‘invest to save’ projects
 - Ongoing reliance should not be placed on reserves to deal with the funding of financial deficits and a clear plan should be in place to move reliance away from one off reserves.
 - There should be an annual review of reserves

Conclusion

24. The level of reserves held by the OPCC is estimated to total £20.7m by the end of this financial year. Over the life of the financial plan it is estimated that these funds will reduce to £16.0m. This is before the current medium term financial plan deficits have been addressed.
25. It is important that reserves are reviewed on a regular basis and it is clear why reserves are being held.

List of Appendices

Appendix A – Reserves – Medium Term Forecast
Appendix B – Description of Reserves
Appendix C – Home Office Guidance

Background Papers

None

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Reserves - Medium Term Forecast

Appendix A

	Actual 31/03/2018	Estimated 31/03/2019	Estimated 31/03/2020	Estimated 31/03/2021	Estimated 31/03/2022
<u>Maintaining Service Delivery</u>					
Budget Equalisation	9,648,951	6,573,357	4,888,500	4,420,727	4,420,727
PCSOs	2,195,266	2,010,266	1,226,266	442,266	-
Economic Crime	536,931	469,931	469,931	469,931	469,931
Carry-Forwards	1,859,999	114,000	76,000	38,000	-
	14,241,148	9,167,554	6,660,697	5,370,924	4,890,658
<u>Partnerships</u>					
DBS Reserve	89,524	89,524	89,524	89,524	89,524
SARC Reserve	188,306	188,306	188,306	188,306	188,306
Lighthouse Reserve	68,260	68,260	68,260	68,260	68,260
MAPPA Reserve	66,603	66,603	66,603	66,603	66,603
IOM Reserve	193,813	246,064	246,064	246,064	246,064
	606,507	658,758	658,758	658,758	658,758
<u>Earmarked Contingencies</u>					
Fleet Insurance	140,000	140,000	140,000	140,000	140,000
Civil Claims	1,006,148	1,006,148	1,006,148	1,006,148	1,006,148
Capital Reserve	631,734	432,922	297,922	297,922	297,922
Equipment Reserve	602,400	78,789	175,140	40,192	220,215
	2,380,281	1,657,858	1,619,209	1,484,261	1,664,284
<u>OPCC</u>					
Commissioning	1,789,716	1,485,670	1,255,373	1,044,576	1,044,576
SPDF	860,837	-	-	-	-
	2,650,554	1,485,670	1,255,373	1,044,576	1,044,576
Miscellaneous Reserves					
Memorial Garden	665	665	665	665	665
Police Dogs	11,451	3,451	3,451	3,451	3,451
Chief's Charity Trust	6,104	6,104	6,104	6,104	6,104
	18,220	10,220	10,220	10,220	10,220
Jointly Controlled Operations	1,122,000	1,122,000	1,122,000	1,122,000	1,122,000
Funds Held on Behalf of Partners	597,000	597,000	597,000	597,000	597,000
Total Earmarked Reserves	21,615,710	14,699,060	11,923,257	10,287,739	9,987,496
General Reserve	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Capital Grants Unapplied	488,000	-	-	-	-
Grand Total	28,103,710	20,699,060	17,923,257	16,287,739	15,987,496

Description of Reserves

Appendix B

Earmarked Reserve	Amount Held 31 March 2018	Purpose Funds Held For
General Reserve	6,000,000	
Budget Equalisation	9,648,951	This represents revenue funds set aside to part fund the future revenue budget requirements of the OPCC/Group. The reserve is also used prudently to support the ongoing change programme and investments in the future of the OPCC/Group.
PCSOs	2,195,266	This provides an element for the future funding for Police Community Support Officers.
Economic Crime	536,931	These are the funds awarded to the OPCC/Group by the courts under the Proceeds of Crime Act. These funds are used to further the force's capability in financial and other investigative areas.
Carry-Forwards	1,859,999	This reserve includes those sums that the OPCC/Group has approved to carry forward to finance specific expenditure in 2018-19 and beyond
Disclosure Barring Service (DBS) Reserve	89,524	Funds received from the DBS to be used for various purchases in relation to the DBS scheme
Sexual Assault Referral Centre (SARC)	188,306	Funds set aside from budget underspends and partner contributions to support future projects.
Lighthouse Reserve	68,260	Funds held for the lighthouse project
Multi Agency Public Protection Agency (MAPPA) reserve	66,603	Funds set aside for MAPPA projects and activity
Integrated Offender Management (IOM) Reserve	193,813	Unspent funds received in respect of the IOM service. The funds have been set aside to support future projects
Fleet Insurance	140,000	The reserve is to meet the cost of claims that fall below the policy excess value.
Civil Claims	1,006,148	The reserve holds revenue funds that have been set aside where considered prudent by the OPCC/Group against Civil claims (Public and Employer liability) that independent advice suggests is unlikely to result in the transfer of economic benefits.
Capital Reserve	631,734	Revenue contributions that are held to fund future capital expenditure
Equipment Reserve	602,400	Funds held for the periodic replacement of personal equipment such as body worn video, taser equipment and personal protective equipment.
Commissioning	1,789,716	The resources set aside to support the Police and Crime Commissioner's activities in support of the Police and Crime Plan and the commissioning activity contained within it.
Strategic Partnership Development Fund	860,837	This represents resources set aside to support the Police and Crime Commissioner's activities in support of the Police and Crime Plan and partnership working.
Memorial Garden	665	Funds held for projects relating to the memorial garden at Police Headquarters
Police Dogs	11,451	Funds held on behalf of the Police Dog handling section
Chief's Charity Trust	6,104	Funds held on behalf of the Chief's Charity Trust
Jointly Controlled Operations	1,122,000	Funds held which relate to Leicestershire's proportion of any historic underspends on the regional units that are in existence. And that Leicestershire participate in.
Funds Held on Behalf of Partners	597,000	Funds set aside to support a national project intended to reduce distraction burglary and for regional collaborative projects.
Earmarked Reserves Total	21,615,710	
Capital Grants Unapplied	488,000	
Grand Total	28,103,710	

Home Office guidance on police reserves

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).