



The Office of the Police and Crime Commissioner for Leicestershire

Reserve Strategy

## **1. Introduction**

- 1.1. The Local Government Finance Act 1992 requires billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 1.2. Reserves are a recognised and intrinsic part of financial planning and budget setting. The assessment of 'adequate' and 'necessary' levels of reserves is a matter for local authorities to determine. It is the responsibility (with statutory backing in England and Wales) of the CFO to advise the local authority on the appropriate level of reserves and the robustness of the estimates (CIPFA Financial Management Code, Section 4).
- 1.3. The Revised Home Office Financial Management code of Practice for the Police Forces of England and Wales (FMCP) states that the PCC should establish a reserves policy and have due regard to the need to ensure the ongoing funding of policing activities and the requirement to meet exceptional or extraordinary policing operations.
- 1.4. The FMCP states reserves should be held by the PCC and managed to balance funding and spending priorities and to manage risks. This should be established as part of the medium-term financial planning process.
- 1.5. Each PCC should publish their reserves strategy on their website, either as part of their medium-term financial strategy or in a separate reserves' strategy document.
- 1.6. This reserves strategy includes details of current and future planned reserve levels, total amount of reserves and the amount of each specific reserve held for each year. It covers both revenue and capital reserves and provides information for the period of the medium-term financial plan (Appendix A).
- 1.7. Sufficient information is 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 (Appendix B).
- 1.8. The strategy sets out in a way that is clear and understandable for members of the public, and includes:
  - 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.
- 1.9. The FMCP clearly states 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 strategy.
  - 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).

## **2. Financial Regulations**

2.1. The PCC must decide the level of reserves he wishes to retain before he can decide the level of council tax. Reserves are maintained as a matter of prudence, and all are owned by the Police and Crime Commissioner. As per the Corporate Governance Framework the PCC is responsible for:

- approving a policy on balances, reserves and provisions.
- approving the creation of each earmarked reserve or provision. The purpose, usage and basis of transactions should be clearly identified for each reserve established.
- approving the allocation of monies to and from general and earmarked reserves, as part of the annual budget setting process.

2.2. The PCC Chief Finance Officer (PCCCFO) is the Police and Crime Commissioner's professional adviser on financial matters and shall be responsible for advising the Police and Crime Commissioner on the robustness of the estimates and the adequacy of financial reserves. The responsibilities of the PCCCFO are:

- To advise the Police and Crime Commissioner on appropriate levels of balances, reserves and provisions to reflect long term financial risks faced.
- To report to the Police and Crime Commissioner on the adequacy of balances, reserves and provisions before he approves the annual budget and council tax.
- To approve appropriations to and from each earmarked reserve. These will be separately identified in the Annual Statement of Accounts.

2.3. The CC Chief Finance Officer (CCCFO) is the Chief Constable's professional responsible for proper financial administration and a personal fiduciary responsibility to the local council taxpayer. The responsibilities of the CCCFO are:

- To ensure in consultation with the Chief Constable that the annual revenue budget is sufficient to finance foreseeable operational needs without having to request additional approval.

- To present business cases to the PCCCFO and Police and Crime Commissioner for one-off expenditure items to be funded from earmarked and/or general reserves.

2.4. The full financial regulations and scheme of delegation are set out in the Corporate Governance Framework.

### 3. **Reserves Policy**

3.1. The Commissioner holds reserves for the following purposes:

- As a contingency for any unforeseen or unknown events
- To manage transformation or invest to save initiatives
- To manage strategic risks
- To support specific projects or initiatives and maintain service delivery
- As a contingency for insurance and civil claims

3.2. It is recommended that each of the reserves is reviewed and re-aligned, where appropriate to current priorities. It is recommended that this review of reserves is carried out by the Chief Finance Officer of the PCC with recommendations being made to the Police and Crime Commissioner on the outcome of the review.

3.3. It is good financial management to regularly review the balances of the reserves held on a regular basis as part of budget monitoring.

3.4. The following ‘guiding principles’ are recommended in relation to the management of reserves. Taken together, they make up the strategy for the use of reserves.

- General Fund reserves should be in the range of 2% to 5% of the total net budget.

	2025-26 £m	2026-27 £m	2027-28 £m	2028-29 £m
Net Revenue Expenditure	254.653	265.532	274.696	280.669
Minimum level of General Reserve (2%)	5.093	5.311	5.494	5.613
Maximum level of General Reserve (5%)	12.733	13.277	13.735	14.033

- The Budget Equalisation Reserve can be used to fund ‘invest to save’ and other initiatives or to recognise that some savings may take time to implement and to smooth the impact of these savings. Therefore, 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.

### 4. **Reserves Information**

4.1. On the 31 March 2025 the following level of reserves are expected to held by the Police and Crime Commissioner for Leicestershire:

- General Fund Balances £5.6m
- Earmarked Reserves £20m

**Total Reserves Held £25.6m**

4.2. Appendix A details the reserves that are projected to be held on 31 March 2025 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.

4.3. 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
- Earmarked Contingencies
- OPCC Specific Reserves
- Miscellaneous
- 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.

4.4. 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.

4.5. This analysis can be summarised below and fulfils the requirement within the Home Office guidance:

	31/03/2024	31/03/2025	31/03/2026	31/03/2027	31/03/2028	31/03/2029
Planned Expenditure on projects and programmes over the life of the medium term financial plan	4,206,642	3,437,471	1,565,607	1,419,607	1,419,607	1,419,607
Planned Expenditure on projects and programmes beyond the current planning period	3,285,913	3,141,627	2,460,555	2,185,461	1,904,865	1,358,158
Reserves held to meet sound principles of good financial management	23,482,653	20,195,512	18,316,274	17,003,333	17,446,333	17,893,333
<b>Grand total</b>	<b>30,975,207</b>	<b>26,774,609</b>	<b>22,342,435</b>	<b>20,608,400</b>	<b>20,770,804</b>	<b>20,671,097</b>

## 5. General Reserves

5.1. 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.

- 5.2. 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 Officer of the Police and Crime Commissioner applies their professional judgement to recommend a level of general fund balances to hold.
- 5.3. 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%.
- 5.4. The current General Reserve balance of £5.59m represents 2.2% of the Net Revenue Budget.
- 5.5. The Commissioner agreed to maintain the level of the General Fund Balance of 2.3% for 2025-26 which would result in an additional £267k being transferred to the reserve.
- 5.6. The Commissioner agreed to use underspends from 2024/25 budget to increase the General Reserve as at 1<sup>st</sup> April 2025.

## **6. Medium Term Financial Plan**

- 6.1. The medium-term financial plan has been refreshed and latest figures show budget deficits over the medium term. There are no plans to use the reserves to bridge the gap in the budget therefore the deficits will need to be met through either efficiencies or reduced service.
- 6.2. 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. They are not a sustainable answer to funding budget deficits as they will quickly be used up.
- 6.3. Efficiencies should continue to be sought to balance budget pressures and the use of reserves should be on a temporary and cautious basis.

## **7. Use of Reserves**

- 7.1. In July 2022 it was agreed that £7.5m of the BER will be used during the MTFP period to fund ongoing historical investigations of £0.3m, Job Evaluation Pay protection costs of £0.2m and Business Transformation costs. The Business Transformation costs included £5m for Cloud Migration and £2m for Peripatetic Investigators.
- 7.2. During the 2023/24 budget setting process it was agreed that the £1.78m of the £2m earmarked for the Peripatetic Investigators was repurposed to fund an HR review (£1.67m), Digital and Data Teams (£0.07m) and Single Online Home Resource (£0.04m). The remaining £0.22m is earmarked for Peripatetic staff.
- 7.3. It is forecast that of the £7.5m agreed, only £6.1m will now be required over the MTFP.
- 7.4. It was agreed that in 2024/25 an additional £1.511m of the BER will be used to fund additional resources for 12 months to meet demand in the Call Management Centre whilst the work on 'right care right person' is embedded, resources to meet additional training needs to ensure officers have the right skills for the role as a result of retirements and new legislation (accreditation)

and the upgrade of the HR System. It is anticipated that £1.44m of this will be spent.

- 7.5. The Commissioner has agreed £214k transfer from the Budget Equalisation reserve to fund the prevention hub for one as proof of concept.
- 7.6. The Commissioner agreed a transfer of £2.5m from other earmarked reserves for 2025/26 and a transfer to reserve of £0.3m.
- 7.7. Any unbudgeted/unplanned use of reserves will require a business case submitted to the PCC for approval.

## **8. Conclusion**

- 8.1. The level of reserves held by the PCC are estimated to total £26.8m by the end of this financial year (subject to the approval of transfers which were not approved at budget setting). Over the life of the medium-term financial plan it is estimated that these funds will reduce to £20.7m.
- 8.2. It is important that reserves are reviewed on a regular basis and it is clear why reserves are being held.
- 8.3. This report sets out to provide details on all of the reserves currently held and seeks to agree some 'guiding principles' in relation to how reserves are managed going forward.