



COMMUNITY JUSTICE SECURITY

NORTHAMPTONSHIRE POLICE AND CRIME COMMISSION RESERVES STRATEGY

1. Reserves Strategy

- 1.1. Reserves are a key part of medium-term financial planning – other components include revenue spending plans, income forecasts, potential liabilities, capital investment plans, borrowing and council tax levels. Decisions on these are inter-linked. Consequently some organisations will need to maintain reserves at higher levels than others.
- 1.2 All publicly funded organisations should have a reserves strategy to demonstrate transparency and accountability, to comply with best practice financial management and to justify the levels of reserves held.
- 1.3 The PCC maintains reserves to provide a measure of protection against risk. Without this protection, any unforeseen expenditure would have to be met either by increases in Council Tax or immediate savings (potentially through reductions in service levels).
- 1.4 The term "reserves" has a variety of technical and every day meanings, depending on the context in which it is used. For the purposes of this Strategy it is taken to mean funds set-aside at the PCC's discretion for general or specific future purposes.
- 1.5 Reserves are required to protect and enhance the financial viability and in particular:
 - To maintain a degree of in-year financial flexibility;
 - to enable the PCC to deal with unforeseen circumstances and incidents;
 - to set aside monies to fund major developments in future years;
 - to enable the PCC to invest to transform and achieve improved service effectiveness and efficiency;
 - to set aside sums for known and potential liabilities;
 - to provide an operational contingency at service level.
- 1.6 Reserves should not be held to fund ongoing revenue expenditure as this is unsustainable in the long term; however they may be important in smoothing a major financial imbalance (revenue or capital) over a longer timescale. CIPFA guidance LAAP 99 published July 2014 states:

“Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option. However, it is not normally prudent for reserves to be deployed to finance recurrent expenditure. CIPFA has commented that Councils should be particularly wary about using one off reserves to deal with shortfalls in current funding. Where such action is to be taken, this should be made explicit, and an explanation given as to how such expenditure will be funded in the medium to long term”

1.7 The Reserves Strategy assumes that the Medium Term Financial Plan [MTFP] is broadly balanced on a sustainable basis across the five year planning period. Reserves should reflect the agreed financial strategy and should represent the quantified impact of risks and opportunities over the planning period, weighted for their probability.

2. National Guidance and Compliance with Home Office Guidance on Police Reserves

2.1 The 2014, CIPFA guidance included the establishment and maintenance of local authority reserves and balances, setting out the key factors that should be taken into account locally in making an assessment of the appropriate level of reserves and balances to be held.

2.2 In the written statement that accompanied the Provisional Police Grant report on 19th December 2017, the Minister stated *“you may be aware that police reserves currently stand at around £1.6bn, which compares to £1.4bn in 2011. We will be changing guidance to PCCs to ensure that police officers and the public have access to more detailed information on how PCCs intend to use this public money.”* This strategy complies with the new Ministerial requirement.

2.3 On 31 March 2018, the Minister for Policing and the Fire Service published new guidance on the information that each PCC must publish in terms of Police Reserves. One of the key requirements is that the information on each reserve should make clear how much of the funding falls into each of 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 to meet other expenditure needs held in accordance with sound principles of good financial management.

2.4 This information is summarised across the Home Office headings as at 31/3/18 as follows:

Reserve	Balance as at 31/3/18 £m	Planned Expenditure on projects and programmes over next 3 years £m	Funding for specific projects and programmes beyond 2020/21 £m	As a general contingency or resource to meet other expenditure needs £m
General	3.760	-	-	3.760
Earmarked				
PCC Initiatives Fund	1.972	1.972		
Insurance	1.082			1.082
Invest to Save	0.977	0.977		
Ill-Health Pensions	1.286	0.500	0.500	0.286
Safer Roads	1.468	1.468		
Carry Forwards	0.177	0.177		
Victims Services	0.163	0.163		
Regional Reserves	0.779			0.779
Total Earmarked	7.904	5.257	0.500	2.147
Total Reserves	11.664	5.257	0.500	5.907

3. General Reserve

3.1 In order to assess the adequacy of the unallocated general reserve when setting the budget the PCC, on the advice of the two finance officers, should take account of the strategic, operational and financial risks facing the authority. This assessment of risk should include external risks, as well as internal risks, for example the ability to deliver planned efficiency savings.

3.2 Whilst there is no prescribed level of reserves that PCCs should hold; it is influenced by individual discretion, local circumstances, advice from external auditors, risk management arrangements and risk appetite. CIPFA guidance in LAAP Bulletin 99 (2014) specifically cautions against prescriptive national guidance for a minimum or maximum level of reserves and states:

“The many factors involved when considering appropriate levels of reserves can only be assessed properly at a local level. A considerable degree of professional judgement is required. The chief finance officer may choose to express advice on the level of balances in cash and/or as a percentage of budget (to aid understanding) so long as that advice is tailored to the circumstances of the authority”

3.3 However, the minimum level of reserves may be set for the authority by the Ministers in England and Wales where an authority doesn't act prudently, disregards the advice of its chief finance officer or is heading for financial difficulties.

LAAP Bulletin 99 (2014) specifies that minimum level of reserves can be imposed on specific circumstances:

“Minimum level of reserves will only be imposed where an authority is not following best financial practice”

- 3.4 CIPFA indicate a general reserve level is typically between 2% and 3% of net budget requirement and this is consistent with the results of a survey by the PACCTS Technical Support Team where the majority of PCC’s across the country reporting a Strategy of holding minimum general reserves at 3% net revenue expenditure.
- 3.5 In determining the PCC’s position, Appendix A outlines how Northamptonshire currently comply with the 7 key CIPFA principles which can be used to assess the adequacy of reserves.
- 3.6 Given that the PCC is required to meet the first 1% of any special grant requirement, it seems prudent that the current policy is to maintain general reserves at a guideline level of 3% of annual net revenue expenditure, with a minimum of 2.5% (£3.178m for 2017/18).
- 3.7 At present, there are no plans to use the General Reserve during the period of the MTFP, therefore, the forecast level of £3.760m as at the 31/8/19 equates to the following:
- 2018/19 2.96%
 - 2019/20 2.88%
 - 2020/21 2.77%
 - 2021/22 2.73%
 - 2022/23 2.67%
- 3.8 Whilst these plans are above the minimum level, these will be reviewed on a regular basis.

4. Earmarked Reserves

- 4.1 In addition to the General reserve, the PCC holds a number of reserves which are earmarked for specific purposes.
- 4.2 The predicted position for each earmarked reserve as at 31/3/18, together with an outline of its specific purpose is attached at Appendix B.
- 4.3 At the 31/3/18, it is estimated that the PCC will hold £7.9m in Earmarked Reserves which are as follows:

Pensions £1.286m – This reserve is used to smooth the impact of ill-health retirements and to meet the costs of any ill—health or injury retirements in excess of budget provision. An initial review with the Force has highlighted that it is not anticipated that the full value of this reserve is required to meet the potential budget risk and this provides the opportunity to review other pension related pressures. During 2018/19, the Force and PCC CFO will discuss with the Local Government

Pension Scheme and Actuary whether there is the potential of utilising some of this reserve to minimise future actuarial increases in future years.

Insurance £1.082m – This reserve holds funds set aside where considered prudent for Civil Claims (Public and Employer liability) in line with professional advice.

Capital/Transformation Fund £0.00m – this reserve was set aside to smooth the impact of funding or savings fluctuations and support future Capital expenditure requirements and investment and was fully utilised in 2017/18. This reserve will be reviewed alongside the Capital Programme and Estates Strategy. In the national reserves survey, Northamptonshire's level of capital reserves is significantly lower than the national average.

As part of the budget negotiations, the Force will be providing the PCC with potential for one off ICT and Capital investment proposals to reduce demand in the long term or increase efficiency and/or capacity to deal with demand. It is envisaged that the PCC will consider proposals to utilise these and/or invest to save reserves in 2018/19.

Invest to save £0.977m – this reserve was set aside to fund specific agreed schemes that will deliver long term efficiency savings for the Force and OPCC. Current plans assume that this reserve will be utilised by 31/3/19. It is recommended that this Reserve is reviewed alongside the Capital/Transformation Fund requirements in 2018/19.

Joint Venture £0.779m – this reserve relates to previous years underspends on regional collaboration and is set aside to meet future regional costs, for example, the PCC contribution to the Regional PCC Governance Team or other future investments required to support regional working.

Safer Roads £1.468m – this reserve relates to funds in excess of expenditure for use in line with specific criteria for equipment or road safety initiatives.

The PCC has highlighted Road Safety as a priority within his 2018/19 budget and has commissioned the Force and his office to identify proposals for this reserve for which plans are being prepared to have a direct and beneficial impact on Northamptonshire residents in 2018/19.

PCC Initiatives/Early Intervention £1.972m – this is to deliver funding to for specific initiatives of the Commission arising from the Police and Crime Plan, of which £1m is ring fenced for early intervention initiatives.

The PCC recognises the work of the prevention and early intervention board and has asked for proposals to be prepared by the end of February 2018 to support investment in this important area in 2018/19 and future years.

Carry Forwards £0.167m – this is to meet force requests to utilise underspends and meet specific expenditure in 2018/19.

Victims Services £0.163m – this is to support investment and projects for victims services in future years.

4.4 The forecast balance on the reserves, taking into account a prudent estimate of timings for proposals which are currently being developed is detailed within Appendix C.

5. Provisions

5.1 The CIPFA Statement of Recommended Practice is prescriptive about when provisions are required (and when they are not permitted). Basically, a provision must be established for any material liabilities of uncertain timings or amount, to be settled by the transfer of economic benefits. In accordance with this statutory guidance, Northamptonshire established an 'Insurance Provision' which is reviewed as part of the closedown process for each year.

6. Procedures for management and control

6.1 Any drawdown from Reserves is subject to the approval of the PCC, on advice from the PCC's Chief Finance Officer (CFO); or under the delegated authority of the OPCC CFO.

6.2 The Local Government Act 2003 requires the s151 officer to report annually on the adequacy of the reserves and this is included within the statement on the robustness of the estimates used for the budget and the adequacy of the proposed financial reserves. .

6.3 The Strategy will be reviewed annually by the OPCC CFO as part of the Budget and Precept process.

Northamptonshire Compliance with the 7 Key CIPFA Principles to assess the adequacy of reserves

Budget Assumptions (CIPFA Principles)	2018/19 Situation in Northamptonshire
The treatment of inflation and interest rates	<p>Northamptonshire makes full and appropriate provision for pay and price increases, informed by benchmarking with peers.</p> <p>An informed assessment is made in the Treasury Management Strategy of interest rate movements.</p> <p>All income and expenditure in the budget is prepared and published at outturn prices.</p>
Estimates of the level and timing of capital receipts	<p>Northamptonshire has recently reviewed its estates strategy as a fundamental part of the capital programme and has made a prudent assumption of future capital receipts.</p>
The treatment of demand led pressures	<p>The Force is required to operate and manage within its annual budget allocation.</p> <p>Overtime budgets are devolved within the Force to enable operational leaders to make decisions and the Chief Constable retains an operational contingency to support additional major incidents.</p> <p>On an exceptional basis, agreement is sought from the PCC to utilise carry forwards to meet one off demand led pressures. Additionally, demand led pressures are scrutinised and built into the budget set by the PCC.</p> <p>Northamptonshire have identified savings over the years 2018/19 and 2019/20 which although manageable mean that opportunities for efficiencies are less than in previous years. However, the PCC will support investment in areas that reduce demand or which increase efficiency/capacity to deal with demand.</p> <p>General reserves are used as a last resort to manage and fund demand led pressures.</p>
The treatment of Planned Efficiency Savings/Productivity Gains	<p>The Force has identified £over £1.4m of operation balance (its change programme to deliver efficiencies and improvements) savings for the 2018/19 budget and over £1.8m savings identified savings as part of the base budget preparation.</p>

	<p>These savings have been verified by Finance and a list of further savings is currently being reviewed and finalised.</p> <p>The Force operate a Change Board which monitors investments, savings and efficiencies.</p>
<p>The financial risks inherent in any significant new funding partnerships, collaboration, major outsourcing arrangements or major capital developments.</p>	<p>The financial consequences of partnership collaboration working, outsourcing arrangements or capital investment are reported to the PCC as part of the medium term planning process. Where relevant, any additional costs are incorporated into the annual revenue budget and/or capital programme.</p> <p>The budget report highlights the risk that partners will withdraw funding as their own budgets are squeezed, or that the continued viability of private sector commercial partners will be exposed to risk in the face of an economic recession.</p>
<p>The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions.</p>	<p>Northamptonshire have created a number of earmarked reserves and provisions to meet specific expenditure items. Their use and balances as at 31/3/18 are detailed in the attached appendix.</p> <p>Northamptonshire maintains an insurance provision, the adequacy of which is monitored in detail by the legal services insurance advisors, together with our insurance advisors.</p> <p>The access criteria for special grants state that PCCS may be required to fund up to 1% of their net budget requirement themselves before the Government considers GrantAid. This applies on an annual basis.</p> <p>Northamptonshire's General Reserve provides sufficient scope to cover this eventuality.</p>
<p>The general financial climate to which the Authority is subject</p>	<p>In December 2017, the Provisional Grant Settlement was more positive than anticipated. This enabled the PCC to propose a precept increase of up to £12 for 2018/19 and provisionally for 2019/10.</p> <p>Until this announcement, the Medium Term Financial Plan had highlighted significant shortfalls up to the period 2022/23 of over £12m.</p> <p>Should the PCC take up the precept flexibility afforded to him then the revised shortfall would be over £2.6m for the same timescale.</p> <p>The medium term financial plan reflects the "best estimate" of future inflation rates and increases in government grants and contributions.</p>

**RESERVES OF THE POLICE AND CRIME COMMISSIONER
2017/18 to 2022/23**

	Rationale	How and when used	Level	Management and control	Risk	Review
GENERAL RESERVE	<p>To maintain a degree of in-year financial flexibility;</p> <p>To enable the Commission to deal with unforeseen circumstances and incidents;</p> <p>To set aside sums for known and potential liabilities;</p> <p>To provide an operational contingency at service level.</p>	<p>To meet exceptional spending needs or overspends which are unable to be otherwise financed at the year end.</p> <p>To smooth the profile of tax revenue over a medium term financial period</p> <p>To allow higher spending without raising council tax on a one-off basis</p>	<p>General principle of 3% of net budget requirement, with a minimum level of 2.5%</p> <p>Estimated £3.760m at 31.03.2018</p>	PCC, on advice from PCC CFO	<p>May be inadequate for major catastrophe, which could jeopardise financial status and reputation of the Commission.</p> <p>The Commissioner would have recourse to Home Office discretionary special grant if costs exceed 1% of budget or CLG Bellwin scheme for natural disasters</p>	Annual
PENSIONS	<p>To meet the costs of any ill—health or injury retirements which are unbudgeted and fall directly on the Commission.</p> <p>Also to cover any significant overspend on the employer contributions to the Pension Account</p>	<p>Annually as required.</p> <p>Transfers out depend on the amount resulted from successful claims during the year.</p> <p>Historically there has been budget provided within the Force revenue budget for approximately 6 claims in a year. Any unused budget within a year would represent transfers in.</p> <p>The consideration of utilising this reserve towards the reduction on actuarial is currently in progress</p>	<p>Estimated £1.286m at 31.3.18</p>	PCC, on advice from PCC CFO	<p>Significant ill health or injury awards beyond normal profile create pressure on reserve or leave excess funds unused.</p> <p>Significant change in officer numbers or grades lead to unbudgeted employer pension contributions in-year.</p>	Annual

	Rationale	How and when used	Level	Management and control	Risk	Review
INSURANCE	To cover the potential and contingent liabilities of uninsured risks as assessed annually by our insurers based on claims outstanding.	Balance will increase or reduce annually dependent on the Commission's outstanding claims record. Currently excess limit is £150k per claim Increased in 2017/18 following advice from external audit	Will vary according to annual risk assessment Estimated £1.082m at 31.3.2018	PCC, on advice from PCC CFO	If no reserve is held the Commission is potentially open to significant excess and claims payments in year beyond available revenue budgets. Assessment by insurers needs to be realistic not unduly pessimistic.	Annual
PCC INITIATIVES/EARLY INTERVENTION	To deliver funding to for specific initiatives of the Commission arising from the Police and Crime Plan To provide funding to deliver radical solutions to deliver the Police and Crime Plan	As required – typically informed by approved business cases for bids on the Fund. Currently £1m has been earmarked for Early intervention and this will be increased by £0.5m from 2017/18 carry forwards.	Estimated £1.972m at 31.3.18 PCC priority to identify proposals in 2018/19.	PCC, on advice from PCC CFO	Initiatives not adequately defined or delivered hence poor VFM	Annual
SAFER ROADS	For surpluses of fines and speed awareness course income over expenditure that is reinvested in replacement equipment and road safety initiatives.	As required – typically informed by approved business cases for bids on the Fund.	Estimated £1.468m at 31.3.18 PCC priority to identify proposals in 2018/19.	PCC, on advice from PCC CFO	If Fund was not maintained then safety initiatives would have to be funded from the revenue budget or not implemented.	Annual
CAPITAL/TRANSFORMATION	To cover: O Unachievable Forces savings. O Strategic Alliance Investment (revenue and capital). O Capital Programme pressures. O Estates Programme Phase 2 investment (excess over receipts) O Government funding fluctuations	As required – typically informed by approved business cases for bids on the Fund.	Estimated £0.0m at 31.3.18	PCC, on advice from PCC CFO	If Fund was not maintained then the investments in to the pressures noted would not be able to be financed. The Force have unrealistic expectations of c/f requirements. Actual delivery and expenditure is above or below reserve level.	Annual

INVEST TO SAVE	To fund specific agreed schemes that will deliver long term efficiency savings for the Force and OPCC.	To access the funds business case has to be demonstrated and with specific future savings to the organisation identified	Estimated £0.977m at 31.3.18 Reserve is estimated to be nil at 31.3.19		If funds were not maintained there would be no availability for Invest to save projects and such initiatives would have to be funded from the revenue budget or not implemented. The need of such reserve arose due to increased amount of savings that Force and the PCC would have to find due to present economic environment and availability and funding	Annual
JOINT VENTURE	Transfers in relate to underspend on regional collaboration. Transfers out represent contribution towards regional decisions	Upon requirement on decision made to contribute towards projects in relation to regional collaborations. Decisions made on East Midlands PCC and CC Boards	Estimated £0.779m at 31.3.18.	PCC, on advice from PCC CFO	If funds were not maintained, there would be a risk of regional projects not being supported.	Annual
CARRY FORWARDS	To fund specific expenditure in 2018/19 requested by the force from underspends in 2017/18.	Business cases provided as part of the outturn report.	Estimated £0.167m at 31.3.18	PCC, on advice from PCC CFO	If funds were not provided, the risk is that projects or planned expenditure would need to be found from current year's budget.	Annual
VICTIMS SERVICES	To fund specific programmes or schemes to support victims services	To access the funds business cases have to be provided.	Estimated £0.163m at 31.3.18	PCC, on advice from PCC CFO	If funds were not provided, the risk is that projects or planned expenditure would need to be found from current year's budget.	Annual

Summary of Revenue and Capital Balances 2017/18 to 2022/23

Key: (1) Plans to be considered in 2018/19 and impact of timings estimated

Reserve	Forecast Balance £m 31/3/18	Forecast Balance £m 31/3/19	Forecast Balance £m 31/3/20	Forecast Balance £m 31/3/21	Forecast Balance £m 31/3/22	Forecast Balance £m 31/3/23
General	3.760	3.760	3.760	3.760	3.760	3.760
Pensions (1)	1.286	0.786	0.786	0.786	0.286	0.286
Insurance	1.082	1.082	1.082	1.082	1.082	1.082
PCC Initiatives/Early Intervention (1)	1.972	1.472	0.972	0.472	-	-
Safer Roads (1)	1.468	0.968	0.484	0.242	-	-
Capital/Transformation (1)	-	-	-	-	-	-
Invest to Save (1)	0.977	0.489	-	-	-	-
Joint Venture	0.779	0.779	0.779	0.779	0.779	0.779
Carry Forwards	0.167	-	-	-	-	-
Victims Services	0.163	-	-	-	-	-
	11.654	9.336	7.863	7.121	5.907	5.907