

Police and Crime Commissioner for Norfolk Reserves Strategy (Budget and Medium-Term Financial Plan 2022/26)

1. It is important to consider the PCC's reserves at the same time as the budget to ensure that resources are available to fund spending at a level commensurate with the needs of the PCC and Constabulary. Forecasting cash flows and balances over the budget period ensures efficient and effective financial management and avoids unnecessary finance charges. Reserves are held for either general purposes (such as working capital or fall-back to cover exceptional unforeseen circumstances), or earmarked for specific purposes. The PCC complies with the definition of reserves contained within the Chartered Institute of Public Finance and Accountancy (CIPFA) Accounting Code of Practice.
2. The Strategy requires an annual review of reserves to be undertaken and reported to the PCC. This reflects guidance on reserves issued by CIPFA. The most recent guidance requires an annual review of reserves to be considered by the PCC as part of good practice in the management of financial reserves and balances.
3. The minimum prudent level of reserves is a matter of judgement rather than prescription. Neither CIPFA nor statute sets a minimum level of reserves. In determining the level and type of reserves, the PCC has to take into account relevant local circumstances and the advice of their CFO, and that of the Chief Constable and the Chief Constable's CFO in making a reasoned judgement on the appropriate level of reserves.
4. In order to assess the adequacy of reserves when setting the budget, the PCC, in line with advice as outlined above, should take account of the strategic, operational and financial risks facing the organisation. This assessment of risk should include external risks, as well as internal risks, for example the ability to deliver planned efficiency savings.
5. The ultimate use of reserves will be dependent upon both the timing and level of costs and savings over the period of the Medium Term Financial Plan (MTFP).

General Reserve

Assessment of adequacy

6. The **General Reserve** is held to enable the PCC to manage unplanned or unforeseen events. In forming a view on the level of General Reserve, account is taken of the level of financial control within the organisation and comparisons with similar bodies. Also taken into account is the risk of unforeseen expenditure occurring, particularly major operations, risk of failure to deliver the savings programme and sensitivity analysis of changes in assumptions included in the MTFP.

7. Within the MTFP appropriate estimates are made of a number of key items including provision for pay and price rises, as well as a forecast of interest movements. In addition, prudent assumptions are made for the forecast capital programme and for future capital receipts. These estimates and assumptions also take into account the general financial climate.
8. Norfolk Constabulary has generally managed its demand led pressures within its budget envelope year on year, and where appropriate has used earmarked reserves to meet additional significant demand pressures and unbudgeted costs.
9. Since 2010 the constabulary has a proven track record of delivering efficiency savings year on year that will total £40m by the end of 2021/22.
10. In the MTFP savings plans are outlined across the period of the plan. These are outlined in the main budget report. The Chief Constable and PCC are committed to continuing to deliver efficiency and productivity gains in each year of the MTFP.
11. The General Reserve is currently at £4.475m (2.56% of net revenue budget). The strategy is to maintain this between 2.5% and 3% for the duration of the MTFP. This requires the reserve to be increased by £0.645m between 2022/23 and 2025/26 to £5.120m. This is a prudent and adequate amount to hold as a General Reserve. This is shown in Annex 1.
12. A call on the general reserve, particularly for major operations, would be likely to result in an application to the Home Office for additional support.

Earmarked Reserves

13. These are reserves that are held for a specific purpose, whereby funds are set aside for future use when the need arises.
14. The level of reserves and predicted movement for these reserves is set out in the attached Annex 1. All reserve levels are reviewed annually.
15. The purpose and strategy for each reserve is set out below.
16. The **Budget Support Reserve** was being held as a contingency against future demand led pressures, and had also been used to deal with the funding pressures arising from austerity. The plan was to end the use of this reserve and repurpose the remaining balance for use as part of the Invest to Save Reserve and the Capital Financing and Efficiency Improvement Reserve. However, given the economic uncertainty caused by the Covid-19 pandemic and lockdown restrictions, this reserve has been re-established. This reserve will be used over the period of the Spending Review.
17. The **Invest to Save Reserve** provides funding for initiatives that will generate future savings and also provides funds to support the cost of change. The balance in this reserve is expected to be fully used up by the end of the period of the MTFP.
18. The **Capital Financing Reserve and Efficiency Improvement Reserve** is used to help fund the short-life asset requirement of the Capital Programme. The reserve is used when the amount required for investment exceeds the budget

available for this purpose. This is an important part of the funding strategy to ensure the constabulary is as efficient and productive as possible through continued investment in enabling technologies. This is a key reserve and forecast levels are reviewed each year against the capital programme to make sure there is sufficient funding available for future years.

19. The **Insurance Reserve** is being held as a contingency against future increases in premiums and/or increases in the value of assessed insurance liabilities. The reserve and also the provision within the accounts are actuarially assessed by external advisors, and as a result of this advice the reserve is being maintained to £850k.
20. The Police Reform and Social Responsibility Act 2011 sets out a number of ways that PCC's and Community Safety Partnerships should work together, including a mutual duty to co-operate with regards to each other's priorities. The **Community Safety Reserve** enables the PCC to work with the Community Safety Partnership and its respective partners to support evidence-based projects at a county wide and local neighbourhood level.
21. The **PCC Reserve** is made up from previous underspends against the budgets of the Office of the Police and Crime Commissioner and the commissioning budget. The PCC reserve shown in the papers consists of several elements. The commissioning element is used to smooth commissioning spending over the MTFP period and to commission additional services in the community or delivered by the Constabulary, for instance in supporting victims. The PCC general element is for any urgent spend that has not been previously budgeted for in year.
22. The **Efficiency Reserve** is held for the PCC who will draw on this reserve for engaging with the public on the progress of the Police, Crime and Community Safety Plan.
23. The **Safety Camera Reserve** is held on behalf of the Safety Camera Partnership (comprising the PCC, Chief Constable and Norfolk County Council). Income is dependent upon the number of Speed Awareness courses delivered. The use is reviewed and agreed at the Safety Camera Oversight Board. **N.B.** This reserve is not included in Annex 1 as it is a partnership reserve not solely available to the PCC. It is included in Annex 2.

Compliance with Home Office guidance on reserves

24. On 31st March 2018 the Minister for Policing and the Fire Service published guidance on the information that each PCC must publish in terms of 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

This information is provided in Annex 2 which analyses the forecast balance on 31st March 2022 over the above headings.

Conclusion

25. The current policy, as demonstrated in the MTFP, is to maintain revenue general balances close to an operational guideline level of between 2.5%- 3% of the net annual revenue budget. Across the police service this is the generally accepted level which is appropriate.
26. The earmarked reserves have been described and the strategy is to keep these for specific purposes (excluding the Safety Camera Reserve), to ensure taxpayers' money is being used as efficiently as possible. The Strategy for the total level of reserves is that they should not drop below 6% - and this is achieved in this MTFP.
27. Having considered the levels of reserves included in the MTFP, and acknowledging the Chief Constable's commitment to work with the PCC to balance the budget over the period of the MTFP and taking account of the approach to managing financial risk described in the report, the CFOs advice is that there will be adequate general and earmarked reserves to continue the smooth running of the PCC and Constabulary's finances over the medium term financial planning period.

FORECAST MOVEMENTS IN GENERAL AND EARMARKED RESERVES 2020/21 to 2025/26

ANNEX 1

RESERVES SUMMARY - NORFOLK												
PROJECTION OF RESERVES LEVELS:	Total General Reserve	Budget Support Reserve	Invest to Save Reserve	Capital Financing and Efficiency Improvement Reserve	Insurance Reserve	Regional Partnership Reserve	Community Safety Reserve	Efficiency Reserve	PCC Reserve	Total Earmarked Reserve	Total General and Earmarked Reserves	Safety Camera
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
31/03/2021 Actual	4,475	3,282	2,125	6,593	856	193	500	125	1,837	15,511	19,986	1,101
Proposed Changes 2021/22:												
Transfer to Revenue from Reserves									(266)	(266)		
Transfer from Reserves 7F Team			(175)							(175)		
Contribution to Reserves	100	272		2,374						2,646		
31/03/2022 Forecast	4,575	3,554	1,950	8,967	856	193	500	125	1,571	17,716	22,291	1,101
Proposed Changes 2022/23:												
Transfer to Revenue from Reserves			(583)							(583)		
Transfer to Revenue from Reserves - 7F team			(157)							(157)		
Reallocation between reserves	115	(115)								(115)		
Contribution to Reserves	150			1,417						1,417		
31/03/2023 Forecast	4,840	3,439	1,210	10,384	856	193	500	125	1,571	18,278	23,118	1,101
Proposed Changes 2023/24:												
Transfer to Revenue from Reserves		(1,913)	(468)							(2,381)		
Transfer to Revenue from Reserves - ESN				(2,479)						(2,479)		
Reallocation between reserves		(314)	314							0		
Contribution to Reserves	125		50	524						574		
31/03/2024 Forecast	4,965	1,212	1,106	8,428	856	193	500	125	1,571	13,992	18,957	1,101
Proposed Changes 2024/25:												
Transfer to Revenue from Reserves			(354)							(354)		
Transfer to Revenue from Reserves - ESN				(2,479)						(2,479)		
Reallocation between reserves	80	(80)								(80)		
Contribution to Reserves	50			1,394						1,394		
31/03/2025 Forecast	5,095	1,132	752	7,343	856	193	500	125	1,571	12,472	17,567	1,101
Proposed Changes 2025/26:												
Transfer to Revenue from Reserves			(198)	(807)						(1,006)		
Contribution to Reserves	25			500						500		
31/03/2026 Forecast	5,120	1,132	554	7,035	856	193	500	125	1,571	11,966	17,086	1,101

Excludes Safety Camera Partnership Reserve

FORECAST RESERVES AT 31/03/2022 ANALYSED BY HOME OFFICE CATEGORIES

ANNEX 2

Analysis of forecast reserves as at 31.03.2022 - NORFOLK					
	Forecast Balance as at 31.3.22	Funding for projects & programmes over the period of the current MTFP	New contributions during the life of the MTFP	Existing Funding for projects & programmes beyond 2025/26	General Contingency
	£m	£m		£m	£m
General Reserve	4.575	0.000	-0.650	0.000	5.120
Earmarked Reserves:					
Budget Support Reserve	3.554	2.527		1.132	
Invest to Save Reserve	1.950	1.760	-0.364	0.554	
Capital Financing Reserve	8.967	5.766	-3.834	7.035	
Insurance Reserve	0.856	0.000			0.856
Partnership Reserve	0.193	0.000		0.193	
Community Safety Reserve	0.500	0.000		0.500	
Efficiency Reserve	0.125	0.000			0.125
PCC Reserve	1.571	0.000			1.571
Total Earmarked Reserves	17.716	10.053	-4.198	9.414	2.552
Safety Camera Reserve	1.101	0.000	0.000	1.101	
Total Reserves	23.392	10.053	-4.848	10.515	7.672