

Police and Crime Commissioner for Norfolk - Reserves Strategy (Budget and Medium-Term Financial Plan 2018-22)

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 CIPFA's 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 the Chief Constable and CFO in making a reasoned judgement on the appropriate level of its reserves.
4. In order to assess the adequacy of reserves when setting the budget, the PCC, on the advice of the CFO, 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

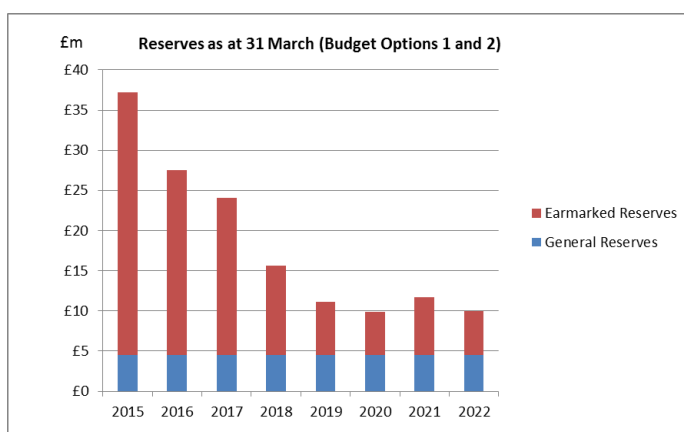
Assessment of adequacy

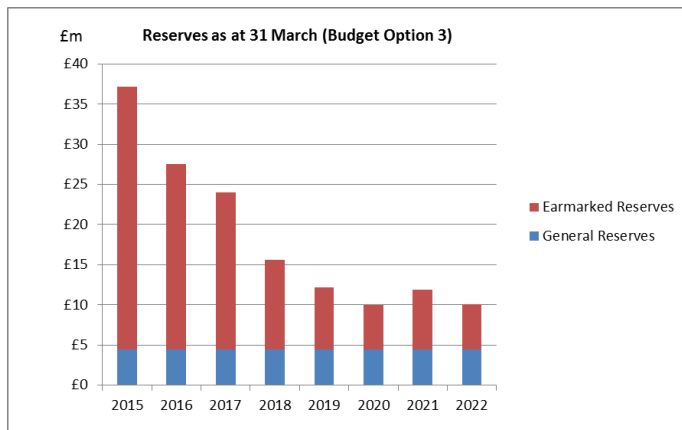
6. The **General Reserve** is held to enable the PCC to manage unplanned or unforeseen events. In forming a view on the level of General Reserve, account is taken of the level of financial control within the organisation and comparisons with similar bodies. Also taken into account is the risk of unforeseen 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 £34m by the end of 2017/18.
10. In the MTFP robust detailed savings plans are in place for 2018/19 and 2019/20, with additional savings contained in a high level scoped programme for 2020/21 and 2021/22. 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 being maintained at £4.475m (3% of budget) for the duration of the MTFP. This is a prudent and adequate amount to hold as a General Reserve. This is shown in Appendix 1.
12. A call on the general reserve, particularly for major operations, would likely also result in an application to the Home Office for Special Policing Grant (SPG). The Home Office is currently reviewing the rules for SPG.

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 Appendix 1. All reserve levels are reviewed annually.
15. The diagrams below illustrate how the reserves are being used over the medium term.





16. The purpose and strategy for each reserve is set out below.

17. **OCC and PIC Sinking Funds.** These reserves were being written off by £98k a year over the life of the PFI contracts in place for the Operations and Communications Centre (OCC) and the Police Investigations Centres (PIC). The requirement to fund £98k per year from reserves has been replaced with permanent base budget of the same value. This then releases the reserves for other uses. The balances have been transferred to the Invest to Save reserve to support the ongoing cost of change.

18. The **Budget Support Reserve** is being held as a contingency against future demand led pressures. Between 2017/18 and 2019/20 the reserve will also support budget pressures arising from transitional arrangements from the implementation of the Local Policing Review (Norfolk 2020). In addition nearly £1.1m is being transferred to the Capital Financing Reserve to support the investment in short-life assets. The reserve is planned to be reduced to just over £0.250m by the end of the planning period. This would be the minimum balance.

19. This **Invest to Save Reserve** provides funding for initiatives that will generate future savings and also provides funds to support the cost of change. This has been added to by moving balances from the OCC and Police Investigation Centre Sinking Funds to this reserve. The plan is to reduce this to just under £0.5m by the end of the planning period.

20. The **Capital Financing Reserve** is used to fund the short-life asset element of the Capital Programme when the amount required for investing / refreshing in modernising technologies exceeds the budget available for this purpose. The strategy is to “top-up” this reserve in the last 2 years of the plan to fund that requirement. The “top-up” will be funded from the efficiency and savings programme. This will leave a balance to fund further investment beyond the planning period.

21. The **Maturity Loan Repayment Reserve** is a new reserve that is being established to build up balances required to repay legacy maturity loans (i.e. interest only loans) the bulk of which were taken out in the 1990s. The total repayable against these loans is £12.8m. The first loan to be repaid is due in 2022/23 the final loan is due in 2056. Between 2022/23 and 2027/28 £6.794m is due for repayment, and this is being built up by 9 years of £0.755m contributions

into this reserve. The balance in this reserve is therefore not available for any other use.

22. 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.
23. 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 reserve 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.
24. The Safety Camera Reserve is held on behalf of 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.

Compliance with Home Office guidance on reserves

25. On 31st March 2018 the Minister for Policing and the Fire Service published new 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 Appendix 2 which analyses the forecast balance on 31st March 2018 over the above headings.

Conclusion

26. The current policy, as demonstrated in the MTFP, is to maintain revenue general balances close to an operational guideline level of 3% of the net annual revenue budget. Across the police service this is the generally accepted level which is appropriate as the prolonged period of austerity continues.
27. The earmarked reserves have been described and the strategy is to keep these for specific purposes and maintain at around 3% to 4% of the net revenue budget (excluding the Safety Camera Reserve), to ensure taxpayers' money is being used as efficiently as possible. The strategy is to contribute to the Capital Financing Reserve to keep this at an appropriate level through the Plan.
28. 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 CFO's 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.

John Hummersone FCPFA
Chief Finance Officer

Updated 2 August 2018

FORECAST MOVEMENT IN GENERAL AND EARMARKED RESERVES 2017/18 to 2021/22

APPENDIX 1

	Total General Reserve £000	OCC Sinking Fund	PIC Sinking Fund	Budget Support £000	Invest to Save £000	Capital Financing £000	Maturity Loan Repayment Reserve £000	Insurance £000	PCC £000	Total Earmarked Reserve £000	Total General and Earmarked Reserves
PROJECTION OF RESERVES LEVELS:											
31/03/2017 Actual	4,475	1,680	384	5,718	1,080	8,583		786	1,340	19,571	24,046
Proposed Changes 2017/18:											
Transfer to Revenue from Reserves				(1,266)	(268)	(3,496)				(5,030)	
Transfer from Budget Support to Capital Financing				(1,092)		1,092					
Transfer from Sinking Funds to Invest to Save		(1,680)	(384)		2,064						
Constabulary Overspend (forecast)				(1,288)						(1,288)	
Financing Commissioning Plan								(280)		(280)	
Cost of Change					(1,548)					(1,548)	
Transfer to Revenue from Reserves (Norfolk 2020)				(289)						(289)	
31/03/2018 Forecast	4,475			1,783	1,328	6,179		786	1,060	11,136	15,611
Proposed Changes 2018/19:											
Transfer to Revenue from Reserves				(443)	(167)	(1,345)				(1,955)	
Transfer to Revenue from Reserves (Norfolk 2020)				(804)						(804)	
Cost of Change					(516)					(516)	
Financing Commissioning Plan								(200)		(200)	
31/03/2019 Forecast	4,475			536	645	4,834		786	860	7,661	12,136
Proposed Changes 2019/20:											
Transfer to Revenue from Reserves					(169)	(2,304)				(2,473)	
Transfer to Revenue from Reserves (Norfolk 2020)				(394)						(394)	
Contribution to Reserves				124			755			879	
Financing Commissioning Plan								(200)		(200)	
31/03/2020 Forecast	4,475			266	476	2,530	755	786	660	5,473	9,948
Proposed Changes 2020/21:											
Transfer to Revenue from Reserves						140				140	
Contribution to Reserves						1,000	755			1,755	
31/03/2021 Forecast	4,475			266	476	3,670	1,510	786	660	7,368	11,843
Proposed Changes 2021/22:											
Transfer to Revenue from Reserves						(3,521)	755			(2,766)	
Contribution to Reserves						1,000				1,000	
31/03/2022 Forecast	4,475			266	476	1,148	2,265	786	660	5,602	10,077

Excludes Safety Camera Partnership Reserve

FORECAST RESERVES AT 31/03/2018 ANALYSED BY HOME OFFICE CATEGORIES

APPENDIX 2

Analysis of forecast reserves as at 31.03.2018 - NORFOLK				
	Forecast Balance as at 31.3.18	Funding for projects & programmes over the period of the current MTFP	Funding for projects & programmes beyond 2021/22	General Contingency
	£m	£m	£m	£m
General Reserve	4.475	0.000	0.000	4.475
Earmarked Reserves:				
Budget Support Reserve	1.783	1.517	0.266	
Invest to Save Reserve	1.328	0.852	0.476	
Capital Financing Reserve	6.179	5.031	1.148	
Maturity loan repayment reserve	0.000	-2.265	2.265	
Insurance Reserve	0.786			0.786
PCC Reserve	1.060	0.400		0.660
Total Earmarked Reserves	11.136	5.535	4.155	1.446
Total Reserves	15.611	5.535	4.155	5.921