

RESERVES POLICY

POLICE AND CRIME COMMISSIONER FOR BEDFORDSHIRE

1 Introduction

The Local Government Finance Act 1992 requires both Billing and Precepting Authorities in England & Wales to have regards to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. The Chief Financial Officer under Section 25 of the Local Government Act 2003 has a duty to report on the robustness of estimates and the adequacy of reserves when considering the budget requirement for the forthcoming financial year.

There are in essence two types of revenue reserve:

- **General Reserve** – this reserve can be used as a working balance to help cushion the impact of uneven cash flows and avoid temporary borrowing and/or a contingency to cushion the impact of unexpected events or emergencies;
- **Earmarked Reserves** – these reserves are a building up of funds that are to be used to meet known or predicted requirements, such as:
 - Sums set aside for major capital developments or asset purchases;
 - Insurance reserve as a self-insurance mechanism;

The Police and Crime Commissioner (PCC) holds both a General Reserve and a number of Earmarked Reserves. The remainder of the document shows the following for each of the reserves held:

- The reason for / purpose of the Reserve;
- How and when the Reserve can/will be used;
- How often the Reserve level is reviewed to ensure continuing relevance and adequacy;
- Procedures for the management and control of the Reserve;

2 General Reserves

There is no legally prescribed limit as to the level of General Reserves that should be held by a Police and Crime Commissioner. However, all Chief Finance Officers will need to take account of the strategic and operational risks facing the respective Commissioner and Chief Constable. The reason for holding this type of reserve for Bedfordshire is as follows:

- The treatment of demand led pressures – consideration of both in year and longer term demand and service delivery pressures;
- The availability of reserves, government grants to deal with major contingencies i.e. unforeseen circumstances;
- The general financial climate such as future funding, spending reviews and the ability to replenish reserves;

Whilst there is no legally prescribed limit it is likely that, but not restricted to as dependant on the factors above, that the Police and Crime Commissioner will hold a general reserve of between 2% and 5% of the annual net revenue expenditure (NRE).

The adequacy of the General Reserve for the Police and Crime Commissioner is reviewed twice a year, once at the time the budget for the ensuing year is set, normally in January and again when the final accounts are being produced for the previous financial year, normally in May/June.

This Reserve can only be used with the Police and Crime Commissioners approval and this will normally be subject to a report being approved at the Strategic Board but may be approved outside of the Board if a more timely decision is required.

At the time of setting the 2018/19 budget it has been determined that the general reserve will be set at £3.0M, which represents approximately 2.85% of the NRE for 2017/18. This level recognises the ability to claim special grant for significant operational events which can be completely unforeseen, albeit expenditure equating to 1% of NRE will have to be met by the Commissioner and excluded from the grant. Therefore the reserve allows for two types of these events to happen in the financial year as well as providing for any other exceptional circumstances where special grant wouldn't apply.

3. Earmarked Reserves

The following Reserves are held by the Police and Crime Commissioner for specific purposes and as such are classed as Earmarked Reserves:

Budget Reserve

The financial climate in which the Commissioner and Chief Constable operate is not certain but both have specified their desire to protect the frontline resources as best they can whilst overall costs and demand increases on the Force. This reserve will be used, therefore, over the medium term to limit the level of savings the Force has to make, whilst still allowing the Commissioner to produce a balanced budget over the medium term.

With the ability to increase Council Tax by £12 per annum for the next two years it is estimated that the majority of the budget reserve will be fully utilised by 2021/22, with the majority of call on the reserve being in 2021/22, see table below

Table One - Estimated balances of Budget Reserve from 31/3/17 to 31/3/22

| Actual @ 31/3/17 | Actual @31/3/18 | Estimated @ 31/3/19 | Estimated @ 31/3/20 | Estimated @ 31/3/21 | Estimated @ 31/3/22 |
|---------------------|--------------------|------------------------|------------------------|------------------------|------------------------|
| £M | £M | £M | £M | £M | £M |
| 2.317 | 2.317 | 2.317 | 2.191 | 1.340 | 0.063 |

The Budget Reserve will be reviewed during the current financial year as part of the Medium Term Planning process and formally assessed as part of the budget setting process each financial year.

The budget reserve can only be used subject to the Police and Crime Commissioners approval and this will be via a formal paper being presented to the Commissioners Strategic Board.

Performance and Change Reserve

This reserve is to support the delivery of the savings needed over the Medium Term Financial Plan to provide a balanced budget as well as funding one-off costs that will assist the Force in managing demand and thus sustaining/improving performance in priority areas.

The types of cost that this reserve is earmarked for are:

- Assisting with pump priming collaborations, both local and regional;
- Assisting with redundancy costs and other set up costs arising from restructuring and change programmes;
- Change costs associated with Athena (a new Crime, Case, Intelligence and Custody system);
- Performance and pump priming initiatives that reduce demand, such as resources into Emerald Team targeting domestic crime and serious sexual offences and the Force Control Room.
- Invest to save opportunities.

Use of this reserve will not involve on-going revenue expenditure that would normally be funded through the Revenue Budget and will be restricted to clearly targeted one-off items that demonstrate a return on the investment or performance benefits.

The table below shows the current projection for this reserve and decisions to use it will only be made by the Police and Crime Commissioner through a formal paper being submitted to the Commissioners Strategic Board.

Table Two - Estimated balances of Performance & Change Reserve from 31/3/17 to 31/3/22

| Actual @ 31/3/17 | Actual @31/3/18 | Estimated @ 31/3/19 | Estimated @ 31/3/20 | Estimated @ 31/3/21 | Estimated @ 31/3/22 |
|---------------------|--------------------|------------------------|------------------------|------------------------|------------------------|
| £M | £M | £M | £M | £M | £M |
| 3.782 | 2.185 | 0.677 | 0 | 0 | 0 |

The Performance and Change Reserve will be reviewed during the current financial year as part of the Medium Term Planning process and formally assessed as part of the budget setting process each financial year.

Force Earmarked Reserve

This reserve is comprised of funds that have been put aside from the previous financial year's underspends for specific one-off initiatives in the Force. The reserve held is therefore for one year only and is reviewed once a year as part of the consideration of the previous years' outturn.

Full detail of the initiatives funded through this reserve is included within the approved outturn report that is tabled at the Commissioners Strategic Board.

Spend against the agreed initiatives is monitored as part of the Chief Constable's budget monitoring process and any underspend on this reserve is considered within the overall outturn position for the financial year.

As the table below shows, the reserve is usually held at a very low level and is expected to be fully utilised in the year it is given.

Table Three - Estimated balance of Force Earmarked Reserve from 31/3/17 to 31/3/22

| Actual @ 31/3/17 | Actual @31/3/18 | Estimated @ 31/3/19 | Estimated @ 31/3/20 | Estimated @ 31/3/21 | Estimated @ 31/3/22 |
|---------------------|--------------------|------------------------|------------------------|------------------------|------------------------|
| £M | £M | £M | £M | £M | £M |
| 0.095 | 0 | 0 | 0 | 0 | 0 |

Road Safety Reserve

This reserve has been specifically created to assist with enhancing road safety in Bedfordshire. The Deputy Chief Constable will consider initiatives both internally within the Force as well as through the Strategic Roads Partnership consisting of appropriate partners within the County.

These initiatives will be formally considered by the Police and Crime Commissioner alongside her Police and Crime Plan priorities, in particular with regards to reducing the level of killed and serious injuries (KSI) on the roads of Bedfordshire and to reduce the demand on the Force.

The use of the reserve is therefore reviewed throughout the year in accordance with recommendations/initiatives from the Roads Partnership. The profile shown below therefore in terms of how the reserve will be used could change significantly depending on what proposals are approved.

Table Four - Estimated balance of Road Safety Reserve from 31/3/17 to 31/3/22

| Actual @ 31/3/17 | Actual @31/3/18 | Estimated @ 31/3/19 | Estimated @ 31/3/20 | Estimated @ 31/3/21 | Estimated @ 31/3/22 |
|---------------------|--------------------|------------------------|------------------------|------------------------|------------------------|
| £M | £M | £M | £M | £M | £M |
| 1.149 | 0.899 | 0.649 | 0.399 | 0.149 | 0 |

Capital Expenditure Reserve

The Capital Expenditure Reserve whilst earmarked to support capital expenditure is solely comprised of revenue resources and is primarily used to fund one-off expenditure approved within the overall capital programme of the Commissioner and in support of her three main capital strategies:-

- Estates Strategy;
- ICT Strategy;
- Fleet Strategy.

The proposed use of the reserve will initially be considered as part of the Capital Programme approved by the Police and Crime Commissioner at the beginning of the financial year and will be monitored throughout the year as part of the capital programme monitoring reports.

The assessment of its adequacy is undertaken twice a year, once prior to the new financial year starting, usually February and again once the previous years' outturn is known, usually June.

The Estate and ICT strategies of the Police and Crime Commissioner include some significant expenditure and this reserve is used to reduce the level of the borrowing required by the Police and Crime Commissioner and thus reducing the burden of the revenue costs associated with borrowing. The profile for the capital expenditure reserve is shown below:

Table Five - Estimated balance of Capital Reserve from 31/3/17 to 31/3/22

| Actual @ 31/3/17 | Actual @31/3/18 | Estimated @ 31/3/19 | Estimated @ 31/3/20 | Estimated @ 31/3/21 | Estimated @ 31/3/22 |
|---------------------|--------------------|------------------------|------------------------|------------------------|------------------------|
| £M | £M | £M | £M | £M | £M |
| 1.682 | 0.877 | 0.877 | 0.877 | 0.877 | 0.440 |

Insurance Reserve

The Insurance Reserve is held for costs that are not covered by the level of excess contained within the various insurance policies of the Force. The current market for insurance is such that it is far cheaper to have large excess and in essence self-insure than it is to pay a premium that removes the need to self-insure.

The Police and Crime Commissioner and Chief Constable are members of the South East and Eastern Region Police Insurance Consortium (SEERPIC), which is in essence a procurement and risk management vehicle for the ten Commissioners and Forces that form its membership to obtain the most cost effective insurance policies. However, due to the requirement to self-insure, whilst the market remains as it does, the Insurance Reserve is a requirement to reduce any costs being met from the revenue budget of the Force.

The Reserve is subject to a triennial valuation in terms of its adequacy and is very much based on estimates of what the liability could be for individual insurance claims on Bedfordshire Police. Known costs are met via an insurance provision and the level of funds held in both the reserve and provision are considered as part of the overall outturn at the end of the financial year.

Due to the triennial valuation the level of the reserve, in terms of projections remains fairly static, as shown below, until each valuation is completed an insurance reserve will be held by the PCC to fund self-insurance liabilities arising from increases in insurance excesses and aggregate stop losses. The level of this reserve will be subject to regular fund adequacy audits by external advisers, as before.

Table Five - Estimated balance of Insurance Reserve from 31/3/17 to 31/3/22

| Actual @ 31/3/17 | Actual @31/3/18 | Estimated @ 31/3/19 | Estimated @ 31/3/20 | Estimated @ 31/3/21 | Estimated @ 31/3/22 |
|---------------------|--------------------|------------------------|------------------------|------------------------|------------------------|
| £M | £M | £M | £M | £M | £M |
| 1.133 | 1.133 | 1.133 | 1.133 | 1.133 | 1.133 |

The use of the reserve is managed by the Chief Finance Officer during the financial year and reconciled as part of the outturn and final accounts process.

The next triennial valuation is planned for April 2018.

Other Reserves

The Commissioner holds on various occasions certain capital reserves, which are monitored as part of the review of the approved Capital Programme, these reserves are:

- **Capital Grant Unapplied Reserve** – this reserve is comprised of capital grants that are provided to the Commissioner for specific capital purposes and remain unspent at the end of the financial year in which they were given. As at 31 March 2017, this reserve for Bedfordshire totalled £0.629M
- **Capital Receipts Reserve** – this reserve is held when the Commissioner sells an asset and the proceeds are not used to fund expenditure in the year it was received. As at 31 March 2017, the Commissioner had no funds in this type of reserve.

The adequacy of all reserves is undertaken as part of the budget setting process as required by the Section 25 of the Local Government Act 2003.