

Reserves Strategy 2018/19

Introduction

In January 2018 the Minister for Policing and the Fire Service issued guidance on reserves in the policing sector. This guidance set out the expectation around the information which the Police, Fire and Crime Commissioner should publish on their financial reserve strategies. This guidance is to also be included within the updated Financial Management Code of Practice.

A survey of reserves highlighted that police reserves at 31st March 2017 consisted of £1.63bn of revenue reserves and £0.53bn of capital reserves. Following this survey the level of reserves held within policing has come under intense scrutiny.

The PFCC reserves have always been included within the Medium Term Financial Strategy (MTFS) and included within the budget setting papers which are presented to the Police, Fire and Crime Panel. In year the level of reserves are reported on quarterly to the PFCC's Performance and Resources Board.

Background

CIPFA guidance does not specify a level of General Reserve which must be held only that a reserve should be maintained. The PFCC should consider strategic, operational and financial risks facing the force when setting the budget taking advice from his Treasurer/Chief Financial Officer. Under the Local Government Act 2003 it is the duty of the Treasurer/Chief Finance Officer to report on the robustness of estimates and the adequacy of reserves.

CIPFA guidance, Local Authority Reserves and Balances, (LAAP Bulletin 99) note that reserves can be held for three main purposes:

1. A working balance to help cushion the impact of uneven cash flows and avoid unnecessary borrowing
2. A contingency to cushion the impact of unexpected event or emergencies
3. A means of building up fund, known as earmarked reserves

Reserves Strategy

The main elements of the PFCC's reserve strategy are:

- To establish and maintain a General Reserve position of 3% of net revenue expenditure over the medium term
- The PFCC will apply a prudent approach to reserves
- Earmarked Reserves will be created and held for significant events, change programmes and related costs. This includes transformation and saving programmes.

General Reserve

The General Reserve is required to ensure that PFCC is able to mitigate financial risks which can arise due to unforeseen events e.g. major investigation; changes in demand for policing. The General Reserve is also used for cash flow purposes.

The PFCC general reserve at 1st April 2018 was £12.2m and 4.5% of net revenue expenditure; at budget setting in January 2018 the PFCC is expected to utilise £3.9m during the 2018/19 financial year. This would have reduced the General Reserve to £8.5m and approximately 3% of net revenue expenditure.

The latest General Reserve forecast suggests that the General Reserve will be £9.5m at 31st March 2019, this is 3.4% of net revenue expenditure.

It is planned to maintain the level of General Reserve over the medium term at approximately 3%.

The Home Office Special Grant scheme requires that the PFCC should fund the first 1% of net revenue expenditure for each incident before a claim for financial assistance. The Major Operational Reserve is held for this purpose.

Capital Reserve

The PFCC receives an annual capital grant from the Home Office. This grant is used to finance the capital programme and can be carried forward until required. The PFCC also relies on capital receipts to fund the investment programme; these are received primarily from the sale of the estate.

The balance on the Capital Reserve at the 31st March 2018 was £0.7m. These funds are expected to be used in full to fund the 2018/19 capital programme.

Earmarked Reserve

At the 1st April 2018 the PFCC's Earmarked Reserves were £11.3m. Appendix A details the movement in reserves during the 2017/18 financial year. The breakdown of earmarked reserves for 2018/19 and their purpose is detailed in Appendix B.

The forecast movement in reserves over the medium term is detailed in Appendix C.

Activities to be funded from the Transformation Reserve

The Transformation Reserve is held to fund multiple projects, these projects are detailed below:

Table 1. Transformation Reserve

Activity to be funded from Transformation Reserve	Purpose of Activity	Opening Balance at 1 st April 2018 (£000)	Forecast Closing Balance at 31 st March 2019 (£000)
Estates Disposal	To fund the disposal fees of Essex Police Estates linked to the Estates Strategy	316	100
Operation Javelin	To fund the improved security and awareness measures across the estate	235	106
Estates Enabling Projects	To fund works across the estate to enable staff to decant premises	144	60
IT	To fund a number of IT transformation projects	1,033	0
ECFRS Collaboration	Essex Police and Essex County Fire and Rescue Service collaboration projects	87	0
PFCC – Fire Business Case	Reserve to fund the joint governance business case and related expenditure	80	80
Transport	To fund the telematics scheme	57	0
Treasury Advice	To provide in year treasury advice to the PFCC	15	15
Total		1,967	360

Home Office Classification

The Minister for Police and the Fire Service has issued clear guidance on the publication of reserve information. One of these requirements was for the PFCC to make clear how much funding falls into the following 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 or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance)

This information is detailed in Appendix D.