

Reserves Strategy 2019/20

1. Introduction and Background

- 1.1. 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.
- 1.2. A survey of reserves in England and Wales 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.
- 1.3. 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.
- 1.4. In 2018 the Minister for Police and Fire Service issued a requirement for all PCCs to provide transparent reserve data for current and future years.
- 1.5. 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 when the PFCC is considering their council tax requirement.
- 1.6. 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

2. Financial Regulations

- 2.1. The PFCC Financial Regulations set out the responsibilities for the Treasurer, Chief Finance Officer, Chief Constable and the PFCC in regards to reserves and how they are used.

3. Reserves Strategy

- 3.1. 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 and risk management
- Earmarked Reserves will be created and held for significant events, change programmes and related costs. This includes transformation and saving programmes.

4. General Reserve

- 4.1. 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.
- 4.2. The PFCC general reserve at 31st March is £9.2m and at 1st April 2019 is £8.9m and 3.0% of net revenue expenditure; at budget setting in January 2019 the PFCC's agreed budget outlined plans to utilise £0.3m from the General Reserve during the 2019/20 financial year. This will be used to fund additional resources in the Estates Team and increase capacity, this will in turn support delivery of the Estates Strategy and the capital programme.
- 4.3. The General Reserve is forecast to remain at £8.9m and 3.0% of net revenue expenditure at 31st March 2020
- 4.4. In 2018/19 £2.7m was drawn down from the General Reserve to fund the Operational Transformation Reserve. It was agreed in year that £0.7m could be utilised to fund the increase motor insurance premium. Due to good budget management the provisional outturn position at 31st March reported a £0.373m underspend, these funds were returned to the General Reserve and may be utilised in 2019/20 if there are in year pressures.
- 4.5. It is planned to maintain the level of General Reserve over the medium term at approximately 3% of net revenue expenditure (NRE).
- 4.6. 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.

2018/19 Review

- 4.7. In 2018/19 we forecast a General Reserve balance at 31st March 2019 of £9.7m, which was 3.5% of NRE. The forecast outturn for this period is now £9.2m, which is a movement of £0.5m linked to the additional cost required to fund the motor insurance premium in year and subsequent return of funds to the General Reserve.

5. Capital Reserve

- 5.1. 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.
- 5.2. The balance on the Capital Reserve at the 1st April 2019 is to be £6.1m made up of usable capital receipts. The current forecast is to utilise the reserve in full in 2019/20 to fund the capital programme, with a forecast balance at the 31st March 2020 being nil. These funds will be used to support the future capital programme and reduce the borrowing requirement.

2018/19 Review

- 5.3. The closing balance at 31st March 2019 was forecast to be £12.8m at the start of 2018/19, however the forecast outturn position is a balance of £6.1m. This is a reduction of £6.7m and is due to a slippage in disposal income received through estate sales. This figure highlights one of the difficulties faced by the PFCC in accurately forecasting the reserve position when there are external influences.

7. Earmarked Reserve

- 7.1. At the 1st April 2019 the PFCC's Earmarked Reserves are £7.3m. Draw down from Earmarked Reserve over the period can be attributed to spend on Transformation Reserve projects, Operational Transformation Reserve and recruitment uplift.
- 7.2. Appendix A details the movement in reserves during the 2018/19 financial year including details of their purpose.
- 7.3. The forecast movement in reserves over the medium term of 2019/20 – 2023/24 is detailed in Appendix B.

2018/19 Review

- 7.4. In 2018/19 the PFCC had forecast a closing Earmarked Reserve balance of £6.4m at the 31st March 2019, however the provisional outturn shows this figure to be £7.5m, this is £1.1m higher than forecast. The total revenue earmarked reserves balance is £2m higher than at the 31st March 2018, this is due to the creation of the Operational Transformation Reserve which was set up using a £2.7m from the General Reserve. Of this £2.7m, £1m was spent in 2018/19 with the remainder of the fund profiled to be spent over the next two years to fund transformational projects in Essex Police.
- 7.5. Other Earmarked Reserve differences from the forecast include the Transformation Reserve which has a provisional outturn position of £0.6m which is £0.5m higher than forecast; the most significant difference is the

balance on against IT Projects of £0.2m underspent against forecast. A new Specials Constabulary was approved at £0.1m which is to assist with the continued recruitment and retention of the Essex Police Special Constabulary. The Future Capital Funding Reserve has an outturn position of £1.3m compared to a forecast nil balance. This was set up to fund the capital programme and avoid future cost of borrowing.

8. Activities to be funded from the Transformation Reserve

8.1. 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 1st April 2018 (£000)	Provisional Outturn Balance at 31st March 2019 (£000)
Estates Disposal	To fund the disposal fees of Essex Police Estates linked to the Estates Strategy	316	163
Operation Javelin	To fund the improved security and awareness measures across the estate	235	113
Estates Enabling Projects	To fund works across the estate to enable staff to decant premises	144	33
IT	To fund a number of IT transformation projects	1,033	205
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	50
Transport	To fund the telematics scheme	57	18
Treasury Advice	To provide in year treasury advice to the PFCC	15	15
Total		1,967	597

9. Home Office Classification

9.1. 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.

1. Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan
2. Funding for specific projects and programmes beyond the current planning period
3. As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance)

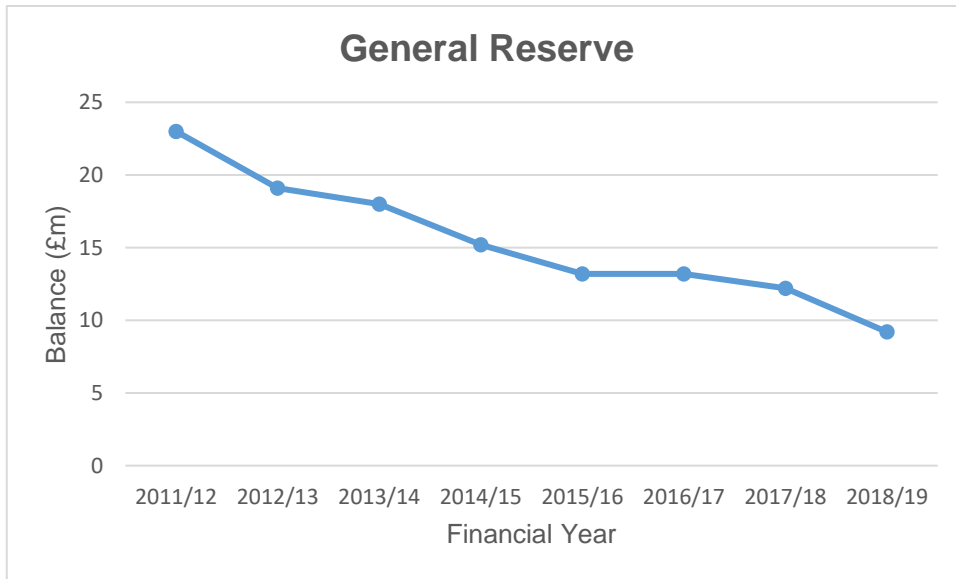
9.2. This information is detailed in Appendix C.

10. Historic Reserve Analysis

10.1. General Reserve

10.2. From 2011/12 to 2018/19 (provisional outturn) the PFCC's General Reserve balance has reduced from £23m to £9.2m, this is a reduction of 60% over the period. Chart 1 below illustrates the declining trend in General Reserve balance.

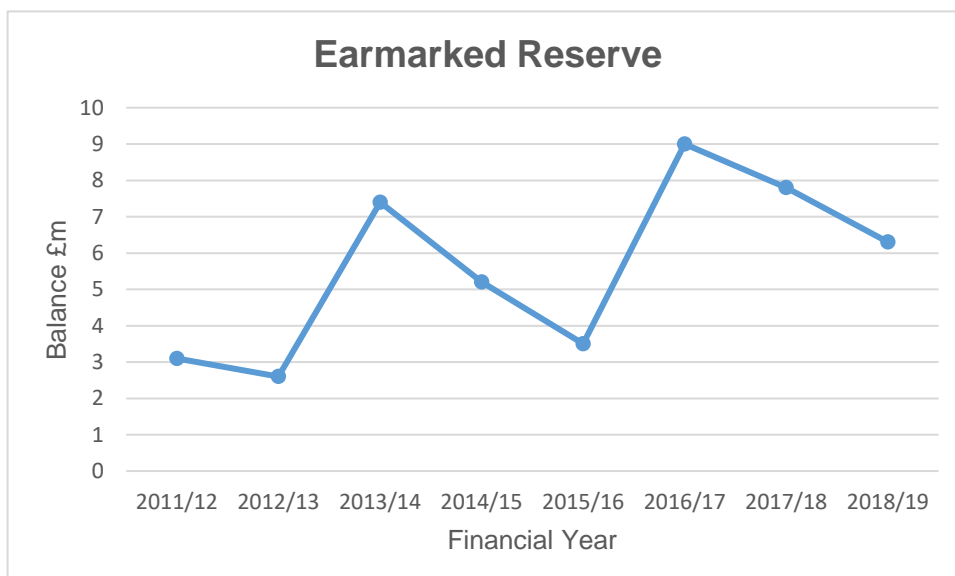
Chart 1: General Reserve balance at 31st March



10.3. Earmarked Reserve

10.4. From 2011/12 to 2018/19 (provisional outturn) the Earmarked Reserve balance has fluctuated from a low of £2.6m to a high of £9m. From 2016/17 to 2018/19 the level of Earmarked Reserves has reduced by 30%. Chart 2 shows the fluctuating balance over the period.

Chart 2: Earmarked Reserve balance at 31st March



10.5. Total Useable Reserves

10.6. The PFCC has seen a reduction in total useable reserves over the period of 2011/12 to 2018/19 of 46%. Chart 3 below shows a slight increase in the level of total useable reserves held in recent years, this increase can be attributed to an increase in the Capital Receipt Reserve. This increase is due to estate sales and the disposal income received, this is in accordance with the PFCC Estate Strategy.

Chart 3: Total Useable Reserve at 31st March

