

Reserves Strategy from 2023/24

1. Introduction and Background

- 1.1. Police (Fire) and Crime Commissioners (PCCs/PFCCs) can keep part of their funding in financial reserves to help manage financial risk and to fund major future costs such as change programmes aimed at improving services to the public. Usable financial reserves are split into revenue and capital. Revenue reserves are categorised into a general reserve to cover unforeseen pressures and earmarked reserves which are each held for a specific purpose. Capital reserves are ring-fenced for capital investment
- 1.2. The Home Office publishes police financial reserves each year for PCCs/PFCCs in England and Wales the latest publication (May 2021) shows that police reserves at 31 March 2020 consisted of £1.526bn of revenue reserves (11.7% of revenue resources) and £0.117bn of capital reserves. The general reserves account for £0.41bn of the revenue reserves (3.1% of revenue resources) whilst earmarked reserves are £1.2bn (8.6% of revenue reserves).
- 1.3. In 2018 the Minister for Police and Fire Service issued a requirement for all PCCs/PFCCs to provide transparent reserve data for current and future years.
- 1.4. The Minister for Police 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)
- 1.5. Reserves are held both for the annual budget and over the medium term as part of an overall MTFs and are a crucial part of preventing the PFCC from over committing financially. There are a number of legislative requirements in place that are supported by the appropriate governance of reserves. These include:
 - The requirement to set a balanced budget as set out within the Local Government Finance Act 1992.
 - The requirement for the PFCC to make arrangements for the proper administration of their financial affairs and the appointment of a Chief Financial Officer to take responsibility for the administration of those affairs.
 - The requirements of the Prudential Code, Treasury Management in Public Services Code of Practice and the Financial Management Code of Practice.
 - The PFCC CFO's duty to report on the robustness of estimates and the adequacy of reserves when the PFCC is considering their budget requirement.
 - This is reinforced by Section 114 of the Local Government Act 1988 which requires the PFCC CFO to report to the PFCC, Police, Fire and Crime Panel and the External

Auditor if there is or likely to be unlawful expenditure or an unbalanced budget. This would include situations where the PFCC does not have sufficient resources to meet expenditure in a particular year.

- The Local Government Finance Act 1992 also requires PCCs/PFCCs as a 'precepting' authority to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

- 1.6. Local circumstances in terms of resourcing, expenditure and demand vary significantly across the country and so the level of reserves held is a judgement by the PFCC with advice from the PFCC CFO considering all local and national circumstances. However, the Government have specified that any level of general reserves over 5% requires explanation within the Reserves Strategy.
- 1.7. 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 their Chief Financial Officer. Under the Local Government Act 2003 it is the duty of the Chief Financial Officer to report on the robustness of estimates and the adequacy of reserves when the PFCC is considering their council tax requirement.
- 1.8. CIPFA guidance, Local Authority Reserves and Balances, (LAAP Bulletin 99) note that reserves can be held for three main purposes:
 - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary borrowing
 - A contingency to cushion the impact of unexpected event or emergencies
 - A means of building up funds, known as earmarked reserves
- 1.9. The Essex PFCC reserves have always been included within the Medium Term Financial Strategy (MTFS) and the budget setting papers, which are presented to the Essex Police, Fire and Crime Panel. In year the level of reserves is reported monthly to the PFCC's Performance and Resources Board.

2. Financial Regulations

- 2.1. The Essex PFCC Financial Regulations set out the responsibilities of the Chief Constable and their Chief Finance Officer and the PFCC and their Chief Financial Officer, in respect of reserves and how they are used as detailed below in paragraph 2.2 to 2.5.
- 2.2. The PFCC must decide the level of general reserves they wish to retain before they can decide the level of council tax precept. Reserves are maintained as a matter of prudence. They enable the organisation to provide for cash flow fluctuations and unexpected costly events and thereby help protect it from overspending the annual budget, should such events occur. Reserves for specific purposes may also be maintained where it is likely that a spending requirement will occur in the future.

2.3. Responsibilities of the PFCC's Chief Financial Officer:

- To advise the PFCC on reasonable levels of balances and reserves. To report to the PFCC on the adequacy of reserves and balances before they approve the annual budget and council tax.
- To approve appropriations to and from each earmarked reserve. These will be separately identified in the Annual Statement of Accounts.
- To publish the PFCC's reserves strategy on the PFCC website in line with Home Office guidance.

2.4. Responsibilities of the Chief Constable's Chief Finance Officer and the PFCC's Chief Financial Officer

- To present a business case to the PFCC for one-off expenditure items to be funded from earmarked and / or general reserves.

2.5. Responsibilities of the PFCC:

- To approve a policy on reserves and balances, including lower and upper parameters for the level of general balances.
- To approve the creation of each earmarked reserve. The purpose, usage and basis of transactions should be clearly identified for each reserve established.
- To approve the allocation of monies to and from general and earmarked reserves, as part of the annual budget setting process.

3. Reserves Strategy

3.1. With all financing being issued to the PFCC, the reserves are therefore held by the PFCC

3.2. The PFCC holds reserves for four reasons:

- As a general contingency against unknown or unforeseen events
- To manage strategic risks in the organisation
- To manage change within the organisation
- To be held for statutory reasons

3.3. Reserves can also be categorised by

- Usable Reserves – These reserves are those that may be used to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use, for example the Capital Receipts Reserve may only be used to fund capital expenditure repay debt or meet the cost of disposal of land.
- Unusable Reserves – These reserves are those that cannot be used to provide services. They arise from accounting adjustments and change annually as part of the year end process.

3.4. The PFCC's Reserve Strategy has the following key features:

- To establish a General Reserve position of 3% of net revenue expenditure by the end of 2024/25 and to then maintain the General Reserve at 3% by each year end, in the three following years of the Medium Term Financial Strategy, for unknown and/or unforeseeable events.
- Earmarked reserves will be created to cover for possible known significant risks and future commitments.
- The PFCC will apply a prudent approach to reserves and risk management although this will be balanced with ensuring the public of today, benefit from today's funding.
- The PFCC will take a long-term approach to protecting, maintaining and investing in all its assets supporting policing for the long term as well as short term.
- Reserves not required for the above purposes will be clearly identified as available for other discretionary opportunities.
 - The PFCC will where possible build up and maintain a level of reserves for investment, borrowing only where the life of the asset and economic environment make it the most efficient way of financing investment.

3.5. The elements of the PFCC's reserves strategy have not changed, however, their achievement has become more challenging due to the current financial climate.

4. General Reserve

- 4.1. The General Reserve is required to ensure that the PFCC is able to mitigate financial risks which can arise due to unforeseen events e.g., significant changes in demand for policing.
- 4.2. The PFCC General Reserve at 31 March 2023 is forecast to be £13.8m and 3.9% of net revenue expenditure (NRE), at budget setting in January 2023 the PFCC's agreed budget outlined plans to utilise £3.1m from the General Reserve during the 2023/24 financial year. This will be used to fund one off expenditure plans for 2023/24, with the one off recurring expenditure budget having been released as savings in 2023/24.
- 4.3. The General Reserve is forecast to be £10.7m and 2.9% of net revenue expenditure at 31 March 2024.
- 4.4. It is then planned to increase the level of General Reserve to 3% of net revenue expenditure for each following year of the 2023/24 to 207/28 Medium Term Financial Strategy (2024/25 to 2027/28).
- 4.5. 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 (which would be £3.6m in 2024/25).
- 4.6. In 2023/24 the General Reserve is forecast to be £10.7m at 31 March 2024 2.9% of NRE. The forecast outturn for the 2022/23 financial year for the General Reserve is £13.8m, which will be a movement of £3.1m linked to the additional cost required to fund one off expenditure during 2023/24, as stated in paragraph 4.2 above. By the end of the following year 2024/25, the General Reserve will be reinstated to 3%, which will be

£11.4m, an increase of £0.6m. It will be maintained at 3% for the remainder of the Medium Term Financial Strategy, which will be £11.7m by the end of 2025/26, £11.9m by the end of 2026/27 and £12.2m by the end of 2027/28.

5. Capital Reserves

- 5.1. The PFCC receives capital receipts from the sale of non-current assets and these are held within the Capital Receipts reserve as regulation dictates that they may only be used to meet capital expenditure, repay debt or meet the cost of disposal of land. Often the receipts received in year are applied to finance the in-year capital investment and therefore there is often a nil balance on the reserve at the end of the year. The closing balance as at 31st March 2022 was £0.928m and the reserve is forecast to be fully utilised by 31st March 2023.

6. Earmarked Reserves

- 6.1. At 31 March 2022 the PFCC's Earmarked Reserves were £17.106m.
- 6.2. The PFCC is forecasting an Earmarked Reserve balance of £8.334m at 31 March 2023.
- 6.3. Detail of the forecast Reserves at 31 March 2023 compared to 31 March 2022, is shown in figure 1 below.

Figure 1: Forecast Reserves 31 March 2023 compared to actual reserves 31 March 2022.

Revenue Reserves	31 March 2022 Actual £m	31 March 2023 Forecast £m	Forecast movement in 2022/23 £m
1. PFCC Carry Forward Reserve	3.174	3.174	-
2. Chief Constable Carry Forward Reserve	0.750		(0.750)
3. Forfeiture Monies Reserve	0.426	0.189	(0.237)
4. Transformation Reserve	1.110	1.310	0.200
5. Op Dagenham Maintenance Reserve	0.092	0.092	-
6. Proceeds of Crime Act	2.047	1.450	(0.597)
7. Restructure Reserve	1.023	0.423	(0.600)
8. Major Operational Reserve	1.500		(1.500)
9. Legal Reserve	1.316	1.316	-
10. Operational Transformation Reserve	0.479		(0.479)
11. Special Constabulary Reserve	0.145		(0.145)
12. PEQF Reserve	0.326	0.280	(0.046)
13. Data Analytics Reserve	0.028		(0.028)
14. COVID Roadmap Violence Reduction Reserve	0.229		(0.229)
15. Restricted Grant Reserve	0.103		(0.103)
Total	12.748	8.234	(4.514)
16. Future Capital Funding Reserve	4.358	0.100	(4.258)
Total Earmarked Reserves	17.106	8.334	(8.772)
General Reserve	14.818	13.833	(0.985)
Total Revenue Reserves	31.924	22.167	(9.757)

Paragraph 6.4 describes each reserve by the numbering in the above table.

6.4. Detail of the Reserves

Note 1 The PFCC Carry Forward Reserve represents amounts carried forward from the previous financial year to meet specific financial commitments, as approved by the PFCC

Note 2 The Chief Constable's Carry Forward Reserve represents amounts carried forward from the previous financial year to meet specific financial commitments, as directly requested by the Chief Constable, and approved by the PFCC, and must not exceed £750k.

Note 3 The Forfeiture Monies Reserve holds funds transferred to the PFCC as a result of seizures under the Misuse of Drugs Act. These funds are subsequently transferred from the reserve into the Comprehensive Income & Expenditure Statement in order to fund the costs of operations mounted to tackle drug related crime and drug abuse.

Note 4 The Transformation Reserve was created in 2015/16 and helps to fund the one off costs of implementing the Estates and IT Strategies.

Note 5 The Operation Dagenham Maintenance Reserve funds the cost of minor repairs to a multi-occupancy building joined owned by the 7 Forces. The reserve represents the Essex share of this maintenance reserve.

Note 6 The Proceeds of Crime Act (POCA) Reserve holds receipts received through the Asset Recovery Incentive Scheme, to fund crime reduction related expenditure including funding of Financial Investigator Officer posts.

Note 7 The Restructure Reserve was created in 2014/15 to help fund the one-off costs associated with redundancies.

Note 8 The Major Operational Reserve was created in 2016/17 to fund in-year shortfalls on major incidents not reimbursed by the Home Office. This is forecast to be depleted as at 31 March 2023 due to a major operation in 2022/23 and will need to be built up again in future years.

Note 9 The Legal Claims Reserve was originally created in 2016/17 to fund one-off costs of future legal claims.

Note 10 The Operational Transformation Reserve was created in 2018/19 to fund one-off investments to enhance and transform capability, capacity and effectiveness and the balance on this reserve was allocated in 2022/23.

Note 11 The Special Constabulary Reserve was set up in 2018/19 to support the expenditure required to increase the number of Specials and the balance on this reserve was allocated in 2022/23.

Note 12 The Policing Education Qualification Framework (PEQF) is the framework for the education of police officers and police staff. This reserve was created in 2019/20 to fund one-off costs for the introduction of this training programme.

Note 13 The Data Analytics reserve was created in 2019/20. This reserve was to support the cost of introducing a new data analytics tool, and the balance on this reserve was allocated in 2022/23.

Note 14 The COVID Roadmap Violence Reduction Reserve was set up in 2020/21 for the purpose of Operation Sunshade, to address violent crime reduction surrounding the easing of lockdown measures, including additional enforcement of COVID regulations at Stansted Airport. The balance on this reserve was allocated in 2022/23.

Note 15 The Restricted Grant Reserve is used for unspent balances of grants received for specific purposes which have yet to be fully utilised. The reserve was created in 2021/22.

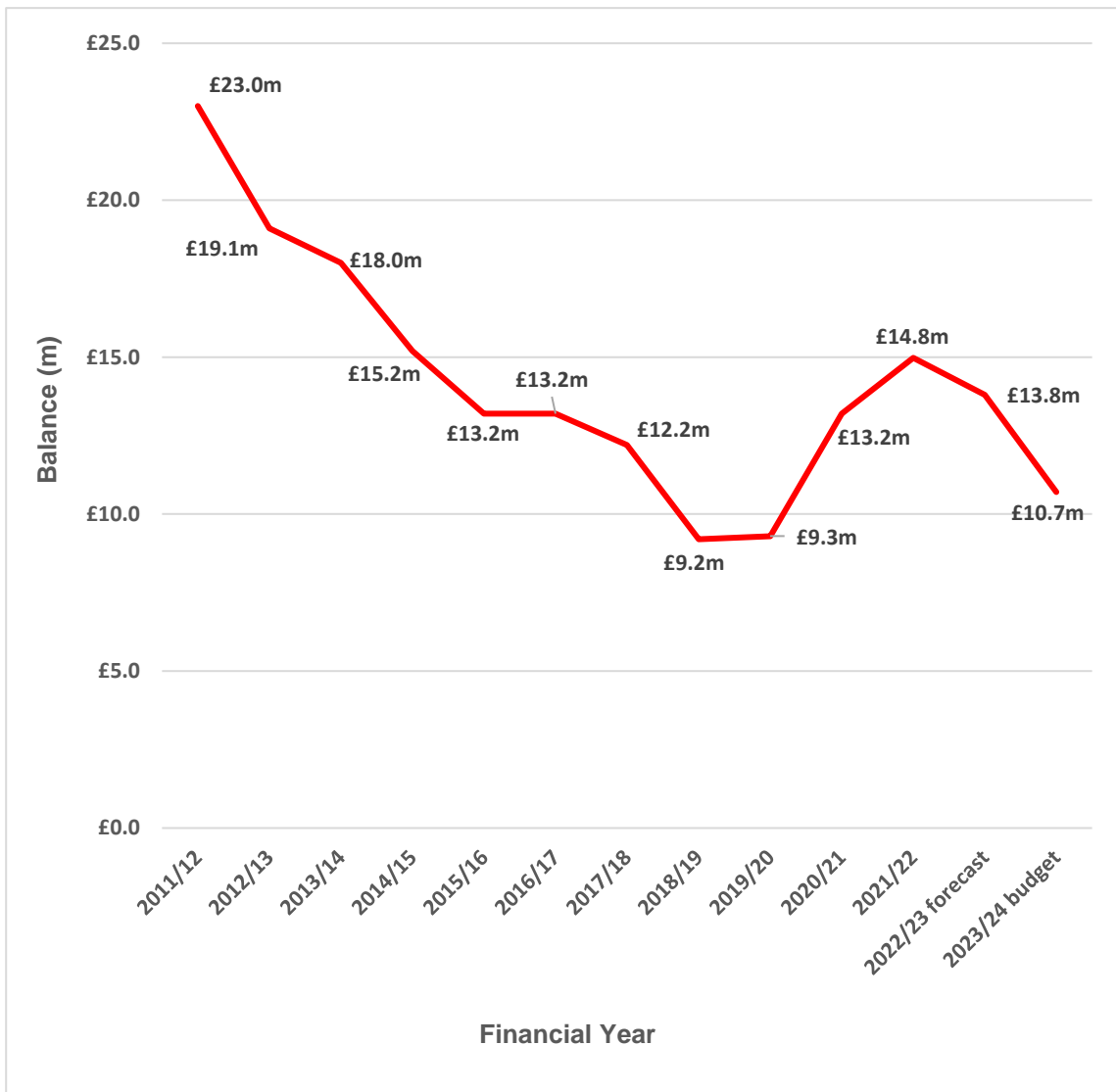
Note 16 The Future Capital Funding Reserve is used as an enabling facility to finance future capital expenditure arising in both new and existing projects.

7. Historic Reserve Analysis

7.1. General Reserve

7.2. From 2011/12 to the 2023/24 budget, the PFCC's General Reserve balance will reduce from £23m to £10.7m, this will be a reduction of 53% over the period. The downward trend was temporarily reversed by grants to address the impact of the Covid-19 Pandemic which crossed financial years. Figure 2 shows the General Reserve balance from 31 March 2012 to the budgeted position at 31 March 2024.

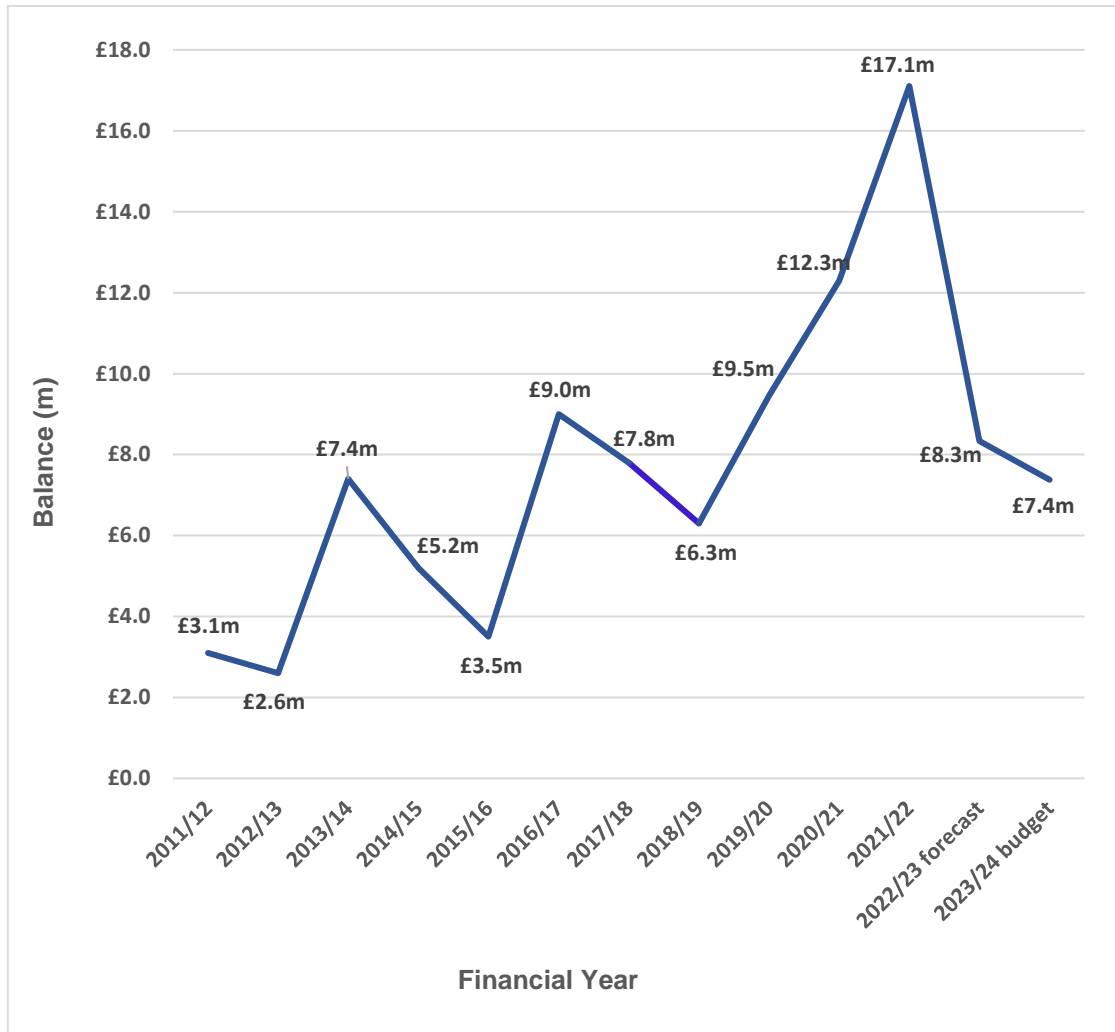
Figure 2: General Reserve balance at 31 March



7.3. Earmarked Reserves

7.4. Since 2011/12 the Earmarked Reserves balance has fluctuated from a low of £2.6m to a high of £17.1m. Figure 3 shows the total Earmarked Reserves balance from 31 March 2012 to the budgeted position at 31 March 2024.

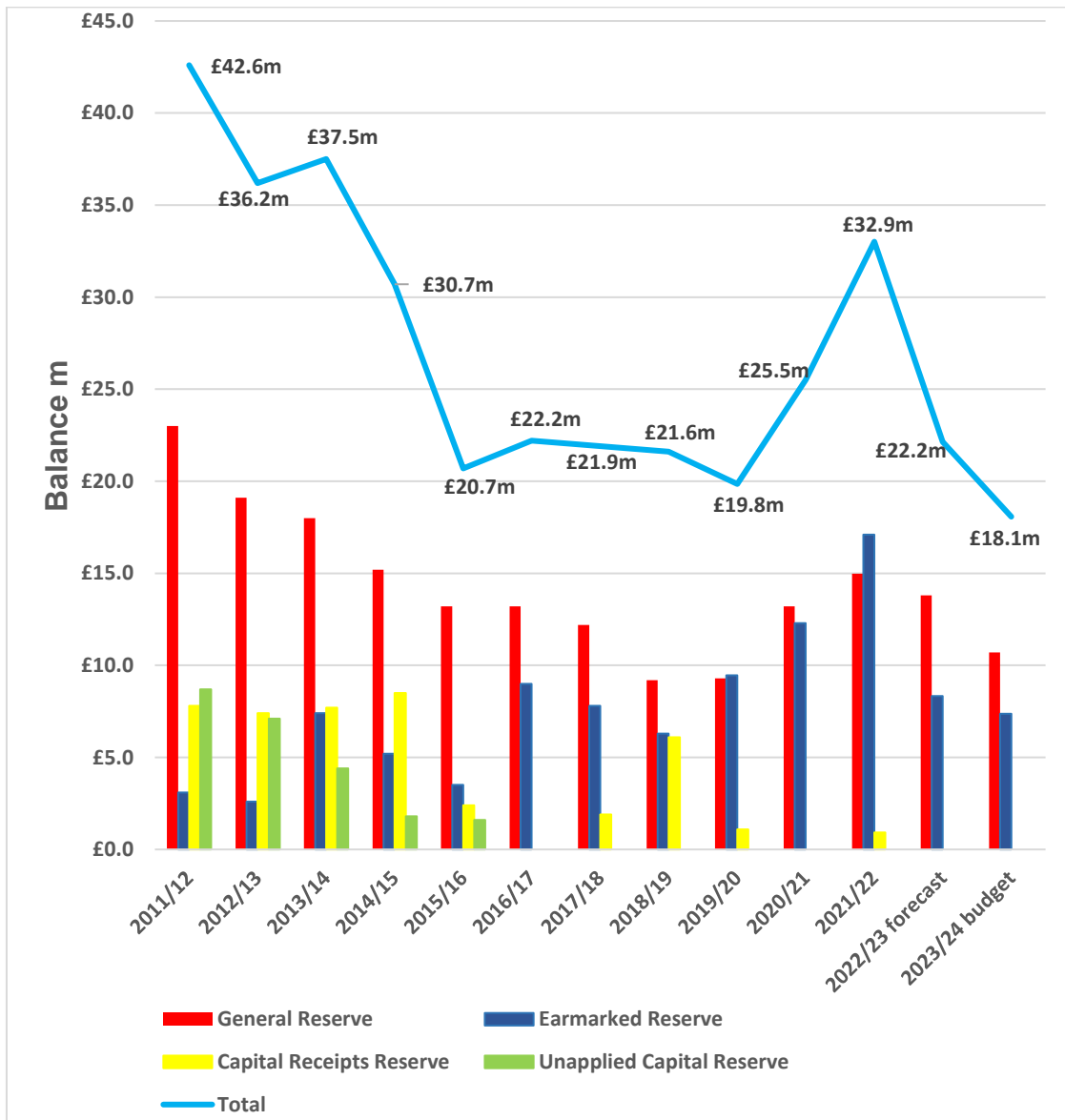
Figure 3: Earmarked Reserve balance at 31 March



7.5. **Total Usable Reserves**

7.6. The PFCC has seen a reducing trend in total usable reserves over the period since 2011/12. Figure 4 below shows the total usable reserves balance from 31 March 2012 to the budgeted position at 31 March 2024.

Figure 4: Total Usable Reserves at 31 March



8. Unusable Reserves

8.1. The detail of unusable reserves over the most recent two years is shown in figure 5 below.

Figure 5: Unusable Reserves at 31 March 2021 and 31 March 2022

Unusable Reserves	31 March 2021 Actual £m	31 March 2022 Actual £m
Revaluation Reserve	10.9	16.9
Capital Adjustment Account	81.1	76.4
Pension Reserve police officers	(3,328.9)	(3,297.8)
Pension Reserve police staff	(240.3)	(193.6)
Collection Fund Reserve	0.2	2.1
Accumulated Absences Reserve	(6.2)	(4.6)
Total Unusable Reserves	(3,483.2)	(3,400.6)

8.2. The description of each unusable reserve is outlined below:

- **Revaluation Reserve** – This reserve contains the gains made by the PFCC, which arise from increases in the value of its property, plant and equipment or intangible fixed assets. The balance is reduced when; assets with accumulated gains are revalued downwards or impaired and the gains are lost; the gains are consumed through depreciation, or the asset is disposed of, and the gains are realised.
- **Capital Adjustment Account** – This reserve is used to adjust the accounting items related to non-current assets that have been recognised in the Comprehensive Income and Expenditure Statement. It is used to remove accounting charges and to also ensure that the financing of non-current assets is appropriately levied to the local taxpayer. It shows the extent to which non-current assets have been financed from internal sources.
- **Pension Reserve** – This Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits, and for funding benefits in accordance with statutory provisions.
- **Collection Fund reserve** – This reserve manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.
- **Accumulated Absences Reserve** - Absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year.

9. Total Reserves

- 9.1. The table at figure 6 below shows a summary of revenue and capital reserves, and of usable and unusable reserves.

Figure 6: Summary of Reserves at 31 March

31 March 2021 Actual £m	31 March 2022 Actual £m	Reserves	31 March 2023 Forecast £m	31 March 2024 Plan £m	31 March 2025 Plan £m	31 March 2026 Plan £m	31 March 2027 Plan £m	31 March 2028 Plan £m
12.3	17.1	Earmarked Revenue Reserves	8.3	7.4	6.9	7.5	6.3	6.3
13.2	14.8	General Reserve	13.8	10.7	11.4	11.7	11.9	12.2
25.5	31.9	Total Revenue Reserves	22.2	18.1	18.3	19.2	18.2	18.5
4.2%	4.5%	General Reserve as a % of net revenue expenditure	3.9%	2.9%	3.0%	3.0%	3.0%	3.0%
-	0.9	Capital Receipts Reserve	-	-	-	16.4	7.8	-
25.5	32.9	Total Usable Reserves	22.2	18.1	18.3	35.6	26.0	18.5
10.9	16.9	Revaluation Reserve						
81.1	76.4	Capital Adjustment Account						
(3,328.9)	(3,297.8)	Pension Reserve police officers						
(240.3)	(193.6)	Pension Reserve police staff						
0.2	2.1	Collection Fund Reserve						
(6.2)	(4.6)	Accumulated Absences Reserve						
(3,483.2)	(3,400.6)	Total Unusable Reserves						
(3,457.8)	(3,367.8)	Total Reserves	22.2	18.1	18.3	35.6	26.0	18.5

Unusable reserves are not included in the forecast or the plan, as they arise from accounting adjustments, when the year-end Statement of Accounts are produced.