

## **Police and Crime Commissioner for Suffolk - 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 fallback 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 saving over the period of the Medium-Term Financial Plan (MTFP).
6. This strategy should be read in conjunction with the MTFP and this can be found through the following link: <http://www.suffolk-pcc.gov.uk/wp-content/uploads/2018/01/Suffolk-MTFP-18-19-to-21-22-revised-reserves-strategy-9-August-2018.pdf>

### **General Reserve**

#### **Assessment of adequacy**

7. 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, risk of failure to deliver the savings programme and sensitivity analysis of changes in assumptions included in the plan.
8. Within the MTFP appropriate estimates are made on a number of key items including provision of 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 included in the plan. These estimates and assumptions are taking into account the general financial climate to which the authority is subject.

9. Suffolk 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.
10. Since 2010 the Constabulary has a proven track record of delivering efficiency savings year on year that will total £27.5m by the end of 2017-18.
11. In this 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 MTFP. In line with Home Office requirements, the detail of which is expected to be confirmed during February 2018, the Chief Constable and PCC are committed to continuing to deliver efficiency and productivity gains in each year of the plan.
12. The General Reserve is being reduced to from 4.4% of the budget (£5m) to 3% of the budget (£3.5m) in 2017-18 in order to make balances available for the Budget Reserve and Change Reserve. This is then held consistently at £3.5m throughout the plan and 3% of budget is a prudent and adequate amount to hold as a General Reserve. This is shown in **Appendix 1**.

### **Earmarked reserves**

13. These are reserves that are held for a specific purpose, whereby funds are set aside for future use when that specific purpose arises.
14. The level of reserves and predicted movement for these reserves is set out in **Appendix 1** (this is modelled on Option 2 from the MTFP). All reserve levels are reviewed annually.
15. The purpose and strategy for each reserve is set out below.
16. The **Budget Reserve** is being held as a contingency against the increasing number of future demand led pressures and would also act as a contingency to increases of assessed insurance liabilities in excess of insurance budgets and provisions. £1.346m of the reserve is being transferred out to the Change reserve to fund the cost of change. £0.505m is being transferred in from the General Reserve in line with paragraph 12. The reserve is then being held at £0.450m throughout the plan.
17. The **Change Reserve** is used to fund the cost of change and / or to pump prime invest-to-save activities. This reserve is being increased by a transfer of £1.346m from the Budget Reserve, and a further £0.915m from the reduction in the General Reserve as per paragraph 12. The reserve is to be used specifically to fund redundancies resulting from the ambitious Change Programme that is designed to increase the efficiency of the force, to fund temporary posts until the implementation of certain business cases, and to contribute to the ongoing 7 Force collaboration team that is joining services together at a 7 Force level and accelerating the convergence agenda of those 7 Forces. This reserve is predicted to be fully used by the end of the plan.
18. 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 budget available for this purpose. The capital programme is shown in Appendix D of the MTFP and the short-life asset funding

required includes schemes such as the ICT refresh programme for servers, desktops, network etc; the funding for replacing the Video Conferencing technology essential for the smooth running of the collaboration between Suffolk and Norfolk; the introduction of a telematics system for vehicles that will lead to significant efficiencies in running and maintaining the fleet; further investment in tasers; and the replacement of vehicles . The strategy is to “top-up” this reserve by £4m in the last 3 years of the plan to fund the requirement. The “top-up” will be funded from the efficiency and savings programme.

19. The **Specified Purpose Fund** relates to funds allocated for specific purposes including partnership funding and is predicted to be fully used by the end of 2017-18.
20. The **Crime and Disorder Reduction Reserve** is made up from underspends against the PCCs Commissioning budget which have been earmarked to fund future commissioning initiatives.
21. The **PCC reserve** is made up from previous underspends against the budget for the Office of the Police and Crime Commissioner. The plan is to hold this at £0.409m over the life of the plan, but review this on an annual basis. This reserve is in essence a general contingent reserve.
22. The **Safety Camera Reserve** is made up from previous underspends against the approved annual budget. The use is reviewed and agreed at the Driver Offender Re-training Governance Board (DORG).

### **Compliance with Home Office guidance on reserves**

23. On 31<sup>st</sup> 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 31<sup>st</sup> March 2018 over the above headings.

### **Conclusion**

24. The current policy, as demonstrated in the MTFP, is to maintain revenue general balances close to an operational guideline level of 3.0% of the net annual revenue budget. This is an acceptable and appropriate position to be in as the prolonged period of fiscal tightening continues.
25. The earmarked reserves have been described and the strategy is to keep these for specific purposes, and at an appropriate level that ensures taxpayer’s 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.

26. Having considered the levels of reserves included in the MTFP, and acknowledging the Chief Constable's commitment to work with the PCC to maintain a balanced budget over the period of the MTFP without further reliance on reserves (with the exception of the planned use of the Change and Capital Finance Reserves), and taking account of the approach to managing financial risk described in the report, my 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, with Option 2 contributing £429k more to reserves than Option 1.

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

APPENDIX 1

PROJECTION OF RESERVES LEVELS:									
	General	Budget	Change	Capital Financing	Specified Purposes Fund	Crime and Disorder Reduction Reserve	PCC Reserve	Total	Safecam Reserve
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>31/03/2017 Actual</b>	<b>5,000</b>	<b>2,751</b>	<b>0</b>	<b>1,187</b>	<b>240</b>	<b>366</b>	<b>409</b>	<b>9,953</b>	<b>885</b>
<b>Proposed Changes 2017/18:</b>									
Transfer from Budget Reserve		-1,346	1,346					0	
Constabulary overspend		-1,250						-1,250	
Use of specified purposes fund					-240			-240	
Temporary posts			-593					-593	
Road Casualty Reduction Team		-210						-210	
Contribution to Victims Services						-150		-150	
Cost of Change			-250					-250	
7 Force Collaboration Contribution			-43					-43	
Use of capital financing reserve				-975				-975	
Transfer from General Reserve	-1,500	505	915	80				0	
<b>31/03/2018 Forecast</b>	<b>3,500</b>	<b>450</b>	<b>1,375</b>	<b>292</b>	<b>0</b>	<b>216</b>	<b>409</b>	<b>6,242</b>	<b>885</b>
<b>Proposed Changes 2018/19:</b>									
Contribution to Reserves			429					429	
Temporary posts			-337					-337	
Road Casualty Reduction Team								0	-200
Contribution to Crime and Disorder Reduction						-50		-50	
Cost of Change			-1,000					-1,000	
7 Force Collaboration Contribution			-124					-124	
<b>31/03/2019 Forecast</b>	<b>3,500</b>	<b>450</b>	<b>343</b>	<b>292</b>	<b>0</b>	<b>166</b>	<b>409</b>	<b>5,160</b>	<b>685</b>
<b>Proposed Changes 2019/20:</b>									
Contribution to Reserves			0	1,000				1,000	
Civil Parking Enforcement			-190					-190	
Use of capital financing reserve				-1,292				-1,292	
7 Force Collaboration Contribution			-124					-124	
<b>31/03/2020 Forecast</b>	<b>3,500</b>	<b>450</b>	<b>29</b>	<b>0</b>	<b>0</b>	<b>166</b>	<b>409</b>	<b>4,554</b>	<b>685</b>
<b>Proposed Changes 2020/21:</b>									
Contribution to Reserves				1,000				1,000	
<b>31/03/2021 Forecast</b>	<b>3,500</b>	<b>450</b>	<b>29</b>	<b>1,000</b>	<b>0</b>	<b>166</b>	<b>409</b>	<b>5,554</b>	<b>685</b>
<b>Proposed Changes 2021/22:</b>									
Contribution to Reserves				2,000				2,000	
Use of capital financing reserve				-2,449				-2,449	
<b>31/03/2022 Forecast</b>	<b>3,500</b>	<b>450</b>	<b>29</b>	<b>551</b>	<b>0</b>	<b>166</b>	<b>409</b>	<b>5,105</b>	<b>685</b>

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

APPENDIX 2

Analysis of forecast reserves as at 31.03.2018 - SUFFOLK				
	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
<b>General Reserve</b>	3.500	0.000	0.000	3.500
<b>Earmarked Reserves:</b>				
Budget Reserve	0.450	0.000	0.450	
Change Reserve	1.375	1.347	0.028	
Capital Financing Reserve	0.292	-0.259	0.551	
Specified Purposes Fund	0.000	0.000		
Crime & Disorder Reduction Reserve	0.216	0.050	0.166	
PCC Reserve	0.409	0.000		0.409
<b>Total Earmarked Reserves</b>	2.742	1.138	1.195	0.409
<b>Total Reserves before Safecam Reserve</b>	6.242	1.138	1.195	3.909
<b>Safety Camera Reserve</b>	0.885	0.200	0.685	0.000
<b>Total Reserves</b>	7.127	1.338	1.880	3.909