



AGENDA NO: **5C**

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 26 JANUARY 2021

FOIA OPEN

TITLE OF REPORT: RESERVES STRATEGY COVERING REPORT

REPORT BY: NICOLA ALLEN, CHIEF FINANCE OFFICER, DEVON AND CORNWALL OPCC

PURPOSE OF THE REPORT:

To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	YES
Internal Audit	-
External Audit	-
Financial reporting	-
Other matter (please specify here)	-

RECOMMENDATIONS:

The Independent Audit Committee is asked to:

Review the Report	YES
Consider the Report	-
Note the report	-
Other (please specify here)	-

1. BACKGROUND INFORMATION

- 1.1 The Chartered Institute of Public Finance and Accountancy's (CPIFA's) sets out guidance on establishing and maintaining reserves and balances. This guidance is a foundation for good financial management and has been adopted by the Police and Crime Commissioner (PCC).
- 1.2 The Reserves Strategy is reviewed annually and discloses each reserve held, its purpose and expected balances over the medium term.

- 1.3 The Independent Audit Committee (IAC) is responsible for scrutinising the Reserves Strategy and making recommendations to the PCC, before it is approved.
- 1.4 Any comments made will be considered by the Devon and Cornwall Joint Leadership Board, prior to approval by the PCC who is ultimately responsible for approving the Strategy.
- 1.5 The Reserves Strategy is intrinsic to the annual Budget and Medium Term Financial Strategy which is considered by the Police and Crime Panel each year as part of the PCC's annual precept setting process. This is further supported by the Capital Strategy, and the Treasury Management Strategy (both being considered on the agenda).

2. THE RESERVES STRATEGY

- 2.1 The CIPFA guidance identifies that Revenue Reserves can be held for 3 main purposes:
 - As a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing (this forms part of general reserves);
 - As a contingency to cushion the impact of unexpected events or emergencies (this also forms part of general reserves);
 - As a means of building up funds to meet known or predicted requirements; these specific reserves are known as earmarked reserves and remain legally part of the total "General Fund".

In addition, PCC's hold the following usable reserves:

- Capital Receipts Reserve – this reserve holds the proceeds from the sale of assets and can only be used for capital purposes (as specified in the capital finance and accounting regulations).
- 2.2 The Home Office issued specific **Police finance reserves guidance** on 31 January 2018, which is provided in the draft Strategy. They also publish the details of all police reserves annually. This indicates that overall the level of reserves held nationally has reduced.
 - 2.3 The balances presented are estimates at this stage and are subject to change up to the point of finalising the budget. Based on the current position, the level of general balances equates to 3.10% of the overall revenue funding which is within the reserves policy range.
 - 2.4 There are some presentational changes in the Reserves Strategy. The key substantive content changes are noted below:

2.4.1 Additional Reserve

An additional reserve has been created within Earmarked Reserves to facilitate infrastructure changes required to recruit officers as part of the uplift programme.

2.4.2 Risk Assessment

In light of the changes to the level of reserves, a review of their adequacy as well as a risk assessment has been undertaken. It was concluded that the level of reserves is adequate to cover unknown or unexpected events.

2.5 The Draft 2021/22 Reserves Strategy is shown in Appendix A.

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Date: 7 January 2021