

## RESERVES STRATEGY 2021/22 TO 2024/25

1. The Chartered Institute of Public Finance & Accountancy (CIPFA) maintains guidance on the establishment and maintenance of local authority reserves and balances, which is a foundation for good financial management, and is followed by PCCs. The Guidance identifies that 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, PCCs 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. In addition, the Home Office issued specific **Police finance reserves guidance** on 31 January 2018, which is provided in full below.

### **Guidance**

*Each PCC should publish their reserves strategy on their website, either as part of their medium term financial plan or in a separate reserves strategy document. The reserves strategy should include details of current and future planned reserve levels, setting out a total amount of reserves and the amount of each specific reserve held for each year. The reserves strategy should cover resource and capital reserves and provide information for the period of the medium term financial plan (and at least two years ahead).*

*Sufficient information should be provided to enable understanding of the purpose(s) for which each reserve is held and how holding each reserve supports the PCC’s medium term financial plan.*

*The strategy should be set out in a way that is clear and understandable for members of the public, and should include:*

- *how the level of the general reserve has been set;*
- *justification for holding a general reserve larger than five percent of budget;*
- *details of the activities or items to be funded from each earmarked reserve, and how these support the PCC and Chief Constable's strategy to deliver a good quality service to the public. Where an earmarked reserve is intended to fund a number of projects or programmes (for example, a change or transformation reserve), details of each programme or project to be funded should be set out.*

*The information on each reserve should make clear how much of the funding falls into 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 or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance).*

## **Reserves Strategy**

3. The PCC's Reserve Strategy has the following key principles:-

- The reserves policy for Devon and Cornwall will be looking to maintain general balances at no more than 5% and no less than 3% of overall funding levels each year.
- The requirement for the Reserves will be reviewed at least annually. Those reserves no longer required for their intended purpose will be identified and made available for other defined priorities.
- Reserves will be assessed annually to ensure adequacy.
- Risk assumptions used when assessing reserves will be reviewed annually.
- A long term view will be used when assessing the use of reserves to ensure all assets that support policing are maintained.
- General balances cover the general financial risks. This will include unexpected or unavoidable additional costs, such as a major operations, uninsured liabilities, or treasury management risks.

**Appendix A (Agenda 5C)**

4. The total general and earmarked reserves are estimated to be £27m as at 31 March 2022. The level of general balances will sit at £10.841m which equates to 3.10% of the overall revenue funding. This level of general balances is within the overall parameters set within the strategy.
5. A significant element of the reserves will go towards the funding of the capital programme.

**Planned Use of Reserves**

6. The reserves position is shown in Table 1 below and indicates that overall level of reserves will reduce from £43.9m as at 31/03/20 to £13m as at 31/03/25.

**Table 1: Projected Reserve Levels to 31/03/2025**

	31/03/2020	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's
<b>Revenue Reserves</b>						
Programme and Projects Reserve	0	0	0	0	0	0
Estates Development Reserve	794	311	0	0	0	0
Capital Financing Reserve	23,119	9,197	1,416	0	0	0
ESN Capital Reserve	2,520	9,761	8,711	4,954	1,376	0
Capital Programme Reserve	2,748	0	0	0	0	0
Budget Management Fund	2,114	360	3,446	2,214	982	360
Police and Crime Plan Reserve	991	826	826	826	826	826
PEQF Reserve	265	265	0	0	0	0
Uplift Reserve	0	3,290	1,410	0	0	0
<b>Total Revenue Reserves</b>	<b>32,551</b>	<b>24,010</b>	<b>15,809</b>	<b>7,994</b>	<b>3,184</b>	<b>1,186</b>
<b>Capital Reserves</b>						
Capital Grant	524	0	0	0	0	0
<b>Total Capital Reserves</b>	<b>524</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>General Balances</b>	<b>10,847</b>	<b>10,098</b>	<b>10,841</b>	<b>10,970</b>	<b>11,406</b>	<b>11,842</b>
<b>Total Reserves and Balances</b>	<b>43,922</b>	<b>34,108</b>	<b>26,650</b>	<b>18,964</b>	<b>14,590</b>	<b>13,028</b>

7. The Reserves in the table above are held for the following reasons:-
  - a. **The General Balances** are used to mitigate against unknown or unexpected events that occur and that cannot be accommodated within the revenue or capital budgets. These balances are maintained at no more than 5% and not less than 3% of the annual revenue budget.
  - b. **The Programme and Projects Reserve** is used to fund elements of the capital programme. This includes the investment in ICT and technology

## Appendix A (Agenda 5C)

improvements. These projects are held under the PRISM Transformational Portfolio and are designed to improve ways of work to increase efficiency and productivity within operational policing. There are also benefits reducing the financial commitment to the organisation.

- c. **The Estates Development Reserve** is used to fund the costs of rationalising and developing the estate. Including feasibility work, planning applications, consultancy costs and project management.
  - d. **The Capital Programme and Capital Reserves** are used to fund the capital programme.
  - e. **The Police and Crime Plan Reserve** is used to fund innovation projects in support of the Police and Crime Plan objectives and local PCC priorities.
8. Earmarked reserves relate to specific projects or liabilities, where the anticipated extent of the liability, and the timescales involved, are estimated. Reserves have been set aside for significant areas and items of expenditure, and if required will be brought into revenue in the year in which expenditure is incurred.
9. The use of capital reserves relates to setting aside unused capital finances that are expected to have been received, but not applied, in any year. It is currently expected that this will relate to unused capital grant and capital receipts. These reserves may only be used for capital purposes.
10. The key risks and liabilities covered by reserves and provisions are shown in Table 4. In each case, the timing and amount cannot be exactly predicted, but the figures shown reflect the latest assessment of potential cost.

### Home Office Classifications

11. The Home Office have set our clear guidance on publishing the reserves strategy. This included information on each of the reserves and how they fall within the classifications shown in Table 2 below.

### Table 2: Home Office Classifications

## Appendix A (Agenda 5C)

	31/03/2020	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's
Planned Programme and Projects within the current MTFS period	33,075	24,010	15,809	7,994	3,184	1,186
Specific Projects and Programmes beyond the current MTFS period	0	0	0	0	0	0
General Contingency	10,847	10,098	10,841	10,970	11,406	11,842
<b>Total</b>	<b>43,922</b>	<b>34,108</b>	<b>26,650</b>	<b>18,964</b>	<b>14,590</b>	<b>13,028</b>

## Review of Reserves & Risk Assumptions

12. The main financial risks contained on the joint force/OPCC risk register are shown below and inform the reserves policy:

- Agreed pay awards exceed the budget assumptions.
- Insufficient grant and council tax by 2021/22 to fund the Police and Crime plan.
- Demand increases above the levels that are affordable within the set budget.
- The council tax base does not increase as assumed.
- The council tax surplus is not generated to the levels assumed.

13. In addition to these wider risks the following areas are kept under review:

- Increased funding is required for the Force change programme.
- Revenue savings are not delivered on time.
- Increases in long term interest rates.
- Over reliance on internal borrowing to temporarily fund the capital programme.
- The review of Home Office formula grant funding introduces annual losses of grant.
- The top-slice funding in future years depletes resources without reciprocal benefit to the revenue budget.
- Budget uncertainty through assumption changes.
- Major incident cost overrun.
- Further cost transfers from the centre (e.g. Emergency Services Network and IT company costs).
- Reductions in local authority funding placing pressure on the police service.

## Assessing Adequacy

**Appendix A (Agenda 5C)**

14. The current expected use of earmarked reserves shows a significant reduction in the balance available by the end of 2022/23. This assumes that the capital programme is delivered on time and within budget. A target to increase the revenue contribution to capital over the life of the MTFS has been included in 2021/22.
15. In addition to the risks covered by earmarked reserves, there are further, unquantified risks and liabilities. The main source of funding for these risks is General Balances.
16. The key financial risks are summarised below. For each, an assessment of potential risk is shown, but clearly, in each case the actual risk could be significantly different, and an assessment of these risks will need to be reviewed regularly. Full details of each risk are set out in the Reserves Policy.

**Table 4: The Financial Risks**

<b>Identified Risk</b>	<b>£m's</b>
Future capital funding	2.0
Increased pay award above assumptions	1.5
Council Tax Volatility	1.5
Major Operations	2.9
Uninsured Liabilities and claims	2.0
Treasury Management	1.5
Other Unexpected Expenditure / Working Capital	2.0
<b>Total Financial Liability</b>	<b>13.4</b>

17. The financial risks shown in the table above would be temporary one off funding. For those items that have an impact annually the funding would be used to allow time to deliver permanent savings.
18. During 2020/21 the pandemic has increased the risk around the council tax volatility. This is in terms of the affect on the council tax base and the impact on the delayed and non-payment of bills. Conversely the risk of the pay award assumptions has decreased due to the announcement to pause pay awards for the Police Officer and Police Staff.
19. The actual limit of general risks, such as major operations or uninsured losses, could of course be significantly more than the assessment shown. Risks around significant major operations in particular are increasing, with increased reliance on more costly resourcing options such as overtime or mutual aid. If such a significant risk were realised, further funding would be sought in the first instance by re-prioritising the use of earmarked reserves.

**Appendix A (Agenda 5C)**

20. The above risks can be mitigated by the funding allocation on General Balances. General Balances exists to cover the general financial risks faced by the Force, such as major operations, uninsured liabilities, or treasury management risks.
21. The total funding available on General Balances does not fully meet the assessed risks and liabilities. The level of General Balances is forecast to be £10.1m as at 31 March 2021. This represents approximately 75% of the overall risk identified in the table above.
22. On the basis of the above, and given that risk calculation is not an exact science, the reserves and balances generally cover known liabilities and commitments and provide adequate cover for unknown liabilities at the assessed level for 2021/22.
23. Reserves will continue to be monitored and reviewed regularly throughout the year and, as stated above, will be the subject of more transparency.
24. The Treasurer as statutory Section 151 officer confirms that these reserves provide an adequate level given the identified financial risks in the budget.