

AGENDA NO: 11a



INDEPENDENT AUDIT COMMITTEE – 11 DECEMBER 2018

DRAFT RESERVES STRATEGY FOR 2019/20 – DEVON AND CORNWALL

REPORT BY NICOLA ALLEN

1. PURPOSE OF THE REPORT

- 1.1 To present the draft Reserves Strategy for 2019/20, for consideration and comment by the Independent Audit Committee, prior to approval by the PCC.

2. INTRODUCTION

- 2.1 Police and Crime Commissioners must decide the level of general reserves to be retained before the level of Council Tax precept is determined.
- 2.2 The Independent Audit Committee has a responsibility to consider any policy or strategy regarding reserves.
- 2.3 This Committee agreed, at its meeting in March, that for 2019/20 and future years the draft Reserves Strategy should be considered, prior to finalisation to allow the opportunity for any comments to be considered.

3. GUIDANCE

- 3.1 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 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).

- 3.2 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 and have recently added the outturn figures for 31 March 2018 to its website. This indicates that overall the level of reserves held nationally has reduced.

4. RESERVES STRATEGY

- 4.1 The draft Reserves Strategy is appended. It has been refreshed for 2019, with only minor presentational changes made.
- 4.2 The forecast balances are estimates at this stage. The General Fund Balance will be fully risk assessed as part of the budget report presented to the Police and Crime Panel in February 2019.

5. RISK/THREAT ASSESSMENT

- 5.1 Financial/Resource/Value for Money Implications - The maintenance of adequate reserves is an essential element of good financial management.
- 5.2 Legal Implications - Sections 32 and 43 of the Local Government Finance Act 1992 require precepting bodies to have regard to the level of resources needed to meet estimated future expenditure when calculating the annual budget requirement. This is further supported by the balanced budget requirement: England, sections 31A, 42A of the Local Government Finance Act 1992.

The Local Government Act 2003 requires all Chief Finance Officers (s.151) to make a statement on the robustness of estimates and the adequacy of reserves at the time the budget is set. The PCC has a statutory duty to have regard to this when making decisions about such calculations.

- 5.3 Implications for Policing Outcome - Holding an adequately level of reserves can de-risk the budget by avoiding crisis management when unexpected items occur e.g. a nationally agreed pay award higher than estimated. Reserves can also allow the “smoothing” of expenditure across years.
- 5.4 Equality - No direct implications.

6. RECOMMENDATIONS

- 6.1 It is recommended that the Independent Audit Committee considers the draft Reserves Strategy and provides any comments.

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APPENDIX – DRAFT RESERVES STRATEGY 2019/20