

## **NORTHUMBRIA POLICE AND CRIME COMMISSIONER**

### **Key Decision**

#### **ANNUAL RESERVES STRATEGY STATEMENT OF THE POLICE AND CRIME COMMISSIONER FOR NORTHUMBRIA 2018/19**

**(PCC/399/2019)**

#### **Summary**

On 24 July 2018 the Home Office published the revised 'Financial Management Code of Practice' (FMCP). The revised FMCP now includes the specific requirement for Police and Crime Commissioners to publish a reserves strategy on their website, either as part of their Medium Term Financial Strategy or in a separate Reserves Strategy Statement.

The statement provides an explanation for each reserve held by the Police and Crime Commissioner, along with its value. Plus, a narrative explaining whether the current and projected level of reserves is appropriate, and are governance arrangements for reserves adequate and appropriate.

The Annual Reserves Strategy Statement for year ending 31 March 2019 has been prepared in-line with best practice.

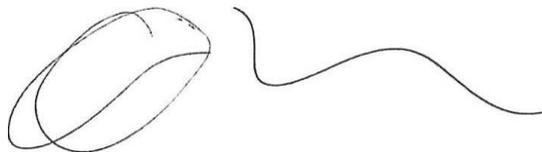
#### **Recommendation**

Approve and publish the attached statement as a true reflection of the reserves position for the Police and Crime Commissioner for Northumbria as at 31 March 2019.

#### **Northumbria Police and Crime Commissioner**

I hereby approve the recommendations above.

**Signature**



**Date 17.09.19**

# **Police and Crime Commissioner for Northumbria**

## **Annual Reserves Strategy Statement as at 31 March 2019**

### **I. The Reserves Strategy**

I.1 The Police and Crime Commissioner for Northumbria (the Commissioner) has a reserves strategy which is underpinned by the following key principles:

I.1.1 The Commissioner will maintain a General Reserve of a minimum of 2% of the net revenue budget to cover any major unforeseen expenditure or loss of funding. For budgetary purposes the Medium Term Financial Strategy (MTFS) is based upon a prudent General Reserve level set at 3% of net revenue budget.

I.1.2 The Commissioner will maintain an Insurance Reserve of £3.0m to protect against potential liabilities and costs where no external insurance cover is arranged or available.

I.1.3 The Commissioner will maintain additional earmarked reserves for specific purposes only when appropriate, and which are consistent with achieving the objectives set within the term of the MTFS.

I.1.4 The Commissioner will not retain earmarked reserves which are unnecessarily high or for projects and programmes beyond the four year medium term financial planning period.

I.1.5 Where appropriate the Commissioner will hold capital reserves which are necessary for and consistent with MTFS plans. Capital reserves will be applied to support operational plans to deliver Police and Crime Plan objectives and in accordance with the Local Authorities (Capital Finance and Accounting) Regulations. The planned use of capital reserves will be reviewed and approved by the Commissioner on an annual basis as part of setting the Budget, Precept and Medium Term Financial Strategy.

I.2 The reserves strategy will be reviewed on an annual basis as part of setting the Medium Term Financial Strategy and Treasury Strategy.

I.3 The reserves strategy statement will be approved by the Commissioner and published each year following completion of the annual Statements of Account.

### **2. Reserves Position as at 31 March 2019**

2.1 As at 31 March 2019, the Police and Crime Commissioner held usable reserves of £25.333m. This balance represents an increase of £11.574m over the reserves held at 31 March 2018.

2.2 The increase in usable reserves is a temporary position only. The Commissioner has taken the decision to build a number of earmarked reserves to manage specific funding risks due to the lack of certainty provided by the government. These are primarily in relation to increased costs of police officer pensions and increasing capital costs of the national Emergency Services Network (ESN). These earmarked reserves will either be used for their intended purpose or re-invested in policing within the term of the current MTFS.

2.3 The Capital Receipts Reserve mainly comprises the first capital instalment from the sale of the previous headquarters site at Ponteland, which completed during 2018/19. Further instalments will be received in 2019/20 and 2020/21. Capital receipts will be used to fund short term assets in-line with the capital financing strategy, in order to minimise the impact of borrowing costs on the revenue budget.

2.4 The reserve movement is summarised in the following table:

<b>Usable Reserves</b>	<b>March 2018 £m</b>	<b>March 2019 £m</b>	<b>Movement £m</b>
General Fund (Revenue Reserves)	13.458	17.109	3.651
Capital Receipts Reserve	-	7.944	7.944
Capital Grants Unapplied Reserve	0.301	0.280	(0.021)
<b>Total Usable Reserves</b>	<b>13.759</b>	<b>25.333</b>	<b>11.574</b>

2.5 The total usable reserve balance of £25.333m includes capital receipts of £7.944m, and a capital grant of £0.280m relating to the delivery of Emergency Services Network (ESN), and the remaining £17.109m represents the General Fund.

2.6 The General Fund is further divided into the General Reserve £9.728m, and Earmarked Reserves (sums set aside for a specific purpose) of £7.381m. The title of each of the Earmarked Reserves explains the purpose of that reserve and further detail is provided in the table at section 2.9. As set out within the MTFS key principles, the Commissioner maintains Earmarked Reserves for specific purposes only when appropriate and which are consistent with achieving objectives within the term of the MTFS.

2.7 Overall the General Fund will be reduced to £12.400m by March 2022 under current MTFS plans, representing a General Reserve of £9.400m and Insurance Reserve of £3.000m. All other Earmarked Reserves are planned to be fully utilised to manage specific risks and funding uncertainty over the medium term.

2.8 Capital reserves will be fully utilised by March 2022 to fund the capital programme, under the capital financing plans set out in the MTFS 2019/20 to 2022/23.

2.9 The usable reserves held by the Police and Crime Commissioner as at 31 March 2019 are set out in the following table:

Usable Reserves	Balance Held
<b>General Fund</b>	
<ul style="list-style-type: none"> <li data-bbox="288 344 580 378">• <b>General Reserve</b></li> </ul> <p data-bbox="347 414 1246 546">The Police and Crime Commissioner is legally required to hold reserves. Although any value above nil is legally acceptable, the minimum level agreed in the Commissioners Medium Term Financial Strategy (MTFS) is 2% of the Net Revenue Budget.</p> <p data-bbox="347 566 1246 869">A comprehensive financial risk assessment is undertaken as part of the MTFS and revenue and capital budget setting process, to ensure all risks and uncertainties affecting the Commissioners financial position are identified. The Commissioner faces a number of significant financial pressures and risks that could affect the position over the medium term. A full assessment of the likelihood, potential impact and the management controls in place, are published in the Commissioners MTFS 2019/20 to 2022/23. The General Reserve provides the most significant control in place to mitigate financial risk.</p> <p data-bbox="347 889 1246 1122">The General Reserve is held to manage major unforeseen expenditure, budget pressures and any further loss of essential Government funding for Northumbria. The Commissioner has an agreed strategy that the level of the General Reserve will be influenced by the balance of risks inherent in the budget and MTFS, the robustness of budget monitoring, past experience of outturn spending, the extent of earmarked reserves and any funding cuts anticipated over the medium term.</p> <p data-bbox="347 1142 1246 1238">As a result, the MTFS plans to maintain the General Reserve at or just above 3% of the revenue budget over the medium term, which is above the 2% minimum set out in the reserves strategy.</p> <p data-bbox="347 1258 1246 1391">The balance held at the end of 2018/19 represents 3.5% of the approved 2019/20 revenue budget. The level of General Reserve over the medium term planning period is planned to reduce to 3.3% of the revenue budget by 2022/23.</p>	<p data-bbox="1289 889 1394 922">£9.728m</p>
<ul style="list-style-type: none"> <li data-bbox="288 1424 638 1458">• <b><u>Earmarked Reserves</u></b></li> </ul>	
<ul style="list-style-type: none"> <li data-bbox="347 1491 957 1525">○ <b>Police Pension Scheme Funding Reserve</b></li> </ul> <p data-bbox="395 1545 1246 1715">The Police Pension Scheme Funding Reserve has been created from the underspend against the Chief Constable's revenue budget in 2018/19. This reserve will provide essential funding for one year only, to cover the increased cost of police pension contributions in 2020/21 if the government fails to meet the full cost of the increase.</p> <p data-bbox="395 1736 1246 1832">The current MTFS sets out plans to build this reserve to £3.400m by 31 March 2020, which represents the value of the Home Office Special Pension Grant allocated for 2019/20.</p> <p data-bbox="395 1852 1246 2022">The Special Pension Grant has been allocated by the Home Office for one-year only. This reserve will therefore provide cover for one further year in 2020/21, if the government fails to protect police budgets from the full cost of the pension increase in the 2019 CSR and 2020/21 settlement.</p>	<p data-bbox="1289 1736 1394 1769">£2.000m</p>

<p>o <b>Workforce Management Reserve</b></p> <p>The Workforce Management Reserve was set up to smooth the cost impact of workforce changes. The reserve has been used to fund the one-off cost of police staff redundancies to release essential on-going savings of the reduction in staff costs against the Chief Constables revenue budget, over the 2010 and 2015 CSR periods.</p> <p>The Commissioners MTFS 2018/19 to 2021/22 highlighted a requirement to increase the reserve during the 2018/19 financial year by £1.000m through a transfer from the general reserve. As a result the balance increased from £0.320m to £1.320m by 31 March 2019.</p> <p>The current MTFS sets out plans to build this reserve to £2.900m by 31 March 2021.</p> <p>The current MTFS assumes that there is no guarantee to the Home Office funding allocated to meet the increased cost of police officer pensions. The Workforce Management Reserve will therefore provide essential funding to meet the costs arising from reductions to the workforce, which may be required to deliver savings from 2021/22.</p>	<p>£1.320m</p>
<p>o <b>Insurance Reserve</b></p> <p>The Insurance Reserve is maintained for potential liabilities and costs which fall on the Commissioner where no external insurance cover is arranged by or available to the Commissioner. Potential liabilities include storm damage, business interruption and claims that would fall within the Commissioners policy excess limits. The level of the reserve held as at 31 March 2019 represents approximately 1.1% of the approved 2019/20 revenue budget.</p>	<p>£3.000m</p>
<p>o <b>Domestic Violence Reserve</b></p> <p>The Domestic Violence Reserve holds funds which have been set aside by the Commissioner to support work undertaken jointly with local National Health Services and Local Authority partners, over a three year period, aimed at tackling domestic abuse. The reserve is being used to fund the work being undertaken by local authority Health Advocates and supports one of the key objectives in the Commissioners Police and Crime Plan, 'tackling domestic and sexual abuse'. 2019/20 is the final year and this reserve will be fully spent.</p>	<p>£0.125m</p>
<p>o <b>Partnership Working Reserve</b></p> <p>The Partnership Working Reserve holds funds which have been set aside by the Commissioner to continue to support partnership working. This reserve will be used in future years to support projects with partners in the public and voluntary sector, to deliver against priorities in the Police and Crime Plan.</p>	<p>£0.353m</p>
<p>o <b>Local Criminal Justice Board (LCJB) Project Support Reserve</b></p> <p>The LCJB Project Support Reserve holds funds which are being used to pilot additional project support for the Local Criminal Justice Board. This work supports the Police and Crime Plan objective, 'having an effective criminal justice system' and will be fully spent in</p>	<p>£0.010m</p>

2019/20.	
<ul style="list-style-type: none"> <li>o <b>External Funding Reserve</b> The External Funding Reserve holds funds received in 2018/19 which were carried forward at the year-end and will be used in future years, in-line with any terms and conditions. The reserve absorbs timing differences in relation to income received as external funding from partners, which is to be used to fund specific activities and policing services.</li> </ul>	£0.245m
<ul style="list-style-type: none"> <li>o <b>NERSOU Reserve</b> The NERSOU Reserve comprises the Northumbria share of the North East Regional Special Operations Unit (NERSOU) Reserve. NERSOU is the 3 force collaboration with Durham and Cleveland, tackling serious and organised crime across the region. The balance held as at 31 March 2019 mainly represents funds set aside by the NERSOU Joint Committee to manage reductions in Home Office PTF funding in 2019/20.</li> </ul>	£0.328m
<ul style="list-style-type: none"> <li>• <b>Total Earmarked Reserves</b></li> </ul>	£7.381m
<b>General Fund Total</b>	£17.109m
<ul style="list-style-type: none"> <li>• <b><u>Capital Reserves</u></b></li> </ul>	
<ul style="list-style-type: none"> <li>o <b>Capital Receipts Reserve</b> The Capital Receipts Reserve represents a temporary reserve created primarily from the first payment received on disposal of the headquarters site at Ponteland during the 2018/19 financial year. Further receipts in relation to this sale are expected in both 2019/20 and 2020/21.  The capital financing strategy is to apply capital receipts to fund short-life assets within the capital programme over the MTFS period 2019/20 to 2022/23, in order to minimise the impact of borrowing costs on the revenue budget in the most cost effective manner.  Under the current MTFS all capital receipts will be fully utilised by March 2022.</li> </ul>	£7.944m
<ul style="list-style-type: none"> <li>o <b>Capital Grants Reserve</b> This represents grant funding provided by the Home Office to forces in relation to specific capital costs for ESN (Emergency Services Network), to be used at the appropriate time within the programme.</li> </ul>	£0.280m
<ul style="list-style-type: none"> <li>• <b>Total Capital Reserves</b></li> </ul>	£8.224m
<b>Total Usable Reserves</b>	£25.333m

### 3 Medium Term Reserves Forecast

- 3.1 The Commissioners MTFS 2019/20 to 2022/23 sets out the planned use of reserves over the medium-term period. Usable reserves of £25.333m as at 31 March 2019 are forecast to reduce to £12.400m by 31 March 2023 under the MTFS, a reduction of £12.933m (51%).

The Commissioners forecast usable reserve balances through to March 2023 are set out in the following table:

<b>Reserves Forecast</b>	<b>March 2019 £m</b>	<b>March 2020 £m</b>	<b>March 2021 £m</b>	<b>March 2022 £m</b>	<b>March 2023 £m</b>
General Reserve	9.7	9.7	8.4	9.4	9.4
Earmarked Reserves	7.4	10.8	5.9	3.0	3.0
Capital Reserves	8.2	9.2	6.9	-	-
<b>Total Usable Reserves</b>	<b>25.3</b>	<b>29.7</b>	<b>21.2</b>	<b>12.4</b>	<b>12.4</b>

- 3.2 The forecast General Reserve balance of £9.4m as at 31 March 2023 represents 3.3% of the net revenue budget under the Commissioner’s MTFS. This meets one of the key MTFS principles to seek to maintain the General Reserve at a minimum of 2.0% of the net revenue budget.
- 3.3 The temporary increase in earmarked reserves reflects decisions taken within the MTFS 2019/20 to 2022/23 and Budget 2019/20 planning. The MTFS includes changes in the reserves strategy which are necessary to protect police budgets from the impact of funding uncertainty over the medium term. Specific earmarked reserves have been established to manage the anticipated costs of police pension contributions, workforce change and the national implementation of the Emergency Services Network (ESN). These are described in detail earlier in this report, in the reserves table at section 2.9.
- 3.4 The Home Office published guidance, ‘Police Finance Reserves Guidance’ and the ‘Financial Management Code of Practice’, set out the Government’s expectations around the information to be published by Police and Crime Commissioners on their financial reserves strategies. The guidance requires reserves information to be presented in three specific categories as provided in the following table:

<b>Reserves Forecast</b>	<b>March 2019 £m</b>	<b>March 2020 £m</b>	<b>March 2021 £m</b>	<b>March 2022 £m</b>	<b>March 2023 £m</b>
Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan	12.6	17.0	9.8	-	-
Funding for specific projects and programmes beyond the current planning period	-	-	-	-	-
Funding held as a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management	12.7	12.7	11.4	12.4	12.4
<b>Total Usable Reserves</b>	<b>25.3</b>	<b>29.7</b>	<b>21.2</b>	<b>12.4</b>	<b>12.4</b>

- 3.5 In-line with the Commissioners reserves strategy, the forecast set out in the table above reflects the intention to utilise all earmarked reserves held for specific projects and

programmes, within the term of the current MTFs and not to hold unnecessary reserves or balances allocated for purposes beyond the medium term planning horizon.

- 3.6 The forecast balance of £12.4m as at March 2023 represents the General Reserve of £9.4m and the Insurance Reserve of £3.0m.

## **4 Key Considerations**

- 4.1 The highest risk for both the Police and Crime Commissioner and the Force concerns the adequacy of financial resources. This includes the amount of government grant received by the Police and Crime Commissioner and the expected income generated through precept. Further reductions in total funding, either as a result of government grant cuts or restrictions on the precept increase beyond those projected, will put added pressure on reserves which cannot be sustained. Further savings will need to be delivered to meet any such pressure as reserves are fast approaching minimum levels. Resilience to meet unexpected demand is already limited.
- 4.2 The Commissioners capital programme and capital financing plans include the assumption that receipts will be available over the medium-term. If the value or profile of receipts changes unfavourably there may be a requirement to take additional borrowing and therefore an impact on the revenue costs of interest and principal repayment (MRP).
- 4.3 Once capital receipts from the estates rationalisation programme are exhausted the annual capital programme will be mainly funded through prudential borrowing, as the capital grant from government represents a small proportion (on average 9%) of the overall annual capital programme requirement. This will limit the capital programme to what is affordable in revenue terms for the minimum repayment of borrowing (MRP) and annual interest costs.

## **5 Conclusions**

- 5.1 It is the opinion of the Chief Finance Officer that the current processes for the management of the Commissioners reserves are appropriate. This opinion takes into account:
- The requirement for the Police and Crime Commissioner to have overall control of all reserves (as the Chief Constable is not permitted to hold usable reserves).
  - A key Medium Term Financial Strategy (MTFS) principle to maintain the General Reserve at a minimum of 2.0% of net revenue budget. In practice, this level is maintained at or above 3.0% of net revenue budget to provide a financial buffer.
  - The creation and use of earmarked reserves as well as the use of the General Reserve, is approved in advance via the budget and Medium Term Financial Strategy, set annually in February. The approval for use of all reserves is further evidenced each year to External Audit as part of the year-end outturn report and approved use of reserves.
  - The information, reserves position and key considerations set out in this report.
- 5.2 It is the opinion of the Chief Finance Officer that the level of reserves held at 31 March 2019 is appropriate. However, whilst the current MTFs includes plans to build a number of specific earmarked reserves, these will be used to manage specific financial pressures and risks identified in relation to police pension contributions, workforce change and the national implementation of the Emergency Services Network (ESN). The use of reserves to meet future funding shortfalls and other pressures (such as the cost of additional/above inflation pay increases) is unsustainable and general reserves are approaching the minimum level outlined within the MTFs.