

Warwickshire Police and Crime Commissioner

Reserves Strategy 2018/19 – 2021/22

1. Introduction

This report provides information on the estimated levels of reserves currently held and explains how some of these will be applied over the next three years to help support the revenue budget and capital programme, fund the Transformation Programme, ensure the PCC and Chief Constable meet statutory responsibilities, manage critical risks and contribute towards key strategic initiatives.

In July 2014 CIPFA issued updated guidance on the establishment and maintenance of local authority reserves and balances, setting out the key factors that should be taken into account locally in making an assessment of the appropriate level of reserves and balances to be held.

In the written statement that accompanied the Provisional Police Grant report on 19th December 2017, the Minister stated “You may be aware that police reserves currently stand at around £1.6bn, which compares to £1.4bn in 2011. We will be changing guidance to PCCs to ensure that police officers and the public have access to more detailed information on how PCCs intend to use this public money”. This report complies with the new Ministerial requirement.

The reserves strategy was set out in the 2018/19 budget report and Medium Term Financial Plan. This has been updated to reflect the 2017/18 outturn position and decisions made by the PCC during 2018. The actual and forecast position on reserves is reported monthly to the PCC.

2. Executive Summary

The use of a significant proportion of the Commissioner’s reserves over the life of the Medium Term Financial Plan is an important element of the financial strategy. This is summarised below and shows the full expected deployment of reserves over the life of the plan and the associated movement in the total reserve balance over the MTFP period.

	£m
Actual reserves at the 1st April 2018	19.174
Amount required to support the budget over the life of the Medium Term Financial Plan	(3.772)
Funds to transform policing and meet associated costs	(0.900)
Monies to improve road safety and roads policing	(1.052)
Provisions to meet known risks and commitments	(1.400)
Investment in infrastructure	(5.753)
Reserves remaining at the end of the MTFP period.	<u>6.297</u>

Each year the Treasurer carries out an assessment of the risks facing the Commissioner to determine the minimum level of reserves which the Commissioner needs to continue to hold. This year the assessment is that £5.0m needs to be held to provide adequately for these risks. Further details of the risk assessment are included below..

The amount required for general budget support is significant because it provides for higher levels of support in the first year of the plan than would be typical, this will enable time for the local policing model and transformation changes to bed in, and for the benefits and savings to be realised. The final Home Office 2018/19 grant settlement gave increased clarity regarding funding and the options for raising the local precept in 2018/19 and 2019/20, although further clarity regarding funding in the longer term will be subject to review in the next Comprehensive Spending Review.

There remain considerable opportunities to drive out further efficiencies through our joint working with West Mercia and by transforming and reforming policing. To achieve them, while minimising the impact on the service to the public, will require us to continue to focus on areas like modernisation, with more automation and self-service facilities for the public and the greater use of agile and mobile working by police officers and staff. We will also continue to rationalise our estate through the ongoing co-location of what have hitherto been separate teams within West Mercia and Warwickshire and by sharing premises and facilities

with key partners such as other blue light services, local authorities, the criminal justice system and the NHS. This creates the need for a significant provision for invest to save initiatives.

The table below shows the estimated reserve balances at the end of each financial year:

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
General Reserves	5.000	5.000	5.000	5.000	5.000
Earmarked Reserves					
Budget Reserve	4.869	1.097	1.097	1.097	1.097
Transformation reserve	0.900	0.505	0.218	0.083	0.000
Investment in Infrastructure	5.753	5.062	0.000	0.000	0.000
Safer Roads Partnership	1.252	1.455	1.036	0.618	0.200
Redundancy Reserve	0.400	0.400	0.000	0.000	0.000
Insurance and Legal Claims	0.300	0.300	0.000	0.000	0.000
PCC Grants and Initiatives	0.200	0.200	0.000	0.000	0.000
Income	0.500	0.500	0.000	0.000	0.000
Total Earmarked Reserves	14.174	9.519	2.351	1.798	1.297
Total Reserves	19.174	14.519	7.351	6.798	6.297

3. Adequacy of Reserves

In considering the MTFP, the Commissioner needs to consider the level of reserves for which he provides. The Commissioner holds a General Reserve, Earmarked Reserves and Capital Reserves. These will, in part, be governed by known or likely commitments, and, in part, by his appetite for risk. The Treasurer has reviewed thoroughly the financial risks facing policing in Warwickshire and reassessed the level of reserves required. In doing so, the Treasurer has complied with CIPFA guidance on the establishment and maintenance of local authority reserves and balances, the intention being to ensure clear, transparent reporting around reserves.

Compliance with the 7 key principles in CIPFA's guidance

Budget assumptions	Current situation in Warwickshire
The treatment of inflation and interest rates	<p>Warwickshire Police (WP) makes full and appropriate provision for pay and price rises.</p> <p>An informed assessment is made of interest rate movements.</p> <p>All individual expenditure and income heads in the revenue budget are prepared and published at estimated outturn prices</p>
Estimates of the level and timing of capital receipts	<p>The PCC and WP make a prudent assumption of future capital receipts</p>
The treatment of demand level pressures	<p>The Force is required to operate and manage within its annual budget allocation.</p> <p>The Chief Constable retains an operational contingency within the budget to help finance large scale or corporate operations or issues and to deal with day to day changes in demand and pressure.</p> <p>The force has already identified £5.694m of cash savings which will be removed from the budget over the next three years. (2018/19 to 2020/21). This is over and above the cash savings that have been removed from the base budget in the last seven years (i.e. 2011/12 to 2017/18). This cumulative level of budget reduction will inevitably mean that operational budgets will come under greater pressure and/or risk of overspending in future years.</p> <p>Some government grants (e.g. DSP) are announced annually in advance and are cash limited. Any new policing pressures arising during the year will have to be funded from the PCC's own resources.</p> <p>The PCC has created a number of earmarked revenue reserves to help finance specific, ad-hoc expenditure commitments. Appropriations are made to and from these reserves on an annual basis as required.</p> <p>Finally general balances are used as a last resort to manage and fund demand-led pressures.</p>

<p>The treatment of planned efficiency savings and productivity gains</p>	<p>The force has consistently achieved its annual efficiency target. As in previous years, savings elsewhere in the revenue budget have been identified to cover any shortfall in year.</p>
<p>The financial risks inherent in any significant new funding partnerships, collaboration, major outsourcing arrangements or major capital developments</p>	<p>The financial consequences of partnership, collaboration working, outsourcing arrangements or capital investment are reported to the PCC as part of the medium term planning process. Where relevant any additional costs are incorporated in the annual revenue budget. These are reviewed regularly during the year in the Money Matters report and where necessary the MTFP is amended.</p> <p>There is clearly a risk that local authority partners will continue to withdraw funding as their own budgets are reduced and that the continued viability of private sector commercial partners will be exposed to risk in the face of an economic recession.</p>
<p>The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions.</p>	<p>The PCC has created a number of earmarked revenue reserves and provisions to meet specific expenditure items. These are shown below.</p> <p>The access criteria for special grants state that PCCs may be required to fund up to 1% of their net budget requirement themselves before the Government considers grant aid. This applies on an annual basis.</p>
<p>The general financial climate to which the authority is subject.</p>	<p>In November 2015 the Chancellor announced that police funding would be protected in real terms over the CSR period. At the same time he announced that he would maintain local police budgets at current (2015) cash budgets, assuming PCCs increased council tax by around 2% p.a.</p> <p>General inflation in the U.K. has started to increase. CPI is currently at 3% and RPI 4.1% (Dec 2017 figs).</p> <p>The 2017/18 police officer pay settlement included a non-consolidated 1% bonus. Public sector pay awards are widely expected to exceed 1% (the previous cap) from 2018/19 onwards as inflation rises. A provision of 2% p.a. for the pay award has been included in the MTFP.</p> <p>The base rate was increased for the first time in over a decade in the Autumn, raising it from 0.25% to 0.5%. The Governor of the Bank of England has indicated that any future increases will be minimal and gradual.</p>

	The 3 year medium term financial plan reflects our local best estimate of future inflation rates, increases in government grants and contributions and revenues raised from Council Tax.
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4. General Reserve

In recent years, the Treasurer has undertaken a review of the significant risks and pressures facing the Police and Crime Commissioner before setting a minimum level of reserves held in a General Reserve. In addition, the Treasurer has undertaken a comprehensive review of reserves held. As part of this review, new earmarked reserves were created to address specific risks. Contingencies for these specific risks of £1.2m were previously included within the general reserve.

The key risks the Police and Crime Commissioner faces (and for which no specific provision in Earmarked Reserves is made) are:

- a. The possibility of savings targets not being met. As in previous years, no provision will be made in reserves for this as the Force has consistently achieved its savings targets in year. If this approach is taken, the Commissioner recognises that any failure to deliver savings will have to be compensated for, potentially, by service reductions if alternative efficiencies cannot be found..
- b. Possible delays in the delivery of savings. Previous history of significant underspending has been reduced more recently due to tighter budgetary control and strong budget management arrangements. However, some delays in the delivery of savings may occur, particularly in relation to the Transformation Programme. In the current year, for example, there have been delays in progressing Invest to save schemes, particularly the complex schemes such as the OCC and Athena in the capital programme. Given the achievement of the 2017/18 savings target and the progress made in implementing the savings plans for 2018/19 there is a decrease in the level of reserves held to cover potential delays in the delivery of savings from £5.1m in 2017/18 to £2.2m.
- c. To provide cover for “extraordinary” events or investigations, recognising that these would be likely to attract Special Police Grant (for costs in excess of 1% of the budget). A prudent provision would be for two such events over a five year period, which would require a provision of £1.8m.

- d. Any additional delivery costs of the Strategic Alliance and the Transformation Programme. These may be capital (e.g. IT costs), but capital costs have a revenue impact. Until the capital costs are determined, the revenue consequences cannot be. An alternative, and one with no marginal cost, would be to absorb any revenue impact by cash-limiting the capital programme and deferring schemes to accommodate any Strategic Alliance spending requirements. There is a specific provision in reserves to cover invest to save schemes, so no additional provision is recommended here.
- e. The risk on inflation, especially on pay. The Medium Term Financial Plan includes a provision of 2% for pay from 2018/19 onwards. This reflects the increasing inflationary pressures in 2017/18. Consequently no further provision will be made, although this will be kept under review, as the risk remains.
- f. The budget includes assumptions made around part time police officer working. These changes reduce the Police Officer budget in line with the levels of part time working. If all these officers then decided to return to full-time work this would lead to a budget pressure. History suggests that this is unlikely so no specific provision is likely to be required, however the risk remains.
- g. As already stated, the Home Office is currently undertaking a further review of the Police Funding Formula and may implement a new funding mechanism in the next Comprehensive Spending Review. The Home Office did consult on a new formula during 2015 but abandoned the consultation. During this process estimates of the impact on Warwickshire ranged from an increase of £1.9m to an increase of £2.4m. Given the continuing uncertainty around the outcome of this review and any likely date for implementation no provision is being made in 2018/19.
- h. The Government is currently developing plans for the replacement of the Airwaves network (referred to as ESN/ESCMP). The estimated initial capital investment is £1bn, although revenue savings of £350m are expected in the long term. In 2017/18 £417m is top sliced nationally by the Home Office for Police Technology programmes. There is still a lack of clarity, with not all details being known. However, a provision of £6m has been made in the Medium Term Capital Programme for the Alliance. Any capital costs that may fall to Warwickshire could be met by increased borrowing or from the use of reserves. Any increased revenue costs or grant reductions in the short term would need to be funded either

from further efficiencies or from the use of reserves.

- i. There should be a general contingency provision for unknowns. Assessing a prudent level for this is impossible, but would be unlikely to be less than 1% of net revenue expenditure, around £1m.

The aggregate cost of those elements which it is feasible to estimate is £5m. Coincidentally this is approximately 5% of the net revenue budget, in line with expected best practice and emerging guidance. It should be noted that the impact of higher pay increases, the funding review or increased economic and political uncertainty which cannot be accurately estimated could prove to be significant. The Commissioner does not necessarily have to provide money in reserves for each of these elements individually, unless they are certain to occur, as one contingency can provide for several possible events, provided that all of the events are unlikely to occur together. However, he does need to give realistic consideration to the likelihood of their occurring during the period covered by the plan, and it does need to provide explicitly for those which are certain to occur.

Given the relatively low aggregate sum involved, a minimum level of £5m is provided in general reserves.

5. Earmarked Reserves

The predicted balance at 31 March 2019 for each earmarked revenue reserve – which has a specific purpose and particular timescale – is shown in the table below.

Earmarked Reserve	Balance at 1st April 2018 £m	Movement In Year £m	Forecast Balance at 31st March 2019 £m	Purpose of Reserve
Budget Reserve	4.869	3.772	1.097	To support the revenue budget whilst implementing the Transformation Programme
Transformation Reserve	0.900	0.395	0.505	To meet the costs of the Transformation Team
Investment in Infrastructure	5.753	0.691	5.062	To fund schemes within the capital programme and reduce the need for borrowing thereby minimising financing costs in future years. Current significant schemes include the new OCC at Stuart Ross House and the ICT programme. The Force is currently developing a revised ICT programme to ensure its ICT infrastructure continues to be fit for purpose. Initial broad estimates suggest the combined capital and revenue costs of this programme will be approximately £40m over a four year period. Further detailed studies are being undertaken to determine robust and reliable estimates of the cost, the allocation between capital and revenue expenditure and the profile of this expenditure over the four years.
Safer Roads Partnership Reserve	1.252	(0.203)	1.455	To fund road safety initiatives. Plans for the deployment of this reserve in 2019/20 and future years are currently being developed and will be included in the 2019/20 budget.
Redundancy Reserve	0.400	0.000	0.400	To fund redundancy costs arising from the Transformation Programme
Insurance and Legal Claims	0.300	0.000	0.300	To meet the costs of high value claims

PCC Grants and Initiatives	0.200	0.000	0.200	To fund grants to the voluntary and third sector and initiatives which support the priorities set out in the Police and Crime Plan
Income Reserve	0.500	0.000	0.500	To meet budget shortfalls caused by volatility in demand led income streams which can vary considerably from year to year
Total Earmarked Reserves	14.174	4.655	9.519	

The tables in section 2 above show the deployment of all reserves over the life of the Medium Term Financial Plan, and the remaining reserve balances at the end of each financial year.

6. Capital Reserves and Balances

In addition to the revenue reserves capital reserves are also maintained. These are used to finance the capital programme.

There is a reserve holding Capital Grants Unapplied. This holds the capital grants from the Home Office that have not yet been spent. These grants are applied to fund the capital programme and can be carried forward without penalty until required. The balance on the reserve as at 1st April 2018 was £0.0m.

There is a Capital Receipts Reserve. This holds receipts from the sale of police houses and land and buildings which are no longer needed for operational policing as more efficient use is made of partners' and the policing estate. The funding table in section 8 above outlines the receipts expected from asset sales from 2018/19 to 2021/22. The balance on the reserve as at 1st April 2018 was £0.000m. The Police and Crime Commissioner currently estimates that he will receive £9.5m from the sale of surplus assets over the life of this Medium Term Financial Plan. These receipts will be used to fund the capital programme and thus minimise additional borrowing and the associated financing costs.

7. Compliance with Home Office Guidance

On 31st March 2018 the Minister for Policing and the Fire Service published new guidance on the information that each PCC must publish in terms of police 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 1 which analyses the actual balance of £19.174m on 31st March 2018 over the headings.

8. Conclusions

There has been a comprehensive review of all reserves held by the Police and Crime Commissioner. This report sets out clearly and transparently the reserves held, the purpose for which they are held, the plans for their use and the risks and assumptions underpinning them.

Based on current planning assumptions, the level of general reserves should stay above the recommended minimum level through to 2021/22 and sufficient provision has been made in earmarked reserves to fund expected one-off pressures most notably the further implementation of the Transformation Programme. In addition the capital reserves and the investment in infrastructure reserve will be used to fund a significant proportion of the Medium Term Capital Programme – an extensive programme to support much needed investment in land, buildings, ICT systems and vehicles. This will give policing officers and staff up to date fit for purpose facilities and enable them to provide a modern, efficient and effective policing service. By generating efficiencies and reducing borrowing costs, the use of the infrastructure and capital reserves will ensure a more sustainable financial position in the longer term. Deploying these reserves over the medium term rather than in a single year also permits some flexibility should it be necessary.

Overall this reserves strategy creates an acceptable, appropriate and sustainable position as we continue the prolonged period of fiscal tightening in an increasingly uncertain world.

Appendix 1 - Analysis of revenue and capital reserves as at 31st March 2018

	Actual Balance 31.3.18 £m	Planned expenditure on projects & programmes over next 3 years £m	Funding for specific projects and programmes beyond 20/21 £m	As a general contingency or resource to meet other expenditure needs £m
GENERAL REVENUE RESERVE	5.000	0.000	0.000	5.000
EARMARKED REVENUE RESERVES				
Budget Reserve	4.869	3.772	1.097	
Transformation Reserve	0.900	0.817	0.083	
Investment in Infrastructure Reserve	5.753	5.753		
Safer Roads Partnership Reserve	1.252	0.634	0.618	
Redundancy Reserve	0.400	0.400		
Insurance and Legal Claims Reserve	0.300			0.300
PCC Grants and Initiatives	0.200	0.200		
Income Reserve	0.500			0.500
Total Earmarked Revenue Reserves	14.174	11.576	1.798	0.800
TOTAL REVENUE RESERVES	19.174	11.576	1.798	5.800
CAPITAL RESERVES				
Capital Grants Unapplied	0.000			
Capital Receipts	0.000			
Total Capital Reserves	0.000	0.000	0.000	0.000
TOTAL CASH RESERVES	19.174	11.576	1.798	5.800

