

# **Warwickshire Police and Crime Commissioner**

## **Reserves Strategy 2020/21**

### **1. Introduction and background information:**

The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Act require precepting authorities (and billing authorities) in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

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 Police and Crime Commissioner (PCC) and Chief Constable meet statutory responsibilities, manage critical risks and contribute towards key strategic initiatives. This reserves strategy is a fundamental part of the overall financial strategy for the PCC.

This strategy refers to different types of reserves held by the Commissioner, although it should be noted that in England and Wales, earmarked reserves remain legally part of the General Reserve, although they are accounted for separately.

There are a number of safeguards in place to support the financial planning and control process. These include:

- The balanced budget requirement (Local Government Act 1992 s32 and s43).
- Chief Finance Officers duty to report on the robustness of estimates and adequacy of reserves (Local Government Act 2003 s25) when the PCC is considering the budget requirement.
- Legislative requirements for each PCC to make arrangements for the proper administration of their financial affairs and that the Chief Finance Officer has responsibility for the administration of those affairs (section 151 of the Local Government Act 1972).
- The requirements of the Prudential Code.
- Auditors will consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based.

These requirements are reinforced by section 114 of the Local Government Finance Act 1988, which requires the Chief Finance Officer to report to the PCC if there is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the PCC is unable to meet its expenditure in a particular

financial year. The issue of a section 114 notice cannot be taken lightly and has serious operational implications, and in the unprecedented event of such a notice being served, the PCC must consider it within 21 days and during that period the force would be prohibited from entering into new agreements involving the incurring of expenditure.

Whilst it is the primary responsibility of the PCC and his Chief Finance Officer to maintain a sound financial position, external auditors will, as part of their wider responsibilities, consider whether audited bodies have established adequate arrangements to ensure that their financial position is sound. However, it is not the responsibility of auditors to prescribe the optimum or minimum level of reserves for individual PCC's or authorities in general.

CIPFA's Prudential Code requires the Chief Finance Officers to have full regard to affordability when making recommendations about the Commissioners future capital programme. Such consideration includes the level of long-term revenue commitments. In considering the affordability of his capital plans, the Commissioner is required to consider all of the resources available to him and estimated with any certainty over the medium term, together with the totality of his capital plans and revenue forecasts for the forthcoming year and the following two years. There is a requirement for three-year revenue forecasts across the public sector and the PCC develops his Medium Term Financial Plan (MTFP) to achieve this, which is reviewed regularly and updated formally each year. The finance settlement for 2020/21 was received in January 2020, which included all the details regarding the revenue and capital grant for one year only. This provided some information, albeit limited to a one year period, to enable greater focus on the levels of reserves and the application of balances and reserves.

CIPFA and the Local Authority Accounting Panel do not accept that there is a case for introducing a generally acceptable minimum level of reserves. Commissioners on the advice of their Chief Finance Officers should make their own judgements on such matters taking into account all relevant local circumstances. Such circumstances will vary between local policing areas and PCC's and will also vary over time. CIPFA has however provided some helpful guidance to public bodies on the establishment and maintenance of local authority reserves and balances, setting out key factors that should be taken into account locally in making assessments of the appropriate levels to be held. This guidance is followed by the Treasurer in assessing the adequacy of reserves, and is documented within the annual budget report. The guidance enables a well-managed organisation, for example, with a prudent approach to budgeting being able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. In assessing the appropriate level of reserves, such an organisation will ensure that the reserves are not only adequate, but are also necessary. The Home Office has however, indicated that it does not expect the level of reserves held by PCC's to be more than 5% of net revenue expenditure. Section 26 of the Local Government Act 2003 does give Ministers in England and Wales a general power to set a minimum level of reserves for authorities. However, the government has undertaken

to apply this only to individual authorities in the exceptional circumstances where the authority does not act prudently, disregards the advice of its Chief Finance Officer and is heading for serious financial difficulty.

The PCC's first reserves strategy was published in September 2018, and a further updated strategy was produced and published for 2019/20. The 2020/21 reserves strategy provides a comprehensive revision to this document which reflects the outturn for 2019/20, the planned use of reserves over the medium term to finance various strategic initiatives, notably the transitioning and transformation of services and the financial settlement with West Mercia following the ending of the alliance. It also documents the types of reserves held, their purpose, the risk assessment process for setting reserve levels, and how reserves are managed, deployed and monitored. The reserves strategy will be updated annually to ensure that it is current and continues to reflect local risks and circumstances.

## **2. The Commissioners approach to holding reserves:**

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. The Commissioner holds reserves for a variety of reasons. These are outlined within various documents including annual budget report, the Police and Crime Plan and the Medium Term Financial Plan, although given the timing of this update, this strategy also reflects the approval by the Commissioner at to set up a separate Covid 19 earmarked reserve to meet any anticipated costs associated with the crisis. The reasons for holding reserves are however outlined below for completeness and clarity:

- To meet forthcoming events where the precise event, date and amount required for such events cannot be accurately predicted. For example major events that would require the use of the General Reserves. These are detailed within the general reserve risk assessment included at appendix A.
- To meet forthcoming transitional and transformational events where the precise date and amount is not always known with absolute certainty, but which will also support the force to navigate and make progress to achieve its new operating model for service delivery, following the ending of the strategic alliance.
- To meet forthcoming capital expenditure and infrastructure work where major capital schemes are being planned and the reserve will be utilised to reduce the cost of borrowing and capital charges to the revenue budget.
- To support PCC work, where specific additional expenditure is met from this reserve which meets requirements.
- A reasonable amount to meet peaks and troughs in revenue expenditure on certain risk assessed areas of the business – legal and insurance matters, redundancy and income levels.

- To meet specific costs associated with the current Covid 19 crisis as specifically approved by the Commissioner

### **3. Current Financial Climate:**

The current financial climate has grown increasingly uncertain given the Covid 19 crisis. Further pressures are likely to be incurred in terms of additional expenditure for personal protective equipment (PPE), additional overtime costs may be incurred and funding streams may become less certain, particularly precept funding, where assumptions will have to be reviewed as part of the normal financial planning. Treasury management decisions and cash flow implications may also arise or be affected by the pandemic. Given the high levels of public expenditure to support the economy through the pandemic crisis, future funding levels may be at risk, assumptions may need to be reviewed. However, the planned comprehensive spending review for 2020 has been postponed and the finance settlement for 2021/22 is likely to be for a one year period to reflect the uncertain national and global picture.

The force have been successful in recruiting their share of the 20,000 officers, and this should provide increased scope for other overtime costs to be managed more effectively. Some of the uplift funding in 2020/21 has been front loaded and additional flexibilities offered for its use to ease cash flow pressures arising from Covid 19, but given the early recruitment by Warwickshire, this will provide no flexibility as costs are being incurred, as originally envisaged.

The impact of Brexit and levels of public expenditure is unknown. The timetable has been set for exiting, however the current crisis may have some bearing.

The financial strategy for Warwickshire is to achieve a 'good and balanced budget'. The MTFP highlights the necessary savings to achieve this and the challenges this presents.

### **4. Types of Reserve:**

As part of the review of the MTFP and the annual budget setting process, the Commissioner reviews the establishment and maintenance of reserves. These can be held for four main purposes:

1. A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the general reserve
2. A contingency to cushion the impact of unexpected events or emergencies – also part of the general reserves

3. A means of building up funds often referred to as earmarked reserves to meet known or predicted requirements – these are accounted for separately, but legally remain part of the general reserves
4. The economic climate and the safety of the Commissioners assets. This would link with the treasury management strategy and therefore forms part of the general reserve.

This document aims to provide an over-arching strategy that defines the boundaries within which the approved budget and Medium Term Financial Plan (MTFP) operate.

### The General Reserve

It has been established that General Reserves will be maintained at a level of approximately 5% of the net revenue budget, i.e. £5million. This is in line with Home Office guidance, and has been assessed by the PCC's Chief Finance Officer as being appropriate based on the annual review of the adequacy of reserves. This level will be reviewed on an annual basis, based on the most up to date and risk assessed information available. The adequacy of reserves statement, within the budget report, follows a risk based review of the level of reserves and provides some further context to the potential use or circumstances surrounding the use of the general reserve however, this is not exhaustive as new risks will emerge during the course of a year. The purpose of this reserve is essentially to provide for any unexpected expenditure that cannot be managed within existing budgets. Such expenditure would be expected to be one-off and resulting from an extraordinary event.

Authorisation to finance such expenditure must be obtained in advance from the Commissioners Chief Finance Officer, in accordance with the scheme of delegation and the protocol between the force and the PCC's office. Where time permits the request should be supported by a business case.

As the net budget position changes the level of general reserves must be monitored to ensure that they continue to meet the 5% of net revenue budget outlined and advised by the Home Office.

Appendix A is an extract from the budget report for 2020/21 and outlines the adequacy of reserves statement and risk analysis undertaken by the Treasurer.

### Earmarked Reserves

Unlike general reserves earmarked reserves have been identified for specific areas of expenditure where there are anticipated costs that can only be estimated. It is therefore prudent for the Commissioner to identify such areas of expenditure and set aside amounts that limit future risk exposure (e.g. balancing budget shortfalls in the MTFP).

Such expenditure usually arises out of changes in legislation, policy, or where the organisation is working on a specific project. Expenditure relating to earmarked reserves has to specifically relate to the purpose of the reserve.

Appendix B details for each of the earmarked reserves that exist at the start of the 2019-20 financial year, the transfers during that year, year end balances, as approved by the Commissioner and the future anticipated use over the MTFP.

Further details on the earmarked reserves being used in 2020-21 are given below:

#### Budget Reserve

The medium term financial strategy of the Commissioner is under constant review and changes as new and reliable information becomes available.

The original purpose of this reserve was to alleviate financial pressure on the budgets in current and future years and to provide a glide path for delivering a sustainable budget as the force transitions to its new standalone state.

The support from this reserve is only one-off support for the financial years 2020-21 and 2021-22 and as such cannot be used to finance on-going commitments.

This reserve has been completely utilised at the end of 2021-22. The financial strategy is to deliver a sustainable budget where outgoings can be met from available financing, beyond 2021-22 and no further replenishment of this reserve is planned on that basis.

#### Infrastructure Reserve

This reserve is held to fund schemes within the capital programme and decrease the need for borrowing thereby reducing financing costs in future years. Warwickshire has an ambitious capital investment programme particularly in ICT to stabilise current systems but also enable it to transition and enter into its new collaborations with West Midlands police.

The PCC has commissioned a stock condition survey of the newly designated Police Headquarters at Leek Wootton the findings from this will help to inform the required investment at that site, and a review of the overarching Estates Strategy will help to determine the estates capital programme at other sites over the medium term.

#### Transformation Reserve

This reserve is set aside to support investment and replacement of ICT hardware, software, infrastructure and key systems but also the wider transformational costs of the 'Evolve' model to transition Warwickshire police from the former alliance to its new collaborative way of working with West Midlands police. The key areas of collaboration with West Midlands include transactional services, ICT and forensics, this reserve will support the necessary investment in these areas to deliver that transition and transformation.

#### PCC Grants and Initiatives Reserve

This reserve has been funded from previous year underspends in the PCC's budget. It is intended to provide for future needs in this growing area of work. Current plans may include utilising part of this reserve to address issues arising following the Coronavirus pandemic and to better support victims of crime in Warwickshire.

#### Safer Roads Reserve

This reserve is contributed to from any in year variances in the expenditure and income on road safety work. The reserve is ring-fenced and will only be utilised on addressing and improving road safety across Warwickshire.

#### Redundancy Reserve

This reserve provides for redundancy costs which may be incurred. Warwickshire police is currently in a transitional process as it exits the former alliance with West Mercia and establishes services as a standalone force and enters new collaborations with other forces. This reserve will mitigate the risk of significant redundancy costs during this transitional and transformational process.

#### Income reserve

This reserve has been established to meet any shortfalls in income that may occur during the course of a year, due to a variety of factors, to mitigate risks on the in-year budget.

#### Insurance and legal reserve

This earmarked reserve is held to mitigate against the risk of excessive insurance or legal costs in any specific year, which would have a detrimental impact on the in-year budget. These costs are often unforeseen, values cannot be anticipated with much certainty, but could be significant.

#### Covid-19 Reserve

The Commissioner approved the establishment of a Covid-19 reserve in May 2020 to address additional expenditure anticipated during the crisis. The level and maintenance of this reserve will be kept under review as the pandemic and crisis unfolds.

## 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 1<sup>st</sup> April 2020 was nil.

There is also a Capital Receipts Reserve. This holds receipts from the sale of police land and buildings which are no longer needed for operational policing as more efficient use is made of partners' and the policing estate. The annual budget includes the funding requirement and the receipts expected from asset sales over the MTFP. The balance on the reserve as at 1<sup>st</sup> April 2020 was nil.

### **5. Procedure for use of reserves:**

The use of reserves requires approval of the Chief Finance Officer to the Commissioner and the Commissioner.

All requests should be supported by recommendations for approval in the Money Matters report or a business case.

On occasion where an urgent request is being made this should be discussed as soon as possible between the Chief Constable's Chief Finance Officer and the Chief Finance Officer to the Commissioner.

### **6. Monitoring:**

The level of reserves is kept under continuous review. The Commissioner receives reports on the levels of reserves as part of the Money matters reports together with an annual review of the reserves strategy in January as part of the budget setting process and the out-turn position in June each year.

63. The current level of forecast reserves is healthy, in the light of the settlement with West Mercia, however, the planned use of reserves over the medium term to fund transitional and transformation expenditure will bring reserve levels down to far less significant levels. However, this will be the source of constant review to ensure the force financial position remains sustainable and viable. Reserves and their usage is carefully planned for and monitored throughout the year.



## **7. Risk Analysis:**

Any recommendations that change the planned use of reserves reported within the Annual Budget and precept setting report, will take account of the need for operational policing balanced against the need to retain prudent levels of reserves.

However, there are some significant risks, which could affect the level of reserves, and it is for this reason that the general reserves are maintained at 5% of total net budget.

The significant risks that have been considered, but which will also be kept under review are:

- The potential risks of not being able to achieve the required efficiencies and savings during the year, as included within the budget report.
- The ability to seek financial assistance from the Home Office for major incidents in the form of special grant has been diminished and should no longer be relied upon, so general reserves need to be able to provide for such events at a risk assessed and prudent level.
- The need to finance organisational change and transformation as Warwickshire police establishes services outside of the alliance. New collaborations are being set up and investment is required to deliver this change and stabilise ICT infrastructure. Earmarked reserves are set up to finance this area of spend, but there may be a wider impact on reserves if any unforeseen issues or delays are incurred.
- The current financial climate is increasingly uncertain, funding may be impacted following the current crisis so the reserve provision may be required to mitigate the impact further.
- The current uncertainty of the financial markets means that investments may be exposed to greater risk. This is negated by the Treasury Management Strategy, which prioritises security above returns on investment under the current financial climate have reduced significantly.
- Should the Commissioner and Force be faced with two or more of the above issues at the same time then the reserves may be significantly impacted.
- Once utilised reserves have limited scope for replenishment. This is usually achieved through a budget underspend, and will be reviewed as part of the work at the end of a financial year.
- There may be exceptional levels of costs where the level of earmarked reserves held appear insufficient and may need reassessing.
- Changes in government guidance or policy regarding the levels of reserves held by PCC's.

## **8. Compliance with Home Office Guidance:**

On 31<sup>st</sup> March 2018 the Minister for Policing and the Fire Service published new guidance and 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 C which analyses the estimated balance of £20.999m on 31<sup>st</sup> March 2020 over these headings.

## **9. Conclusion:**

There has been a comprehensive review of all reserves held by the Police and Crime Commissioner in preparing this 2020/21 reserves strategy. 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. This strategy will be reviewed annually and the PCC's approval sought. During the year changes may however occur in the MTFP, which affect this strategy. Such changes will be monitored by the Chief Finance Officer and reported to the Commissioner for approval.

Based on current planning assumptions, the level of general reserves in Warwickshire should stay above the recommended minimum level through to 2022/23 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 some of the Medium Term Capital Programme – an extensive programme to support much needed investment in land, buildings, ICT systems and vehicles, with the remaining financing coming from borrowing. Much of the transformation work will focus on the new collaborative working arrangements and investment required with

West Midlands police to ensure a smooth transition from the alliance and to ensure that services can be delivered effectively to Warwickshire communities. This will include police officers and staff having up to date fit for purpose facilities, systems and equipment which enable them to provide a modern, efficient and effective policing service. Deploying these reserves over the medium term rather than in a single year also permits some flexibility should it be necessary. This strategy will be reviewed annually, but coupled with robust management and governance arrangements it will create an ongoing sustainable position that underpins our financial strategy in an increasingly uncertain landscape.

## **Appendix A - Adequacy of Reserves statement extract from the 2020/21 Budget report**

The Commissioner set his budget and MTFP in February 2020. The Commissioner holds a General Reserve, Earmarked Reserves and Capital Reserves. As part of that process he considered the required level of reserves. That consideration, in part, has been governed by known or likely commitments, and, in part, by his appetite for risk. As part of that process the Treasurer has thoroughly reviewed the financial risks facing policing in Warwickshire and made a reassessment on 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, with the intention of providing clear and transparent reporting around reserves. The detail below is an extract from the 2020/21 budget report.

### **Compliance with the 7 key principles in CIPFA's guidance**

<b>Budget assumptions</b>	<b>Current situation in Warwickshire</b>
The treatment of inflation and interest rates	Warwickshire Police (WP) makes full and appropriate provision for pay and price rises, based on up-to date information. An informed assessment is made of interest rate movements. All individual expenditure and income budgets are prepared at estimated outturn prices.
Estimates of the level and timing of capital receipts	The PCC and WP make a prudent assumption on the level and timing of any future capital receipts
The treatment of demand level pressures	The Force is required to operate and manage within its annual budget allocation. The Chief Constable retains an operational contingency within the budget to help finance unexpected operations or events that require a policing response. The force has already identified significant savings which will be removed from the budget over the next three years. (2020/21 to 2022/23). This is over and above the cash savings that have been removed from the base budget in the last eight years (i.e. 2011/12 to 2019/20). Many areas of expenditure included within the budget have been prepared on a zero based approach. This has enabled the stripping out of budgets that are no longer required, and a greater and more detailed level of understanding on the spending requirements for the budgets that are included. All the costs of transition are being financed within the budget and MTFP, these costs have been stress tested to ensure that the plans are affordable in the medium term. It does however mean that other planned investment will be delayed or stopped to enable transition to occur. Any significant pressures from demand levels would need to be addressed initially from other savings

	<p>within the in-year budget, and that the general reserve would only be used in the most serious emergency situations.</p> <p>Some government grants are announced annually in advance and are cash limited. Any new policing pressures arising during the year will have to be funded from within the budget which will ultimately require other savings or efficiencies to be found.</p> <p>The PCC has created a small number of earmarked revenue reserves to help finance specific expenditure commitments. Appropriations are made to and from these reserves on an annual basis as required.</p> <p>Finally general reserves will only be 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>Before 2019/20 the force has consistently achieved its annual efficiency target. In 2019/20 an overspend is currently forecast largely due to the one-off costs associated with the termination and the budgeted savings that have not been achieved because of the focus on transitioning. However, in 2020/21 the budget has been built from a zero base in many key areas, which means that there is a greater level of understanding and any budgets not required have been removed. A further savings target has been identified within the 2020/21 budget from procurement and support services to focus further effort on efficiency and productivity. However, additional savings are also required in future years to set sustainable budgets, but it is anticipated that these can be achieved through efficiency gains, and investment that should deliver longer term revenue savings and improved productivity.</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 regular monitoring and budget review process. Where relevant any additional costs have been incorporated in the annual revenue budget. These are reviewed regularly during the year in the budget monitoring reports report and where necessary the MTFP is amended.</p> <p>Warwickshire are embarking on establishing a number of new collaborative and partnership working arrangements. The costs of these where known are included within the capital and revenue budget and MTFP and includes some financial risk provision.</p> <p>West Mercia as the party giving notice to end the alliance is legally bound to meet the reasonable costs of termination. This is the subject of ongoing negotiation and involvement by the Home Office. The costs have been identified by Warwickshire and</p>

	<p>should therefore be recoverable as part of the ongoing informal process or through legal remedy. However, for the budget and financial planning process no funding has been included to date due to the uncertainty regarding timing of receipt or quantum. 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 retained a small number of earmarked revenue reserves to meet specific expenditure items. These are included within this report. 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. This will always be maintained within the general reserve.</p>
<p>The general financial climate to which the authority is subject.</p>	<p>The finance settlement for 2020/21 was more favourable than anticipated in overall terms, however, the detailed breakdown of the grants, cast some concern and a need to clarify the governments approach towards inflation costs particularly pay. Pay accounts for almost 80% of the police budget and the current provision for cost increases across the MTFP (2.5% per annum) generates significant ongoing risk. The settlement also provides for precept flexibility on a band D property of up to £10 in 2020/21. General inflation in the U.K. has increased over the recent past and is applied where appropriate in the budget. The base rate now stands at 0.75%. The Governor of the Bank of England has indicated that any future changes are likely to be minimal and gradual. It is unclear what the next Comprehensive spending review will mean for police finance, or whether there will be a financial pressures on policing as a result of Brexit. However, the medium term financial plan reflects our local best estimate of future inflation rates, cost pressures, increases in government grants and revenues raised from Council Tax. The general financial climate to which the PCC is subject is also affected significantly by the need to 'interim' finance all of the transitional costs of exiting the alliance and making appropriate provision for the future delivery of services. The alliance had generated large savings for Warwickshire over the last seven years, and whilst it is envisaged that some services will require some significant investment to re-establish, the reasonable costs arising from the termination should be recoverable from West Mercia. The approach</p>

	taken by Warwickshire of entering into new collaborations for some services will mean that value for money for tax payers is maintained and enhanced.
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### **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 all reserves held. This has been undertaken again this year in light of the current circumstances in which the force is operating.

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. In previous years, there has been no specific provision in reserves for this, on the acceptance by the Commissioner that any failure to deliver savings would have to be compensated for, potentially, by service reductions. However, as the force is currently re-building services and resilience as it transitions from the alliance arrangements it is acknowledged that the ability to make savings may be hampered in the short term. On this basis, there is a recognition that there should be a provision of £0.500m from the general reserve to deal with this issue. This level of provision reflects the zero based approach to budgeting in many key areas, and the confidence of the Evolve team that modest efficiency savings within the target operating model are achievable. This however, must be coupled with a need to develop and maintain tight budgetary control, regular financial reporting to the PCC and Chief Constable to enable informed decision making in addition to strong budget management controls being in place to monitor this position robustly throughout the year.
- b. Possible delays in the delivery of savings. Previous history of significant underspending is forecast to be reversed in 2019/20, but this is largely due to one off transitional costs being incurred, and the developing picture regarding the 'unpicking' of costs across the alliance as services are transitioned. The level of general reserve allocated for dealing with this issue is £1.200m. I am recommending a reduction in this to £0.500m. This reflects the detailed costing work, zero based approach to budgeting in many key areas in 2020/21, the greater level of understanding on budgets included in service areas, the increased allocation made for the possibility of savings targets not being met (£0.500m) and the relatively modest additional savings target included within the 2020/21 budget.

- c. Any unforeseen costs in establishing new arrangements for policing and support services in Warwickshire following the end of the strategic alliance. It is noted that the reasonable costs arising from the termination of the strategic alliance are legally required to be borne by West Mercia, and months of detailed work, using the advice of experts and external agencies means that there is a greater understanding of these costs. These have been built into and financed in the budget, capital programme, and MTFP. However, there is an acceptance that there may be additional legal costs if a financial settlement cannot be reached through the ongoing processes and there is a need to resolve the dispute through arbitration as envisaged under the strategic alliance collaboration agreement. Equally there may be some additional dual running costs not provided for in the budget, if project delivery timelines slip. On this basis, an indicative provision of £1.0m is prudent within the General Reserve which will be monitored and reviewed as necessary as time elapses.
- d. 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 approximately £2.0m.
- e. Any additional delivery costs - capital or revenue associated with the work required to prepare and enable entering into new collaborations, perhaps most significantly in ICT related services. The most up to date known costs are built into the MTFP. Continual refinement and expert support and scrutiny has also been used to challenge the costs, and validate the estimates used. The highest risk may be capital (e.g. IT costs), but capital expenditure does have a revenue impact, particularly if it is financed through borrowing. In order to deal with this risk most effectively, the total capital programme will be cash limited across the MTFP at £28.166m, thus absorbing any revenue impact although there is recognition that this may have the effect of deferring or delaying some capital works across the entirety of the programme. A review of where this could have minimal impact would have to be undertaken if necessary, given the need to transition some key ICT services in a timely manner. The capital programme is significant over the MTFP period and it is felt that it should provide enough scope to deal with some additionality, even though it would need to be reviewed and recast to accommodate a changing landscape. Therefore no additional provision is recommended.



- f. The risk on inflation, especially on pay. The Medium Term Financial Plan includes a provision of 2.5% for pay from 2020/21 onwards. This is to reflect the removal of the public sector pay cap. Consequently I am recommending that no further provision be made, although this will be kept under review, as the risk remains.
- g. 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.
- h. As already stated, the Home Office has deferred a further review of the Police Funding Formula. This will now take place during 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, the recent change in Government and any likely date for implementation I am recommending that no provision be made in 2020/21.
- i. The Government has delayed its plans for the replacement of the Airwaves network (referred to as ESN/ESCMP). There is still a lack of clarity, with not all details being known. However, provision of approximately £4m has been made in the Medium Term Capital Programme. Any significant additional capital costs that may occur in the short term would have to be met from reviewing the capital programme. Any increased revenue costs or grant reductions in the short term would need to be funded from further efficiencies.
- j. 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, which equates to around £1m.

The total cost of the provision required from within the general reserve, where it is possible to make any informed assessment is £5m. This is equivalent to 5% of the net revenue budget, which is in line with expected best practice and 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, as could any additional costs associated with the exit from the

alliance. 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 considered to be unlikely to occur together. However, he does need to give realistic consideration to the likelihood of them occurring during the period covered by the plan, and for those which are certain to occur.

Given all of these assessments, it is recommended that a minimum level of £5.0m is provided in general reserves. However, this will be kept under constant review over the next 12 months and the wider MTFP period.

Provided that this sum is available at all times within reserves, I am satisfied that the level of reserves held is adequate based on known information and risk.

**Appendix B – updated earmarked reserves balances, usage and transfers over the Medium Term Financial Plan (as per the 2019/20 outturn).**

RESERVES	Col 1	Col 2	Col 3	Col 4	Col 5	Col 6	Col 7	Col 8	Col 9	Col 10
	2018/19	2019/20				2019/20	2020/21	2020/21	2021/22	2022/23
	Closing Balance	Revenue	Capital	Settlement	Transfer	Closing Balance	Forecast Movement	Forecast Closing Balance	Forecast Closing Balance	Forecast Closing Balance
	Statement of Accounts	+/-	+/-	+/-	+/-		+/-			
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>General Reserves</b>	<b>5.000</b>	<b>0.000</b>				<b>5.000</b>		<b>5.000</b>	<b>5.000</b>	<b>5.000</b>
Budget Reserve	0.639				1.068	<b>1.707</b>	-1.255	0.452	0.000	0.000
Transformation Reserve	0.862	-0.474	-0.367	10.500	-0.983	<b>9.538</b>	-9.538	0.000	0.000	0.000
Investment in Infrastructure	8.091	-3.363	-1.879		-1.684	<b>1.165</b>	-1.165	0.000	0.000	0.000
Safer Roads	1.596	0.020	-0.027			<b>1.589</b>	-0.500	1.089	1.089	1.089
PCC Grants and Initiatives	0.300	0.000				<b>0.300</b>	-0.300	0.000	0.000	0.000
Redundancy	0.400	-0.316			0.316	<b>0.400</b>	-0.200	0.200	0.000	0.000
Insurance & Legal	0.300	-0.283			0.283	<b>0.300</b>	-0.150	0.150	0.000	0.000
Income	0.500	-0.500			0.500	<b>0.500</b>	-0.250	0.250	0.000	0.000
covid-19	0.000	0.000			0.500	<b>0.500</b>	-0.500	0.000	0.000	0.000
<b>Earmarked Reserves</b>	<b>12.688</b>	<b>-4.916</b>	<b>-2.273</b>	<b>10.500</b>	<b>0.000</b>	<b>15.999</b>	<b>-13.858</b>	<b>2.141</b>	<b>1.089</b>	<b>1.089</b>
<b>Total Reserves</b>	<b>17.688</b>	<b>-4.916</b>	<b>-2.273</b>	<b>10.500</b>	<b>0.000</b>	<b>20.999</b>	<b>-13.858</b>	<b>7.141</b>	<b>6.089</b>	<b>6.089</b>

Appendix C - Analysis of revenue and capital reserves as at 31<sup>st</sup> March 2020

	Actual Balance 31.3.20 £m	Planned expenditure on projects & programmes over next 3 years £m	Funding for specific projects and programmes beyond 22/23 £m	As a general contingency or resource to meet other expenditure needs £m
<b>GENERAL REVENUE RESERVE</b>	<b>5.000</b>	<b>0.000</b>	<b>0.000</b>	<b>5.000</b>
<b>EARMARKED REVENUE RESERVES</b>				
Budget Reserve	1.707	1.707	0.000	0.000
Transformation Reserve	9.538	9.538	0.000	0.000
Investment in Infrastructure Reserve	1.165	1.165	0.000	0.000
Safer Roads Partnership Reserve	1.589	0.500	1.089	0.000
Redundancy Reserve	0.400	0.400	0.000	0.000
Insurance and Legal Claims Reserve	0.300	0.300	0.000	0.000
PCC Grants and Initiatives	0.300	0.300	0.000	0.000
Income Reserve	0.500	0.500	0.000	0.000
Covid-19 reserve	0.500	0.500	0.000	0.000
<b>Total Earmarked Revenue Reserves</b>	<b>20.999</b>	<b>14.910</b>	<b>1.089</b>	<b>5.000</b>
<b>TOTAL REVENUE RESERVES</b>				
<b>CAPITAL RESERVES</b>				
Capital Grants Unapplied	0.000	0.000	0.000	0.000
Capital Receipts	0.000	0.000	0.000	0.000
<b>Total Capital Reserves</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
<b>TOTAL CASH RESERVES</b>	<b>20.999</b>	<b>14.910</b>	<b>1.089</b>	<b>5.000</b>

