

Warwickshire Police and Crime Commissioner

Reserves Strategy 2021/22

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 including unapplied receipts currently held and explains how some of these will be used over the next five years to help support the revenue budget and capital programme, fund the transition and 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 has now developed a longer term five year Medium Term Financial Plan (MTFP) to the end of 2025/26 to achieve this. This is good practise and is an approach endorsed by CIPFA to promote and demonstrate resilience and financial sustainability. The MTFP will continue to be reviewed regularly and updated formally each year. The provisional finance settlement for 2021/22 was received on the 17th December 2020, and was confirmed in February 2021. It included the details regarding the revenue and capital grant for one year only and was supplemented by the confirmation from the Ministry of Housing, Communities and Local Government on the extension of the income losses reimbursement scheme until the 30th June 2021, and the two new one off covid related grants – Local Council Tax support funding to recognise the additional costs of LCTS in 2021/22, payable as a section 31 grant, and the local council tax income guarantee to help meet the costs of collection fund deficits, that are spread over the next three financial years. The settlement information provided, albeit just for one year period, the detail 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 2021/22 reserves strategy is a comprehensive revision to last years' reserve strategy. It includes 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 continue to be updated annually to ensure that it is current and reflects 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 the annual budget report and the Medium Term Financial Plan. 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.
- To support PCC work, where specific additional expenditure is met from this reserve which meets requirements.
- A reasonable amount to meet peaks, troughs and risks in revenue expenditure on certain risk assessed areas of the business including legal and insurance matters, pensions and income levels.
- To meet specific costs associated with road safety activity.
- To meet specific costs associated with the current Covid 19 crisis.

3. Current Financial Climate:

The current financial climate has grown increasingly uncertain during the Covid 19 crisis. At the local level the force have been successful in recruiting their share of the 20,000 officers to date, and this should provide increased scope for other overtime costs and the transformation programme to be managed more effectively. It is anticipated that the Force will remain on target for achieving its recruitment targets, but must manage this carefully, particularly as the number of leavers have been slightly lower than anticipated, to ensure that establishment levels are not breached and thus cause a cost pressure. The national target for achieving efficiency savings continues and in balancing the 2021/22 budget £4m of savings will be removed from the budget on 1 April 2021 as part of the Evolve 2 business change and transformation programme. Further efficiencies as part of the next phase of transformation work are required over the MTFP and are being developed.

Further pressures are likely to be incurred in terms of additional expenditure for covid related costs. Many costs have or are due to be reimbursed by government, but there is likely to still remain a local burden, which is provided for through the covid earmarked reserve in 2021/22. Treasury management decisions and cash flow implications have and will continue to be managed throughout the pandemic, often paying suppliers more swiftly and maintaining more liquid cash. Precept funding uncertainties also still exist across the MTFP and will be very dependent on the economic recovery. It is also anticipated that the high levels of public expenditure to support the economy through the pandemic crisis, may mean that future funding levels are at risk, therefore, prudent assumptions have been included in the MTFP on precept and central funding levels. However, it is hoped that these may be addressed in any future spending review and multi-year settlement.

The impact of Brexit and any impact on the levels of public expenditure, including supply chain pressures is still unclear.

The financial strategy for Warwickshire is to achieve a 'good and balanced budget'. The 2021/22 budget achieves this, with no routine reliance on reserves to meet day to day operating costs. The MTFP also highlights further savings through the Evolve 3 programme of approximately £1.5m to achieve this over the medium term commencing in 2021/22.

4. Types of 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 types of reserve held are considered in turn below:

The General Reserve

It has been established that General Reserves will be maintained at a level of £5million. This is just below 5% of the net revenue expenditure 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 operational 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 it is maintained at an appropriate level.

Appendix A is an extract from the budget report for 2021/22 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 events and risks 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 disruption that could be caused by unforeseen events. Such expenditure usually arises out of changes in legislation, policy, or where the organisation is working on a specific project e.g. transformation. 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 2020/21 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 2021/22 are given below:

Budget & Transformation Reserve

The medium term financial strategy of the Commissioner is under constant review and changes as new and reliable information becomes available. The financial strategy is to deliver a good and balanced budget that is sustainable, whereby expenditure can be met from within core funding, without a routine reliance on reserves to balance the budget. This has been achieved in 2021/22, through the delivery of savings, and further savings will be required of £1.569m over the MTFP. This reserve does however remain as it is acknowledged that there may be pressure on in year and future budgets due to the ongoing pandemic and the effects on funding and precept levels, and the substantial transformation process, particularly on ICT, but also on the ongoing transition of services including transactional and forensics that the force is undertaking. It is therefore felt prudent to maintain this earmarked reserve to manage this risk.

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 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.

Pensions & Redundancy Reserve

This reserve provides for any pensions and redundancy costs which may be incurred. Warwickshire police is currently in a transitional and transformational process. The impact of the Mcloud remedy on pensions is also unclear and this reserve also provides for this.

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. Income budgets were reviewed as part of the 2021/22 budget and sustained shortfalls addressed, but the risk remains and therefore a reserve is maintained until the end of 2022/23.

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 pandemic. The level and maintenance of this reserve will be kept under review as the pandemic and crisis evolves.

Collection Fund deficit grant reserve

This reserve will be established in 2021/22 to manage the payment of the local tax income guarantee section 31 grant payments by government, so that they can be matched against the mandated spreading of 2020/21 collection fund deficits over the next three years. This will reduce the impact in future years of the deficit spread.

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 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 1st 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 to use reserves should be supported by recommendations in the Money Matters report, which is scrutinised by the PCC and provides the information to enable future approval or otherwise of reserves via a decision notice by the PCC.

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 a regular financial report (Money Matters) containing recommended use of reserves and levels of reserves 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.

The current level of forecast reserves is relatively healthy, however, there has been a significant use of reserves in 2020/21 as a result of increased run costs, and substantial transitional and transformational costs. This is not a sustainable or affordable position moving forward, and as such steps have been taken in compiling the 2021/22 budget to address overspending through a significant savings and efficiency programme. A total of £4.0m of savings have been identified, in 2021/22. The majority of which has been delivered, with a remaining in year savings target of £0.410m to be achieved in year. The achievement of this remaining savings target, and controlling spend, especially that related to the Evolve programme, within budget will be a source of constant review to ensure the force's financial position remains sustainable and viable.

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, the ongoing transition of ICT, forensics, and ICT services is a challenge in 2021/22 and comes with recognised risk.

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

- 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.
- That income levels may not be achieved.
- 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. There is only very limited scope for this and the likelihood is that any additional costs would have to be met from further savings or underspends in the in-year budget.
- 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. However, additional central funding has been received to manage some covid related expenditure, and a prudent approach has been taken in the 2021/22 budget to contribute the LCTS section 31 grant to reserves, as this is one off funding, and will be used to manage ongoing risks on transition and precept funding levels.
- 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 31st 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 £10.703m on 31st March 2021 over these headings.

9. Conclusion:

There has been a comprehensive review of all reserves held by the Police and Crime Commissioner in preparing this 2021/22 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 2025/26 and provision has been made in earmarked reserves to fund expected one-off pressures most notably the further implementation of the transformation programme and to manage known risks. The reserves strategy does not provide for any financing of capital. This will be financed through borrowing, capital grants and receipts if and when they are forthcoming. The reserve levels are reliant on the assumptions made across the MTFP, however the current economic outlook is uncertain and given the unique circumstances that Warwickshire faces to stand up ICT, transactional and forensics services a significant challenge remains and this may impact further on already reduced reserve levels. There is little scope to run down reserves further and therefore careful budget monitoring and tight budgetary control are necessary throughout 2021/22 and the MTFP to identify any issues as they arise and enable timely decisions to be made to address the financial implications, which will have to come primarily from within existing budgets.

Appendix A - Adequacy of Reserves statement extract from the 2021/22 Budget report

There is no routine reliance on reserves in the draft budget, and significant savings will be delivered in April 2021. The draft budget also provides for replenishment of reserve levels to manage future ICT and other risks. This supports a positive and significant step to delivering a good and balanced budget, where resources equal spending, and there is self-sufficiency. The MTFP has been extended over a longer period, despite the CSR only being for one year, however this better demonstrates the challenges over the medium term and the measures required to create the conditions for a resilient and sustainable Force.

In giving assurance on the adequacy of reserves the Treasurer has reviewed levels and compliance as outlined in the latest CIPFA guidance on the establishment and maintenance of Local Authority reserves and balances, which also applies to PCC's. This guidance sets out the factors that should be taken into account locally in making an assessment on the appropriate level of reserves and balances to be held.

The Commissioners reserves are categorised as - General Reserves, Earmarked Reserves and Capital Reserves. These will, in part, be governed by known or likely commitments, and, in part, by his appetite for risk. This should include the strategic, operational and financial risk facing the force, and also include the potential impact of external and internal risks. The Treasurer has thoroughly reviewed the risks facing policing in Warwickshire and reassessed the level of reserves required. In doing so, the Treasurer has complied with the CIPFA guidance with the intention being to ensure clear, transparent reporting around reserve levels in Warwickshire.

The following narrative provides some further detail on the approach, evidence and assurance regarding the adequacy of reserves.

Compliance with the 7 key principles in CIPFA's guidance

Budget assumptions	Current situation in Warwickshire
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 and recognising the change in the workforce profile, increments, recruitment and turnover relevant to managing a police establishment. 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. Receipts are anticipated but if the timing is not certain for financing capital expenditure, other financing options have been taken.
The treatment of demand level pressures	<p>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.</p> <p>The force has already identified significant savings which will be removed from the budget over the next three years. Savings of at least £0.900m were delivered in 2020/21. A further minimum of £4.000m will be delivered on the 1st April 2021, with another £0.822m planned to balance the budget in 2021/22. 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). Following the separation of services there is a greater and more detailed level of understanding on the spending requirements for the 2021/22 budgets. All the costs of services still to 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, although it is recognised that this does carry some risk, especially in relation to ICT related investment and this has been mitigated through a transfer to reserves in the 2021/22 budget.</p> <p>Any significant pressures from changes in demand would need to be addressed initially from other savings 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 holds a 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 and in line with the purpose of the reserve.</p> <p>Finally general reserves will only be used as a last resort to manage and fund demand-led pressures.</p>
The treatment of planned efficiency savings and productivity gains	Before 2020/21 the force consistently achieved its annual efficiency target. In 2020/21 a significant overspend is currently forecast largely due to the one-off costs associated with standing up services in Warwickshire. The new Fit For the Future

	<p>strategy has been set, which will continue to deliver transformational change within business as usual, deriving operational benefits and improved productivity and efficiency through the planned changes. £4.000m of savings will be removed from the budget by the 1st April 2021, in line with this strategy and the MTFP. Further savings are required over the MTFP and significant progress has been made to develop these through the Evolve team.</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 will be establishing new collaborative and partnership working arrangements. The anticipated costs of these are included within the capital and revenue budget and MTFP. The section 22 agreements will be suitably robust to manage these collaborations. The current services provided either jointly with or hosted by West Mercia will end in 2021/22.</p> <p>There are new risks associated with the development of a new estates service, following Worcestershire County council's decision to withdraw from the current arrangements through Place Partnership Ltd. Partners are working closely together to manage this risk and a new in house service will be implemented from April 2021</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 retained a number of earmarked revenue reserves to meet specific expenditure items. These are included within this report.</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. However, the grant criteria have been tightened and the likelihood of special grant funding has therefore reduced, This risk will always be provided for within the general reserve.</p>

	<p>Reserve levels whilst depleted in 2020/21, have remained resilient, throughout the pandemic, whilst the force has implemented a huge transformation programme. Additional government financial support for Covid-19 related costs has been received. HS2 policing of the construction site is anticipated to be an ongoing drain on resources. In 2020/21 there were a higher than normal number of murder investigations, costs have been maintained, requiring additional overtime, which in turn forms part of the reason for the overspending in 2020/21, which was met by reserves. Reserves will be replenished to some extent as part of the 2021/22 draft budget to manage risk.</p>
The general financial climate to which the authority is subject.	<p>The finance settlement for 2021/22 was more favourable than anticipated in overall terms. Government support for the recruitment of 6,000 additional officers has been confirmed. Additional support has been confirmed for Covid-19 related shortfalls in income and council tax funding. The settlement also provides for precept flexibility on a band D property of up to £15 in 2021/22. However, crime and the challenges facing policing as well as policing itself continues to evolve at pace against the backdrop of uncertainty in long term financing.</p> <p>General inflation in the U.K. has increased recently CPI in October 2020 stood at 0.9% and RPI at 1.3%</p> <p>The base rate has fallen from 0.75% to 0.1% in response to the economic shock arising from the pandemic.</p> <p>It is unclear what the next Comprehensive spending review will mean for police finance, given the economic uncertainty and the future austerity measures that will no doubt follow the pandemic and the response of the government to the increasing levels of national debt. However, the medium term financial plan over a 5 year period reflects our best estimate of future inflation rates, cost pressures, increases in government grants and revenues raised from Council Tax as they impact on the Force.</p>

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 2020/21, an allocation for this was introduced at £0.500m. It is suggested that this is no longer required as the Evolve 2 transformation team have delivered £4.000m savings on 1 April 2021 and a plan is being developed for delivering future savings based on the MTFP and the fit for the future strategy.
- b. Possible delays in the delivery of savings. Previous history of significant underspending has been reversed in 2020/21, largely due to one off transitional and transformational costs being incurred, and the developing picture regarding the 'unpicking' of costs across the alliance as services have been stood up in Warwickshire. The level of general reserve allocated for dealing with this issue is £0.500m. I am recommending this remains constant on the basis that this reflects the detailed work and validation of costs in the 2021/22 budget undertaken by the newly established finance team in Warwickshire. There is a much greater level of understanding on budgets. This combined with the £4.000m of savings gives assurance that an allocation of £0.500m would be adequate.
- c. Any unforeseen costs in establishing new ICT and transactional service arrangements in Warwickshire. It is acknowledged that ICT represents the single most complex and costly area of transition, and although costs have been included within the budget, and specific earmarked reserves exist to manage this risk, there remains a risk that additional costs could be incurred, or the timings may differ from the plan, that might require a drawn down from general reserves. Steps would be taken to mitigate this risk through regular monitoring and reporting through the Money Matters report and through the regular holding to account meetings with the Chief Constable which include updates from the Evolve Team. However, it feels prudent to allocate £1.000m within the General Reserve to manage this risk.

- 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). HS2 policing is likely to escalate and in the absence of any additional funding, cover in general reserves is prudent. Likewise the pandemic has demonstrated that ‘extraordinary’ events can be resource intensive and lead to significant additional cost. However, it has also been evident that in such circumstance additional government funding is likely to be made available to manage the financial pressures that such events create. Nonetheless a prudent provision for such events might be a provision of approximately £2.0m, roughly 2% of the annual funding level.
- e. The risk on inflation. The Medium Term Financial Plan includes no increase in budgets for pay inflation in line with the government settlement. However, an allocation of £0.500m is suggested within general reserves is suggested to cover any increase in non-pay inflation and supply chain costs in the light of Brexit and ongoing uncertainty from Covid-19, over and above the provision made in the Covid-19 earmarked reserve.
- f. The risks associated with future austerity. Whilst the impact and severity of any such measures is unknown, this remains a risk given the level of uncertainty created by pandemic and the economic impact and unprecedented levels of public spending. Much will depend on the vaccine roll out and economic recovery over the next 12 months. On this basis, it is suggested that no specific provision be allocated to this currently, on the basis that actions would need to be taken to mitigate any significant reductions, and that the earmarked budget reserve is held to manage any reductions in core funding should they occur while actions are introduced to reduce costs as part of a planned budget setting approach.
- g. The risks associated with future council tax funding. Reserve contributions to cover the three year spreading of the collection fund deficit for 2020/21 are made and are reflected in earmarked reserves. Prudent estimates of council tax funding are included in the MTFP. On this basis it is not suggested that additional allocations are identified within general reserves to cover this risk, as they would need to be dealt with as part of the annual budget setting process.
- h. The Home Office has deferred a review of the Police Funding Formula, and it is assumed that this will take place as part of a future Comprehensive Spending Review, when the economic situation is more certain following the end of the

current pandemic. The Home Office did consult on a new formula during 2015 but later abandoned the consultation. At the time estimates of the impact on Warwickshire ranged from a decrease of £1.9m to an increase of £2.4m in funding. Given the continuing uncertainty around the timing and outcome of any such review, I am recommending that there is no allocation in general reserves for this in 2021/22.

- 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 £4.8m 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. It is suggested that no provision be made currently.
- 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 just less than 5% of the net revenue budget. However, it should be noted that the effect of any single event could impact significantly especially given the scale of uncertainty in the economy currently. 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 2021/22 budget report.

The table below shows the reserve balances anticipated over the life of the MTFP:

Description	Balances as at 31/3/20 £m	Estimated balances as at 31/3/21 £m	Estimated balances as at 31/3/22 £m	Estimated balances as at 31/3/23 £m	Estimated balances as at 31/3/24 £m	Estimated balances as at 31/3/25 £m	Estimated balances as at 31/3/26 £m
General Reserve	5.000	5.000	5.000	5.000	5.000	5.000	5.000
<u>Earmarked Reserves:</u>							
Budget & Transformation	1.707	2.104	3.252	3.079	2.591	2.323	2.382
Collection fund deficit grant	0.000	0.000	0.339	0.169	0.000	0.000	0.000
Transformation	9.538	1.378	0.000	0.000	0.000	0.000	0.000
Infrastructure	1.165	0.000	0.000	0.000	0.000	0.000	0.000
Safer roads	1.589	1.282	1.282	1.282	1.282	1.282	1.282
PCC grants & initiatives	0.300	0.300	0.300	0.250	0.200	0.150	0.100
Pensions & Redundancy	0.400	0.000	0.400	0.400	0.400	0.400	0.400
Insurance & legal	0.300	0.253	0.500	0.500	0.500	0.500	0.500
Covid-19	0.500	0.386	0.500	0.000	0.000	0.000	0.000
Income	0.500	0.000	0.250	0.000	0.000	0.000	0.000
Total Earmarked Reserves	15.999	5.703	6.823	5.680	4.973	4.655	4.664
Total Reserves	20.999	10.703	11.823	10.680	9.973	9.655	9.664

Appendix C - Analysis of revenue and capital reserves as at 31st March 2021

	Actual Balance 31.3.21 £m	Planned contributions and expenditure on projects & programmes over next 5 years £m	Funding for specific projects and programmes beyond 25/26 £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 & Transformation Reserve	2.104	(0.278)	2.382	0.000
Transformation Reserve	1.378	1.378	0.000	0.000
Collection fund deficit grant reserve	0.000	0.000	0.000	0.000
Safer Roads Partnership Reserve	1.282	0.000	1.282	0.000
Pensions & Redundancy Reserve	0.000	(0.500)	0.500	0.000
Insurance and Legal Claims Reserve	0.253	(0.147)	0.400	0.000
PCC Grants and Initiatives	0.300	0.200	0.100	0.000
Income Reserve	0.000	0.000	0.000	0.000
Covid-19 reserve	0.386	0.386	0.000	0.000
Total Earmarked Revenue Reserves	10.703	1.039	4.664	5.000
TOTAL REVENUE RESERVES				
CAPITAL RESERVES				
Capital Grants Unapplied	0.000	0.000	0.000	0.000
Capital Receipts	0.000	0.000	0.000	0.000
Total Capital Reserves	0.000	0.000	0.000	0.000
TOTAL CASH RESERVES	10.703	1.039	4.664	5.000

