

Police and Crime Commissioner for Northumbria

Annual Reserves Strategy Statement as at 31 March 2018

1. Reserves Position as at 31 March 2018

- 1.1 As at 31 March 2018, the Police and Crime Commissioner held usable reserves of £13.759m. The total usable reserve balance includes a capital grant of £0.301m relating to the delivery of Emergency Services Network (ESN), and the remaining £13.458m represents the General Fund.
- 1.2 The General Fund is further divided into the General Reserve £9.436m, and Earmarked Reserves (sums set aside for a specific purpose) £4.022m. The title of each of the Earmarked Reserves explains the purpose of that reserve. As set out in the Medium Term Financial Strategy (MTFS) key principles, the Commissioner maintains Earmarked Reserves for specific purposes only when appropriate and which are consistent with achieving objectives.
- 1.3 The reserves held by the Police and Crime Commissioner as at 31 March 2018 are set out in the table below:

Reserve	Balance Held
<p><u>General Reserve</u></p> <p>The Police and Crime Commissioner is legally required to hold reserves. Although any value above nil is legally acceptable, the minimum level agreed in the Commissioners Medium Term Financial Strategy (MTFS) is 2% of the Net Revenue Budget.</p> <p>A comprehensive financial risk assessment is undertaken as part of the MTFS and revenue and capital budget setting process, to ensure all risks and uncertainties affecting the Commissioners financial position are identified. The Commissioner faces a number of significant financial pressures and risks that could affect the position over the medium term. A full assessment of the likelihood, potential impact and the management controls in place, are published in the Commissioners MTFS 2018/19 to 2021/22. The General Reserve provides the most significant control in place to mitigate financial risk.</p> <p>The General Reserve is therefore held to manage major unforeseen expenditure, budget pressures and any further loss of essential Government funding for Northumbria. The Commissioner has an agreed strategy that the level of the General Reserve will be influenced by the balance of risks inherent in the budget and MTFS, the robustness of budget monitoring, past experience of outturn spending, the extent of earmarked reserves and funding cuts over the medium term. As a result, the agreed strategy is to reduce the General Reserve, but to maintain it above a minimum level of 2% of the net revenue budget over the medium term.</p> <p>The balance held at the end of 2017/18 represents 3.5% of the approved 2018/19 revenue budget. The level of General Reserve over the medium term planning period is planned to reduce to 3.0% of the revenue budget by 2021/22.</p>	£9.436m

<p><u>Workforce Management Reserve</u></p> <p>The Workforce Management Reserve was set up to smooth the cost impact of workforce changes and has been used to fund the one-off cost of police staff redundancies to release the essential on-going savings of the reduction in staff costs against the Chief Constables revenue budget.</p> <p>The planned workforce savings across the MTFS period are essential to ensure a balanced budget which allows the Commissioner to provide the Chief Constable with the resources to deliver the priorities in the Police and Crime Plan, within a challenging financial climate.</p> <p>During 2017/18 the cost of redundancy payments and pension costs associated with the early release of pension benefits totalling £0.939m, were managed through the use of this reserve. The balance was therefore reduced from £1.259m to £0.320m.</p> <p>The Commissioners MTFS 2018/19 to 2021/22 highlighted a requirement to increase the reserve during the 2018/19 financial year by a further £1.000m through a transfer from the general reserve. This will provide additional resilience to manage essential workforce change over 2018/19 and 2019/20.</p>	<p>£0.320m</p>
<p><u>Insurance Reserve</u></p> <p>The Insurance Reserve is maintained for potential liabilities and costs which fall on the Commissioner where no external insurance cover is arranged by or available to the Commissioner. Potential liabilities include storm damage, business interruption and claims that would fall within the Commissioners policy excess limits. The level of the reserve held as at 31 March 2018 represents approximately 1.1% of the approved 2018/19 revenue budget.</p>	<p>£3.000m</p>
<p><u>Domestic Violence Reserve</u></p> <p>The Domestic Violence Reserve holds funds which have been set aside by the Commissioner to support work undertaken jointly with local National Health Services and Local Authority partners, over a planned period, aimed at tackling domestic abuse. The reserve will be used to fund the work being undertaken by local authority Health Advocates and supports one of the key objectives in the Commissioners Police and Crime Plan, 'tackling domestic and sexual abuse'.</p>	<p>£0.225m</p>
<p><u>Partnership Working Reserve</u></p> <p>The Partnership Working Reserve holds funds which have been set aside by the Commissioner to pilot additional support for victims in specialist domestic violence courts. This work supports the Police and Crime Plan objectives, 'continuing to put victims first', and 'having an effective criminal justice system'.</p>	<p>£0.208m</p>
<p><u>Local Criminal Justice Board (LCJB) Project Support Reserve</u></p> <p>The LCJB Project Support Reserve holds funds to be used to pilot additional project support for the Local Criminal Justice Board. This work supports the Police and Crime Plan objective, 'having an effective criminal justice system'.</p>	<p>£0.050m</p>

<u>External Funding Reserve</u> <p>The External Funding Reserve holds funds received in 2017/18 which were carried forward at the year end and will be fully utilised during 2018/19 in line with any terms and conditions. The reserve absorbs timing differences in relation to income received as external funding from partners, which is to be used to fund specific activities and policing services.</p>	£0.106m
<u>NERSOU Reserve</u> <p>The NERSOU Reserve comprises the Northumbria share of the North East Regional Special Operations Unit (NERSOU) Reserve. NERSOU is the 3 force collaboration with Durham and Cleveland tackling serious and organised crime across the region. The NERSOU reserve is expected to be fully utilised during 2018/19.</p>	£0.113m
General Fund Total	£13.458m
<u>Capital Receipts Reserve</u> <p>The Capital Receipts Reserve comprises funds from the sale of the Commissioners estate under the Estates Rationalisation Programme. These are being utilised over the medium term to fund the capital programme and to minimise impact on the Commissioners borrowing costs. Capital receipts available in 2017/18 have been fully utilised to fund capital expenditure during the year. Further receipts are anticipated over the MTFS period 2018/19 to 2021/22, with all funds being used to fund the capital programme and minimise the impact of borrowing costs on the revenue budget in the most cost effective manner.</p>	nil
<u>Capital Grants Reserve</u> <p>This represents grant funding provided by the Home Office to forces in relation to specific capital costs for ESN (Emergency Services Network), to be used at the appropriate time within the programme.</p>	£0.301m
Total Usable Reserves	£13.759m

2. Comparison with other Police Force areas

- 2.1 During the 2017/18 financial year, the Police and Crime Commissioners Treasurers' Society (PACCTS) obtained information for all 43 geographical police force areas in England and Wales. The data obtained by PACCTS reflects the reserves position for each force as at 31 March 2017. It is anticipated that PACCTS will circulate the updated position as at 31 March 2018 later in the year.
- 2.2 The minimum level of general reserves is a matter for local policy, with many areas having a minimum level of 3% or less (compared to 2% for Northumbria). Chief Finance Officers are guided by their external auditor's assessment and by HMICFRS (Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services) in their PEEL (Police Effectiveness, Efficiency and Legitimacy) inspections, as to the appropriateness of reserve levels. In most cases, either no comment was made or the assessment was that reserve levels were appropriate. However, one force area

was advised to increase their threshold from 2% of Net Revenue Expenditure (NRE) to between 3% and 5% of NRE.

- 2.3 On average, earmarked revenue reserves at 31 March 2017 were 11.1% of NRE and this is forecast to fall to 4.0% by March 2020. Individual PCC's held earmarked reserves ranging from 1.9% (Northumbria) to 34% (Gwent), falling to between 0% and 19% by March 2020. Despite the broad spread, the majority of earmarked reserves held at 31 March 2017 are between 5% and 20% of NRE. Northumbria held the lowest level of earmarked reserves at 1.9% of NRE.
- 2.4 Northumbria currently has £4.022m in earmarked revenue reserves; this is projected to fall to £3.000m by March 2022. The £3.000m represents the Insurance Reserve only, with all other earmarked reserves being utilised in line with their specific purpose over that time.
- 2.5 Capital grants and reserves nationally are much smaller in comparison with the earmarked revenue reserves, but it is worth noting that within the March 2017 national total of £537.0m, £350.0m is attributable to the London Mayors Office for Policing and Crime (MOPAC) alone. It is also worth stating that the level of capital reserves is heavily influenced by the timing of asset disposals, for example the MOPAC figure reflects the sale of New Scotland Yard which generated a receipt of £370.0m, some of which was applied in 2016/17, with the balance being applied in full by March 2019 to support the MOPAC capital investment programme.

Capital Reserves - All Forces	31 March 2017 £m	31 March 2018 £m	31 March 2019 £m	31 March 2020 £m
Capital Receipts	448.4	146.5	50.2	34.0
Capital Grant Unapplied	47.8	9.4	4.6	3.6
Other Capital	40.3	19.9	-	-
Total Capital Reserves	536.5	175.8	54.8	37.6

- 2.6 Northumbria capital receipts reserve at 31 March 2017 was £3.290m, however, this has reduced to nil as at 31 March 2018. The opening balance of £3.290m and receipts received during the year were used to fund capital expenditure during 2017/18. Further receipts are anticipated over the MTFS period 2018/19 to 2021/22, with all funds being used to fund the capital programme and minimise the impact of borrowing costs on the revenue budget in the most cost effective manner.
- 2.7 The forecast reduction in capital reserves is of particular concern as the capital grants received each year from the Home Office have reduced even more quickly than the revenue grants. For Northumbria the level of grant received in both 2017/18 and 2018/19 (£1.263m) represents less than 10% of the approved capital budget for the year. For further context the grant is sufficient to fund approximately 50% of the approved annual vehicle replacement budget.

3. Medium Term Reserves Forecast

- 3.1 The Commissioners Medium Term Financial Strategy (MTFS) 2018/19 to 2021/22 sets out the planned use of reserves over the medium term period. Usable reserves of £13.759m as at 31 March 2018 are forecast to reduce to £11.200m by 31 March 2022 under the MTFS, a reduction of £2.5m (18%).

Reserves Forecast	March 2017 £m	March 2018 £m	March 2019 £m	March 2020 £m	March 2021 £m	March 2022 £m
General Reserve	11.8	9.4	8.1	8.1	8.1	8.2
Earmarked Reserves	5.1	4.0	3.8	3.0	3.0	3.0
Capital Reserves	4.0	0.3	0.2	-	1.1	-
Total Usable Reserves	20.9	13.7	12.1	11.1	12.2	11.2

- 3.2 The forecast General Reserve balance of £8.2m as at 31 March 2022 represents 3.0% of the net revenue budget under the Commissioner's MTFS. This meets one of the key MTFS principles to seek to maintain the General Reserve at a minimum of 2.0% of the net revenue budget.
- 3.3 The Home Office published guidance, '*Police Finance Reserves Guidance*' sets out the Government's expectations around the information to be published by Police and Crime Commissioners on their financial reserves strategies. The guidance requires reserves information to be presented in three specific categories as provided below:

Reserves Forecast	March 2018 £m	March 2019 £m	March 2020 £m	March 2021 £m	March 2022 £m
Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan	2.3	1.0	-	1.1	-
Funding for specific projects and programmes beyond the current planning period	-	-	-	-	-
Funding held as a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management	11.4	11.1	11.1	11.1	11.2
Total Usable Reserves	13.7	12.1	11.1	12.2	11.2

4. Conclusions

- 4.1 It is the opinion of the Chief Finance Officer that the current processes for the management of the Commissioners reserves are appropriate. This opinion takes into account:

- The requirement for the Police and Crime Commissioner to have overall control of all reserves (as the Chief Constable is not permitted to hold usable reserves).
- A key Medium Term Financial Strategy (MTFS) principle to maintain the General Reserve at a minimum of 2.0% of net revenue budget. In practice, this level is maintained at or above 3.0% of net revenue budget to provide a financial buffer.
- The creation and use of earmarked reserves as well as the use of the General Reserve, is approved in advance via the budget and Medium Term Financial Strategy, set annually in February. The approval for use of all reserves is further evidenced each year to External Audit as part of the year-end outturn report and approved use of reserves.

4.2 It is the opinion of the Chief Finance Officer that the level of reserves held at 31 March 2018 is appropriate. However, both general and earmarked revenue reserves were the lowest in the country as a % of NRE at 31 March 2017 and the position at 31 March 2018 has reduced even further. The continued use of reserves to meet funding shortfalls is unsustainable and general reserves are fast approaching the minimum level outlined within the MTFS.

5. Key Considerations

- 5.1 The highest risk for both the Police and Crime Commissioner and the force concerns the adequacy of financial resources. This includes the amount of government grant received by the Police and Crime Commissioner and the expected income generated through precept. Further reductions in total funding, either as a result of government grant cuts or restrictions on the precept increase beyond those projected, will put added pressure on reserves which cannot be sustained. Further savings will need to be delivered to meet any such pressure as reserves are fast approaching minimum levels. Resilience to meet unexpected demand is already limited.
- 5.2 The Commissioners capital programme and capital financing plans include the assumption that receipts will be available over the medium term. If the value or profile of receipts changes unfavourably there may be a requirement to take additional borrowing and therefore an impact on the revenue costs of interest and principal repayment (MRP).
- 5.3 Once capital receipts from the estates rationalisation programme are exhausted the annual capital programme will be mainly funded through prudential borrowing, as the capital grant from government represents a small proportion (on average 8%) of the overall annual capital programme requirement. This will limit the capital programme to what is affordable in revenue terms for the minimum repayment of borrowing (MRP) and annual interest costs.

