

## **NORTHUMBRIA POLICE AND CRIME COMMISSIONER**

### **Key Decision**

#### **Title and Reference**

**Approval of the Annual Reserves Statement for the Police and Crime Commissioner for Northumbria as at 31 March 2017.**

**(PCC/319/2018)**

#### **Summary**

The Chartered Institute of Public Finance and Accountancy (CIPFA), along with the Home Office, recommend as good practice that Police and Crime Commissioners publish an Annual Reserves Statement.

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

The Annual Reserve Statement for year ending 31 March 2017 has been prepared in line with best practice.

#### **Recommendation**

It is recommended that the Commissioner agrees and publishes the attached Annual Reserves Statement as a true reflection of the reserves position for the Police and Crime Commissioner for Northumbria as at 31 March 2017.

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

I hereby approve the recommendations above.

**Signature**



**Date 05.04.18**

<b>OPCC BUSINESS MEETING</b>	<b>05 APRIL 2018</b>
<b>RESERVES STATEMENT OF THE POLICE AND CRIME COMMISSIONER FOR NORTHUMBRIA 2016/17</b>	
<b>REPORT OF: THE JOINT CHIEF FINANCE OFFICER</b>	
<b>AUTHOR: KEVIN LAING, HEAD OF FINANCE</b>	

## **1. PURPOSE**

- 1.1 At recent discussions at a National level it has been suggested by the Home Office that changes may be made to the Financial Management Code of Practice to require the publication of an 'Annual Reserves Statement' for each Police and Crime Commissioner (PCC).
- 1.2 Some Police and Crime Commissioners already publish an Annual Reserves Statement and it is now seen as good practice to do so. An example of such a statement was presented to the Commissioner in December for consideration.
- 1.3 This report sets out the actual Annual Reserves Statement for Northumbria, based on good practice, for financial year ending 31 March 2017. Thereafter, an annual statement on the reserves position will be published alongside the Statements of Account each financial year.

## **2. RECOMMENDATION**

- 2.1 OPCC is recommended to:
  - (i) Review and comment on the attached 'Annual Reserves Statement'; and
  - (ii) Agree and publish the attached statement as a true reflection of the reserves position for the Police and Crime Commissioner for Northumbria as at 31 March 2017.

## **3. BACKGROUND**

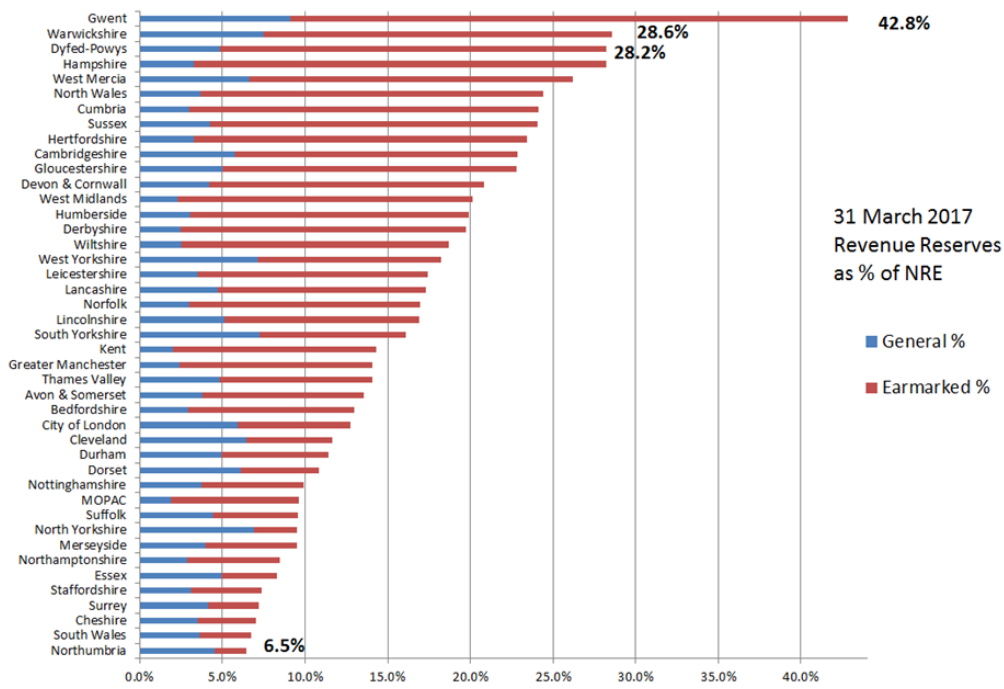
- 3.1 Recent discussions at a National level, outlining the level of reserves held by PCC's, have led the Home Office to suggest there may need to be changes to the Financial Management Code of Practice to make this a mandatory requirement.
- 3.2 In addition, the Chartered Institute of Public Finance and Accountancy (CIPFA), published guidance for public sector accountants (LAAP Bulletin 99 – Local Authority Reserves and Balances), which provided guidance to Chief Finance Officers on the establishment and maintenance of reserves and balances. Section 8 of the bulletin confirms that the guidance is applicable to Police and Crime Commissioners, Chief Constables and Fire and Rescue authorities.

However, it is interesting to note that, as it stands at the moment Chief Constables are not able to hold any usable reserves.

- 3.3 It is therefore seen as good practice to produce an Annual Reserves Statement. Appendix 1 provides such a statement for the last financial year, ending 31 March 2017.
- 3.4 The statement should provide transparency to the reader and demonstrate the need for, and governance of, any reserves:
  - Are the reserves earmarked for an appropriate purpose.
  - Is the current and projected level of reserves appropriate.
  - Is the governance of reserves adequate and appropriate (The processes by which reserves are established, allocated, used and disestablished).

#### **4. SUMMARY OF THE NORTHUMBRIA RESERVES POSITION AS COMPARED TO THE NATIONAL POSITION**

- 4.1 For context, the following outlines the Northumbria reserves position in comparison to the National position.
- 4.2 As at 31 March 2017 Police and Crime Commissioners in England and Wales collectively held usable reserves of £2.166bn (of which £1.629bn were revenue reserves).
- 4.3 The Police and Crime Commissioner for Northumbria held usable reserves of £20.885m (of which £16.916m were revenue reserves).
- 4.4 The chart below shows the National reserves position as at 31 March 2017, using published information from the Police and Crime Commissioners Treasurers Society (PACCTS). This clearly shows that Northumbria have the lowest level of revenue reserves as a % of Net Revenue Expenditure (NRE).



## 5. CONSIDERATIONS

<b>Freedom of Information</b>	EXEMPT
<b>Consultation</b>	No
<b>Resource</b>	Yes
Financial implications are considered within this report.	
<b>Equality</b>	No
<b>Legal</b>	No
<b>Risk</b>	No
<b>Communication</b>	No
<b>Evaluation</b>	No

## Police and Crime Commissioner for Northumbria Annual Reserves Statement as at 31 March 2017

### 1. Reserves Position as at 31 March 2017

- 1.1 As at 31 March 2017, the Police and Crime Commissioner (PCC) held usable reserves of £20.885m, of which £3.290m was the Capital Receipts Reserve and £0.679m is a capital grant relating to the delivery of Emergency Services Network (ESN). The remaining £16.916m represents the General Fund.
- 1.2 The General Fund is further divided into the General Reserve £11.865m, and Earmarked Reserves (sums set aside for a specific purpose) £5.051m. 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 2017 were:

Reserve	Balance Held
<p><b><u>General Reserve</u></b></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 MTFS is 2% of the Net Revenue Budget. The balance held at the end of 2016/17 represents 4.5% of the approved 2017/18 revenue budget.</p>	£11.865m
<p><b><u>Workforce Management Reserve</u></b></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 on-going savings of the reduction in staff costs.</p> <p>Costs incurred to date in 2017/18 against the reserve balance are £0.718m, leaving £0.541m remaining.</p>	£1.259m
<p><b><u>Insurance Reserve</u></b></p> <p>The Insurance Reserve is maintained for potential liabilities and costs which fall on the Commissioner where no external insurance cover is arranged by or available to the Commissioner.</p>	£3.000m
<p><b><u>Domestic Violence Reserve</u></b></p> <p>The Domestic Violence reserve holds funds which have been set aside by the Commissioner to support work undertaken jointly with local National Health Services and Local Authority partners, over a planned period, aimed at tackling domestic abuse.</p>	£0.300m

<b><u>External Funding Reserve</u></b> The External Funding Reserve holds funds received in 2016/17 which were carried forward at the year end and will be fully utilised during 2017/18 in line with any terms and conditions.	£0.099m
<b><u>NERSOU Reserve</u></b> The NERSOU Reserve comprises the Northumbria share of the North East Regional Special Operations Unit (NERSOU) Reserve. NERSOU is the 3 force collaboration with Durham and Cleveland tackling serious and organised crime across the region. The NERSOU reserve is expected to be fully utilised during 2017/18.	£0.393m
<b>General Fund Total</b>	£16.916m
<b><u>Capital Receipts Reserve</u></b> 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	£3.290m
<b><u>Capital Grants Reserve</u></b> This represents grant funding provided by the Home Office to forces in relation to specific capital costs for ESN (Emergency Services Network), to be used at the appropriate time within the programme.	£0.679m
<b>Total Usable Reserves</b>	£20.885m

## 2. Comparison with other police force areas

- 2.1 The Police and Crime Commissioners Treasurers' Society (PACCTS) obtained information for all 43 geographical police force areas in England and Wales.
- 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 £5.051m in earmarked revenue reserves; this is projected to fall to £3.000m by March 2020. 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 £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 £370m, 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.

<b>Capital Reserves - All Forces</b>	<b>31 March 2017 £m</b>	<b>31 March 2018 £m</b>	<b>31 March 2019 £m</b>	<b>31 March 2020 £m</b>
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	0.0	0.0
<b>Total Capital Reserves</b>	<b>536.5</b>	<b>175.8</b>	<b>54.8</b>	<b>37.6</b>

- 2.6 Northumbria capital receipts reserve at 31 March 2017 is £3.290m. Further receipts are anticipated over the MTFS period 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 2017/18 (£1.263m) is 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 £20.885m as at 31 March 2017 are forecast to reduce to £11.200m by 31 March 2022 under the MTFS, a reduction of 46%.

<b>Reserves Forecast</b>	<b>March 2017 £m</b>	<b>March 2018 £m</b>	<b>March 2019 £m</b>	<b>March 2020 £m</b>	<b>March 2021 £m</b>	<b>March 2022 £m</b>
General Reserve	11.8	9.1	8.1	8.1	8.1	8.2
Earmarked Reserves	5.1	3.4	3.6	3.0	3.0	3.0
Capital Reserves	4.0	0.0	0.0	0.0	1.1	0.0
<b>Total Usable Reserves</b>	<b>20.9</b>	<b>12.5</b>	<b>11.7</b>	<b>11.1</b>	<b>12.2</b>	<b>11.2</b>

- 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.

#### 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 2017 is appropriate. Both general and earmarked revenue reserves are the lowest in the country as a % of NRE, however, 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 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.