



Nottinghamshire

POLICE & CRIME COMMISSIONER

Reserves Strategy 2013-14

Review Date: January 2014

January 2013

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Background

1. 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.
2. In England and Wales, earmarked reserves remain legally part of the General Reserve, although they are accounted for separately.
3. There are other safeguards in place that help to prevent Police & Crime Commissioners over-committing themselves financially. 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 Police & Crime Commissioner is considering the budget requirement.
 - Legislative requirement for each police & Crime Commissioner 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.
4. These requirements are reinforced by section 114 of the Local Government Finance Act 1988, which requires the Chief Finance Officer to report to the Police & Crime Commissioner 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 Commissioner will not have the resources 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. Indeed, the Police & Crime Commissioner must consider the s114 notice within 21 days and during that period the Force is prohibited from entering into new agreements involving the incurring of expenditure

5. Whilst it is primarily the responsibility of the Police & crime Commissioner and its 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 soundly based. However, it is not the responsibility of auditors to prescribe the optimum or minimum level of reserves for individual Police & Crime Commissioners or authorities in general.
6. 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. Indeed, in considering the affordability of its capital plans, the Commissioner is required to consider all of the resources available to it/estimated for the future, together with the totality of its 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 this is achieved through the Medium Term Financial Plan (MTFP). The Comprehensive Spending Review (CSR) has provided the Commissioner with details of proposed revenue grant for one year and capital grant settlement for two years. This provides limited ability to focus on the levels of reserves and application of balances and reserves.
7. 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. A well-managed organisation, for example, with a prudent approach to budgeting should be 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, a well-managed organisation will ensure that the reserves are not only adequate, but also are necessary.
8. Section 26 of the Local Government Act 2003 gives 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 circumstances where the authority does not act prudently, disregards the advice of its Chief Finance Officer and is heading for serious financial difficulty. This would also apply to Police & Crime Commissioners. This accords with CIPFA's view that a generally applicable minimum level is appropriate, as a minimum level of reserve will be imposed where an authority is not following best financial practice.

Current Financial Climate

9. The pressures on public finances currently and for the medium term are intense. Therefore, the ability to retain reserves for unforeseen events and circumstances becomes not only difficult, but something that requires careful consideration.
10. Over the past few years the total amount held in reserves has increased due to year on year underspends. The amount now held in reserves is comparable with the national average.
11. The Medium Term Financial Plan identifies risks in achieving the required savings to ensure balanced budgets over future years. Specifically, at the time of writing this report clarity on what will happen now that Policing is not part of the redistributed business rates process and what will happen in 2016-17 the start of the next CSR where the estimates are broad estimates, the potential need to use reserves increases significantly.

Types of Reserve

12. When reviewing the medium term financial plans and preparing the annual budgets Commissioners should consider the establishment and maintenance of reserves. These can be held for four main purposes:
 - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves.
 - A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves.
 - A means of building up funds often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately, but remain legally part of the general reserve.
 - The economic climate and the safety of the Commissioners financial assets. This would link closely with the Treasury Management and Prudential Code Strategy.
13. Commissioners also hold other reserves that arise out of the interaction of legislation and proper accounting practice. These reserves, which are not resource-backed and cannot be used for any other purpose, are described below:
 - The Pensions Reserve – this is a specific accounting mechanism used to reconcile the payments made for the year to various statutory pension schemes.

- The Revaluation Reserve – this is a reserve that records unrealised gains in the value of fixed assets. The reserve increases when assets are revalued upwards, and decreases as assets are depreciated or revalued downwards or disposed of.
- The Capital Adjustment Account – this is a specific accounting mechanism used to reconcile the different rates at which assets are depreciated under proper accounting practice and are financed through the capital controls system.
- The Available-for-Sale Financial Instruments Reserve – this is a reserve that records unrealised revaluation gains arising from holding available-for-sale investments, plus any unrealised losses that have not arisen from impairment of the assets.
- The Financial Instruments Adjustment Reserve – this is a specific accounting mechanism used to reconcile the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under proper accounting practice and are required by statute to be met from the General Fund.
- The Unequal Pay Back Pay Account – this is a specific accounting mechanism used to reconcile the different rates at which payments in relation to compensation for previous unequal pay are recognised under proper accounting practice and are required by statute to be met from the general fund.
- Collection Fund Adjustment account – this is specific to the changes in accounting entries relating to the Collection Fund Accounts held by the Billing Authorities.
- Accumulated Absences Account – this account came into being with the implementation of IFRS and represents the value of outstanding annual leave and time off in lieu as at 31st March.

14. Other such reserves may be created in future where developments in local authority accounting result in timing differences between the recognition of income and expenditure under proper accounting practice and under statute or regulation, such as the Capital Grants Unapplied.

15. In addition Commissioners will hold a Capital Receipts Reserve. This reserve holds the proceeds from the sale of assets, and can only be used for capital purposes in accordance with the regulations.

16. For each earmarked reserve held by the Commissioner there should be a clear protocol setting out:

- The reason for/purpose of the reserve
- How and when the reserve can be used
- Procedures for the reserves management and control
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy

17. When establishing reserves, Commissioners need to ensure that they are complying with the Code of Practice on Local Authority Accounting and in particular the need to distinguish between reserves and provisions.

Nottinghamshire Police & Crime Commissioner Reserves

18. 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

19. It has previously been established that General Reserves will be maintained at a level above the minimum of 2.0% of the total net budget.

20. The purpose of this reserve is to provide for any unexpected expenditure that cannot be managed within existing budgets. Such expenditure would be one-off and resulting from an extraordinary event.

21. Similarly the General Reserve should be set at a prudent and not excessive level, as holding high level of reserves can impact on resources and performance. As such the maximum level of General Reserves for is 5.0% of the total net budget.

22. 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 Chief Constable and the Chief Finance Officer.

23. As the net budget position changes the level of General Reserve must be monitored to ensure the minimum level is maintained.

24. **Appendix A** details the elements that make up the current General Reserves balance and the levels of risk attached to each of these elements. These are indicative and may not be exhaustive as new risks emerge. This does not include the EMSOU general reserve of £0.083m.

Earmarked Reserves

25. 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).
26. Such expenditure usually arises out of changes in policy or where the organisation is working in collaboration with other forces to provide a specific service (for example Air Support Unit).
27. Expenditure relating to earmarked reserves has to specifically relate to the purpose of the reserve.
28. **Appendix B** details each of the earmarked reserves that existed at the start of the 2012-13 financial year and their estimated balance by 31st March 2013. Details of those available for use in 2013-14 are given below:

Medium Term Financial Plan (MTFP) Reserve

29. The medium term financial plan of the Commissioner is under constant review and changes as new and more information becomes available.
30. The original purpose of this reserve is to alleviate financial pressure on the budgets in future years. ***It is proposed that the Air Support Unit Reserve is transferred to the MTFP Reserve once the Unit transfers to the National Air Support Service in October 2013.***
31. The support from this reserve is only one-off support and as such cannot be used to finance ongoing commitments.
32. The previously agreed strategy for utilising this reserve has been reviewed in light of the Comprehensive Spending Review and as such this reserve will now be utilised to finance the cost of organisational changes, such as redundancy. In addition to this the reserve will also be utilised smooth budget pressures as they arise.
33. In line with revised revenue forecast positions reported during the year it is intended that budget underspends from the 2012-13 financial year will be added to this reserve.
34. The Medium Term Financial Plan has a risk assessment in relation to achieving the efficiencies identified. As such this reserve would be the first call for balancing the accounts should the efficiencies not be realised.

35. **Appendix C** shows how the remainder of this reserve has been initially allocated over the next four years. It should be noted that there is a shortfall between budget and funds available in 2015-16 and 2016-17, which may require the use of reserves to finance all or part of the shortfall, depending on the level of further savings that can be achieved. No estimate has been included at this stage.

Air Support Operational Reserve

36. Nottinghamshire and Derbyshire operate a joint Air Support service. This reserve is to cover unexpected expenditure specifically relating to this joint service. The amount shown within the reserves tables in Appendix B and C is the portion of the reserve specifically relating to Nottinghamshire.
37. With the Air Support Unit transferring to the National Air Support Service (NPAS) there will no longer be a need to maintain this reserve and therefore it will transfer to the MTFP reserve from October 2013.

Public Finance Initiative (PFI)

38. This is a reserve for the possibility of an extraordinary event relating to this significant contract.

East Midlands Special operations Unit (EMSOU) Reserve

39. There are a growing number of areas where collaborative working is undertaken with other Regional Policing areas. EMSOU is providing collaboration for specialised policing services, such as Major Crime.
40. The Police & Crime Commissioners meet to make decisions and agree further areas of collaboration.
41. The reserve exists to finance activities of the unit above those identified within the annual budget.

Property Act Fund

42. This reserve relates to the value of property sold where the Commissioner can retain the income for use in accordance with the Property Act.

Drug Fund

43. This reserve relates to a historical balance in the accounts and is money for initiatives that reduce drug related crime.

Revenue Grants

44. This reserve combines the small amounts of grant income on completed projects where the grant conditions do not require repayment.

Animal Welfare

45. This reserve was established ahead of a scheme being finalised for the welfare of animals specifically police dogs on retirement as working animals. Once a scheme is established this reserve will finance any approved expenditure relating to ongoing welfare as a result of work related injuries.

Tax Base

46. The timing of data for the production of the Police & Crime budget and precept is such that estimated tax base data will have to be used for the budget and precept report. Actual data from billing authorities is not required to be provided until 31st January. As a result the estimated precept to be collected may vary once the actual data is shown and use of this reserve negates the need to revise the budget breakdown.
47. Also, at the time of writing this strategy the Office of the Police & Crime Commissioner was awaiting clarification from the Home Office on what the Department for Communities and Local Government (DCLG), would be doing in 2014-15 in relation to the removal of policing from the redistributed business rates process. For 2013-14 the Commissioner had received a separate grant of £8.4m which had meant that we were able to set a balanced budget. No confirmation of this continuing had been received nor the future value of such grant. There remains a risk.

Monitoring

48. The level of Reserves is kept under continuous review. The Commissioner receives reports on the levels of reserves as part of the Medium Term Financial Plan updates together with the Annual strategy in January and the out-turn position in June each year.

Risk Analysis

49. Any recommendations that change the planned use of Reserves reported within the Annual Budget and Precept Reports will take account of the need for operational policing balanced against the need to retain prudent levels of Reserves.
50. However, there are significant risks, which affect the level of reserves to be maintained, and it is for this reason that a minimum level of 2% (with a maximum level of 5%) of total net budget has been set for the General Reserve.
51. The significant risks that have been considered, but which will also be kept under review are:
- Current Employment Tribunals relating to A19 with a worse case estimate of £3.5m
 - Stage 2 transfer may incur additional costs, which if they arise and cannot be met within budget will be met from the amount set aside in reserves for PCC Transition work.
 - The ability to seek financial assistance from the Home Office for major incidents has been diminished and can no longer be relied upon.
 - The need to finance organisational change and redundancies will have a significant impact on the use of reserves.
 - The ability to recover significant overspends by divisions and departments is becoming very difficult in the current financial climate.
 - The instability of the Financial Markets means that the investments we make with balances are currently exposed to greater risk.
 - The grant settlement within the current CSR has been extremely curtailed. There is also an indication of further significant cuts within the next CSR.
 - Should the Commissioner and Force be faced with two or more of the above issues at the same time then the reserves may be needed in full.
 - Once utilised there is very little opportunity for reimbursing the level of reserves through precept due to referendum limits or grant, due to the impact it would have operationally.

STRATEGY REVIEW

This strategy will be reviewed annually and the Police & Crime Commissioners approval sought.

During the year changes may 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.

Charlotte Radford (CPFA)
Chief Finance Officer

Reserves Risk Assessment
2013-14

GENERAL RESERVE

RISK	IMPACT	PROBABILITY	Min £m	Max £m	Proposed for 2013-14 £m
Major Incident(s) Unbudgeted expenditure	Any amount under 1% of net budget is to be funded by the authority. Amounts over 1% of net budget are subject to Home Office application approval	Single Incident amounting to less than 1% of net budget. HIGH Multiple incidents amounting to over 1% of net budget. Medium Single incident amounting to over 1% of net budget. Low	2.1	4.2	4.2
Major Disaster (e.g. natural)	Operation policing affected and resources diverted. (e.g. through building being inaccessible and disaster recovery plan being auctioned)	LOW	0.5	1.0	0.5
Partnership Support	Funding for posts and PCSO's withdrawn. This has also been risk assessed as part of the budget assumptions.	Medium to HIGH	0.5	4.6	1.2
Counterparty failure	If invested balances were tied up in a process to recovery there would be an immediate impact on the revenue budget (possibly short term).	LOW	0.5	5.0	0.5
Employment Tribunals and other litigation	Direct impact on revenue budgets	LOW	0.1	0.5	0.1
Insurance	Emerging Risks and late reported claims	To date no claims of this type have affected the accounts. Low to MEDIUM	0.3	0.7	0.5
TOTAL					7.0

Earmarked Reserves Assessment

RISK/RESERVE	PURPOSE	HOW AND WHEN IT WILL BE USED	Management and control	Review	Estimated Balance at 31.03.14 £m
Medium Term Financial Plan (MTFP)	To provide against financial shortfalls identified within the MTFP	Smoothing peaks and troughs in financing the MTFP	Chief Finance Officer	Minimum twice annually	16.561
PFI reserve	To fund PFI related expenditure	Extraordinary event relating to the contract	Chief Finance Officer	Annually	0.259
EMSOU	To provide for unexpected expenditure relating to the EMSOU operation	The EMSOU board and East Midlands Joint Committee will authorise how and when this reserve is to be used.	EM meeting of the PCC's.	Annually	0.259
Property Act Fund	Income from the sale of property act confiscations	To be determined by the Police & Crime Commissioner	PCC and CFO	Annually	0.241
Drug Fund	For use in reducing drug related crime	To be determined by the Police & Crime Commissioner	PCC and CFO	Annually	0.060

Revenue Grants	Balances on grants not required to be repaid	To be determined by the Police & Crime Commissioner	PCC and CFO	Annually	0.380
Animal Welfare	To set up a scheme for animal welfare on retirement as working animals	Scheme to be established in 2013-14	Set up November 2012.	During 2013-14	0.019
Tax Base	To iron out fluctuations caused between estimated and actual tax base data. Also to assist with risk relating to the removal of redistributed business rates in future years.	Annually to balance the budget.	Chief Finance Officer	Annually	0.027
TOTAL					17.806

Tables to show the use of Reserves

	2013-14			2014-15			2015-16			2016-17		
	01.04.13 balance £m	Use in year £m	01.04.14 balance £m	01.04.14 balance £m	Use in year £m	01.04.15 balance £m	01.04.15 balance £m	Use in year £m	01.04.16 balance £m	01.04.16 balance £m	Use in year £m	01.04.17 balance £m
General Reserve	7.000	0	7.000	7.000	0	7.000	7.000	0	7.000	7.000	0	7.000
EMSOU general reserve	0.083		0.083	0.083		0.083	0.083		0.083	0.083		0.083
<i>% of net budget</i>	3.6%			3.6%			3.5%			3.6%		

	2013-14			2014-15			2015-16			2016-17		
<u>Earmarked Reserves</u>	01.04.13 balance £m	Use in year £m	01.04.14 balance £m	01.04.14 balance £m	Use in year £m	01.04.15 balance £m	01.04.15 balance £m	Use in year £m	01.04.16 balance £m	01.04.16 balance £m	Use in year £m	01.04.17 balance £m
MTFP	14.771	1.790	16.561	16.561	0.600	17.161	17.161	tbc	17.161	17.161	tbc	0.749
Air Support	0.090	(0.090)	0	0								
PFI	0.223	0.036	0.259	0.259	0.036	0.295	0.295	0.036	0.331	0.331	0.036	0.367
EMSOU	0.259		0.259	0.259		0.259	0.259		0.259	0.259		0.259
Property Act Fund	0.161	0.080	0.241	0.241	0.080	0.321	0.321	0.080	0.401	0.401	0.080	0.481
Drug Fund	0.060		0.060	0.060		0.060	0.060		0.060	0.060		0.060
Revenue Grants	0.380		0.380	0.380		0.380	0.380		0.380	0.380		0.380
Animal welfare	0.020	(0.001)	0.019	0.019	(0.001)	0.018	0.018	(0.001)	0.017	0.017	0.003	0.020
Tax Base	0.027		0.027	0.027		0.027	0.027		0.027	0.027		0.027
TOTAL	15.991	1.815	17.806	17.806	0.715	18.521	18.521	tbc	18.636	18.636	tbc	18.755