

## Kent Police and Crime Commissioner

### Reserves Strategy 2019/20

#### Introduction

1. An important element of the PCC's overall financial strategy is the use of reserves over the life of the Medium Term Financial Plan (MTFP). How and why the PCC holds reserves is outlined in this Reserves Strategy which is reviewed and updated annually.
2. The reserves strategy has always been published as part of the Police and Crime Plan and Budget Papers reported to the Police and Crime Panel in February each year. This forms part of the overall financial environment taken into account when the PCC sets the level of precept.

#### Background

3. Reserves are used by the PCC both for the annual budget and over the medium term as part of an overall medium term financial strategy. There are a number of legislative safeguards in place that help prevent the PCC from over-committing financially. These include:
  - The requirement to set a balanced budget as set out within the Local Government Finance Act 1992.
  - The requirement for the PCC to make arrangements for the proper administration of their financial affairs and the appointment of a Chief Finance Officer (CFO), or Section 151 Officer to take responsibility for the administration of those affairs.
  - The requirements of the Prudential Code, Treasury Management in Public Services Code of Practice and the Financial Management code of Practice.
  - The CFO's duty to report on the robustness of estimates and the adequacy of reserves when the PCC is considering the budget requirement.
4. This is reinforced by Section 114 of the Local Government Act 1988 which requires the CFO to report to the PCC, Police and Crime Panel and the External Auditor if there is, or likely to be, unlawful expenditure or an unbalanced budget. This would include situations where the PCC does not have sufficient resources to meet expenditure in a particular year or where reserves have become seriously depleted.
5. The Local Government Finance Act 1992 also requires PCCs as a 'precepting' authority to have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement.
6. It should be noted that there is no defined minimum level of reserves that PCC's should hold. Local circumstances in terms of resourcing, expenditure and demand vary significantly across the country and so the level of reserves held is a judgement by the PCC with advice from the CFO, taking into account all local and national circumstances.

#### Financial Regulations

7. The Kent Police Financial Regulations set out the key responsibilities for the CFO, Chief Constable and the PCC in regard to reserves and how they are used and maintained.

#### Reserves Strategy

8. The PCC holds reserves for three reasons:
  - a) As a general contingency against unknown or unforeseen events
  - b) To manage strategic risks in the organisation
  - c) To manage change within the organisationThere are also a number of specific named reserves held for statutory reasons.
9. The PCC's reserve strategy has the following key elements:

- A general non-earmarked reserve of 3% of the net budget will be maintained for unknown and/or unforeseeable events.
- A prudent approach to risk management will be maintained and accordingly earmarked reserves will be created to cover for possible significant risks.
- A prudent reserve to provide for the costs of change, especially in respect of redundancy and ill health retirements.
- In the interests of the council tax payer, the PCC will where possible build up and maintain a level of reserves for investment, borrowing only where the life of the asset and economic environment make it the most efficient way of financing investment.
- The PCC will take a long term approach to protecting, maintaining and investing in all assets, supporting policing in the long term as well as short term.
- Reserves not required for the above purposes will be clearly identified as available for other discretionary opportunities.

## Reserve Levels

10. The total general and earmarked reserves are expected to be £29.1m as at the 1 April 2019. Of this, general reserves will amount to £9.4m or broadly 3% of the net budget. This is in line with the current strategy of holding the equivalent of 3% of the net revenue budget for general contingency. This increases over the medium term as the net revenue budget increases.
11. The remaining reserves are all earmarked. It should be noted that only £6.5m of those total earmarked reserves, are there to support investment and capital spending over the medium to long term. The balance of capital investment in 2019/20 will be funded from asset sales during the year and where appropriate borrowing. Over the medium term a revenue contribution to capital will be introduced in 2020/21 to support future capital investment.
12. The PCC has continued his commitment in 2019/20 of making £2m from reserves available to support the recruitment of new police officers and staff. This alongside a provision for ill health retirements, the innovation task force and other budget support means £3.6m will be used during 2019/20.
13. The PCC has notified the Chief Constable that any in-year underspends may be used in the first instance to support recruitment of the additional officers and staff. If this is not required, any underspends will be taken back into reserves in order to mitigate risks over the medium term and support the investment programme. Any in-year reallocation of underspends will only be considered by the PCC where an exceptional business case is made.
14. The reserves position over the medium term is set out below:

**Table 1: Reserves**

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Reserve	£m	£m	£m	£m	£m	£m
General	8.8	9.4	9.5	9.6	9.8	9.9
Funding Risk	3.7	3.0	1.6	0.7	0.3	0.1
Insurance	3.1	3.1	3.1	3.1	3.1	3.1
Change Management	10.6	5.2	1.3	0.0	0.1	0.1
Investment Reserve (capital & revenue)	22.7	6.5	2.1	5.8	1.6	6.5
PCC	1.1	0.9	0.8	0.7	0.7	0.7
POCA	1.0	1.0	1.0	1.0	1.0	1.0
<b>Total</b>	<b>51.0</b>	<b>29.1</b>	<b>19.4</b>	<b>20.9</b>	<b>16.6</b>	<b>21.4</b>

15. The reserves are held for the following:
- a) **The General reserve** is used to mitigate against unknown and unexpected events that incur considerable cost that could not be borne within the revenue budget, such as Operation Stack, public order, major investigation costs or to fund initial costs of major disruption/disaster response (i.e. flooding). This would be used before applying to the Government's Special Grant scheme

should the criteria be met. The Special Grant scheme usually only accepts applications from those PCC's who have incurred costs greater than 1% of their net revenue budget. This reserve covers two such instances plus a further 1% for unknown and unexpected costs.

- b) **Funding risk** is used to mitigate changes in funding levels. This reserve also funds natural fluctuations in bank holiday pay, partnership funding and our partner authorities in their attempts to increase the tax base and reduce fraud in council tax collection.
  - c) **The Insurance reserve** is held to cover potential liabilities in any insurance claim. In order to keep our insurance premiums at a reasonable level, we self-insure to a significant degree. This level is suggested by our Insurance Advisors as an appropriate amount to keep in reserve should we incur a large insurance claim. This is reviewed annually.
  - d) **Change management** is held to help fund projects that will enhance policing in Kent and provide financial savings to the organisation. It also helps mitigate the impact of redundancies and ill-health retirements on the ongoing revenue budget.
  - e) **Investment reserve** funds the capital and revenue investment in our investment programme. The investment programme is a number of medium and long term projects that are designed to improve/create assets for the Force that will reduce financial commitments and improve policing in Kent. All sales of assets (capital receipts) fall into this reserve to be used for future capital investment. Capital projects will typically incur some revenue investment and this reserve helps fund that part of the investment programme without impacting on the ongoing revenue budget.
  - f) **PCC reserve** holds funds set aside from the PCCs own budget to fund innovative projects to help transform policing and fund local priorities.
  - g) **POCA** (Proceeds of Crime Act) is a reserve that covers any shortfall in funding for our POCA investigators and to fund community projects through the Property Fund.
16. Over the medium term, taking all the plans and provisions into account, total earmarked reserves are expected to fall to £21.4m, a reduction of 58% from the level held at the beginning of 2018/19. In part, this is due to reserves being used to support the budget, ill health retirements and the ongoing investment programme.
17. The expenditure from the investment reserve is increasingly reliant on in-year asset disposals being realised and available to spend. A £1m revenue contribution to capital is being introduced in 2020/21 to support the investment programmes maintenance projects and this will increase by £1m each year over the medium term. Any fluctuations in asset disposals may mean a reduction in investment, or where appropriate for long term projects, a need to borrow.

### Home Office Classification

18. The Home Office sets out clear guidance on publishing the reserves strategy. It also states that the information on each revenue reserve should make clear how much of the funding falls into one of the following three categories

Classification	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Funding for planned expenditure on projects and programmes over the period of the current MTFP	36.6	14.4	4.8	6.3	1.8	0.0
Funding for specific projects and programmes beyond the current planning period	0.2	0.2	0.2	0.2	0.2	6.7
Funding held as a general contingency or resource to meet other expenditure needs in accordance with sound principles of financial practice	14.0	14.4	14.4	14.4	14.6	14.7

19. Further details of the PCC's reserves can be found in Annex i.

Summary of Reserves Position									
	Classification	18/19	19/20	20/21	21/22	22/23	23/24	Reason	Planned Use
		£m	£m	£m	£m	£m	£m		
General	Contingency	8.8	9.4	9.5	9.6	9.8	9.9	3% of NRB. Held to mitigate against unknown and unexpected events. Will fund Operation Stack, public order, major investigation costs that are not expected or to fund initial costs of major disruption/ disaster response (i.e. flooding) before applying for Bellwin Scheme.	This is the minimum level of reserves we would expect to hold. Therefore there is no planned use of these reserves. However, the increase in the net budget means this reserve increases over the medium term.
Funding Risk	Planned	3.7	3.0	1.6	0.7	0.3	0.1	Policing receives one year settlements. This makes it difficult to forecast future spending levels. There is the uncertainty of a CSR during 2019/20. There are unknown costs from national projects that may fall on the policing budget (such as ESN) either as a direct cost or as a top slice from government. This reserve is held to support the budget in times of funding changes (both increases and decreases) to avoid precipitous decisions being made.	This reserve is planned to be used during 2019/20 to support the budget. Future years includes some use for fluctuating bank holiday pay, partnership funding and supporting local authorities council tax collection rates and tax base.
Insurance	Contingency	3.1	3.1	3.1	3.1	3.1	3.1	This reserve is held to cover our potential liabilities in any insurance claim. In order to keep our insurance premiums at a reasonable level we self-insure to a significant degree. This level is suggested by our Insurance advisors as an appropriate amount to keep in reserve should we incur a large insurance claim.	This is the minimum level of reserves we have been advised to hold by our advisors. There is no planned use of this reserve over the medium term as it mitigates against large insurance claims of which we currently do not have any. This may fluctuate over the medium term depending on our advisors advice.

Change Management	Planned	10.6	5.2	1.3	0.0	0.1	0.1	With changing demand and resourcing levels the Force are undergoing significant change. This reserve is to help fund projects that will enhance policing in Kent and provide financial savings to the organisation. It helps mitigate the impact of redundancies and ill-health retirements on the ongoing revenue budget.	This fund will be used over the medium term to cover estimated costs of ill health and redundancies and investment into recruiting new police officers.
Investment	Planned	22.7	6.5	2.1	5.8	1.6	6.5	This reserve funds the capital and revenue investment in our investment programme. The investment programme is a number of long term projects that are designed to improve/ create assets for the Force that will reduce financial commitments and improve policing in Kent. All sales of assets (capital receipts) fall into this reserve to be used for future capital investment. This reserve funds the revenue investment involved in our investment programme. Capital projects will typically incur some revenue investment and this reserve helps fund that part of the investment programme without impacting on the ongoing revenue budget.	This reserve is planned to be used over the medium term. It will fund the investment programme for Kent Police. It will be bolstered during the year by capital receipts from the sale of assets.
Police and Crime Commissioner	Planned	1.1	0.9	0.8	0.7	0.7	0.7	This reserve holds funds set aside from the PCCs budget to fund innovative projects to help transform policing and fund local priorities.	This is planned to be used on supporting the recruitment of police officers.
POCA	Planned	1.0	1.0	1.0	1.0	1.0	1.0	Proceeds of Crime Act reserve is a portion of the proceeds that Kent Police receive under the act. This can be used to fund our POCA investigators and to fund community projects through the Property Fund.	The use of this reserve is discussed at the POCA board. No plans to use are currently identified. It also supports any shortfall in funding for our POCA investigators.
<b>Total Reserves</b>		<b>51.0</b>	<b>29.1</b>	<b>19.4</b>	<b>20.9</b>	<b>16.6</b>	<b>21.4</b>		