

# **Police and Crime Commissioner for Gloucestershire**

## **Reserves Strategy to March 2023**

### **1. Purpose**

1.1. This document sets out the reserves strategy for the Police and Crime Commissioner for Gloucestershire for the period to 31<sup>st</sup> March 2023. This includes details of the reserves currently held, the purpose of the reserves and the projected balances by 31<sup>st</sup> March 2023.

1.2. This report is based on the reserves included in the PCC's Accounts for the year ended 31<sup>st</sup> March 2018, and the estimated level of reserves as at 31<sup>st</sup> March 2019.

### **2. Reasons for Holding Reserves**

Reserves are maintained by the PCC based upon the following principles:

2.1. A general reserve is held to cover uncertainty regarding future funding and pay rises, and to provide a contingency for major incidents.

2.2. Reserves provide flexibility in managing future years' budget reductions.

2.3. Reserves are used to fund investment in the organisation for:

2.3.1. Capital investment in estates and ICT

2.3.2. Invest to save projects, which will reduce annual revenue costs and deliver an affordable operating model.

2.4. Earmarking specific funds to meet known or predicted requirements in the future, and to fund expenditure which is required over more than one financial year.

### 3. Schedule of Reserves

3.1. The table below details the level of reserves held and the forecast levels of reserves over future financial years to 31<sup>st</sup> March 2023.

3.2. The reserves are classified based on the Home Office guidance note issued as part of the police funding settlement for 2018/19. This classifies reserves into the following categories:

3.2.1. Funding for planned expenditure on projects and programmes over the current Medium Term Financial Plan (MTFP).

3.2.2. Funding for specific projects and programmes beyond the current planning period.

3.2.3. As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management.

3.3. No reserves are classified under the second heading – 3.2.2

	Actual 31/03/18 £m	Estimated 31/03/19 £m	Projected 31/03/20 £m	Projected 31/03/21 £m	Projected 31/03/22 £m	Projected 31/03/23 £m
<b>Reserves held in accordance with sound principles of good financial management</b>						
General Reserve	5.561	5.996	6.097	6.202	6.311	6.437
Insurance Reserve	0.500	0.500	0.500	0.500	0.500	0.500
National Projects and Initiatives Rese	5.000	5.000	4.000	3.000	1.500	0.000
Vehicle Reserve	0.992	0.992	0.417	0.500	0.500	0.500
<b>Total</b>	<b>12.053</b>	<b>12.488</b>	<b>11.014</b>	<b>10.202</b>	<b>8.811</b>	<b>7.437</b>
<b>Funding for planned expenditure on projects and programmes over the current MTFP</b>						
Estates Reserve	1.000	0.708	0.500	0.250	0.000	0.000
ICT Reserve	5.853	5.434	0.800	0.350	0.000	0.000
Specific Funds	2.784	2.390	1.350	0.300	0.300	0.300
<b>Total</b>	<b>9.637</b>	<b>8.532</b>	<b>2.650</b>	<b>0.900</b>	<b>0.300</b>	<b>0.300</b>
<b>Total Projected Reserves</b>	<b>21.690</b>	<b>21.020</b>	<b>13.664</b>	<b>11.102</b>	<b>9.111</b>	<b>7.737</b>
General Reserves	5.561	5.996	6.097	6.202	6.311	6.437
Earmarked Reserves	16.129	15.024	7.567	4.900	2.800	1.300
<b>Total Projected Reserves</b>	<b>21.690</b>	<b>21.020</b>	<b>13.664</b>	<b>11.102</b>	<b>9.111</b>	<b>7.737</b>

#### **4. Reserves Strategy**

- 4.1. The level of reserves held at 31<sup>st</sup> March 2017 represented 18% of the budget for 2017/18. Nationally overall the figure was 11% of budget. Although Gloucestershire's level of reserves may appear high compared to other forces, there is a strategy for these reserves.
- 4.2. The PCC has a strategy to maintain a minimum level of General Reserve at 5% of net revenue expenditure. This is considered prudent to cover the risks the organisation faces and to provide a contingency for unexpected events and emergencies.
- 4.3. Reserves are set aside to support the Commissioners Fund, to ensure that funding is provided to meet commitments entered into for more than one year.
- 4.4. Reserves are set aside to fund capital projects, mainly for estates and ICT. Receipts from the sale of land and buildings are used to fund investment in the estate. Grant funding and contributions from the revenue account are used to fund the replacement programmes for ICT and vehicles. Borrowing can be used to finance capital expenditure.
- 4.5. Reserves are set aside to fund expenditure on national projects, where there is a shortfall in the funding provided nationally, and forces are expected to contribute to the costs.
- 4.6. The PCC considers that reserves should not be used to fund budget deficits and the Medium Term Financial Plan does not assume the use of reserves for this purpose.

#### **5. Description of Reserves**

The following sections provide an explanation of each reserve:

#### **6. General Reserve**

The PCC needs to maintain a reserve as a contingency against unexpected events or emergencies and to fund major incidents, which may require significant resource levels for a long period of time. Due to the savings identified for the MTFP period and the level of uncertainty regarding future grant settlements and pay rises, the strategy of the PCC is to maintain the general reserve at 5% of net revenue expenditure. The balance at 31<sup>st</sup> March 2018 was £5.561m which represents 5% of the budget for 2018/19.

The reserve will increase to £5.996m at 31<sup>st</sup> March 2019, to reflect the budget for 2019/20 of £119.910m.

	£m	£m	£m	£m	£m	£m
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Budget for the Year	111.221	119.910	121.944	124.045	126.220	128.740
	31/03/18	31/03/19	31/03/20	31/03/21	31/03/22	31/03/23
General Reserve (5% of budget)	5.561	5.996	6.097	6.202	6.311	6.437

## 7. Insurance Reserve

This reserve was set up to meet the cost of any exceptionally large claims paid in one year, should the excesses on the insurance policies be increased significantly. This reserve is subject to a review of the organisation's insurance arrangements, and the level of deductibles on the insurance policies.

## 8. National Projects and Priorities Reserve

This reserve has been set up to fund nationally mandated policing priorities and projects where Gloucestershire may be required to contribute funding, or may need to fund additional costs arising from the project.

The reserve was set up to cover the costs of the Emergency Services Network (ESN), which replaces the Airwave radio system. This was to fund the costs for devices and system changes, project costs and the costs of dual running of the two systems.

The introduction of ESN has been significantly delayed. A revised Business Case is due early in 2019 and transition to the new system must take place during 2021 and 2022. Airwave will be switched off in December 2022. The balance on the reserve will be reviewed when the Business Case is presented, and the reserve may then be moved to "funding for planned expenditure over the current MTFP."

## 9. Vehicle Reserve

This is a smoothing reserve to allow for timing differences in expenditure. Due to the different replacement cycles for vehicles the planned spend on the vehicles varies significantly year on year. This reserve evens out these variations. Fixed annual contributions are made into the fund and the actual spend is taken out of the reserve.

## 10. Estates Reserve

This reserve was set up to fund the estates strategy. Since April 2013 over £20m has been spent on developing the estate, funded from reserves and capital receipts. The balance on the reserve at 31<sup>st</sup> March 2019 is £0.708m.

it is projected that this reserve will be used by 31<sup>st</sup> March 2021. Future estates development will have to be funded from capital receipts and from new borrowing.

## 11. ICT Reserve

This reserve was set up to fund the ICT Strategy. Allowing for commitments, the balance on the reserve at 31<sup>st</sup> March 2019 is projected to be around £5.4m. The majority of this reserve is committed and is likely to be spent in 2019/20:

- 11.1. Capital costs for the Transformation Programme £3m
- 11.2. Mobile Frontline Working Project £0.8m
- 11.3. Project Costs (allocated to Planning for the Future) £0.4m
- 11.4. Videoconferencing and Audio/Visual systems £0.2m

It is assumed that the balance on this reserve at the end of the Medium Term Financial Plan will be nil.

## 12. Other Specific Funds

A number of specific funds are held, when the expected spend for the project is likely to be over a number of years. The total for these funds at 31<sup>st</sup> March 2018 was £2.784m. The projected balance at 31<sup>st</sup> March 2019 is £2.390m.

Details of these funds are:

	31/03/18	31/03/19	31/03/20	31/03/21	31/03/22	31/03/23
	£m	£m	£m	£m	£m	£m
Commissioning Fund	0.718	0.475	0.000	0.000	0.000	0.000
Six Priorities Fund	0.292	0.182	0.000	0.000	0.000	0.000
SPECS Camera Enforcement	0.263	0.138	0.050	0.000	0.000	0.000
ARIS	0.237	0.095	0.000	0.000	0.000	0.000
Asset Replacement Fund	0.067	0.000	0.000	0.000	0.000	0.000
Others	1.207	1.500	1.300	0.300	0.300	0.300
<b>Total</b>	<b>2.784</b>	<b>2.390</b>	<b>1.350</b>	<b>0.300</b>	<b>0.300</b>	<b>0.300</b>

- 12.1.1. The Commissioning Fund  
This reserve is used to fund projects funded or commissioned by the PCC. Most of these funds are committed to long term projects.
- 12.1.2. Six Priorities Fund  
This reserve was set aside to support the delivery of the six priorities within the Police and Crime Plan.
- 12.1.3. SPECS Income  
This is income received from the enforcement of temporary speed restriction on the M5 and has been set aside to make the county's roads safer.
- 12.1.4. Asset Recovery Incentivisation Scheme (ARIS) Income  
This fund was established following the receipt of a large additional payment from the Home Office under the proceeds of crime legislation. This fund is being allocated to specific projects.
- 12.1.5. Asset Replacement Fund  
No contributions have been made into this fund during the last three years. Future funding for asset replacement will come from the revenue budget and from other reserves.

### **13. Balance of Reserves at 31<sup>st</sup> March 2023**

- 13.1. The projected balance on reserves at 31<sup>st</sup> March 2023 is £7.737m. This assumes that the capital reserves for estates and ICT will be nil and that the majority of the specific funds have been allocated.
- 13.2. The projected balance represents funds set aside as a general contingency and for resources to meet other expenditure needs held in accordance with sound principles of good financial management.

### **14. Comments by the Chief Finance Officer for the PCC in respect of Reserves**

- 14.1. Under the Local Government Act 2003 the PCC has a responsibility to ensure that Reserves are adequate and in doing so should take advice from his Chief Finance Officer.

14.2. The Chief Finance Officer should take account of the strategic, operational and financial risks facing the PCC, including external and internal risks. CIPFA guidance on reserves recommends that the following factors are taken into account in assessing the level of reserves:

- The treatment of inflation and interest rates
- Estimates of the level and timing of capital receipts
- The treatment of demand led pressures
- The treatment of planned efficiency savings and productivity gains.
- The financial risks inherent in significant new funding partnerships, major outsourcing arrangements or major capital developments.
- The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions
- The general financial climate.

14.3. The Chief Finance Officer's advice is that:

- The current level of reserves is adequate.
- General reserves should be maintained, over the medium term, at 5% of the revenue budget for the year.
- The overall level of reserves should be reviewed annually and adjusted in accordance with known risks facing the PCC and the Chief Constable.
- The financial standing of the PCC is sound.

**Peter Skelton, Chief Finance Officer, 25<sup>th</sup> January 2019**