

**Police and Crime Commissioner for Norfolk  
Reserves Strategy (Budget and Medium-Term Financial Plan 2019/23)**

1. It is important to consider the PCC's reserves at the same time as the budget to ensure that resources are available to fund spending at a level commensurate with the needs of the PCC and Constabulary. Forecasting cash flows and balances over the budget period ensures efficient and effective financial management and avoids unnecessary finance charges. Reserves are held for either general purposes (such as working capital or fall-back to cover exceptional unforeseen circumstances), or earmarked for specific purposes. The PCC complies with the definition of reserves contained within the Chartered Institute of Public Finance and Accountancy (CIPFA) Accounting Code of Practice.
2. The Strategy requires an annual review of reserves to be undertaken and reported to the PCC. This reflects guidance on reserves issued by CIPFA. The most recent guidance requires an annual review of reserves to be considered by the PCC as part of good practice in the management of financial reserves and balances.
3. The minimum prudent level of reserves is a matter of judgement rather than prescription. Neither CIPFA nor statute sets a minimum level of reserves. In determining the level and type of reserves, the PCC has to take into account relevant local circumstances and the advice of the Chief Constable and CFO in making a reasoned judgement on the appropriate level of its reserves.
4. In order to assess the adequacy of reserves when setting the budget, the PCC, on the advice of the CFO, should take account of the strategic, operational and financial risks facing the organisation. This assessment of risk should include external risks, as well as internal risks, for example the ability to deliver planned efficiency savings.
5. The ultimate use of reserves will be dependent upon both the timing and level of costs and savings over the period of the Medium Term Financial Plan (MTFP).

### **General Reserve**

#### **Assessment of adequacy**

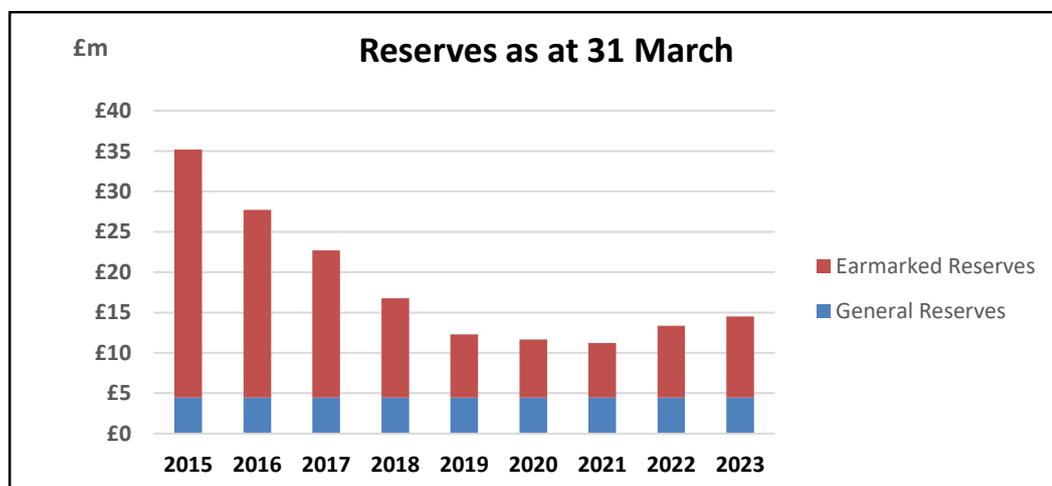
6. The **General Reserve** is held to enable the PCC to manage unplanned or unforeseen events. In forming a view on the level of General Reserve, account is taken of the level of financial control within the organisation and comparisons with similar bodies. Also taken into account is the risk of unforeseen expenditure occurring, particularly major operations, risk of failure to deliver the savings programme and sensitivity analysis of changes in assumptions included in the MTFP.

7. Within the MTFP appropriate estimates are made of a number of key items including provision for pay and price rises, as well as a forecast of interest movements. In addition, prudent assumptions are made for the forecast capital programme and for future capital receipts. These estimates and assumptions also take into account the general financial climate.
8. Norfolk Constabulary has generally managed its demand led pressures within its budget envelope year on year, and where appropriate has used earmarked reserves to meet additional significant demand pressures and unbudgeted costs.
9. Since 2010 the constabulary has a proven track record of delivering efficiency savings year on year that will total £34m by the end of 2018/19.
10. In the MTFP detailed savings plans are in place for 2019/20 and 2020/21, with additional savings contained in a high level scoped programme for 2021/22 and 2022/23. These are outlined in the main budget report. The Chief Constable and PCC are committed to continuing to deliver efficiency and productivity gains in each year of the MTFP.
11. The General Reserve is being maintained at £4.475m (approx. 3% of budget) for the duration of the MTFP. This is a prudent and adequate amount to hold as a General Reserve. This is shown in Appendix 1.
12. A call on the general reserve, particularly for major operations, would likely also result in an application to the Home Office for Special Policing Grant (SPG).

### Earmarked Reserves

13. These are reserves that are held for a specific purpose, whereby funds are set aside for future use when the need arises.
14. The level of reserves and predicted movement for these reserves is set out in the attached Annex 1. All reserve levels are reviewed annually.

The diagram below illustrates how the reserves are being used over the medium term.



15. The purpose and strategy for each reserve is set out below.
16. The **Budget Support Reserve** was being held as a contingency against future demand led pressures, and had also been used to deal with the funding pressures arising from austerity. In 2018/19 an element of this reserve will be used to fund revenue costs as outlined in the previous MTFP. The balance will then be reallocated to the Invest to Save Reserve and the Capital Financing and Efficiency Improvement Reserve. This reserve will therefore be fully used up.
17. The **Invest to Save Reserve** provides funding for initiatives that will generate future savings and also provides funds to support the cost of change. The balance in this reserve will be increased by a reallocation from the Budget Support Reserve and then maintained at £1m for the rest of the MTFP as this will allow for future developments in the Change Programme and any resultant costs of change.
18. The **Capital Financing Reserve and Efficiency Improvement Reserve** is used to fund the short-life asset element of the Capital Programme. The reserve is used when the amount required for investment exceeds the budget available for this purpose. This is an important part of the funding strategy to ensure the constabulary is as efficient and productive as possible through continued investment in enabling technologies. The strategy is to “top-up” this reserve in the last 2 years of the plan to leave a balance to fund further investment beyond the planning period.
19. The **Maturity Loan Repayment Reserve** is a new reserve that is being established to build up the balances required to repay legacy maturity loans (i.e. interest only loans) the bulk of which were taken out in the 1990s. The total repayable is £12.8m. The first loan to be repaid is due in 2022/23 the final loan is due in 2056. Refinancing is being considered for £3.3m of this borrowing. The remainder will be funded through building up the reserve initially with contributions each year in the region of £0.5m. The balance in this reserve is therefore not available for any other use.
20. The **Insurance Reserve** is being held as a contingency against future increases in premiums and/or increases in the value of assessed insurance liabilities. The reserve and also the provision within the accounts are actuarially assessed by external advisors.
21. The **PCC Reserve** is made up from previous underspends against the budgets of the Office of the Police and Crime Commissioner and the commissioning budget. The reserve is used to smooth commissioning spending over the MTFP period and to commission additional services in the community or delivered by the Constabulary, for instance in supporting victims.
22. The **Safety Camera Reserve** is held on behalf of the Safety Camera Partnership (comprising the PCC, Chief Constable and Norfolk County Council). Income is dependent upon the number of Speed Awareness courses delivered. The use is reviewed and agreed at the Safety Camera Oversight Board. **N.B.** This reserve is not included in Annex 1 as it is a partnership reserve not solely available to the PCC. It is included in Annex 2.

## **Compliance with Home Office guidance on reserves**

23. On 31<sup>st</sup> March 2018 the Minister for Policing and the Fire Service published guidance on the information that each PCC must publish in terms of reserves. One of the key requirements is that the information on each reserve should make clear how much of the funding falls into each of the following three categories:
- Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan
  - Funding for specific projects and programmes beyond the current planning period
  - As a general contingency to meet other expenditure needs held in accordance with sound principles of good financial management

This information is provided in Annex 2 which analyses the forecast balance on 31<sup>st</sup> March 2019 over the above headings.

### **Conclusion**

24. The current policy, as demonstrated in the MTFP, is to maintain revenue general balances close to an operational guideline level of approximately 3% of the net annual revenue budget. Across the police service this is the generally accepted level which is appropriate as the prolonged period of austerity continues.
25. The earmarked reserves have been described and the strategy is to keep these for specific purposes and maintain at around 5% to 6% of the net revenue budget (excluding the Safety Camera Reserve), to ensure taxpayers' money is being used as efficiently as possible. The strategy is to contribute to the Capital Financing Reserve to keep this at an appropriate level through the Plan.
26. Having considered the levels of reserves included in the MTFP, and acknowledging the Chief Constable's commitment to work with the PCC to balance the budget over the period of the MTFP and taking account of the approach to managing financial risk described in the report, the CFO's advice is that there will be adequate general and earmarked reserves to continue the smooth running of the PCC and Constabulary's finances over the medium term financial planning period.

**FORECAST MOVEMENTS IN GENERAL AND EARMARKED RESERVES 2018/19 to 2022/23**

**ANNEX 1**

<b>PROJECTION OF RESERVES LEVELS:</b>	<b>Total General Reserve</b>	<b>Budget Support Reserve</b>	<b>Invest to Save Reserve</b>	<b>Capital Financing and Efficiency Improvement Reserve</b>	<b>Maturity Loan Repayment Reserve</b>	<b>Insurance Reserve</b>	<b>PCC Reserve</b>	<b>Total Earmarked Reserve</b>	<b>Total General and Earmarked Reserves</b>
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>31/03/2018 Actual</b>	<b>4,475</b>	<b>4,196</b>		<b>5,822</b>		<b>786</b>	<b>1,504</b>	<b>12,308</b>	<b>16,783</b>
<b>Proposed Changes 2018/19:</b>									
Transfer from Budget Support to Invest to Save		(2,796)	2,796						
Transfer from Budget Support to Capital Financing		(957)		957					
Transfer to Revenue from Reserves		(443)	(167)	(2,134)				(2,744)	
Transfer to Revenue from Reserves (Norfolk 2020)			(1,032)					(1,032)	
Cost of Change			(516)					(516)	
Financing Commissioning Plan							(200)	(200)	
<b>31/03/2019 Forecast</b>	<b>4,475</b>	<b>0</b>	<b>1,081</b>	<b>4,645</b>		<b>786</b>	<b>1,304</b>	<b>7,816</b>	<b>12,291</b>
<b>Proposed Changes 2019/20:</b>									
Transfer to Revenue from Reserves			(169)	(1,263)				(1,432)	
Transfer to Revenue from Reserves (Norfolk 2020)			(394)					(394)	
Contribution to Reserves			482	318	598		(200)	1,198	
<b>31/03/2020 Forecast</b>	<b>4,475</b>	<b>0</b>	<b>1,000</b>	<b>3,700</b>	<b>598</b>	<b>786</b>	<b>1,104</b>	<b>7,188</b>	<b>11,663</b>
<b>Proposed Changes 2020/21:</b>									
Transfer to Revenue from Reserves				(954)				(954)	
Contribution to Reserves					500			500	
<b>31/03/2021 Forecast</b>	<b>4,475</b>	<b>0</b>	<b>1,000</b>	<b>2,745</b>	<b>1,098</b>	<b>786</b>	<b>1,104</b>	<b>6,734</b>	<b>11,209</b>
<b>Proposed Changes 2021/22:</b>									
Contribution to Reserves				1,643	500			2,143	
<b>31/03/2022 Forecast</b>	<b>4,475</b>	<b>0</b>	<b>1,000</b>	<b>4,388</b>	<b>1,598</b>	<b>786</b>	<b>1,104</b>	<b>8,877</b>	<b>13,352</b>
<b>Proposed Changes 2022/23:</b>									
Contribution to Reserves				653	500			1,153	
<b>31/03/2023 Forecast</b>	<b>4,475</b>	<b>0</b>	<b>1,000</b>	<b>5,041</b>	<b>2,098</b>	<b>786</b>	<b>1,104</b>	<b>10,029</b>	<b>14,504</b>

**Excludes Safety Camera Partnership Reserve**

**FORECAST RESERVES AT 31/03/2019 ANALYSED BY HOME OFFICE CATEGORIES**

**ANNEX 2**

	<b>Forecast Balance as at 31.3.19</b>	<b>Funding for projects &amp; programmes over the period of the current MTFP</b>	<b>New contributions during the life of the MTFP</b>	<b>Existing Funding for projects &amp; programmes beyond 2022/23</b>	<b>General Contingency</b>
	<b>£m</b>	<b>£m</b>		<b>£m</b>	<b>£m</b>
<b>General Reserve</b>	4.475	0.000	0.000	0.000	4.475
<b>Earmarked Reserves:</b>					
Budget Support Reserve	0.000	0.000			
Invest to Save Reserve	1.081	0.563	-0.482	1.000	
Capital Financing Reserve	4.645	2.218	-2.614	5.041	
Maturity loan repayment reserve	0.000	0.000	-2.021	2.021	
Insurance Reserve	0.786				0.786
PCC Reserve	1.304	0.200			1.104
<b>Total Earmarked Reserves</b>	<b>7.816</b>	<b>2.981</b>	<b>-5.117</b>	<b>8.062</b>	<b>1.890</b>
<b>Safety Camera Reserve</b>	<b>1.786</b>	<b>0.000</b>	<b>0.000</b>	<b>1.786</b>	
<b>Total Reserves</b>	<b>14.077</b>	<b>2.981</b>	<b>-5.117</b>	<b>9.848</b>	<b>6.365</b>