



Item No 7c on Agenda

**Staffordshire Police, Fire and Crime Panel
10th February 2020**

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Reserves Strategy Update

Report of the Staffordshire Commissioner

Introduction

Statutory provision is made within the Local Government Finance Act 1992 that requires precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure. The Director of Finance/ S151 Officer for the Staffordshire Commissioner's Office has a duty to report on the robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its annual budget requirement.

This paper gives due consideration to the overall level of reserves held as at 31 March 2019 and the forecast position as at 31 March 2020. The Panel are asked to note the overall impact on Reserves as incorporated within the approved Medium Term Financial Strategy (MFTS).

The Reserves Strategy was last approved in January 2019 as part of the budget setting process for the current year and has now been updated to incorporate and reflect:

- The updated MFTS for 2020/21 to 2023/24
- The actual Reserves position as per the Audited Statement of Accounts for 2018/19, and a forecast for 2019/20
- The impact of approved reserve utilisation as per the current and updated strategy

A number of different reserves are held by the Staffordshire Commissioner (both usable and unusable) in line with the CIPFA guidance, however this paper focuses on the two key areas of reserves that impact on the future financial strategy:

- **General Reserve**, to allow for unexpected / emergency events –balance as at 31 March 2020 is forecast to be £5.9m (3%) (see **Appendix 1**),
- **Earmarked Reserve** – to meet future known or predicted requirements –balance as at 31 March 2020 is forecast to be £3.5m (See **Appendix 1**)

Overall the level of Usable Reserve at 31 March 2019 is £5.4m and forecast to increase by £3.9m in year to £9.5m by 2020. The general reserve will be maintained at £5.9m while the earmarked reserves will fluctuate while being utilised efficiently and intelligently to a forecast position £2.9m by 2029.

RECOMMENDATIONS

That the Police Fire and Crime Panel note:

1. the overall reserves position for both General and Earmarked Reserves as contained within this report,
2. to consider the adequacy and proposed earmarking of the reserve that will be incorporated into the budget setting exercise for 2020/21, and utilisation of reserves as incorporated within the updated MTFS
3. the updated Reserves Strategy

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1. Prudential Code and Capital Spend

- 1.1. CIPFA's (The Chartered Institute of Public Finance and Accountancy) Prudential Code requires chief finance officers in local authorities to have full regard to affordability when making recommendations about the local authority's future capital programme. Such consideration includes the level of long-term revenue commitments. Indeed, in considering the affordability of its capital plans, the Staffordshire Commissioner is required to consider all of the resources available, together with the totality of its capital plans and revenue forecasts for the forthcoming year and into the medium term.
- 1.2. The statutory reporting regime discussed within this paper and effective financial management underpin the need for clear, transparent reporting arrangements for reserves and CIPFA recommend that there should be clear protocol setting out the following:
 - the reason for / purpose of the reserve;
 - how and when the reserve can be used;
 - procedures for the reserve's management and control; and
 - timescale for review of the reserve to ensure continuing relevance and adequacy.
- 1.3. Whilst it is primarily the responsibility of the Staffordshire Commissioner and its S151 Officer and Treasurer to maintain a sound financial position, our external auditors Ernst & Young annually review for any material uncertainties and test to ensure that Staffordshire Police remain a going concern. Even where as part of their wider role Ernst & Young report on the organisation's financial position, it is not however, their responsibility to prescribe the optimum or minimum level of reserves for authorities in general.

2. Types of Reserve

- 2.1. When considering the Medium Term Financial Strategy and preparing annual budgets the Staffordshire Commissioner should consider the establishment and maintenance of reserves. Reserves can be held for three 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 specific funds, often referred to as earmarked reserves, to meet known or predicted requirements.

3. Reporting of Reserves

- 3.1. The IFRS-based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) introduced the Movement in Reserves Statement to local authority financial statements in the 2010/11 financial year. This Statement presents the movement in the year of the reserves of the Authority analysed into **usable** reserves, (e.g. General and earmarked reserves) and unusable reserves.
- 3.2. The total Usable Reserves as per the statement of accounts is £5.4 million as at 31 March 2019, being the General Fund £4.5m and Earmarked Reserves £0.9m.

The Movement in Useable Reserves Statement can be found on page 34 of the Statutory Accounts for 2018/19, and is shown below:

31-Mar-18	Transfer Out	Transfer In	31-Mar-19
£000	£000	£000	£000
2,857 General Fund	0	1,707	4,564
Earmarked Reserves			
15 Reshaping the Future			15
503 Aris (POCA)	(503)	202	202
54 Insurance Reserve		240	294
189 Crash Course			189
14 Early Adopter Income			14
0 Bikesafe		23	23
219 Seized Vehicle Fund	(240)	98	77
5 MDA Forfeiture Fund		87	92
999 Total Earmarked Reserve	(743)	650	906
3,856 Useable Reserves	(743)	2,357	5,470

- 3.3. Unusable reserves arise out of the interaction of legislation and proper accounting practice either to store revaluation gains or as adjustment accounts to reconcile accounting requirements (i.e. reconciliation of reporting standards to statutory requirements)
- 3.4. 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 local authorities. However, the Government has undertaken to apply this only to individual authorities in the circumstances where an authority does not act prudently, disregards the advice of its chief finance officer and is heading for serious financial difficulty.
- 3.5. In the instance where a particular reserve needs to be accessed that has not be previously formally been approved, approval from The Staffordshire Commissioner would be sought in advance to ensure that plans can be adequately challenged and full transparency exists within the Authority.
- 3.6. Whilst it remains the responsibility of the Director of Finance/S151 Officer for the Staffordshire Commissioner to advise on the overall level of reserves that is held; the Staffordshire Commissioner should assist by providing clear protocols for the establishment and use of reserves, as reserves should not be held without a clear purpose.
- 3.7. The Staffordshire Commissioner has indicated that the level of General reserves should not exceed 3% of the annual revenue budget. As per Section 5 of this report the Panel should note that the level of General Reserves has now been restored to 3% during the current financial year in line with the approved budget and MTFS.

4. Reserves Strategy and Future Outlook

4.1. This paper gives due consideration to the overall level of reserves held as at 31 March 2019 and the forecast position for 31 March 2020, and the panel are asked to note the overall position as scheduled in **Appendix 1**.

4.2. General Reserve

4.3. The Commissioner's policy for the General Reserve Fund is for it to hold as a minimum 3% of the net revenue budget of the combined budgets of the Commissioner and the Force. This is currently considered to be a minimal safe level which would afford two incidents of maximum exposure to loss in any one year.

4.4. The maximum exposure to loss is understood to be 1% of net budget in the light of the guidance which is issued by the Home Office relating to the Police Special Grant. This guidance establishes that in the event that a Force can prove it has proportionately policed a major incident which has created an unaffordable cost in one year, and that is reviewed by HMICFRS, the Force can claim for costs exceeding 1% of the net budget for each incident. This guidance was reissued in November 2017 and we expect it to continue to be in place during the period of the MTFS.

4.5. At the end of March 2019 the General Reserve was £4.5m and is forecast to increase in year by £1.3m with a contribution from revenue, closing the year at £5.9m. This represents around 3% of the annual revenue budget.

4.6. Earmarked Reserve

4.7. The Earmarked Reserve provision is required not only to fund future projects and investments but also to provide funding –

- to support the recurring revenue budget up to 2024 as incorporated within the medium term financial strategy
- to provide a provision for future capital investment to avoid additional long term borrowing need,
- to provide for costs that may be required to support future change and business transformation
- to provide for any funding uncertainty as discussed within this paper
- to provide for future contingent liabilities that have been identified within the statutory accounts

4.8. The Balance on this reserve as at 31 March 2019 was £0.9m and is forecast to increase in year by £2.7m to close the year at £3.5m.

5. Reserve Forecast

5.1. The following table represent the forecast Reserves as stated in the MTF5. At the 31 March 2020 the total reserves represents 3% of the annual revenue budget.

	31/03/2019	31/03/2020	31/03/2021	31/03/2022	31/03/2023	31/03/2024
	Actual	Estimate	Budget	Budget	Budget	Budget
	£'000	£'000	£'000	£'000	£'000	£'000
General Reserves	4,564	5,910	5,910	5,910	5,910	5,910
<u>Earmarked Reserves</u>						
Reshaping the Future	15	386	386	386	386	386
Aris (POCA)	202	31	31	31	31	31
Insurance Reserve	294	229	229	229	229	229
Redundancy Reserve	0	150	150	150	150	150
Pension Reserve	0	500	500	500	500	500
Crash Course	189	189	189	189	189	189
Early Adopter Income	14	14	14	14	14	14
Bikesafe	23	0	0	0	0	0
Seized Vehicle Fund	77	393	0	80	160	240
MDA Forfeiture Fund	92	80	80	80	80	80
ESN Reserve	0	486	486	486	15	15
Capital Reserve	0	1096	1096	1096	1096	1096
Total Earmarked Reserve	906	3,554	3,161	3,241	2,850	2,930
TOTAL RESERVES	5,470	9,464	9,071	9,151	8,760	8,840

Usable Reserves forecast 31 March 2020

Actual 31-Mar-19 £000	Transfer Out £000	Transfer In £000	Forecast 31-Mar-20 £000
4,564 General Fund	0	1,346	5,910
<u>Earmarked Reserves</u>			
15 Reshaping the Future	0	371	386
0 Capital Reserve	0	1,582	1,582
0 Redundancy Reserve	0	150	150
202 Aris (POCA)	(171)	0	31
294 Insurance Reserve	(240)	175	229
0 Pension Reserve	0	500	500
395 Operational Budget Reserve	(35)	316	676
906 Total Earmarked Reserve	(446)	3,094	3,554
5,470 Useable Reserves	(446)	4,440	9,464

Reshaping the Future - this reserve has been created to help fund the current transformation in order to achieve the required future budgets

Capital Reserve – to fund future capital projects in line with the Capital Strategy

POCA Fund – Proceeds of Crime Act 2002 determined that the Police Force can recover 50% of cash seized and assets confiscated under this Act.

Insurance Reserve – provides for the self-funding of certain uninsurable risks and also to cover the excess (£100,000) for any unknown claims before the insurance cover is applied.

Pension Employer Contribution – provision for the Ill-health retirements

Operational Budget Reserve – this includes a number of specific earmarked reserves, as follows:

Crash Course – working within the Safer Roads Partnership, the Force supports the delivery of crash course training and the proceeds are placed in this fund which is administered jointly with the other partners.

ESN Reserve – The Emergency Services Network (ESN) is the government's chosen option to replace the Airwave system, which 107 police, fire and ambulance services in England, Scotland and Wales (the emergency services) use for communications between control rooms and the field.

Early Adopter Income – this is the remains of a specific grant for early adoption of a different approach to medical assessment of those held in custody and must be retained and spend only for that purpose.

Seized Vehicle Fund – where a car is seized as a result of an infringement such as failure to insure the vehicle, the Force is entitled to the sale or scrap value of the vehicle after a period of 12 months has passed.

MDA Forfeiture Fund – the Misuse of Drugs Act 1971 allowed courts to award assets forfeited by those found guilty to whomever the court decides. The CPS can request that it is the Police Force.