

Kent Police and Crime Commissioner Reserves Strategy 2022/2023

Introduction

1. An important element of the Police and Crime Commissioner's (PCC) overall financial strategy is the transfer to and from and the level of reserves held over the life of the medium-term financial plan. How and why the PCC holds reserves is outlined in this Reserves Strategy which is reviewed and updated annually.
2. The reserves strategy is published as part of the Police and Crime Plan and Budget Papers reported to the Police and Crime Panel in February each year. Alongside the Medium Term Financial Plan (MTFP), Capital Strategy, Commissioning Strategy and the Treasury Management Strategy and Minimum Revenue Provision policy it forms part of the overall financial strategy of the Kent Police Group (the PCC and Force).

Background

3. Reserves are held both for the annual budget and over the medium term as part of an overall MTFP and it forms part of 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 Financial Officer (PCC 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 PCC CFO's duty to report on the robustness of estimates and the adequacy of reserves when the PCC is considering his budget requirement.
4. This is reinforced by Section 114 of the Local Government Act 1988 which requires the PCC 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.
5. The Local Government Finance Act 1992 also requires PCCs as a 'precepting' authority to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
6. It should be noted that there is no defined minimum level of reserves that PCCs 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 PCC CFO taking into account all local and national circumstances. However, the Government have specified that any level of general reserves over 5% requires explanation within the Reserves Strategy.

Financial Regulations

7. As all financing is issued to the PCC then it follows that all reserves are held by the PCC The Kent Policing Financial Regulations sets out the key responsibilities for the PCC's CFO, Force CFO (FCFO), Chief Constable and the PCC in regard to reserves and how they are used and maintained.

Reserves Strategy

8. The PCC holds reserves for four 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 organisation
 - d) To be 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.
 - The PCC will take a long-term approach to protecting, maintaining and investing in all its assets supporting policing for 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.
 - In the interest of the council taxpayer, 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.

10. These elements are the aims of the PCC's reserves strategy and have not changed, however, the attainment of these aims has become more challenging due to the current financial climate. The aims are the overarching guiding principles to which the reserves strategy of the PCC will aspire.

Reserve Levels

11. The total general and earmarked reserves are expected to be £16.6m as at 31 March 2022. Of this, general reserves will amount to £10.5m or 3% of the net revenue budget. This is the current level of reserves recommended by the PCC CFO in the strategy to be held for general contingency. This level is generally regarded best practice and comparable with other PCCs. The MTFP, budget and reserves strategy all have clear guidance on the use of general reserves. If at any time general reserves are utilised so that their level falls below the recommended level then the first call on the budget is to replenish the general reserves to 3% of the net revenue budget.

12. The remaining reserves are all earmarked. It should be noted that the investment reserve is expected to have a balance of £0.4m at the start of the financial year. Capital investment in 2022/23 will be funded from asset sales during the year and largely borrowing. In the first instance this will be internal borrowing, where the PCC 'borrows' from cashflow during the year, reducing the level of funds available for investing in the money markets but reducing the cost of borrowing.

13. The level of reserves has reduced significantly over the last few years due to the planned use of reserves to support recruitment, delivery of capital projects and reducing asset sales. This reflects a strong direction from the Government to reduce policing reserves from their high in 2017/18 but also the strict financial environment in which policing operates. Recent years overspends have exacerbated the reduction in reserve levels further. With the current expected levels, it means that reserves can only be used for contingencies.

14. The PCC has notified the Chief Constable that any underspends will be taken back into reserves in order to mitigate risks over the medium term. Any in-year reallocations of underspends will only be considered by the PCC where an exceptional business case is made.

15. The reserves position over the medium term is set out below:

Table 1: Reserves over the MTFP

Reserve as at 31st March	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m	£m	£m
General	10.5	11.1	11.5	11.7	11.8	12.0
Risk (inc Insurance/ Budget Support)	5.6	4.3	3.9	3.6	3.4	3.2
Investment Reserve	0.3	0.3	0.3	0.3	0.3	0.3
Partnership	0.1	0.1	0.1	0.1	0.1	0.1
PCC	0.1	0.1	0.1	0.1	0.1	0.1
Total	16.6	15.9	15.9	15.8	15.7	15.7

16. Over the medium term, taking all the plans and provisions into account, total reserves are expected to total £15.7m at the end of 2026/27.

17. The expenditure from the investment reserve is reliant on borrowing and in-year asset disposals being realised and available to spend. A contribution to capital investment continues to be made over the life of the MTFP to support the investment in ensuring that police officers have the appropriate equipment and technology to be as effective as possible.

18. Any revenue underspends not required for unforeseen expenditure will be taken back into reserves.

19. The reserves are held for the following:

- **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. This could include public order, major investigation costs or to fund initial costs of major disruption/ disaster response (i.e. Covid 19 pandemic, flooding). Kent Police Group issues that could be applied to this reserve include Operation Stack or EU exit. 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 with a further 0.5% for a second event. This reserve covers two such instances plus a further 1.5% for unknown and unexpected costs.
- **Risk** is used to mitigate any sudden or unexpected changes in funding levels. This also includes the **Insurance reserve** which 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 by our actuaries.
- **Investment Reserve** funds the capital investment in our investment programme. The investment programme is a number of medium and long-term projects that are designed to improve, renew or create assets 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 is included within the revenue budget.
- **Budget Support** is held to mitigate risks around the current year budget, including risk in the non-delivery or delayed delivery of the savings plans. It will also, where appropriate, fund costs for significant operations that would not lead to a claim for Special Grant avoiding the need to use general reserves.
- **Partnership** reserves are held for statutory reasons and are held on behalf of specific partnerships. They can only be used for the purposes they were intentionally held for.
- **PCC** This reserve holds funds set aside from the PCC's own budget to fund innovative projects to help transform policing and fund local PCC priorities

20. The expenditure from the investment reserve is reliant on borrowing as in-year asset disposals reduce. A revenue contribution to capital continues to support the investment programme and this contribution will increase 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

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

Classification	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Funding for planned expenditure on projects and programmes over the period of the current medium-term financial plan	3.2	1.9	1.5	1.2	1.0	0.8
Funding for specific projects and programmes beyond the current planning period	0.2	0.2	0.2	0.2	0.2	0.2
Funding held as a general contingency or resource to meet other expenditure needs in accordance with sound principles of financial practice	13.2	13.8	14.2	14.4	14.5	14.7

22. Further details of the PCC's reserves can be found in Annex B1.