

Kent Police and Crime Commissioner Reserves Strategy 2020/2021

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. 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. 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 Financial 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 his 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 Police and Crime Commissioners 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 CFO taking into account all local and national circumstances. However, any level of general reserves over 5% requires explanation within the Reserves Strategy.

Financial Regulations

7. The Kent Policing Financial Regulations sets out the key responsibilities for the PCC's 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.
 - In the interest 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 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.

Reserve Levels

10. The total general and earmarked reserves are expected to be £16.2m as at the 1 April 2020. Of this, general reserves will amount to £10.2m 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 at the start of the year there are zero earmarked reserves to support investment and capital spending during 2020/2021. Capital investment in 2020/21 will be funded from asset sales during the year, government grant and borrowing. Over the medium term a revenue contribution to capital is being introduced in 2020/21 to support future capital investment.
12. The PCC has looked to reduce the ongoing commitments from reserves and with the Force bringing a new FCR plan only £0.8m as a provision for ill health retirements will be used during 2020/21.
13. The level of reserves has reduced significantly due to planned use of reserves to support recruitment, strong performance of delivering capital projects and reducing asset sales. This reflects Kent Police reaction to the strong direction from the Government to reduce policing reserves from the high in 2017/18. With the current expected levels of reserves, it means that reserves can only be used for capital expenditure and contingencies.
14. The PCC has notified the Chief Constable that any in year underspends may be used in the first instance to support any unforeseen expenditure. If this is not required then any underspend will be taken back into reserves in order to mitigate risks over the medium term and support the investment programme. 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 4: Reserves

Reserve	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m	£m
General	9.4	10.1	10.7	11.2	11.5	11.8
Risk (inc Insurance)	2.0	2.0	1.8	1.6	1.5	1.5
Change Management	1.9	0.3	0.0	0.0	0.0	0.0
Investment Reserve	0.0	0.0	2.8	0.0	0.0	0.0
PCC (inc Op Morris)	1.0	1.0	1.0	1.0	1.0	1.0
POCA	1.0	1.0	1.0	1.0	1.0	1.0
Partnership	1.0	1.0	1.0	1.0	1.0	1.0
Total	16.3	15.3	18.3	15.8	16.0	16.3

16. Over the medium term, taking all the plans and provisions into account, total reserves are expected to maintain broadly the same level as they are from the end of 2019/20.
17. The expenditure from the investment reserve is increasingly reliant on in-year asset disposals being realised and available to spend. A contribution to capital investment is being introduced to support the investment in ensuring that police officers have the appropriate equipment and technology to be as effective as possible and this will increase by a further £1m each year over the medium term.
18. Any revenue underspends not required for unforeseen expenditure will be taken back into reserves in order to boost the investment reserve to fund future capital programmes.
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 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 reserves covers two such instances plus a further 1% for unknown and unexpected costs.
 - **Risk** is used to mitigate any sudden or unexpected 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. 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.
 - **Change Management** is held 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.
 - **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.
 - **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
 - **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.
 - **Partnerships** is funding held either on behalf of or for work undertaken with partners. These cannot be used for anything other than for what the funds were originally intended for.
20. 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

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	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan	2.4	0.7	2.8	0.0	0.0	0.0
Funding for specific projects and programmes beyond the current planning period	1.0	1.0	1.0	1.0	1.0	1.0
Funding held as a general contingency or resource to meet other expenditure needs in accordance with sound principles of financial practice	12.9	13.6	14.5	14.8	15.0	15.3

22. Further details of the PCC's reserves can be found in Annex C1.

Summary of Reserves Position

		2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	Reason	Planned Use
	Classification	£m	£m	£m	£m	£m	£m		
General	Contingency	9.40	10.05	10.73	11.20	11.51	11.84	3% of NRB. Held to mitigate against unknown and unexpected events. Will fund Operation Slack, 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 be expected to hold. Therefore there is no planned use of these reserves. However, the increase in the net budget means this reserve will increase over the medium term.
Risk	Contingency	1.99	1.99	1.79	1.59	1.50	1.50	This reserve is held to support the budget in times of funding changes (both increases and decreases) to avoid precipitous decisions being made. It also covers 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. £1.5m is suggested by our insurance advisors as an appropriate amount to keep in reserve should we incur a large insurance claim.	There is some planned use of the reserve in the early years of the MTFP. £1.5m is the minimum level of reserves we have been advised to hold by our advisors. There is no planned use of this reserve as it mitigates against large insurance claims of which we currently do not have any. Therefore there is no planned use of these reserves over the medium term. This may fluctuate over the medium term depending on our advisor's advice.
Change Management	Planned	1.86	0.32	0.00	0.00	0.00	0.00	With changing demand and resourcing levels the force are undergoing significant change. This reserve is help to 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.
Investment Reserve	Planned	0.00	0.00	2.76	0.00	0.00	0.00	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.
Police and Crime Commissioner	Planned	1.00	1.00	1.00	1.00	1.00	1.00	This reserve holds funds set aside from the PCC's budget to fund innovative projects to help transform policing and fund local PCC priorities.	There are no current plans to use this reserve but post election this will be used to fund innovative projects and PCC priorities
POCA	Planned	1.00	1.00	1.00	1.00	1.00	1.00	Proceeds of Crime Act reserve is a reserve for the portion of the Proceeds of Crime 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.	There are currently no definite plans for this reserve so it has been set aside to cover any shortfall in funding for our POCA investigators
Partnership	Planned	0.97	0.97	0.97	0.97	0.97	0.97	This reserve holds funds either on behalf of or for use on partnership projects and services. The funds cannot be used for anything other than for which it was originally intended.	There are currently no definite plans for this reserve but it will be used to the benefit of the partnership arrangements.
Total Reserves		16.22	15.33	18.25	15.76	15.98	16.31		