

# **Kent Police and Crime Commissioner Reserves Strategy 2018/19**

## **1. Introduction**

2. An important element of the PCC's overall financial strategy is the use of reserves over the life of the medium term financial plan. These reserves are held for a number of reasons and are used to support the budget, fund investment in transformational projects and mitigate against financial risks.
3. The reserves strategy has always been 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.
4. As part of the Police Funding Settlement, Nick Hurd, the Minister of State for Policing and the Fire Service provided guidance on what information PCC's should publish on their reserves. This guidance will form part of the next Financial Management Code of Practice.

## **5. Background**

6. 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 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.
7. 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.
8. 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.
9. It should be noted that there is no defined minimum level of reserves that PCC's 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.

## 10. Reserves Strategy

11. 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.
- A prudent reserve to provide for the costs of change, especially in respect of redundancy and ill health retirements.
- In the interest of the council tax payer, the PCC will seek as far as possible to protect its 'non-debt' status and instead of borrowing for investment, build up and rely on reserves for that purpose over the long term.
- 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.

12. The total general and earmarked reserves are expected to be £45.0m as at the 1 April 2018. Of this, general reserves will amount to £8.8m or broadly 3% of the net budget. This is an increase on last year and brings us more into line with other PCCs. The remaining reserves are all earmarked. It should be noted that £17.2m of those total earmarked reserves, are there to support investment and capital spending over the medium to long term as opposed to more costly borrowing. This capital reserve has been built up from accumulated underspends, capital grants and capital receipts over the years.

13. In last year's budget the PCC agreed to the prudent use of reserves to allow the Chief Constable to smooth the impact of the additional savings required over the medium term. This included a proposed use of £3.5m reserves in 2018/19 and the PCC has confirmed this in the budget for 2018/19. This does not absolve the Force from making those savings but changes the profile of savings delivery to avoid any precipitous decisions being taken.

14. The PCC has also agreed £2m from reserves to support the recruitment of the new police officers and staff. This alongside a provision for ill health retirements, the museum curator, the innovation task force and other budget support in relation to the national pay bonus means approximately £8.0m will be used during 2018/19.

15. The PCC has notified the Chief Constable that any in year underspends may be used in the first instance to support the additional recruitment of officers and staff. 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.

16. The level of reserves held by PCCs has come under increased scrutiny and was specifically mentioned in the Ministers statement on the funding settlement so it is worth putting Kent's reserves into context. The Police and Crime Commissioners

Treasurers Society commissioned a survey on police reserves which showed that overall Policing has £1.6bn in reserves which represents 15% of annual police funding (including council tax). Kent Police currently holds reserves equivalent to 12% of its annual police funding, below the national average.

#### 17. Use of Reserves

18. As at 31 March 2018, due to normal movements and adjustments during the year, total earmarked and non-earmarked reserves are expected to fall to £45.0m. The reserves position in 2018/19 is set out below:

**Table 4: Reserves**

Reserve	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m	£m
General	5.6	8.8	9.1	9.3	9.6	9.6
Funding Volatility	6.0	4.2	0.0	0.0	0.0	0.0
Insurance	3.1	3.1	3.1	3.1	3.1	3.1
Change Management	17.0	10.8	6.2	3.1	0.1	0.0
Investment Reserve (capital and revenue)	28.9	17.2	20.5	7.8	8.8	1.3
PCC	0.0	0.0	0.2	0.1	0.0	0.0
POCA	0.9	0.9	0.9	0.9	0.9	0.9
<b>Total</b>	<b>61.5</b>	<b>45.0</b>	<b>40.0</b>	<b>24.3</b>	<b>22.5</b>	<b>14.9</b>

19. The reserves are held for the following:

- a. **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.
- b. **Funding volatility** is used to mitigate any sudden or unexpected funding levels. This reserve also funds our partner authorities in their attempts to increase the tax base and reduce fraud in council tax collection.
- c. **The Insurance reserve** 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.
- d. **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.
- e. **Investment 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. 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.

- f. **PCC** This reserve holds funds set aside from the PCCs budget to fund innovative projects to help transform policing and fund local PCC priorities
- g. **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.

20. Over the medium term, taking all the plans and provisions into account, total earmarked reserves are expected to fall to £14.9m a reduction of 76% from the level held in 2017/18. This is in part due to reserves being used to support the budget, ill health retirements and the ongoing investment programme.

21. The investment reserve will be reduced to £1.3m by March 2022 increasing the likelihood that the force will need to borrow externally for significant capital investment or provide a revenue contribution to capital. As stated the PCC will seek as far as possible to protect his 'non-debt' status and instead of borrowing for investment, build up and rely on reserves for that purpose over the long term. With that in mind the PCC has notified the Chief Constable that any revenue underspends not being used to support recruitment will be taken back into reserves in order to boost the investment reserve to fund future capital programmes.

## 22. Home Office Classification

23. 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	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan	31.6	16.3	9.6	4.2	0.3
Funding for specific projects and programmes beyond the current planning period	0.0	0.0	0.0	0.0	0.0
Funding held as a general contingency or resource to meet other expenditure needs in accordance with sound principles of financial practice	12.8	13.1	13.3	13.6	13.6