

**Reserves Strategy to March 2024**

# Purpose

* 1. The document sets out the Police and Crime Commissioner for the West Midlands reserves strategy up until March 2024. This includes details of reserves currently held, the purpose of the reserves and the predicted balances by 31 March 2024. The strategy also includes the historical balances of reserves since March 2019.

# Reasons for holding reserves

* 1. The PCC must decide the level of general balances that should be retained before deciding the level of council tax precept. General balances are maintained as a matter of prudence. They enable the PCC to provide for cash flow fluctuations and unexpected costly events and thereby help protect the PCC and Force from overspending the annual budget, should such events occur. Reserves and provisions are retained for specific purposes or for known future financial obligations respectively.
	2. The reserves strategy has been drawn up within the parameters of the Financial Regulations adapted by the Police and Crime Commissioner and are maintained based on the following principles:-
* Maintaining a working balance or general reserve to cover the effects of uneven cash flows and to avoid temporary borrowing.
* Reserves in place to provide flexibility in managing future year’s budget pressures.
* Funding investment in the change programme including the Estates Strategy.
* Earmarking specific funds to meet known or predicted requirements in the future (e.g. the Self-Funded Insurance Reserve).
* Creating contingencies to cushion the impact of unexpected events or emergencies (e.g. the Major Incident Reserve).

# Reserves – Balance as at 31 March 2019 and Forecasted 31 March 2024

* 1. Since March 2013 we have used £66m of the £126m reserves we held, reducing the reserves total to £60.1m through an agreed programme of work with to deliver a new sustainable and affordable operating model by 2020.
	2. Over the medium term (the next 5 yrs.), we will look to use a further £31m of reserves to fund planned expenditure on the estates strategy, the completion of the Change Programme and other smaller initiatives / projects.
	3. The reserves are classified based on the most recent Home Office guidance note. This includes classifying reserves into the following categories:-
1. Funding for planned expenditure on projects and programmes over the current medium term financial plan.
2. Funding for specific projects and programmes beyond the current planning period.
3. As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management
	1. West Midlands Police does not have any reserves that can be classified under (ii) above therefore the table below only includes reserves that are in categories (i) and (iii).
	2. The table below details the current level of reserves held, a provisional outturn for March 2021 and the forecasted level by March 2024.



# Reserves Strategy

* 1. The Commissioner’s overall reserves strategy is to use reserves over the medium term up to 2024 to support the medium term financial strategy including the Change Programme and Estates Strategy. Although balances remain in the table above for the funding for planned expenditure reserves, these will be fully utilised by 31st March 2024, the exact timing is being worked through.
	2. The total reserves of the West Midlands Police and Crime Commissioner as at 31 March 2020 was 10% of the net revenue budget (NRB), if all the funding for planned expenditure is utilised by March 2024 this will reduce to around 4% of the forecast NRB.
	3. The following paragraphs provides an explanation of each reserve split by Home Office Category.

**Category (i) – Funding for planned expenditure on projects and programmes over the current medium term financial plan**

**ROCU / NaBIS Reserve**

* 1. This ROCU/NaBIS reserve includes balances held for regional and national projects including the Regional Organised Crime Unit (ROCU) and the National Ballistics Intelligence Service NaBIS). This reserve is therefore held by West Midlands on behalf of other forces. This reserve has been generated from in year under spends and will be drawn down over the course of the medium term to support operational activity as required.

**Budget Reserve**

* 1. This reserve will be applied as part of the Commissioner’s Medium Term Financial Plan (MTFP) to reduce the impact on the organisation of central government funding reductions.
	2. The Budget Reserve currently only reduces in line with the £3.0m approved for 2020/21. As outlined in the 2019/20 outturn report the balance also includes the £3.7m underspend to fund the shortfall for 2020/21, work is ongoing to determine the exact number required to support the 2020/21 funding shortfall. £6.1m is available (including the £3.7m mentioned).
	3. Moving into the medium term this reserve will include any carry forward of the uplift programme budgets to be utilised over the medium term to March 2024.

**POCA/PPA/Misuse of Drug Act Reserve**

* 1. The POCA, PPA and Misuse of Drug Act reserve allows recovered assets of criminality to be used to fund community based activity. Funding is secured in a number of ways including cash seizures and the confiscation of assets through the courts following convictions. The Home Office collect the assets and these are shared between the Treasury, Courts, Crown Prosecution Service and Police using a prescribed formula. This reserve is being used to fund the Commissioner’s Active Citizen Fund (ACF) which supports projects at Neighbourhood Policing Units. During COVID-19 the reserve was used to fund the Community Initiative Fund (CIF) whilst the ACF was paused.

**Change Programme (Inc. Risk) Reserve**

* 1. This reserve is a mix of:
1. Carry forwards of phased underspends on projects and programmes between financial years
2. Corporate Risk provision to manage the delivery and commercial risks arising from the change programme including the estates strategy.
3. Enabler for initiatives through the change programme to deliver planned cashable benefits over the medium term.

**Carry Forward Reserve**

* 1. This reserve is used to carry forward specific / agreed under spends and will usually be utilised the following year.

**Category (iii) – Reserves held in Accordance with Sound Principles of Good Financial Management**

**Uniform and Equipment Reserve**

* 1. The Uniform & Equipment Reserve was created to mitigate the effects of legislative changes in uniform and equipment and to provide some flexibility if and when policies in relation to uniform and equipment issues change.

**Major Incident Reserve**

* 1. The major incident reserve was established to address the financial implications of a major incident or incidents that could be above normal expected levels of activity for the Force. Given the nature of this reserve there is a need to maintain it at current levels.

**National Contingency Reserve**

* 1. This reserve is to fund projects and national policing initiatives the West Midlands may be required to contribute funding towards.

**Self-Funded Insurance Reserve**

* 1. This reserve is used to fund liabilities relating to staff, the public, the PCC’s buildings and equipment over and above the excess amounts on the PCC’s insurance policies. In addition, the reserve provides funding to meet the cost of motor claims which are self-funded. The required level of the insurance reserve is regularly assessed against the potential liabilities of the PCC. Based on a recent assessment the current balance of this reserve is at a prudent level.

**General Fund**

* 1. The Police Service, as one of the major emergency services, is required to respond to incidents of an unexpected nature over which it has little or no control. A major incident, or a series of events, could put extraordinary pressure on the budget in a particular year. As a result, financial prudence dictates that a level of General Balances should be retained to provide resilience against the effect of such a situation.
	2. The level of general reserve was set after considering the size and nature of the organisation. It is important to note the level of general reserve is approximately 2% of the 2020/21 net budget. As part of the ongoing work on reserve use, we will review this balance during the year.
	3. Nationally, Police and Crime Commissioners have provided financial guarantees to organisations in case they fail. This is in respect of the Police ICT Company and the Association of Police and Crime Commissioners Association. In the unlikely event these guarantees are called in these will be funded from the general reserve.

 M Kenyon

 PCC Chief Finance Officer, November 2020