

**Reserves Strategy to March 2025**

# Purpose

* 1. The document sets out the Police and Crime Commissioner for the West Midlands reserves strategy up until March 2025. This includes details of reserves currently held, the purpose of the reserves and the predicted balances by 31 March 2025. The strategy also includes the historical balances of reserves since March 2021.

# 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 and unplanned one off emergency events.
	2. The reserves strategy has been drawn up within the parameters of the Financial Regulations adopted 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 2021 and Forecasted 31 March 2025

* 1. Over the next 5 years we will look to use a further £42.8m of reserves to fund planned expenditure on the estates strategy, the completion of the Change Programme and other smaller initiatives / projects. Please refer to table 3.4 and note at the time of writing this strategy the Estates Programme is under review.
	2. 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 2022 and the forecasted level by March 2025.



# Reserves Strategy

* 1. The Commissioner’s overall reserves strategy is to use reserves over the medium term up to 2025 to support the medium term financial strategy including the Change Programme and Estates Strategy.
	2. The total reserves of the West Midlands Police and Crime Commissioner as at 31 March 2021 was 12% of the net revenue budget (NRB), if all the funding for planned expenditure is utilised by March 2025 this will reduce to around 5% 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.

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

* 1. The Proceeds of Crime Act (POCA), Police Property Act (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.

**Change Programme / Estates Strategy Reserve**

* 1. This reserve is a mix of:
1. Carry forwards of phased underspends on projects and programmes between financial years;
2. Uplift Estates budgets due to timing of grant received versus work carried out; and
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 from the revenue budget and will usually be utilised the following year.

**Useable Capital Receipts Reserve**

* 1. The capital receipts reserve holds the balance of receipts received through the sale of police assets and will be used to fund part of the estates strategy over the current medium term financial planning cycle. It should be noted capital receipts can only be used for capital purposes.

**Capital Grants Unapplied**

* 1. This reserve holds previous year’s capital grants that have not yet been applied. The unapplied grants are ring-fenced to be used over the medium term planning cycle.

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

**Uniform and Equipment Reserve**

4.10 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. The reserve has recently been expanded to cover to periodic replacement of major equipment such mobility devices, laptops / desktops, Tasers, body worn video and ESN devices.

**Major Incident Reserve**

* 1. The major incident reserve was established to address the financial implications of a major incident(s) that could be above normal expected levels of activity for the Force. In reality, these extraordinary incidents would be funded from the General Reserve and qualifying expenditure reclaimed via special grant, so this specific reserve will be closed and transferred into the budget reserve during 2021/22.

**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 (around 80% of potential claims).
	2. Work is on-going to assess whether some of the reserve should be transferred to an insurance provision to provide for the ongoing claims held under the self-funded insurance scheme.

**Provisions**

* 1. The CIPFA Statement of Recommended Practice is prescriptive about when provisions are required (and when they are not permitted). Basically, a provision must be established for any material liabilities of uncertain timings or amount, to be settled by the transfer of economic benefits. In accordance with this statutory guidance West Midlands Police has established a provision for prospective damages and legal costs in association with ongoing claims. As mentioned above an element of the self-funded insurance scheme may be transferred to become a provision by the end of March 2022, work is ongoing to assess the level of reserve versus the provision required.

**Council Tax Funding Reserve**

* 1. The Council Tax Funding reserve, as at 31st March 2022, will be made up of two element. The balance of the Local Council Tax Support Grant paid during 2021/22 in recognition of the additional costs of providing local council tax support as a result of the pandemic and two thirds of the Local Council Tax Guarantee Scheme paid to cover the repayment of collection fund deficits arising in 2020/21 that are spreadable over the next 3 years rather than the usual period of a year. The reserve will be drawn down to ensure that sufficient income is available in 2022/23 and 2023/24 to offset the phased deficit on collection fund arising from 2020/21, along with any additional potential deficits resulting from Local Council Tax Support arising due to the pandemic.

**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. The reserve may be called upon during 2021/22 to cover any shortfall in the under delivery of the £3m savings target.

* 1. The plan thereafter is to hold the Budget Reserve at the forecast level as at 31st March 2022 to fund any potential future funding gaps which arise as a result of the Comprehensive Spending Review (CSR) announcement for 2022/23 and beyond, linked to the risks associated with only potentially receiving annual funding settlements.

**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 balance of the general fund has been assessed taking into account the financial risks included within the PCC and Force Risk Registers. A breakdown of these are shown in appendix 1. This provides the PCC with more accurate, timely and risk based information on the type of issues that may have significant potential implications for the level of general fund reserves held, both now and in the near future.
	3. The biggest risk is the additional costs of one-off operational incidents or in-year emergencies that cannot be contained within budget or be fully grant funded by Government.
	4. The current forecast level of the general fund combined with the budget reserve is around 2.3% of the 2021/22 net budget. On the basis that all specific reserves are in place to mitigate funding risks (known or estimated), it is generally felt that the reserves and balance provides adequate cover for unknown liabilities at the assessed levels for 2021/22.
	5. 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.
	6. Reserves will continue to be monitored and reviewed regularly throughout the year.

**M Kenyon**

**PCC Chief Finance Officer, July 2021**

**Financial Risk Assessment Appendix 1**

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| --- | --- | --- | --- |
| ***Risk*** | ***Likeli-hood*** | ***Impact*** | ***Comment*** |
| *Future years funding remains unclear.* | *High* | *High* | *Due to the nature of a one year funding settlement future years funding remains unclear and could vary significantly to that planned.**£1 change in precept results in £740k movement**1% change in grant results in £5m movement in grant* |
| *The Capital Programme requirement changes as work streams develop, for example, development of the Estates Strategy.* | *High* | *High* | *The programme has been written with some flexibility built in but should strategic choices vary significantly the programme would be reviewed and re-shaped in line with the new requirement. The addition of the Estates Strategy is being programme managed and would be reported through the appropriate governance channels.* |
| *Pay awards in the future differ from the assumptions in our financial planning* | *Medium* | *Medium* | *Current assumptions are in line with pay award offers to Police Officers and Staff. If pay awards are higher than this, the savings requirement will increase.*  |
| *Increase in volume and/or cost of policing public order incidents linked to the general economic conditions or other factors* | *Medium* | *Medium* | *Depending on the volume and complexity of any incidents, this could place a significant strain on current contingency budgets. In the first instance savings would look to be found across budgets areas. If this was not sufficient then reserves would need to be used.*  |
| *Interest rates increase* | *Low* | *Medium* | *The budget reflects the low rates of interest being received on investments. Forecasts from our Treasury Management advisers suggest that borrowing rates are likely to increase which will add to the costs of financing the capital programme should borrowing be required over the medium term.*  |
| *General inflation is different to the assumptions included in the budget.*  | *Medium* | *Medium* | *A 1% increase would cost around £1.1m.**Significant increases in building costs in the medium term capital programme period could have an impact on some estimates.*  |
| *Income levels not achieved* | *Low* | *Low* | *A 1% loss of income (excluding grants & interest) would cost around £0.3m.* |
| *The Change Programme costs are significantly higher than planned. Also the planned savings from the Change Programme and other savings included within the Medium Term Financial Plan are not achievable.* | *Low**High* | *Medium**High* | *Organisational Change structures in place to deliver the Change programme. In addition Budget Managers have considered the planned savings and confirmed they believe them to be achievable, however if circumstances change and the planned level of savings is not achievable alternatives will be sought in year.* |
| *Ongoing assumptions around Police Officer Uplift Funding.* | *Medium* | *Medium* | *The ongoing costs associated with the uplift in police officer numbers is different to that planned.* |
| *Further Cost Transfer from National Programmes / Projects* | *High* | *High* | *Further cost transfers from the centre (e.g. Emergency Services Network and IT company costs.)* |