

**Reserves Strategy to March 2026**

# Purpose

* 1. The document sets out the Police and Crime Commissioner for the West Midlands reserves strategy up until March 2026. This includes details of reserves currently held, the purpose of the reserves and the predicted balances by 31 March 2026. The strategy also includes the historical balances of reserves since March 2022.

# 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 Budget Reserve and General Fund).

# Reserves – Balance as at 31 March 2022 and Forecasted 31 March 2026

* 1. Over the next 5 years we will look to use a further £36.4m 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 2023 and the forecasted level by March 2026.



# Reserves Strategy

* 1. The Commissioner’s overall reserves strategy is to use reserves over the medium term up to 2026 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 2022 was 10% of the net revenue budget (NRB), if all the funding for planned expenditure is utilised by March 2026 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**

**Regional / National Reserve**

* 1. This Regional / National Reserve includes balances held for regional and national projects including the Regional Organised Crime Unit (ROCU), National Ballistics Intelligence Service (NaBIS), Central Motorway Policing Group (CMPG), Lock-Up Museum and Police and Crime Commissioner. This reserve is therefore held by West Midlands on behalf of ourselves and 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 and agreed with partners.

**PPA/Misuse of Drug Act Reserve**

* 1. The 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 Helping Communities Fund which supports projects at Neighbourhood Policing Units.

**Change Programme Reserve**

* 1. The Change Programme reserve is made up of Carry forwards of phased underspends on projects and programmes between financial years and an enabler for initiatives through the change programme to deliver planned cashable benefits. The balance of this reserve will transfer into the budget reserve at the end of March 2023 as the main change programme ends. Future change business cases will be assessed on a case by case basis moving forward into 2023/24.

**Estates Strategy Reserve**

* 1. This estates strategy reserve is made up of:
1. Carry forwards of phased underspends on live estates projects between financial years; and
2. Uplift Estates budgets due to timing of grant received versus work carried out.

**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. Any unutilised carry forwards will be transferred to the budget reserve. This includes:
* Commonwealth Games funding carried forward due to phasing of spend,
* Grant No Conditions across BAU Departments,
* County Lines Grant due to phasing of spend profile,
* Revenue Contribution to Capital Outlay carry forward due to delays in the capital programme,
* BAU requests to carry forward due to committed spend moving into future years.

**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 Tasers, body worn video and ESN devices.

**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. The self-funded insurance reserve has been created to meet future (unknown) liabilities relating to staff, the public, the PCC’s buildings and equipment over and above the excess amounts of the PCC’s insurance policies.

**Council Tax Funding Reserve**

* 1. The Council Tax Funding reserve, as at 31st March 2023, will be made up of two elements. 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 one thirds of the Local Council Tax Guarantee Scheme paid to cover the repayment of collection fund deficits arising in 2020/21 that were 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 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 2022/23 to cover any shortfall in the under delivery of the £5.2m savings target, the impact of the significant increase in gas and electricity costs and the impact of the police officer pay award.

* 1. The plan thereafter is to hold the Budget Reserve at the forecast level as at 31st March 2023 to fund any potential future funding gaps from 2023/24 and beyond, linked to the risks associated with potential increases in inflation over and above those forecast through the medium-term financial plan.

**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 2.2% of the 2022/23 net budget, increasing to 2.5% by the end of March 2023. 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 2022/23.
	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.

**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 number of provisions for prospective claims, damages and legal costs in association with ongoing claims.
	2. The majority of the £9.9m balance relates to insurance provisions (£8.3m). The insurance policies held by the PCC require a significant level of self-insurance, the level of this being recommended by independent advisers. The monies set aside for self-insurance are split between a provision representing outstanding, unsettled claims at 31 March 2022 and a reserve to meet future claims. The provision is expected to be used within the next seven years. The Insurance provision includes Public and Employers Liability, Fire and Uninsured Losses.
	3. An additional provision has been made for historic mileage claims in respect of dog handlers (£0.7m). The remaining provision balance (£0.9m) relates to prospective damages and legal costs in association with ongoing claims from 2018-19 which are under active legal discussion.
	4. Reserves and provisions will continue to be monitored and reviewed regularly throughout the year.

M Kenyon

PCC Chief Finance Officer, September 2022

**Financial Risk Assessment Appendix 1**

|  |  |  |  |
| --- | --- | --- | --- |
| ***Risk*** | ***Likeli-hood*** | ***Impact*** | ***Comment*** |
| Medium-Term funding remains unclear. | Medium | High | The 3-year settlement ends in 2024/25. The future funding assumes the grant inflates with the rate of inflation for pay awards. Due to the nature of funding settlements future years funding remains unclear and could vary significantly to that planned.£1 change in precept results in £740k movement1% change in grant results in £5.6m 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 Estates Strategy, although built in comes with a large element of borrowing and is currently under review. |
| 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 | Medium | Medium | The budget reflects the current 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 £1.2m.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. | Low | Medium | The Change Programme, excluding Estates Strategy is coming to an end. Organisational Change structures in place to deliver the Change programme.  |
| Planned savings from the Change Programme and other savings included within the Medium-Term Financial Plan are not achievable. | High | High | 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. |
| Further Cost Transfer from National Programmes / Projects | High | High | Further cost transfers from the centre (e.g. Emergency Services Network and IT company costs.) |