



The Office of the Police and Crime Commissioner for Leicestershire

Reserve Strategy

## **1. Introduction**

- 1.1. The Local Government Finance Act 1992 requires billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 1.2. Reserves are a recognised and intrinsic part of financial planning and budget setting. The assessment of 'adequate' and 'necessary' levels of reserves is a matter for local authorities to determine. It is the responsibility (with statutory backing in England and Wales) of the CFO to advise the local authority on the appropriate level of reserves and the robustness of the estimates (CIPFA Financial Management Code, Section 4).
- 1.3. The Revised Home Office Financial Management code of Practice for the Police Forces of England and Wales (FMCP) states that the PCC should establish a reserves policy and have due regard to the need to ensure the ongoing funding of policing activities and the requirement to meet exceptional or extraordinary policing operations.
- 1.4. The FMCP states reserves should be held by the PCC and managed to balance funding and spending priorities and to manage risks. This should be established as part of the medium-term financial planning process.
- 1.5. Each PCC should publish their reserves strategy on their website, either as part of their medium-term financial strategy or in a separate reserves' strategy document.
- 1.6. This reserves strategy includes details of current and future planned reserve levels, total amount of reserves and the amount of each specific reserve held for each year. It covers both revenue and capital reserves and provides information for the period of the medium-term financial plan (Appendix A).
- 1.7. Sufficient information is provided to enable understanding of the purpose(s) for which each reserve is held and how holding each reserve supports the PCC's medium-term financial plan (Appendix B).
- 1.8. The strategy sets out in a way that is clear and understandable for members of the public, and includes:
  - how the level of the general reserve has been set;

- justification for holding a general reserve larger than five percent of budget;
  - details of the activities or items to be funded from each earmarked reserve, and how these support the PCC and Chief Constable's strategy to deliver a good quality service to the public. Where an earmarked reserve is intended to fund a number of projects or programmes (for example, a change or transformation reserve), details of each programme or project to be funded should be set out.
- 1.9. The FMCP clearly states the information on each reserve should make clear how much of the funding falls into the following three categories:
- Funding for planned expenditure on projects and programmes over the period of the current medium-term financial strategy.
  - Funding for specific projects and programmes beyond the current planning period.
  - As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance).

## **2. Financial Regulations**

2.1. The PCC must decide the level of reserves he wishes to retain before he can decide the level of council tax. Reserves are maintained as a matter of prudence, and all are owned by the Police and Crime Commissioner. As per the Corporate Governance Framework the PCC is responsible for:

- approving a policy on balances, reserves and provisions.
- approving the creation of each earmarked reserve or provision. The purpose, usage and basis of transactions should be clearly identified for each reserve established.
- approving the allocation of monies to and from general and earmarked reserves, as part of the annual budget setting process.

2.2. The PCC Chief Finance Officer (PCCCFO) is the Police and Crime Commissioner's professional adviser on financial matters and shall be responsible for advising the Police and Crime Commissioner on the robustness of the estimates and the adequacy of financial reserves. The responsibilities of the PCCCFO are:

- To advise the Police and Crime Commissioner on appropriate levels of balances, reserves and provisions to reflect long term financial risks faced.
- To report to the Police and Crime Commissioner on the adequacy of balances, reserves and provisions before he approves the annual budget and council tax.
- To approve appropriations to and from each earmarked reserve. These will be separately identified in the Annual Statement of Accounts.

2.3. The CC Chief Finance Officer (CCCFO) is the Chief Constable's professional adviser responsible for proper financial administration and a personal fiduciary responsibility to the local council taxpayer. The responsibilities of the CCCFO are:

- To ensure in consultation with the Chief Constable that the annual revenue budget is sufficient to finance foreseeable operational needs without having to request additional approval.

- To present business cases to the PCCCFO and Police and Crime Commissioner for one-off expenditure items to be funded from earmarked and/or general reserves.

2.4. The full financial regulations and scheme of delegation are set out in the Corporate Governance Framework.

### 3. Reserves Policy

3.1. The Commissioner holds reserves for the following purposes:

- As a contingency for any unforeseen or unknown events
- To manage transformation or invest to save initiatives
- To manage strategic risks
- To support specific projects or initiatives and maintain service delivery
- As a contingency for insurance and civil claims

3.2. It is recommended that each of the reserves is reviewed and re-aligned, where appropriate to current priorities. It is recommended that this review of reserves is carried out by the Chief Finance Officer of the PCC with recommendations being made to the Police and Crime Commissioner on the outcome of the review.

3.3. It is good financial management to regularly review the balances of the reserves held on a regular basis as part of budget monitoring.

3.4. The following 'guiding principles' are recommended in relation to the management of reserves. Taken together, they make up the strategy for the use of reserves.

- General Fund reserves should be in the range of 2% to 5% of the total net budget.

|  | 2024-25<br>£m | 2025-26<br>£m | 2026-27<br>£m | 2027-28<br>£m |
|--|---------------|---------------|---------------|---------------|
| Net Revenue Budget                           | 243.153       | 251.206       | 259.45        | 267.88        |
| Minium Level of General Reserve (2% of NRE)  | 4.863         | 5.024         | 5.189         | 5.358         |
| Maximum Level of General Reserve (5% of NRE) | 12.158        | 12.560        | 12.972        | 13.394        |

- The Budget Equalisation Reserve can be used to fund 'invest to save' and other initiatives or to recognise that some savings may take time to implement and to smooth the impact of these savings. Therefore, there must be a strategy to move reliance away from the reserve over a period of time.
- Other earmarked reserves should only be used for specific time limited projects, to provide financial cover for potential future financial liabilities and for 'invest to save' projects.
- Ongoing reliance should not be placed on reserves to deal with the funding of financial deficits and a clear plan should be in place to move reliance away from one off reserves.
- There should be an annual review of reserves.

#### 4. Reserves Information

4.1. On the 31 March 2024 the following level of reserves are expected to held by the Police and Crime Commissioner for Leicestershire:

- General Fund Balances £5.0m
- Earmarked Reserves £23.2m

**Total Reserves Held £28.2m**

4.2. Appendix A details the reserves that are projected to be held on 31 March 2024 and estimates how these reserves are currently expected to be used over the next five years. These projections are based on current plans and assumptions built into the latest budget and updated Medium Term Financial Plan.

4.3. The analysis splits the reserves into various categories highlighting the different reason why reserves are held. The categories contained within the analysis include reserves held for:

- Maintaining Service Delivery
- Partnership
- Earmarked Contingencies
- OPCC Specific Reserves
- Miscellaneous
- Jointly Controlled Operations
- Funds held on behalf of Partners

These are in addition to the general fund balances held and the remaining unapplied capital receipts.

A description of what each reserve is held for is contained at Appendix B.

4.4. The guidance from the Home Office is contained at Appendix C. Within it, it asks for the reserves to be categorised further to split them between reserves that are held for particular projects and those that are held for good financial management purposes.

4.5. This analysis can be summarised below and fulfils the requirement within the Home Office guidance:

|  | 31/03/2023        | 31/03/2024        | 31/03/2025        | 31/03/2026        | 31/03/2027        | 31/03/2028        |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Planned Expenditure on projects and programmes over the life of the medium term financial plan | 4,888,852         | 1,977,193         | 1,309,721         | 1,217,051         | 1,217,051         | 1,217,051         |
| Planned Expenditure on projects and programmes beyond the current planning period              | 3,175,715         | 2,911,213         | 2,608,501         | 2,571,942         | 2,561,910         | 2,561,910         |
| Reserves held to meet sound principles of good financial management                            | 24,443,934        | 23,324,024        | 19,297,505        | 17,168,276        | 17,429,646        | 17,429,646        |
| <b>Grand total</b>   | <b>32,508,501</b> | <b>28,212,429</b> | <b>23,215,726</b> | <b>20,957,269</b> | <b>21,208,607</b> | <b>21,208,607</b> |

## **5. General Reserves**

- 5.1. General reserves can be described as ‘the contingency of last resort’. It is the level of cash balances that have not been earmarked for any specific purpose and is held to deal with any unplanned emergency or exceptional item of expenditure for which there is no other funding available.
- 5.2. The level of general fund reserves held should not be excessive but should be held at a level in order for there to be sufficient funds available to deal with any urgent costs of emergency expenditure that arises. The respective Chief Financial Officer of the Police and Crime Commissioner applies their professional judgement to recommend a level of general fund balances to hold.
- 5.3. It is considered prudent for the level of general fund balances to be between 2% and 5% of the total net budget. Home Office guidance states that justification should be provided for general fund balances exceeding 5%.
- 5.4. The current General Reserve balance of £5m represents 2.06% of the Net Revenue Budget and is close to the lower end of the recommended range.
- 5.5. The Commissioner agreed to raise the level of the General Fund Balance to 2.3% for 2024-25 which would result in an additional £593k being transferred to the reserve.
- 5.6. The Commissioner agreed to transfer £593k from the Budget Equalisation Reserve to the General Reserve as at 1<sup>st</sup> April 2024. The Commissioner’s intention is to replace the £593k removed from BER using a revenue contribution from the 2025/26 funding envelope.

## **6. Medium Term Financial Plan**

- 6.1. The medium-term financial plan has been refreshed and latest figures show budget deficits over the medium term. There are no plans to use the reserves to bridge the gap in the budget therefore the deficits will need to be met through either efficiencies or reduced service.
- 6.2. If reserves are used to temporarily fund a deficit then there needs to be a plan to move reliance away from the reserves over a period of time. They are not a sustainable answer to funding budget deficits as they will quickly be used up.
- 6.3. Efficiencies should continue to be sought to balance budget pressures and the use of reserves should be on a temporary and cautious basis.

## **7. Use of Reserves**

- 7.1. In July 2022 it was agreed that £7.5m of the BER will be used during the MTFP period to fund ongoing historical investigations of £0.3m, Job Evaluation Pay protection costs of £0.2m and Business Transformation costs. The Business Transformation costs included £5m for Cloud Migration and £2m for Peripatetic Investigators.
- 7.2. During the 2023/24 budget setting process it was agreed that the £1.78m of the £2m earmarked for the Peripatetic Investigators was repurposed to fund an HR review (£1.67m), Digital and Data Teams (£0.07m) and Single Online Home Resource (£0.04m). The remaining £0.22m is earmarked for Peripatetic staff.

- 7.3. It is forecast that of the £7.5m agreed, only £5.7m will now be required over the MTFP.
- 7.4. An additional £1m was earmarked against the BER in 2023-24 to fund pay award costs above the 2% assumption included within the MTFP. An additional £1m was also earmarked to meet the budget deficit with a view to longer term sustainability and invest to save. These are no longer required and remove from the forecast.
- 7.5. It has been agreed that an additional £1.511m of the BER will be used to fund additional resources for 12 months to meet demand in the Call Management Centre whilst the work on 'right care right person' is embedded, resources to meet additional training needs to ensure officers have the right skills for the role as a result of retirements and new legislation (accreditation) and the upgrade of the HR System.
- 7.6. The Commissioner agreed a transfer of £0.95m from other earmarked reserves for 2024/25 and a transfer to reserve of £0.26m.
- 7.7. Any unbudgeted/unplanned use of reserves will require a business case submitted to the PCC for approval.

## **8. Conclusion**

- 8.1. The level of reserves held by the PCC are estimated to total £28.2m by the end of this financial year (subject to the approval of transfers which were not approved at budget setting). Over the life of the medium-term financial plan it is estimated that these funds will reduce to £21.2m.
- 8.2. It is important that reserves are reviewed on a regular basis and it is clear why reserves are being held.
- 8.3. This report sets out to provide details on all of the reserves currently held and seeks to agree some 'guiding principles' in relation to how reserves are managed going forward.

## Reserves - Medium Term Forecast

## Appendix 1

|                                     | Actual<br>31/03/2023<br>£ | Estimated<br>31/03/2024<br>£ | Estimated<br>31/03/2025<br>£ | Estimated<br>31/03/2026<br>£ | Estimated<br>31/03/2027<br>£ | Estimated<br>31/03/2028<br>£ |
|-------------------------------------|---------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| <u>Maintaining Service Delivery</u> |                           |                              |                              |                              |                              |                              |
| Budget Equalisation                 | 13,811,930                | 13,194,629                   | 8,460,110                    | 6,025,881                    | 5,982,251                    | 5,982,251                    |
| Economic Crime                      | 1,429,304                 | 1,419,272                    | 1,288,900                    | 1,278,868                    | 1,268,836                    | 1,268,836                    |
| Carry-Forwards                      | 2,818,605                 | 717,098                      | 206,670                      | 114,000                      | 114,000                      | 114,000                      |
|                                     | <b>18,059,838</b>         | <b>15,330,999</b>            | <b>9,955,680</b>             | <b>7,418,749</b>             | <b>7,365,087</b>             | <b>7,365,087</b>             |
| <u>Partnerships</u>                 |                           |                              |                              |                              |                              |                              |
| DBS Reserve                         | 85,528                    | 85,528                       | 85,528                       | 85,528                       | 85,528                       | 85,528                       |
| SARC Reserve                        | 177,455                   | 174,915                      | 174,915                      | 174,915                      | 174,915                      | 174,915                      |
| Lighthouse Reserve                  | 44,685                    | 44,685                       | 44,685                       | 44,685                       | 44,685                       | 44,685                       |
| MAPPA Reserve                       | 37,306                    | 13,622                       | 10,623                       | 10,623                       | 10,623                       | 10,623                       |
| IOM Reserve                         | 0                         | 0                            | 0                            | 0                            | 0                            | 0                            |
|                                     | <b>344,975</b>            | <b>318,751</b>               | <b>315,752</b>               | <b>315,752</b>               | <b>315,752</b>               | <b>315,752</b>               |
| <u>Earmarked Contingencies</u>      |                           |                              |                              |                              |                              |                              |
| Fleet Insurance                     | 822,000                   | 947,000                      | 1,072,000                    | 1,197,000                    | 1,322,000                    | 1,322,000                    |
| Civil Claims                        | 1,316,148                 | 1,446,148                    | 1,576,148                    | 1,706,148                    | 1,836,148                    | 1,836,148                    |
| Capital Reserve                     | 302,004                   | 302,004                      | 302,004                      | 302,004                      | 302,004                      | 302,004                      |
| Equipment Reserve                   | 1,819,815                 | 1,482,011                    | 1,342,011                    | 1,392,011                    | 1,442,011                    | 1,442,011                    |
| Collection Fund Reserve             | -                         | -                            | -                            | -                            | -                            | -                            |
| OPCC General                        | 407,904                   | 265,744                      | 96,403                       | 69,876                       | 69,876                       | 69,876                       |
|                                     | <b>4,667,871</b>          | <b>4,442,907</b>             | <b>4,388,566</b>             | <b>4,667,039</b>             | <b>4,972,039</b>             | <b>4,972,039</b>             |
| <u>OPCC</u>                         |                           |                              |                              |                              |                              |                              |
| Commissioning                       | 1,199,427                 | 740,306                      | 740,306                      | 740,306                      | 740,306                      | 740,306                      |
| SPDF                                | -                         | -                            | -                            | -                            | -                            | -                            |
| OPCC                                | 407,601                   | 294,299                      | 137,255                      | 137,255                      | 137,255                      | 137,255                      |
| Community Partnership Fund          | 463,220                   | 225,490                      | 225,490                      | 225,490                      | 225,490                      | 225,490                      |
|                                     | <b>2,070,248</b>          | <b>1,260,095</b>             | <b>1,103,051</b>             | <b>1,103,051</b>             | <b>1,103,051</b>             | <b>1,103,051</b>             |
| <u>Miscellaneous Reserves</u>       |                           |                              |                              |                              |                              |                              |
| Memorial Garden                     | 965                       | 965                          | 965                          | 965                          | 965                          | 965                          |
| Police Dogs                         | 659                       | 659                          | 659                          | 659                          | 659                          | 659                          |
| Chief's Charity Trust               | 6,104                     | 5,018                        | 5,018                        | 5,018                        | 5,018                        | 5,018                        |
|                                     | <b>7,729</b>              | <b>6,643</b>                 | <b>6,643</b>                 | <b>6,643</b>                 | <b>6,643</b>                 | <b>6,643</b>                 |
| Jointly Controlled Operations       | 952,232                   | 952,232                      | 952,232                      | 952,232                      | 952,232                      | 952,232                      |
| Funds Held on Behalf of Partners    | 985,804                   | 900,804                      | 900,804                      | 900,804                      | 900,804                      | 900,804                      |
| <b>Total Earmarked Reserves</b>     | <b>27,088,696</b>         | <b>23,212,429</b>            | <b>17,622,726</b>            | <b>15,364,269</b>            | <b>15,615,607</b>            | <b>15,615,607</b>            |
| Capital Grants Unapplied            | 419,805                   |                              |                              |                              |                              |                              |
| General Reserve                     | 5,000,000                 | 5,000,000                    | 5,593,000                    | 5,593,000                    | 5,593,000                    | 5,593,000                    |
| <b>Grand Total</b>                  | <b>32,508,501</b>         | <b>28,212,429</b>            | <b>23,215,726</b>            | <b>20,957,269</b>            | <b>21,208,607</b>            | <b>21,208,607</b>            |

## Description of Reserves

Appendix 2

| Earmarked Reserve                                     | Projected Amount held at 31 March 2024 | Purpose Funds Held For  |
|---|--|---|
| <b>General Reserve</b>                                | <b>5,000,000</b>                       |   |
| Budget Equalisation                                   | 13,194,629                             | This represents revenue funds set aside to support the ongoing change programme and investments in the future of the OPCC/Group and to support the impact of moving through a period of change.   |
| Economic Crime  | 1,419,272                              | These are the funds awarded to the OPCC/Group by the courts under the Proceeds of Crime Act. These funds are used to further the force's capability in financial and other investigative areas.   |
| Carry-Forwards  | 717,098                                | This reserve includes those sums that the OPCC/Group has approved to carry forward to finance specific expenditure in 2020/21 and beyond.   |
| Disclosure Barring Service (DBS) Reserve              | 85,528                                 | Surplus funds received from the DBS to be used for the purchase of fixtures, fittings and equipment in support of the OPCC/Group's work on behalf of the DBS.   |
| Sexual Assault Referral Centre (SARC)                 | 174,915                                | Funds set aside from budget underspends and partner contributions to support future projects.   |
| Lighthouse Reserve                                    | 44,685                                 | Funds held for the lighthouse project   |
| Multi Agency Public Protection Agency (MAPPA) reserve | 13,622                                 | Funds set aside for MAPPA projects and activity.  |
| Fleet Insurance                                       | 947,000                                | The excess on the vehicle insurance policy is £100k. The reserve is to meet the cost of claims that fall below this value.  |
| Civil Claims  | 1,446,148                              | The reserve holds revenue funds that have been set aside where considered prudent by the OPCC/Group against Civil claims (Public and Employer liability) that independent advice suggests is unlikely to result in the transfer of economic benefits. |
| Capital Reserve                                       | 302,004                                | Revenue contributions that are held to fund future capital expenditure.   |
| Equipment Reserve                                     | 1,482,011                              | Funds held for the periodic replacement of personal equipment such as body worn video, taser equipment and personal protective equipment.   |
| Collection Fund Reserve                               | 0                                      | Council tax deficit grant held to offset council deficit as a result of COVID.  |
| Commissioning   | 740,306                                | The resources set aside to support the Police and Crime Commissioner's activities in support of the Police and Crime Plan and the commissioning activity contained within it.   |
| OPCC  | 294,299                                | Funds set aside to support the work of the Police and Crime Commissioner.   |
| Community Partnership Fund                            | 225,490                                | This represents resources set aside to support the Police and Crime Commissioner's activities in support of the Police and Crime Plan and partnership working.  |
| OPCC General  | 265,744                                | Funds relating to a bequest which was made to Leicestershire Police.  |
| Memorial Garden                                       | 965                                    | Funds held for projects relating to the memorial garden at Police Headquarters.   |
| Police Dogs   | 659                                    | Funds held on behalf of the Police Dog handling section.  |
| Chief's Charity Trust                                 | 5,018                                  | Funds held on behalf of the Chief's Charity Trust.  |
| Jointly Controlled Operations                         | 952,232                                | Funds held which relate to Leicestershire's proportion of any historic underspends on the regional units that are in existence. And that Leicestershire participate in.   |
| Funds Held on Behalf of Partners                      | 900,804                                | Funds set aside to support a national project intended to reduce distraction burglary and for regional collaborative projects.  |
| <b>Earmarked Reserves Total</b>                       | <b>23,212,429</b>                      |   |
| <b>Grand Total</b>                                    | <b>28,212,429</b>                      |   |