

SURREY POLICE AND CRIME COMMISSIONER
GENERAL AND EARMARKED RESERVES STRATEGY STATEMENT JUNE 2020

Introduction

1. This report provides information on the estimated level of reserves held, what these reserves are for and the anticipated levels of these reserves over the next 4 years.
2. The Home Office states that the public is entitled to high quality information on financial reserves held by PCCs and requires each PCC to publish their reserves strategy and this report seeks to satisfy that requirement.
3. Usable Reserves can either be “General” in that funds are put aside to deal with risks and contingencies, “Earmarked” in that funds have been set aside for a specific purpose and/or future obligation or “Capital” in that they can only be used for a “Capital Purpose” such as the acquisition of assets.

General Reserves

4. Legislation and regulatory guidance require that a general reserve must be maintained but do not stipulate the level of that general reserve. The PCC, on the advice of his Treasurer, must therefore consider strategic, operational and financial risks facing the Authority when determining reserve levels. The assessment of risk should take account of external risks, such as flooding for example, as well as internal risks such as the delivery of efficiency savings.
5. The Local Authority Accounting Panel (LAAP) Bulletin 99 Guidance Note on Local Authority Reserves and Balances issued by CIPFA states that a general reserve is required to act as “a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves”. A general reserve is also required to act as “a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves.”
6. Since January 2018 the Home Office has issued guidance on reserves in the policing sector. This guidance notes that Police and Crime Commissioners (PCCs) can keep part of their funding in financial reserves to help manage financial risk and to fund major future costs such as change programmes aimed at improving services to the public. Usable financial reserves are categorised into a general fund to cover unforeseen pressures and earmarked reserves which are held for a specific purpose. Capital reserves are ring-fenced for capital investment
7. In assessing an appropriate level of General Reserve CIPFA’s guidelines state that account should be taken of the strategic, operational and financial risks facing the Force.
8. Key risks currently relevant to predicted levels of general reserves are;
 - Unforeseen emergencies such as a terrorist incident, major investigation or pandemic;
 - Changes in demand for policing;
 - The delivery and timing of future savings;

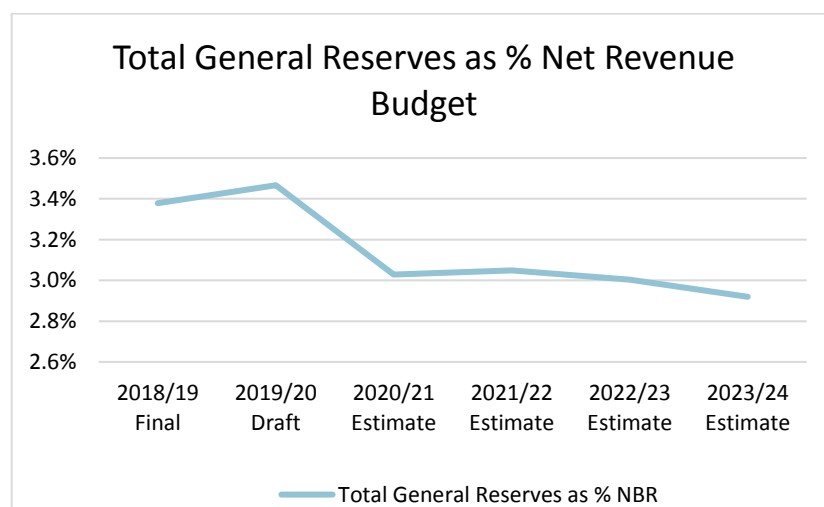
- The need to fund capital expenditure due to uncertainty in capital receipts;
- Managing uneven cash flows;
- Uncertainty in future levels of Government Grant.
- Contributions to national initiatives by “top slicing” of grant by Government;
- Potential for government to limit the amount of precept increase that PCC’s can authorise introduces more uncertainty about long term financial planning.

9. It should be noted that Home Office special grant rules require the Force contribute up to 1% of its net revenue budget for an incident before the Government will consider providing additional financial assistance. Hence taking this in to account and the other risks as outlined above the Police and Crime Commissioner on the advice of his Treasurer has determined that the General Reserve should be maintained at a minimum of 3% of net revenue budget.

10. Reserves cannot replace long term funding on a permanent basis but do provide resources to manage risks and give time for other steps to be taken. In addition they can also be used to fund initiatives in the short term that them-selves have an on-going positive revenue funding implications. These initiatives are known as “invest to save” options.

11. Included within General Reserves is the Chief Constable Operational Reserve which allows the Chief Constable to deal with immediate operational policing demands without the need for further approval from the PCC. Previously this reserve was included within the earmarked section of usable reserves however a review of reserves during 2020 recommended the Chief Constable reserve should remain separately identifiable but classified within the General Reserves category instead of as an Earmarked Reserve. This is in line with the general contingency nature of this reserve and external reporting requirements. At the 2019/20 outturn position it was agreed that this reserve should be increased by £0.5m, subject to audit, in light of additional uncertainty and general risks as a result of the Coronavirus pandemic.

12. The total General Reserves for 2020/21, subject to audit, are £7.6m which is equivalent to 3.0% of the Net Revenue Budget (NRB). The graph below shows how the proportion of General Reserves as a percentage of the NRB, based on the latest financial forecast, is expected to fluctuate over the next 4 years.



Earmarked Reserves

13. Earmarked Reserves are Usable Reserves which are held for a specific purpose or future obligation. These are as follows:

- **The PCC Operational Reserve** was set up to facilitate change that will deliver future savings to repay the initial investment. It is also available for the PCC to provide urgent support such as to community groups during the Coronavirus epidemic.
- **The PCC Estate Strategy Reserve** has been created to manage the transition costs involved in delivering the Estate Strategy which involves rationalising some of the current estate and building a new operational headquarters.
- **The PCC Cost of Change Reserve** funds projects that enhance the policing in Surrey and/or deliver savings. In practice under spend from the operational budget is transferred to this reserve at year end, subject to PCC approval and maintaining the total general reserves at 3%.
- **The Insurance Self Fund Reserve** is in place to meet the costs of future insurance claims and liabilities that have not yet crystallised. In addition, an insurance provision is held where the costs are more certain. An actuarial review is carried out annually to establish the levels to meet both the reserve and the provision.
- **The Police Officer Ill Health Reserve** is maintained to meet the capital charge made by the Home Office for each officer that retires due to ill health. A percentage of the police officer cost as recommended by the Home Office is added to this reserve and the level will fluctuate from year to year depending on the number of retirees.
- **The Covid 19 Reserve** is a new reserve introduced at the end of 2019/20 using underspend from the force budget to manage additional cost pressures directly attributable to the Coronavirus pandemic. This is because it is not clear at the present time whether such costs will be covered by Government in their entirety or at all.

Capital Reserves

14. Capital Receipts arising from the sale of capital assets together with capital grants unapplied are held in a specific capital reserve. These funds can only be used for permitted capital purposes such as the acquisition of assets. It is anticipated that there will be no capital reserves available to fund capital expenditure beyond 2020/21 and that future capital funding will have to be met from government grants, capital receipts, revenue contributions and borrowing.

Total Usable Reserves

15. The table below sets out all the usable reserves (general, earmarked and capital) for year to 2023/24 based on the most recent Medium Term Financial Plan.

USABLE RESERVES	2018/19 Actual £m	2019/20 Draft £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
General Revenue Fund	6.8	7.1	7.0	7.1	7.2	7.3
CC Operational Reserve*	0.0	1.1	0.6	0.6	0.6	0.6
Total General Reserves	6.8	8.2	7.6	7.7	7.8	7.9
Earmarked Reserves:						
CC Operational Reserve*	0.6	0.0	0.0	0.0	0.0	0.0
OPCC Operational Reserve	0.5	1.0	0.5	0.5	0.5	0.5
PCC Estate Strategy Reserve	2.8	2.8	3.1	4.3	3.9	0.0
PCC Cost of Change Reserve	1.4	1.6	0.9	1.2	2.2	2.3
Covid 19 Reserve	0.0	1.0	0.0	0.0	0.0	0.0
Corporate Communications	0.1	0.0	0.0	0.0	0.0	0.0
Insurance Reserve	3.3	3.4	3.9	3.9	3.9	3.9
Police pension Reserve	1.7	1.6	1.7	1.7	1.7	1.7
Total Earmarked Reserves	10.4	11.4	10.1	11.6	12.2	8.4
Capital Grants Unapplied	1.3	2.9	0.0	0.0	0.0	0.0
Capital Receipts Reserve	4.0	0.2	0.0	0.0	0.0	0.0
TOTAL USABLE RESERVES	22.5	22.7	17.7	19.3	20.0	16.3

*The Chief Constable Operations Reserve was reclassified within the General Reserves category during 2019/20 for consistency of disclosures relating to this reserve.

16. A more detailed explanation of what each reserve is held for is and how it is assessed is attached as Appendix 1 to this paper

Compliance with Home Office Guidance on Police Reserves

17. On the 31st March 2018 the Minister for Policing and the Fire Service published guidance on the information that each PCC must publish in terms of Police Reserves. One of the key requirements is that the information on each reserve should make clear how much of the funding falls in to each of the following 3 categories:

- Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan;
- Funding for specific projects and programmes beyond the current planning period;
- As a general contingency or resources to meet other expenditure needs held in accordance with sound principles of good financial management.

18. This information is shown in the table below:

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
RESERVES	Actual £m	Draft £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan	10.2	8.5	4.5	6.0	6.6	2.8
Funding for specific projects and programmes beyond the current planning period	0.0	0.0	0.0	0.0	0.0	0.0
As a general contingency or resources to meet other expenditure needs held in accordance with sound principles of good financial management	12.4	14.2	13.2	13.3	13.4	13.5
Total	22.6	22.7	17.7	19.3	20.0	16.3

APPENDIX 1

Usable Reserves and the purpose for which they are held by Surrey Police

Reserve		Level or Target
General		
General Reserves	<p>Provides a working balance to cover day to day cash flow requirements and to cover exceptional unforeseen financial and operational risks. The target level for the reserve is reviewed as part of the annual budget setting process.</p> <p>This includes a separately identified Chief Constable Operational Reserve to provide access to funding for immediate operational policing demands without need for further approval from the PCC. Prior to 2019/20 this reserve was included within the earmarked reserves category.</p>	3% of Net Revenue Expenditure Budget as at 31 March each year.
Contingency and Risk		
Insurance Reserve	<p>Provides for the self-funding of certain uninsurable risks, such as payments of compensation or damages, or below the excess level such as motor claims. This Reserve is funded from revenue or transfers from other reserves and is adjusted annually, following an independent actuarial review, to reflect up to date management information on inflation and risk.</p> <p>To improve consistency in funding claims, there is a need to split claims between a provision on the Balance Sheet for the cost of claims received and outstanding; and funds held in the reserve to cover claims incurred but not received or quantified. Claims that have been reported and assessed as more likely to be settled are carried as a financial provision whilst known incidents where no claim has yet been made, are covered by the insurance reserve. The revenue account makes a contribution to the reserve each year that in-year liabilities, as they arise, are charged against. The level of the reserve is reviewed annually.</p>	Assessed as part of the annual insurance actuarial review.
Police Officer Ill Health Pension Reserve	<p>This reserve provides for the self-funding of police officer ill health and injury payments not covered by the pension grant funding.</p> <p>This reserve is maintained to meet the capital charge made by the Home Office for each officer that retires due to ill health. A percentage of the police officer cost as recommended by the Home Office is added to this reserve and the level will fluctuate from year to year depending on the number of police officer retirees.</p>	Assessed as part of the medium term financial planning process.

Investment		
Capital Receipts Reserve	This reserve holds the proceeds from the sale of assets, and can only be used for financing capital expenditure in accordance with regulations.	Receipts from the sale of assets are taken to this reserve.
Capital Grants & Contributions Unapplied Reserve	This reserve holds unused elements of grant and other external funding to be spend in the following financial year in line with the conditions of the grant or external funding.	As determined by the closure of accounts process.
Single Use		
PCC Operational Reserve	This reserve was set up to facilitate transformational change that will deliver future savings and repay investment.	Assessed as part of the medium term financial planning process.
PCC Estate Strategy Reserve	This reserve was created to manage the transition costs involved in delivering the Estate Strategy which involves rationalising some of the current estate and building a new operational headquarters.	Assessed as part of the medium term financial planning process.
PCC Cost of Change Reserve	This reserve funds projects that enhance the policing in Surrey and/or deliver savings. In practice the proposal is that any under spend from the operational budget in excess of General Reserve requirements is transferred to this reserve at the year-end subject to PCC approval.	Assessed as part of the medium term financial planning process.
Covid 19 Reserve	This reserve was set up to facilitate additional cost pressures likely to arise in 2020/21 as a result of the Coronavirus pandemic.	Recommended by the closure of accounts process.