

**SURREY POLICE AND CRIME COMMISSIONER GENERAL AND SPECIFIC
RESERVES STRATEGY STATEMENT**

1. Introduction

1.1. As part of the Police Funding Settlement for 2018/19, Nick Hurd, the Minister of State for Policing and the Fire Service provided guidance on what information Police & Crime Commissioners (PCC's) should make public regarding the financial reserves that they have set aside. Although this guidance does not have to be followed immediately, because the Minister has signalled his intention that the requirement to publish a statement on reserves will in due course be included in the Home Office's Statutory Financial Management Code of Practice it is being put into effect now.

2. Legislation and guidance regarding the holding of a general reserve

2.1. Legislation and CIPFA guidance require that a general reserve must be maintained but do not stipulate the level of that general reserve. However, the guidance does require the PCC to consider strategic, operational and financial risk when determining reserve levels taking account of advice from his Treasurer & Chief Financial Officer. In addition the Local Government Act 2003 requires the S151 officer (the PCCs Treasurer & CFO) to report on the level of reserves annually, together with the plans for their usage and the opportunity cost of holding those reserves.

2.2. CIPFA's Guidance Note on Local Authority Reserves and Balances 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."

2.3. Maintaining a general reserve ensures compliance with the Local Government Finance Act 1992 (2) which states that authorities must "have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement."

3. Factors to consider in deciding on reserve levels

3.1. Overall financial position and adequacy of financial control

3.1.1. In setting the level of the general reserve it is important to bear in mind Surrey Police's overall financial position and the adequacy of financial control in operation.

3.1.2. The overall financial position has been considered by the PCC as part of the budget setting process and in compiling the medium term financial plan, both of which will have taken account of the impact of the government's decisions on providing central government financial support to the police service.

3.1.3. It is also important to remember the context of the medium term financial plan agreed as part of the budget process so that the PCC continues to comply with CIPFA's Guidance Note on Local Authority Reserves and Balances which suggests that "Advice should be given on the adequacy of reserves over the lifetime of the medium term financial plan".

3.1.4. The use of general reserves does afford the PCC some flexibility in managing the budget over a number of years and there is merit in using reserves in the short term, provided that this is backed by a plan to restore those reserves to a prudent level in the long term.

3.2. Risk exposure and risk assessment

3.2.1. Reserve levels must be considered in the context of risk if we are to comply with CIPFA's guidelines which state that "in order to assess the adequacy of unallocated general reserves.....Chief Financial Officers should take account of the strategic, operational and financial risks facing the Force."

3.2.2. Whilst risk exposure and mitigation of that risk may not necessarily drive a material increase in spending, it will influence the level of general reserves year by year.

3.2.3. The key risks currently relevant to the level of general reserves now and in the future are;

3.2.3.1. Future Funding Gap – the risk that due to the economic conditions, and real terms reductions in levels of government grant, the increased demands on the police service will have a significant effect on already stretched financial resources. These additional demands may include funding increased contributions for pension schemes, a huge programme of change, including collaboration, to achieve a long term sustainable financial position.

3.2.3.2. The use of "top slicing" by government where central government funding to local police forces is reduced to pay for national initiatives introduces another uncertainty over the level of funding police forces will have in future years.

3.2.3.3. The potential for government to limit the amount of precept increase that PCC's can authorise also introduces more uncertainty about long term financial planning.

3.3. Public opinion

3.3.1. A key factor in determining a General Reserves Strategy continues to be public opinion. The public's acceptance of the precept is partly reliant on the understanding that the precept is spent on policing and that only a reasonable and prudent amount of any over-funding is being stored away as a General Reserve. Conversely, when unforeseen expenditure arises, such as with operations in response to severe weather conditions or public disorder, it is likely that the public would expect the organisation to have sufficient resources to cover the expense without recourse to overspend.

3.4. Other police forces reserve levels

3.4.1. The Police and Crime Commissioners Treasurers Society carried out a survey for the policing minister to establish a national picture on the level of reserves held by police forces.

3.4.2. Nationally police forces general reserves are at 3% on average and the levels of Earmarked Reserves varied by Force ranging from 2% to 39% of net revenue budget. Keeping general reserves at just below the 3% level, makes Surrey the 3rd lowest police force out of the total of 43 forces in terms of putting money aside.

4. Current general reserve levels

4.1. Use of General Reserves

4.1.1. The current strategy for general reserves levels is to aim to keep an amount equal to 3% of the annual revenue budget in the general reserve. This level has been chosen because 2% is considered to be a reasonable level for a normal local authority to keep, but because policing is an emergency service it is thought prudent to set aside an additional 1% to cope with unforeseen operational risks. The Home Office retain some funding to meet national or significant local incidents, but will not consider awarding any Special Grant unless the Force requesting additional financial help has expended an amount equivalent to at least 1% of its total revenue budget, further justification for keeping the general reserve at the 3% level.

4.1.2. The use of general reserves assists in the medium term financial planning to mitigate any predicted funding gaps noting that this is a measure that allows a re-phasing of gaps over one or more years, albeit that reserves cannot replace long term funding on a permanent basis because it does not provide an on-going revenue funding stream to support recurring expenditure. However, notwithstanding issues related to risk and medium term planning, it is reasonable to use reserves to fund initiatives in the short term that themselves have an on-going positive revenue funding implications. These initiatives are known as “invest to save” options.

4.1.3. The general reserve may also be used to fund capital investment.

4.2. The level of a General Reserve is a matter for the Police and Crime Commissioner as advised by his Treasurer (CFO). The current strategy is to maintain general reserves at a level equivalent to 3% of the revenue budget.

4.3. The forecast level of reserves as at the 31 March 2018 is £5.9m which is 2.8% of the gross budget; this is after utilising £1.4m for the 2017/18 budget as approved by the PCC in February 2017 and the creation of two new specific reserves which are described later in this paper. The forecast position on reserves until 2021/22 is detailed at appendix 1.

4.4. The current medium term financial plan does not make any future draw on reserves over the planning period.

4.5. Any future underspends will be used to maintain general reserves at 3% of budget or retained in the PCC Cost of Change Reserve.

Current Specific Reserves

4.6. Reserves are also held to meet specific purposes and they are included here to allow the full picture of financial risks covered to be considered alongside general reserves.

4.7. The table below sets out the current specific reserves as at 1st April 2018.

Specific Reserves		
	Forecast as at 1 April 2018	£m
1	PCC Innovation Reserve	0.5
2	PCC Estate Strategy Reserve	2.8
3	PCC Cost of Change Reserve	1.5
4	Chief Constable Operational Reserve	0.6
5	Insurance Self Fund Reserve	1.9
6	Police Officer Ill Health Reserve	1.7
	Total	9.0

- 4.8.** The PCC Innovation Reserve seeks to pump prime initiatives that will repay that investment over a reasonable period and produce additional recurring savings.
- 4.9.** 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.
- 4.10.** The PCC Cost of Change 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 is transferred to this reserve at the year-end subject to PCC approval.
- 4.11.** The Chief Constable Operational Reserve provides access to funding which allows the Chief Constable to deal with immediate operational policing demands without the Chief Constable always having to seek immediate approval from the PCC.
- 4.12.** 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 needed to meet both the reserve and the provision.
- 4.13.** 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.

5. Home Office Classification

- 5.1.** The Home Office in setting out clear guidance on publishing the reserves strategy, also stated that the information on each revenue reserve should make clear how much of the funding falls into one of the following three categories.

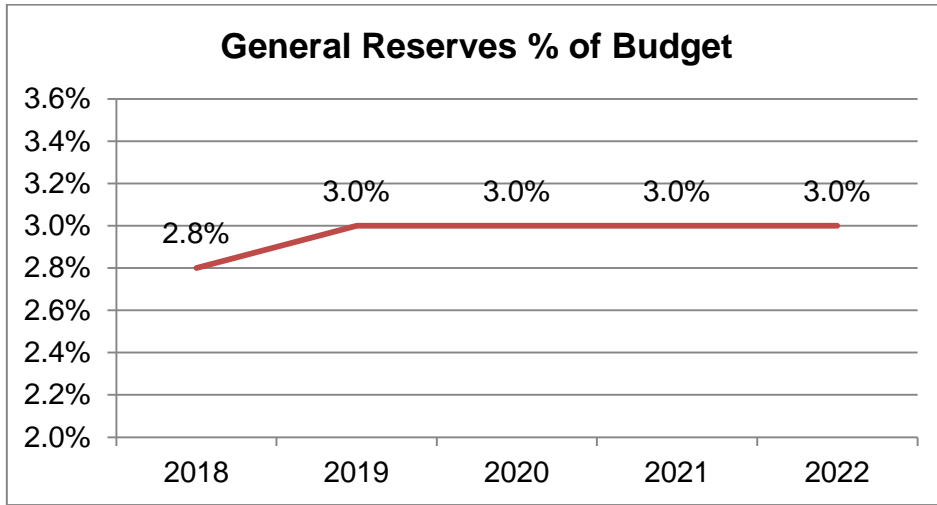
*estimated		2018/19	2019/20	2020/21	2021/22	2022/23
		£m*	£m*	£m*	£m*	£m*
a	Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan	4.8	4.0	3.0	2.0	2.0
b	Funding for specific projects and programmes beyond the current planning period	0.0	0.0	0.0	0.0	0.0
c	As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management	10.1	10.6	10.7	10.8	10.9
Total		14.9	14.6	13.7	12.8	12.9

6. Capital Reserves

- 6.1.** The position on capital reserves that are available to fund future investments is estimated to be £7.3m as at April 2018 which will be fully utilised in year. Future years funding will be met from government grants, capital receipts, revenue contributions and borrowing.

Appendix 1

Surrey Police General Reserves Estimates up to 2021/22



Detail of all reserves and movements up to 2021/22

	*estimated	2018/19	2019/20	2020/21	2021/22	2022/23
		£m*	£m*	£m*	£m*	£m*
c	General balances b/f	5.9	6.4	6.5	6.6	6.7
	Earmarked reserves					
a	PCC Innovation Reserve	0.5	0.5	0.5	0.5	0.5
a	PCC Estate Strategy Reserve	2.8	2.0	1.0	0.0	0.0
a	PCC Cost of Change Reserve	1.5	1.5	1.5	1.5	1.5
c	Chief Constable Operational Reserve	0.6	0.6	0.6	0.6	0.6
	Local reserves					
c	Insurance reserve	1.9	1.9	1.9	1.9	1.9
c	Police pension reserve	1.7	1.7	1.7	1.7	1.7
	Total Earmarked	9.0	8.2	7.2	6.2	6.2
2	TOTAL	14.9	14.6	13.7	12.8	12.9

Appendix 2



Police Reserves as a proportion of Net Revenue Budget

