

RESERVES POLICY 2018/19

Purpose

- 1 This policy sets out the PCC's approach to the management of general balances and earmarked reserves.

Background

- 2 Sections 32 and 43 of the Local Government Finance Act 1992 require precepting bodies to have regard to the level of resources needed to meet estimated future expenditure when calculating the annual budget requirement. This is further supported by the balanced budget requirement: England, sections 31A, 42A of the Local Government Finance Act 1992. Moreover as part of the budget setting process, the Chief Financial Officer is required to comment on the adequacy of reserves. This relates to earmarked reserves as well as the General Balance, and is a critical part in making the statutory Section 25 judgement on the robustness and sustainability of the PCC's budget proposals.
- 3 This policy has regard to [LAAP Bulletin 99](#) 'Local Authority Reserves and Balances', issued in July 2014.

Types of Reserves

- 4 Reserves are sums of money held to meet future expenditure. When reviewing the medium term financial plan and preparing the annual budget PCCs should consider the establishment and maintenance of reserves.
- 5 Reserves can be held for three main purposes:
 - a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
 - a contingency to cushion the impact of unexpected events or emergencies. This also forms part of general reserves;
 - a means of building up funds, often referred to as earmarked reserves to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund.
- 6 CIPFA recommends that for each earmarked reserve held there should be a clear protocol setting out:
 - the reason for / purpose of the reserve;
 - how and when the reserve can be used;
 - procedures for the reserve's management and control; and
 - a process and timescale for review of the reserve to ensure continuing relevance and adequacy.

Responsibilities

- 7 The respective responsibilities in relation to reserves are set out in the Financial Regulations (see Appendix A).
- 8 The PCC will not plan to hold significant reserves above those required by the Medium Term Financial Plan.
- 9 In considering earmarked reserves, the Chief Financial Officer will have regard to relevant matters in respect of each reserve, and will advise the PCC accordingly.
- 10 The key principles to be adopted in setting reserves are:

General Balances

The PCC will seek to maintain a general reserve at between 3% and 5% of Net Revenue Expenditure. This will be supported by an annual budget risk assessment which will also identify the need for any specific earmarked reserves.

Earmarked Reserves

The need for earmarked reserves will be assessed annually through the budget setting process, to confirm the continuing relevance and adequacy of each earmarked reserve in addition to identifying any new reserves that may be required.

- 11 This Policy will be reviewed annually by the OPCC Treasurer and consulted on with the Force Chief Finance Officer and the Joint Executive Board.
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2018/19 Budget – Reserves Assessment

The assessment of reserves for the 2018/19 budget takes into account the key financial risks arising, as identified in the Budget 2018/19 and Medium Term Financial Strategy [update] report.

Risk title	Financial risk	Mitigation
2017/18 outturn	Force overspends higher than estimated resulting in further diminution of opening reserves.	Review minimum reserve requirements. Force – close management of costs.
Police Officer numbers	The workforce turnover assumptions are not achieved, resulting in an overspend.	Set realistic budget & maintain adequate General Balances. Monthly monitoring and cost reduction plans.
Police overtime costs	Costs continue to run higher than budget.	Set realistic budget & maintain adequate General Balances. Monthly monitoring and management actions.
Police staff pay	Police staff pay may vary to the estimates used.	Set budget based on workforce design task and finish group.
Strategic Alliance savings	Savings not achieved in either amount or timescales assumed.	Earmarked reserve for one-off costs (workforce change). Close management to ensure savings are delivered. Maintain adequate General Balance to cover potential slippage.
Government Police Grant funding	Reductions may be higher than estimated.	Use Provisional settlement figures for budget preparation.
Council tax base	1% annual increases may not be sustained.	Use final Council tax base figures as far as possible.
Pay award	A 2.6% increase wef Sept 2018 may not be affordable.	Keep under review in final stages of setting budget and may need to reduce assumption and carry some of this risk
Pension	Employer’s contribution to scheme increases at next triennial review.	Keep under review and develop further savings plans as required.
Inflation	Notional rate of 1 % insufficient.	Maintain adequate General Balance.
Capital programme & financing	Capital programme is not sustainable	Develop Capital Strategy (incl. disposals) in 2018. Maintain Capital financing reserve.
Major operations	Costs and timing are unpredictable.	Earmarked reserve.
Other – including lower income, Brexit, insurance	Estimates used for budget could prove to be optimistic	Maintain adequate General Balances

Proposed Earmarked Reserves

Name of earmarked reserve	Purpose	Opening balance 1 April 2017	Target level
Capital financing Reserve	To fund capital investment.	£1,826k	[£1.3m p.a.]
Major Operations Reserve	To meet the costs of major policing operations.	£1,200k	Between £600k and £1.2m [maximum 1% of Net Revenue Expenditure]
Workforce Change Reserve	To fund one-off and transitional costs of change programmes including the Strategic Alliance with Devon & Cornwall Police.	£2,665k	Nil by 2021
Budget Management Fund	To hold year end underspends for carry forward to the following year.	Within General Balance	nil annually
Revenue Support Fund	To smooth the impact of ongoing funding reductions as a result of the national reduction in public service spending in line with the medium term financial plan.	nil	As determined in the medium financial planning process.

B4 MAINTENANCE OF BALANCES AND RESERVES

Overview

9. The Commissioner must decide the level of general reserves he/she wishes to retain before he/she can decide the level of Council Tax precept. Reserves are maintained as a matter of prudence. They enable the organisation to provide for cash flow fluctuations and unexpected costly events and thereby help protect it from overspending the annual budget, should such events occur. Reserves for specific purposes may also be maintained where it is likely that a spending requirement will occur in the future.

Responsibilities of the Treasurer

10. To advise the Commissioner on reasonable levels of balances and reserves.
11. To report to the Commissioner on the adequacy of reserves and balances before he/she approves the annual budget and precept.
12. To approve appropriations to and from each earmarked reserve. These will be separately identified in the Annual Statement of Accounts.

Responsibilities for the Director of Finance

13. To ensure that the annual revenue budget is sufficient to finance foreseeable operational needs without having to request additional approval.
14. To present a business case to the Treasurer and Commissioner for one-off expenditure items to be funded from earmarked and/or general reserves.

Responsibilities of the Commissioner

15. To approve a policy on reserves and balances, including the minimum acceptable level of general balances.
16. To approve the creation of each earmarked reserve. The purpose, usage and basis of transactions should be clearly identified for each reserve established.
17. To approve the allocation of monies to and from general and earmarked reserves, as part of the annual budget setting process.

C6 TREASURY MANAGEMENT AND BANKING ARRANGEMENTS

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Responsibilities of the Audit Committee

11. To consider any policy or strategy regarding loans, investments or borrowing.
12. Consider any policy or strategy regarding reserves.