



**Police and Crime Panel
12 October 2015**

**Budget Scrutiny: Reserves
Report to the West Midlands Police
and Crime Panel
Report of the PCC Chief Finance Officer**

Purpose

1. In line with the Police and Crime Panel's work programme this report details the useable reserves of the West Midlands Police and Crime Commissioner (WMPCC).

Background

2. As at 31st March 2015, the Police Crime Commissioner for the West Midlands held useable reserves totalling £154m. The level of reserves needs to be seen in the context of the Commissioner facing one of the most challenging financial situations of any PCC with cuts in funding of 23% since the start of austerity with further significant funding reductions for the period up to 2019/20.
3. The National Audit Office in their report 'Financial Sustainability of Police Forces in England and Wales' published in June 2015 compared reserves held by forces. Using total reserves as a percentage of force net revenue expenditure in 2013/14, a national comparison was made across total earmarked and general reserves. The comparison showed there is a significant variation in the size of forces' reserves ranging from 9% to 38% of net revenue spending, with West Midlands Police having 28%.
4. The National Audit Office also reported:
 - Nationally the total earmarked and general reserves had increased by 35% in real terms to £1.85 billion across forces in the 4 year period to 2013/14.
 - The increase in police force reserves is broadly in line with increases at local authorities.
 - Growth in reserves is not necessarily a sign of financial health.
5. Reserves have been maintained by the WMPCC 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 reductions. This is outlined in the Commissioner's medium term financial plan.
 - Funding investment in the transformation programme of the organisation. This includes investing in property to deliver cashable savings to reduce running costs and enabling the Innovation and Integration Partnership (IIP) with Accenture to deliver a new sustainable and affordable operating model for 2020.
 - 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 Major Incident Reserve).
6. The requirements for and the levels of individual reserves are reviewed during the annual budget process and when the final accounts are prepared. Sections 32 and 43 of the Local Government Finance Act 1992 require all billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. However the Act does not prescribe any minimum levels of reserves to be held, it is the responsibility of the Chief Financial Officer (CFO) to advise on the level of reserves held and ensure that there are clear protocols in place for their establishment and use. The CFO is also required to report on the adequacy of reserves as part of the annual budget report, as required by Section 25 of the Local Government Act 2003.

Reserves

7. The following table sets out details of the reserves as at 31 March 2015 and the forecasted balances at 31 March 2020. Further commentary on each of the reserves then follows the table.

Useable Reserves		
	Balance as at 31/3/2015	Forecast Balance at 31/3/2020
	£000s	£000s
General Fund Reserve	12,042	12,042
Earmarked Reserves		
Capital	42,399	0
Budget Reserve	38,357	0
Redundancy & Equal Pay	10,097	0
Self-Funded Insurance	11,652	11,652
Devolved Budget	6,754	0
Uniform & Protective Equipment	2,724	893
Major Incidents	2,153	2,153
Proceeds of Crime Act Income	1,082	0
Risk Reserve	1,022	0
Budget Resilience	25,492	0
Total Earmarked Reserves	141,732	14,698
Total Reserves	153,774	26,740

General Fund Reserve

8. The commissioner needs to maintain an adequate general fund reserve to cushion the impact of any unexpected events or emergencies. This is because WMPCC is a single purpose entity, with a turnover of £0.6 billion and there are no other reserves to call on. In addition an adequate reserve is needed because there is no contingency budget for very major incidents which may require significant resource levels for a long period.

Capital Reserve

9. This reserve supports future planned capital expenditure including investment in the PCC's estates strategy, vehicles and ICT. The use of the reserve and other capital resources reduces the need to borrow to finance capital expenditure. It can be seen from the table the capital reserve will be fully utilised over the period after which the PCC will be fully reliant on any capital grant from the Home Office, capital receipts and borrowing.

Budget Reserve

10. This reserve is being 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 use of this enables initiatives through the IIP programme to deliver the planned cashable benefits in the medium to long term. The use of this reserve will be subject to further review when future grant allocations are announced by the government in late 2015 and subsequent financial years.

Redundancy & Equal Pay Reserve

11. This reserve was originally created to recognise the financial implications of some long term equal pay claims and also to meet potential redundancy costs resulting from reducing police staff numbers. Action is currently being taken to settle equal pay claims and a proportion of the reserve is still required.

Self-Funded Insurance Reserve

12. This reserve is used to fund liabilities relating to staff, the public, the PCC's buildings and equipment over and above the excess amounts on the PCC's insurance policies. In addition, the reserve provides funding to meet the cost of motor claims which are self funded. The required level of the insurance reserve is regularly assessed against the potential liabilities of the PCC. Based on a recent assessment the current balance of this reserve is at a prudent level.

Devolved Budget Reserve

13. The devolved budget reserve enables the carry forward of balances held for regionally funded projects. This includes the Regional Organised Crime Unit (ROCU), funding to support work with Innovation Partner and other specifically funded items.

Uniform & Protective Equipment Reserve

14. The Uniform & Protective 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.

Major Incident Reserve

15. The major incident reserve was established to address the financial implications of a major incident or incidents that could be above normal expected levels of activity for the Force. Given the nature of this reserve there is a need to maintain its level as detailed in the table above.

Proceeds of Crime Act (POCA) Income Reserve

- 14 The POCA allows recovered assets of criminality to be used to fund community based activity. POCA 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.

Risk Reserve

- 15 This reserve was created to manage the delivery and commercial risks arising from the IIP programme. It allows the Commissioner to retain or allocate resources to particular projects if required to secure value for money.

Budget Resilience Reserve

- 16 Similar to the Budget Reserve the Budget Resilience Reserve is to be used as part of the Commissioner's MTFP reducing the impact of funding reductions and giving time for transformational programmes to take effect. Again, the use of this reserve will be subject to further review when future grant allocations are announced by the government in late 2015 and subsequent financial years.

Summary

- 17 This report details by 2020 it is forecast over 80% of the WMPCC's reserves will be used to support the MTFP, transformation programmes or other initiatives. This percentage reduction is in line with findings from a survey completed by the Police and Crime Commissioners Treasurers Society (PACCTS) in June 2015. The PACCTS survey found it is forecast reserves will reduce nationally across PCCs by approximately 66% by 2019.

Recommendations

- 18 The Police and Crime Panel is asked to note the contents of this report.

Mark Kenyon
Chief Finance Officer to the Police and Crime Commissioner