



**NOTTINGHAMSHIRE
POLICE & CRIME
COMMISSIONER**

DRAFT

Reserves Strategy
2023-2028

Reserves Strategy 2023-2028

Background

1. The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Act require Precepting authorities (and billing authorities) in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
2. In England and Wales, earmarked reserves remain legally part of the General Reserve, although they are accounted for separately.
3. There are other safeguards in place that help to prevent Police & Crime Commissioners over-committing themselves financially. These include:
 - The balanced budget requirement (Local Government Act 1992 s32 and s43).
 - Chief Finance Officers duty to report on the robustness of estimates and adequacy of reserves (Local Government Act 2003 s25) when the Police & Crime Commissioner is considering the budget requirement.
 - Legislative requirement for each Police & Crime Commissioner to plan for the proper administration of their financial affairs and that the Chief Finance Officer has responsibility for the administration of those affairs (section 151 of the Local Government Act 1972).
 - The requirements of the Prudential Code.
 - Auditors will consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based.
4. These requirements are reinforced by section 114 of the Local Government Finance Act 1988, which requires the Chief Finance Officer to report to the Police & Crime Commissioner if there is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the Commissioner will not have the resources to meet its expenditure in a particular financial year. The issue of a section 114 notice cannot be taken lightly and has serious operational implications. Indeed, the Police and Crime Commissioner must consider the s114 notice within 21 days and during that period the Force is prohibited from entering into new agreements involving the incurring of expenditure.

5. Whilst it is primarily the responsibility of the Police and Crime Commissioner and its Chief Finance Officer to maintain a sound financial position, external auditors will, as part of their wider responsibilities, consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based. However, it is not the responsibility of auditors to prescribe the optimum or minimum level of reserves for individual Police and Crime Commissioners or authorities in general.
6. CIPFA's Prudential Code requires the Chief Finance Officers to have full regard to affordability when making recommendations about the Commissioner's future capital programme. Such consideration includes the level of long-term revenue commitments. Indeed, in considering the affordability of its capital plans, the Commissioner is required to consider all resources available to them and estimated for the future, together with the totality of its capital plans and revenue forecasts for the forthcoming year and the following two years. There is a requirement for three-year revenue forecasts across the public sector and this is achieved through the Medium-Term Financial Strategy (MTFS). The Comprehensive Spending Review (CSR) has provided the Commissioner with details of proposed revenue grant for three years, and although this provides some additional certainty, the political and economic climate remains challenging requiring additional to focus on the levels of reserves and application of balances and reserves on the balance sheet.
7. CIPFA and the Local Authority Accounting Panel do not accept that there is a case for introducing a generally acceptable minimum level of reserves. Commissioners on the advice of their Chief Finance Officers should make their own judgements on such matters considering all relevant local circumstances. Such circumstances will vary between local policing areas. A well-managed organisation, for example, with a prudent approach to budgeting should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. In assessing the appropriate level of reserves, a well-managed organisation will ensure that the reserves are not only adequate, but also are necessary.
8. The Home Office has now indicated that it expects general reserves to be no more than 5% of the net revenue budget, this would equate to a maximum amount of £13.1m, which is higher than the actual amount held.
9. Section 26 of the Local Government Act 2003 gives Ministers in England and Wales a general power to set a minimum level of reserves for authorities. However, the government has undertaken to apply this only to individual authorities in the circumstances where the authority does not act prudently, disregards the advice of its Chief Finance Officer and is heading for serious

financial difficulty.

10. A level of reserves of 2% or below this would be an indicator that immediate action to maintain the adequacy of reserves is required. This equates to an amount of £5.2m and is lower than the actual level of reserves held.

The Commissioner's Plans

11. The Commissioner holds reserves for specific reasons that are included within the Police & Crime Plan and Medium-Term Financial Strategy these include:
 - To meet forthcoming events where the precise event, date and amount required for such events cannot accurately be predicted. For example, major events that would require the use of the General Reserve. These are detailed within the General Reserve risk assessment provided at **Appendix A**.
 - To meet forthcoming events where the precise date and amount required cannot be accurately predicted. For example: Night Time Levy where partners are making proposals together on how best to utilise this funding or the Grants and Commissioning Reserve, where proposals on how to utilise are being considered for Crime Prevention or Victims.
 - To meet forthcoming capital expenditure/replacement needs where capital schemes are being planned and the reserve will be utilised to reduce the cost of borrowing and capital charges to the revenue account.
 - To fund smaller projects such as the Animal Welfare Reserve where expenditure is only met from this reserve, when it meets specific policy requirements.
 - A reasonable amount to meet peaks and troughs in revenue expenditure requirements (e.g., redundancy or restructuring costs).

Current Financial Climate

12. The pressures on public finances are continuing with various global and national circumstances being the key drivers affecting the totality of funding for the public sector. At the local level the achievement of recruiting additional officers ahead of the Government's uplift target, although challenging, has added more certainty to the core policing performance. The approach for setting a national target for achieving savings in policing continues and whilst welcomed, it becomes particularly difficult when officer numbers must be maintained and the level of back-office support is now in the lowest quartile making it difficult to find where additional savings to fund any shortfalls in

funding can actually be made. Therefore, the ability to retain reserves for unforeseen events and circumstances requires careful consideration.

13. Nottinghamshire currently has one of the lowest levels of forecast reserves for policing in England and Wales. Nottinghamshire has never been cash rich and has been underfunded through the current funding mechanism.
14. The Medium-Term Financial Strategy identifies a need to achieve efficiencies to ensure balanced budgets over future years, this may require additional investment, e.g., in improved and new technologies, with funding from reserves to achieve this.

Types of Reserve

15. When reviewing the medium-term financial strategy and preparing the annual budgets the Commissioner should consider the establishment and maintenance of reserves. These can be held for four main purposes:
 - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
 - 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 reserve.
 - The economic climate and the safety of the Commissioner's financial assets. This would link closely with the Treasury Management Strategy and Prudential Code requirements - this also forms part of general reserves.
16. The Commissioner also holds other reserves that arise out of the interaction of legislation and proper accounting practice. These reserves are not resource-backed and cannot be used for any other purpose, are described below:
 - The Pensions Reserve – this is a specific accounting mechanism used to reconcile the payments made for the year to various statutory pension schemes.
 - The Revaluation Reserve – this is a reserve that records unrealised gains in the value of fixed assets. The reserve increases when assets are revalued upwards and decreases as assets are depreciated or revalued downwards or disposed of.

ANNEX D

- The Capital Adjustment Account – this is a specific accounting mechanism used to reconcile the different rates at which assets are depreciated under proper accounting practice and are financed through the capital controls system.
 - The Available-for-Sale Financial Instruments Reserve – this is a reserve that records unrealised revaluation gains arising from holding available-for-sale investments, plus any unrealised losses that have not arisen from impairment of the assets. Currently none.
 - The Financial Instruments Adjustment Reserve – this is a specific accounting mechanism used to reconcile the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under proper accounting practice and are required by statute to be met from the General Fund. Currently none.
 - The Unequal Pay Back Pay Account – this is a specific accounting mechanism used to reconcile the different rates at which payments in relation to compensation for previous unequal pay are recognised under proper accounting practice and are required by statute to be met from the general fund. Currently none.
 - Collection Fund Adjustment account – this is specific to the changes in accounting entries relating to the Collection Fund Accounts held by the Billing Authorities and smooths any significant change in the tax base or collection rates.
 - Accumulated Absences Account – this account represents the value of outstanding annual leave and time off in lieu as at 31st March each year.
17. Other such reserves may be created in future where developments in local authority accounting result in timing differences between the recognition of income and expenditure under proper accounting practice and under statute or regulation, such as the Capital Grants Unapplied.
18. In addition, the Commissioner will hold a Capital Receipts Reserve. This reserve holds any unused proceeds from the sale of assets and can only be used for capital purposes in accordance with the regulations.
19. For each earmarked reserve held by the Commissioner 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 reserves management and control
 - A process and timescale for review of the reserve to ensure continuing relevance and adequacy
20. When establishing reserves, The Commissioner needs to ensure compliance with the Code of Practice on Local Authority Accounting and in particular the need to distinguish between reserves and provisions.

Nottinghamshire Police and Crime Commissioner's Reserves

21. This document aims to provide an over-arching strategy that defines the boundaries within which the approved budget and Medium-Term Financial Strategy (MTFS) operate.

The General Reserve

22. The purpose of this reserve is to provide for any unexpected expenditure that cannot be managed within existing budgets. Such expenditure would be one-off and resulting from an extraordinary event.
23. It has previously been established that General Reserves will be maintained at a level above the **minimum of 2.0%, £5.2m of the total net budget**.
24. Similarly, the General Reserve should be set at a prudent and not excessive level, as holding high level of reserves can impact on resources and performance. As such the **maximum** level of General Reserves is recommended to set at **5.0%, £13.1m of the total net budget**.
25. Authorisation to finance such expenditure from reserves must be obtained in advance from the Commissioners Chief Finance Officer, in accordance with the scheme of delegation and the protocol between the Chief Constable and the Chief Finance Officer. Where time permits the request should be supported by a business case.
26. As the net budget position increases the level of General Reserve must be monitored to ensure at least the minimum level is maintained.
27. **Appendix A** details the elements that make up the current General Reserve balance and the levels of risk attached to each of these elements. These are indicative and may not be exhaustive as new risks emerge. This does not include the Jointly Controlled Operations regional general reserve of £0.075m.

Earmarked Reserves

28. Unlike General Reserves earmarked reserves have been identified for specific areas of expenditure, e.g., the Allard case, where there are anticipated costs that can only be estimated. It is therefore prudent for the Commissioner to identify such areas of expenditure and set aside amounts that limit future risk exposure (e.g., balancing any budget shortfalls in the MTFs).
29. Such expenditure usually arises out of changes in policy or where the organisation is working in collaboration with other forces to provide a specific service (for example Private Finance Initiative (PFI)).
30. Expenditure relating to earmarked reserves must specifically relate to the purpose of the reserve.
31. Appendix Cii details the earmarked reserves that existed at the start of the 2022-23 financial year and their estimated balance each year during the planning period.

Details of the earmarked reserves available for use in 2022-23 and beyond are given below and in Appendix B:

Asset Replacement Reserve

32. This reserve is reflecting the need to consider the major programme of asset and equipment replacements.
33. In some cases, the annual contribution to and from the reserve from the revenue budget are used to smooth the impact of replacing routine operational items of equipment, that otherwise might have irregular impact on the annual budget.

Investment Reserve

34. This reserve is set aside to support investment in new assets like IT hardware and software, new buildings and improvements to existing buildings, additional vehicles. Where possible investments made from this reserve funding should deliver efficiency savings.

PCC Reserve

35. This reserve is to meet any additional cost associated with the PCC elections or referendums.

36. **Temp PC Uplift Reserve**

This reserve is used to support the temporary costs of employing an additional 50 Police Officers in support of the national Uplift target. The contribution to the fund is by way of additional government grant and will be fully utilised in 2023-24.

Grants & Commissioning Reserve

37. It is intended that this reserve is to provide for risks associated with grant budget audit losses, in year demand changes, known commissioning liabilities and risks associated with third party commissioning deliverables. There are also potential risks where activities may be required to be wound down, especially as we move towards commissioning grants being for more than a single year, and the future of specific grants are unclear.

Private Finance Initiative (PFI) Reserve

38. This is a reserve for the equalisation of expenditure over the life of the contract. This is a statutory reserve to maintain. This reserve relates to commitments within the Riverside PFI, the transfers and balance will remain until the Building PFI has been terminated in 2027.

Property Act Fund Reserve

39. This reserve relates to the value of property sold where the Commissioner can retain the income for use in accordance with the Property Act.

Drugs Fund

40. This minor reserve is received from court awards in drugs cases and is only used for initiatives that reduce drug related crime.

Revenue Grants

41. This reserve combines the small amounts of grant income on completed projects where the grant conditions do not require repayment of any balances. Cumulatively they create a reasonable reserve. It also includes the Road Safety Partnership Reserve.

Animal Welfare Reserve

42. This reserve was established to support the policy for the welfare of animals specifically police dogs on retirement as working animals. There is a panel which meet with representatives from the Vets and the Force and to approve any claims against this fund. Any approved expenditure relating to on-going welfare because of work-related injuries can then be paid from this fund.

Tax Base Reserve

43. Due to the timing differences between the Commissioner's budget being approved and the deadline for the Billing Authorities to notify us of the final tax base and any Collection Fund surplus or deficit this fund has been created.
44. This reserve will be utilised where the tax base reduces from the estimated figures provided by Billing Authorities to the declaration of the actual tax base, or the surplus/deficit amount as these could create a shortfall in overall total funding.
45. This reserve will also be used to cover the Commissioner's portion of costs associated with the Single Occupier Discount Reviews undertaken periodically across the City and the County.
46. This also includes additional funding in respect of covid related collection fund and other income deficits.

Night Time Levy

47. The Commissioner utilises this funding to contribute towards projects that ensure the City Night Time economy runs smoothly and safely (e.g., the work of the Street Pastors/additional policing when required). Decisions on what projects should be funded are made in partnership with the City Council.
48. The amount of funding through the levy has reduced significantly over the few years it has operated. There is a full programme of projects to utilise the revenue received, but their delivery has been delayed due to the pandemic.

Allard Reserve

49. To help fund any settlement risks associated with this case which are now likely to be settled by the end of 2023-24.

TPAC Collision Reserve

50. This is held to support the costs of replacing vehicles that are written off or damaged as part of routine policing operations. The reserve is designed to be available where the number of such incidents is higher than that budgeted for in the annual budget.

Jointly Controlled Operations (Regional Collaboration) Revenue Reserve

51. There are a growing number of areas where collaborative working is undertaken with other Regional Policing areas. EMSOU is providing collaboration for specialised policing services, such as Major Crime and Forensics. Collaboration has also extended beyond Police Operation Services

to include areas such as Legal Services and Learning and Development.

52. The Police & Crime Commissioners meet to make decisions and agree further areas of collaboration. They would also approve the use of this reserve for regional activity.
53. The reserve exists to finance activities of regional collaboration above those identified within the annual budget.

Procedure for Use of Reserves

54. The use of reserves requires approval of the Commissioner.
55. All requests should be supported by a business case unless there is an approved process for use, such as the Animal Welfare Reserve, or the request relates to a specific project for which the reserve was specifically intended.
56. On occasion where an urgent request is being made this should comply with the protocol between the Chief Constable and the Chief Finance Officer to the Commissioner.

Monitoring

57. The level of reserves is kept under continuous review. The Commissioner receives reports on the levels of reserves as part of the Medium-Term Financial Strategy updates together with the Annual Reserves Strategy in January and the out-turn position in June each year.
58. The current level of forecast reserves remains towards the lower end of the range expected, but at £8.6m is within the expected boundary (i.e. £5.2m to £13.1m see Appendix Ci) so if called upon these would likely be required to be increased by contributions in future years. This therefore could impact negatively on future funding available to the PCC for service provision. Reserves and their usage are carefully planned for and monitored throughout the year.

Risk Analysis

59. Any recommendations that change the planned use of reserves reported within the Annual Budget and Precept Reports will take account of the need for operational policing balanced against the need to retain prudent levels of reserves.

60. However, there are significant risks, which affect the level of reserves to be maintained, and it is for this reason that a minimum level of 2% (with a maximum level of 5%) of total net budget has been set for the General Reserve.
61. The significant risks that have been considered, but which will also be kept under review are:
- Significant unforeseen legal costs.
 - The Budget Monitoring Report highlights potential risks in being able to achieve the required efficiencies and savings during the year.
 - The ability to seek financial assistance from the Home Office for major incidents has been diminished and can no longer be relied upon.
 - The need to finance Organisational change and redundancies which may have an impact on the use of reserves.
 - The ability to recover significant overspends by divisions and departments would be very difficult in the current financial climate.
 - The instability of the Financial Markets means that the investments we make with balances are currently exposed to greater risk. This is in part negated by the Treasury Management Strategy, which states order of priority being security first, liquidity second, and yield third.
 - Should the Commissioner and Force be faced with two or more of the above issues at the same time then the reserves may be needed in full.
 - Once utilised reserves have limited scope for replenishment. This is usually achieved through a budget underspend.
 - There may be exceptional levels of insurance claims that cannot be met from the usual provisions.
 - Home Office interest in the levels of reserves held by Police Forces. Nottinghamshire is in the lower quartile in regard to this so any requirement by Central Government affecting reserves would have a potential negative impact.

STRATEGY REVIEW

This strategy will be reviewed annually, and the Police & Crime Commissioners approval sought.

During the year changes may occur in the MTFs, which affect this strategy. Such changes will be monitored by the Chief Finance Officers and reported to the Commissioner for approval.

Reserves Risk Assessment
2022-23

GENERAL RESERVE

RISK	IMPACT	PROBABILITY	Min £m	Max £m	2022-23 £m
Major Incident(s) Unbudgeted expenditure	Any amount under 1% of net budget is to be funded by the authority. Amounts over 1% of net budget are subject to Home Office application approval.	Single Incident amounting to less than 1% of net budget. MEDIUM Multiple incidents amounting to over 1% of net budget. MEDIUM Single incident amounting to over 1% of net budget. LOW	2.6	5.2	3.5
Major Disaster (e.g. natural)	Operation policing affected and resources diverted. (e.g. through building being inaccessible and disaster recovery plan being auctioned).	LOW	0.5	1.0	0.5
Partnership Support	Funding supported by partners continues to reduce. This has also been risk assessed as part of the budget assumptions.	MEDIUM	0.5	4.6	1.0
Counterparty failure	If invested balances were tied up in a process to recovery there would be an immediate impact on the revenue budget (possibly short term).	LOW	3.0	8.0	3.0
Employment Tribunals and other litigation	Direct impact on revenue budgets.	LOW	0.1	0.5	0.1
Insurance	Emerging Risks and late reported claims.	To date no claims of this type have affected the accounts. Low to MEDIUM	0.3	0.7	0.5
TOTAL	Range (2% - 5%)	Actual 3.3%			8.6

ANNEX D

Appendix B

Earmarked Reserves Assessment

RISK/RESERVE	PURPOSE	HOW AND WHEN IT WILL BE USED	Management	Review
Asset Replacement	To provide funding towards replacement of assets and equipment.	In conjunction with the Treasury Management Strategy and annual Budget.	Chief Finance Officer (CC)	On-going
Asset Investment	Investment in new IT software & hardware, Buildings, Vehicles etc.	In line with the IT strategy	Chief Finance Officer (CC)	On-going
PCC Reserve	Underspends on PCC budgets are transferred here, to meet future needs.	To be utilised to meet unforeseen expenditure.	Chief Finance Officer (PCC)	On-going
Temp PC Uplift	To fund the temporary additional uplift stretch target of 50 Officers	To fund Police Officer pay in 2023-24	Chief Finance Officer (CC)	Annual
Grants & Commissioning	To collate small balances within revenue accounts to provide funding for this growing area of work, and balance risk of multiyear grants	To meet specific requirements relating to Grants and Commissioning.	Chief Finance Officer (PCC)	On-going
PFI reserve	To fund irregular PFI related expenditure on a smoothed basis. And to provide for end of life PFI expenditure.	Life cycle equalisation for Riverside PFI.	Chief Finance Officer (CC)	Annually
Property Act Fund	Income from the sale of property act confiscations.	To be determined by the Police & Crime Commissioner.	Chief Finance Officer (CC)	Annually

ANNEX D

RISK/RESERVE	PURPOSE	HOW AND WHEN IT WILL BE USED	Management	Review
Drug Fund	For use in reducing drugrelated crime.	To be determined by thePolice & Crime Commissioner and CC.	Chief Finance Officer (CC)	Annually
Revenue Grants	Balances on grants not required to be repaid. Use needs to be risk assessed.	To be determined by thePolice & Crime Commissioner.	Chief Finance Officer (CC)	Annually
Animal Welfare	To set up a scheme for animal welfare on retirementas working animals.	Scheme established.	Chief Finance Officer (CC)	During the year
Tax Base	To iron out fluctuations caused between estimated and actual tax base data.	Every 3-4 years to finance Single Person Discount Review, and planned use to fund budget shortfalls	Chief Finance Officer (PCC)	Annually
Night Time Levy	To be utilised to address Night Time economy issuesof crime and safety.	To be determined by thePolice & Crime Commissioner.	Chief Finance Officer (CC)	Annually
Target Hardening	To be utilised when activity has been identified and agreed with partners.	Once schemes have been approved.	Chief Finance Officer (CC)	Annually
Allard	Once legitimate claims aremade and approved for payment	On receipt of claims.	Chief Finance Officer (CC)	During the year
TPAC Collisions	To provide for fluctuations inclaims made against the Force.	On receipt of claims abovethe budgeted.	Chief Finance Officer (CC)	Annually
JCO – Jointly Controlled Operations	To provide for unexpectedexpenditure relating to regional collaboration.	Decisions relating to the useof this fund follow the regional governance arrangements.	EM meeting of the Commissioners	Annually

ANNEX D

Appendix C (i)

Tables to show the use of General Reserves

	2023-24		2024-25		2025-26		2026-27		2027-28	
	Opening Balance £m	Use in year £m	Opening Balance £m	Use in year £m	Opening Balance £m	Use in year £m	Opening balance £m	Use in year £m	Opening Balance £m	Use in year £m
General Reserve	8.621	0	8.621	0	8.621	0	8.621	0	8.621	0
EMSOU general reserve	0.075	0	0.075	0	0.075	0	0.075	0	0.075	0
<i>% of net budget</i>	3.3%		3.2%		3.1%		3.0%		3.0%	

The policy in relation to General Reserves is that they will be no less than 2% £5.2m of the Net Budget and no more than 5% £13.1m of the net budget.

ANNEX D

Appendix C (ii)Tables to show the estimated use of Earmarked Reserves

<u>Earmarked Reserves</u>	2023-24			2024-25		2025-26		2026-27		2027-28	
	01.04.23 Estimated balance £m	Change in year £m	31.03.24 Estimated balance £m	Change in year £m	31.03.25 Estimated balance £m	Change in year £m	31.03.26 Estimated balance £m	Change in year £m	31.03.27 Estimated balance £m	Change in year £m	31.03.28 Estimated balance £m
Asset Replacement	3.585	(1.600)	1.985	0.300	2.285	1.700	3.985	(1.900)	2.085	(0.300)	1.785
Investment	1.938		1.938		1.938		1.938		1.938		1.938
PCC Reserve	1.048		1.048		1.048		1.048		1.048		1.048
Temp PC uplift	1.000	(1.000)	0.000		0.000		0.000		0.000		0.000
Grants & Commissioning	1.949		1.949		1.949		1.949		1.949		1.949
PFI	0.127	0.040	0.167	0.040	0.207	0.040	0.247	0.040	0.287	0.040	0.327
Property Act Fund	0.129		0.129		0.129		0.129		0.129		0.129
Drug Fund	0.048		0.048		0.048		0.048		0.048		0.048
Revenue Grants	1.883		1.883		1.883		1.883		1.883		1.883
Animal welfare	0.019		0.019		0.019		0.019		0.019		0.019
Tax Base	5,467	(0.500)	4,967	(0.400)	4,567	(0.400)	4,167	(0.500)	3,667	(0.500)	3,167
Night Time Levy	0.212	0.049	0.261	(0.050)	0.211	(0.050)	0.161	(0.050)	0.111	(0.050)	0.061
Target Hardening	0.073		0.073		0.073		0.073		0.073		0.073
Allard	1.200	(1.200)	0.000		0.000		0.000		0.000		0.000
TPAC Collisions	0.100		0.100		0.100		0.100		0.100		0.100
Joint Ops	1.035		1.035		1.035		1.035		1.035		1.035
TOTAL	19.813	(4.211)	15.602	(0.110)	15.492	1.290	16.782	(2.410)	14.372	(0.810)	13.562