

Police and Crime Commissioner

for Hertfordshire

RESERVES PLAN

2020/21 to 2023/24

1. INTRODUCTION

- 1.1 Guidance was published in January 2018 (see Appendix 1) requiring PCCs to provide details of how public money is used locally; in particular how the reserves plans will support more effective policing.
- 1.2 Details of Hertfordshire's level and planned use of reserves were set out in both Section 12 of the Police & Crime Panel (PCP) report on 6 February 2020 and Section 10 of the Strategic Executive Board (SEB) report on 17 February 2020.
- 1.3 Under Section 25 of the Local Government Act 2003, the PCC's Chief Financial Officer (CFO) is required to review and report on the adequacy of reserves and the issues of risk and the robustness of budget estimates.

2. REVIEW OF RESERVES

- 2.1. The expected level of all reserves as at 31 March 2020 is forecast to be £20.608m (£25.070m – 2019); including £2.090m of road safety reserves.
- 2.2. Analysis carried out by CIPFA showed that, over the 3 years to 31 March 2019, Hertfordshire had a higher than average use of reserves, when compared to the other 42 police forces, and this is illustrated in Appendices 5 and 6.
- 2.3 The primary reason for the reduction was the use of one-off reserves to support ongoing expenditure above settlement and precept funding. However for 2020/21 this reliance has been removed and moving forward reserves will be allocated for specific purposes (i.e. earmarked) as part of the annual budget setting process.
- 2.4 In 2019/20 there were fifteen specific reserves and following review, by the Chief Financial Officer, of their number and adequacy it was determined that this should be consolidated into seven for 2020/21.

3. 2020/21 RESERVES

3.1 Earmarked Useable Reserves

- 3.1.1 The 2020/21 budget report designated the following amounts from the estimated opening balance of £13.608m¹:

Description	£m
HQ Project Management Office	(0.500)
Commissioner's Action Fund	(0.150)
Volunteers Fund	(0.094)
Fly-tipping on Private Land Fund	(0.020)
Sexual Assault Referral Centre (SARC)	(0.674)
Road Safety Fund	(0.230)
Total earmarked reserves	1.668

3.2 General Reserve – Minimum Prudent Level

¹ Subject to change following finalisation of 2019/20 outturn

- 3.2.1 The PCC's level of general reserves for 2019/20 was £6.3m² and having carried out an assessment, the PCC's Chief Financial Officer considers that a level of general reserves of £7.0m (3.2% of the 2020/21 net budget) would be adequate for the 2020/21 financial year. In coming to this view on the adequacy of reserves, the financial risks faced by the PCC have been taken into account. The risk assessment considers the possible maximum financial impact and the probability of a risk occurring and the breakdown is shown in Appendix 4.
- 3.2.2. This is still significantly below the 5% (£10.9m) level above which justification has to be provided to the Home Office.

4. RESERVES PLAN

- 4.1 The medium-term plan for the use of the various reserves and the rationale for holding them is shown in Appendix 2.
- 4.2 In addition, Appendix 3 provides analysis of the reserves by the categories prescribed in the Home Office Guidance.
- 4.3 The CFO confirms that these reserves, as projected, continue to be required and are adequate for the purposes specified.

5. RISKS & ROBUSTNESS OF THE BUDGET ESTIMATES

- 5.1 Risk management is a key consideration for the PCC and the Chief Constable. There is an overall risk management strategy, and the PCC and Constabulary Risk Registers are updated on an on-going basis, reviewed by Chief Officers and presented to each Joint Audit Committee (JAC) for review. The Chief Constable's risk register is aligned with that of the PCC in order to facilitate an overall approach to risk management. The main offsetting risks that may impact upon the delivery of the 2020/21 budget are:
- The ongoing Novel Coronavirus (COVID-19) pandemic is still a developing situation and so it is too early to determine the implications for the Constabulary, the global economy and Government fiscal policy.
 - The previous relaxation of Government controls on pay awards for Police Officers and Police Staff could deviate from the assumption in the standstill budget with the potential to overspend due to the significant proportion of the budget relating to such costs.
 - The setting a medium-term financial strategy in annual settlement regime continues to presents a financial risk to the organisation, in that uncertainty exists in regard to the level of grant funding in future years; especially in relation to the national uplift programme.
 - Also the assumptions made in regard to precepting flexibilities will be monitored alongside local level decisions around precept levels.

² 3.1% of the 2019/20 net budget

5.2 With regard to the robustness of the budget estimates, the budget proposals have been through a rigorous process of assessment by officers, with particular scrutiny by Constabulary Chief Officers. The PCC has placed reliance on the Constabulary's budget preparation and monitoring arrangements and whilst there are always risks on delivering savings, the Constabulary has a strong record of delivering significant savings.

6. RESERVES vs CASH AT BANK

6.1 The organisation reserves position does not necessarily correlate with the actual cash the organisation has at its disposal. The primary reason for this is 'internal borrowing' i.e. the use of internal cash balances to finance capital expenditure in place of borrowing money from external sources. The advantage of this strategy is that it combats the current low investment rates, avoids cost of carry³ and reduces counterparty risk. The cumulative amount of this 'under-borrowing' was £11.1m (34.3%)⁴ at 31 March 2019, and at some point it will be necessary to externalise this through long-term borrowing to replenish cash balances and sustain liquidity. This will be kept under review, through engagement with treasury advisers, in order to optimise the size, timing, rate and duration of any borrowing.

³ The difference between borrowing cost (high) and lending-on/investment returns (low)

⁴ As a percentage of the underlying need to borrow (CFR) of £32.4m.

Extract from Revised Financial Management Code of Practice**For the Police Forces of England and Wales and Fire and Rescue Authorities created under section 4A of the Fire and Rescue Services Act 2004 (July 2018)**7.2.1 Transparency of reserves information⁵

Each PCC should publish their reserves strategy on their website, either as part of their medium term financial strategy or in a separate reserves strategy document. The reserves strategy should include details of current and future planned reserve levels, setting out a total amount of reserves and the amount of each specific reserve held for each year. The reserves strategy should cover revenue and capital reserves and provide information for the period of the medium term financial plan (and at least two years ahead).

Sufficient information should be provided to enable understanding of the purpose(s) for which each reserve is held and how holding each reserve supports the PCC's medium term financial plan.

The strategy should be set out in a way that is clear and understandable for members of the public, and should include:

- how the level of the general reserve has been set;
- justification for holding a general reserve larger than five percent of budget;
- details of the activities or items to be funded from each earmarked reserve, and how these support the PCC and Chief Constable's strategy to deliver a good quality service to the public. Where an earmarked reserve is intended to fund a number of projects or programmes (for example, a change or transformation reserve), details of each programme or project to be funded should be set out.

The information on each reserve should make clear how much of the funding falls into the following three categories:

- Funding for planned expenditure on projects and programmes over the period of the current medium term financial strategy.
- Funding for specific projects and programmes beyond the current planning period.
- As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance).

The Chief Finance Officer of the PCC should send the Home Office a copy of their reserves strategy each year.

⁵https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/727808/CCS207_CCS0718021968-001_HO_FMCP_2018_Web_Accessible.pdf

MEDIUM-TERM RESERVE PLAN

Estimated Closing Balance 31/3/2020 £m	Description and rationale for holding reserve	Planned Use 2020/21 £m	Planned Use 2021/22 £m	Planned Use 2022/23 £m	Planned Use 2023/24 £m	Total Planned Use to 2023/24 £m	Closing Balance 31/3/2024 £m
7.000	<p>General Reserve The PCC is required to maintain a prudent level of reserves to provide resources to fund unplanned and emergency expenditure, for example to meet exceptional or extraordinary policing operations and major issues such as Brexit, Covid-19. The level is reviewed annually by the PCC CFO as required under Section 25 of the Local Government Act 2003 on a risk basis considering a range of potential areas. The current level is circa 3.2% of the 2020/21 budgeted expenditure.</p>	0.000	0.000	0.000	0.000	0.000	7.000
10.080	<p>Base Budget Support Reserve Held to good public financial management and provide financial resilience that enables the organisation to manage the financial risks associated with day-to-day revenue expenditure. It also provides the organisation the opportunity to invest in service transformation for the future or else allows it to respond to unexpected events or emerging needs.</p>	0.000	0.000	0.000	0.000	0.000	10.080

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0.500	HQ Project Management Office (PMO) To establish a dedicated resource to form a Project Management Office (PMO) to deliver the business change work stream of the preferred option. Also in the early stages of the complex and large-scale project, it will also supply vital information to the construction work stream, informing the detailed requirements that will inform both design and planning.	(0.500)	(0.000)	(0.000)	(0.000)	(0.500)	0.000
0.674	Sexual Assault Referral Centre (SARC) For transformational development of sexual abuse support services through an enhanced offering to victims of sexual violence, including the setting up a new state of the art SARC.	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	0.674
0.150	Commissioner's Action Fund Grants of up to £5,000 are available to fund a range of community and voluntary organisations who have a shared interest in delivering positive outcomes and improved services for residents in relation to community safety problems. The fund also empowers local groups to find solutions which will reduce crime and make Hertfordshire a safer place to live by helping to deliver the aims of the Community Safety and Criminal Justice Plan.	(0.150)	(0.000)	(0.000)	(0.000)	(0.150)	0.000
0.094	Volunteers Fund This incorporates various volunteering projects including independent custody visitors (34 volunteers), dog welfare visitors (5 volunteers), Drivesafe (332 volunteers) and Stop & Search (13 volunteers).	(0.094)	(0.000)	(0.000)	(0.000)	(0.094)	0.000

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0.020	Fly Tipping on Private Land Fund This is available to support landowners, especially in Hertfordshire's rural communities, who have been victims of fly-tipping to help cover the cost of clearance.	(0.020)	(0.000)	(0.000)	(0.000)	(0.020)	0.000
18.518	Non-RSF Sub-total	(0.764)	(0.000)	(0.000)	(0.000)	(0.764)	17.754
2.090	Road Safety Fund (RSF) This ring-fenced fund holds the balance of income generated in excess of the running costs of the Camera Tickets and Collisions Unit and reflects the ring-fencing of this income for re-investment in Road Safety related activity. £230k per annum net of any in-year income generation.	(0.230)	(0.230)	(0.230)	(0.230)	(0.920)	1.170
20.608	Grand Total	(0.994)	(0.230)	(0.230)	(0.230)	(1.684)	18.924

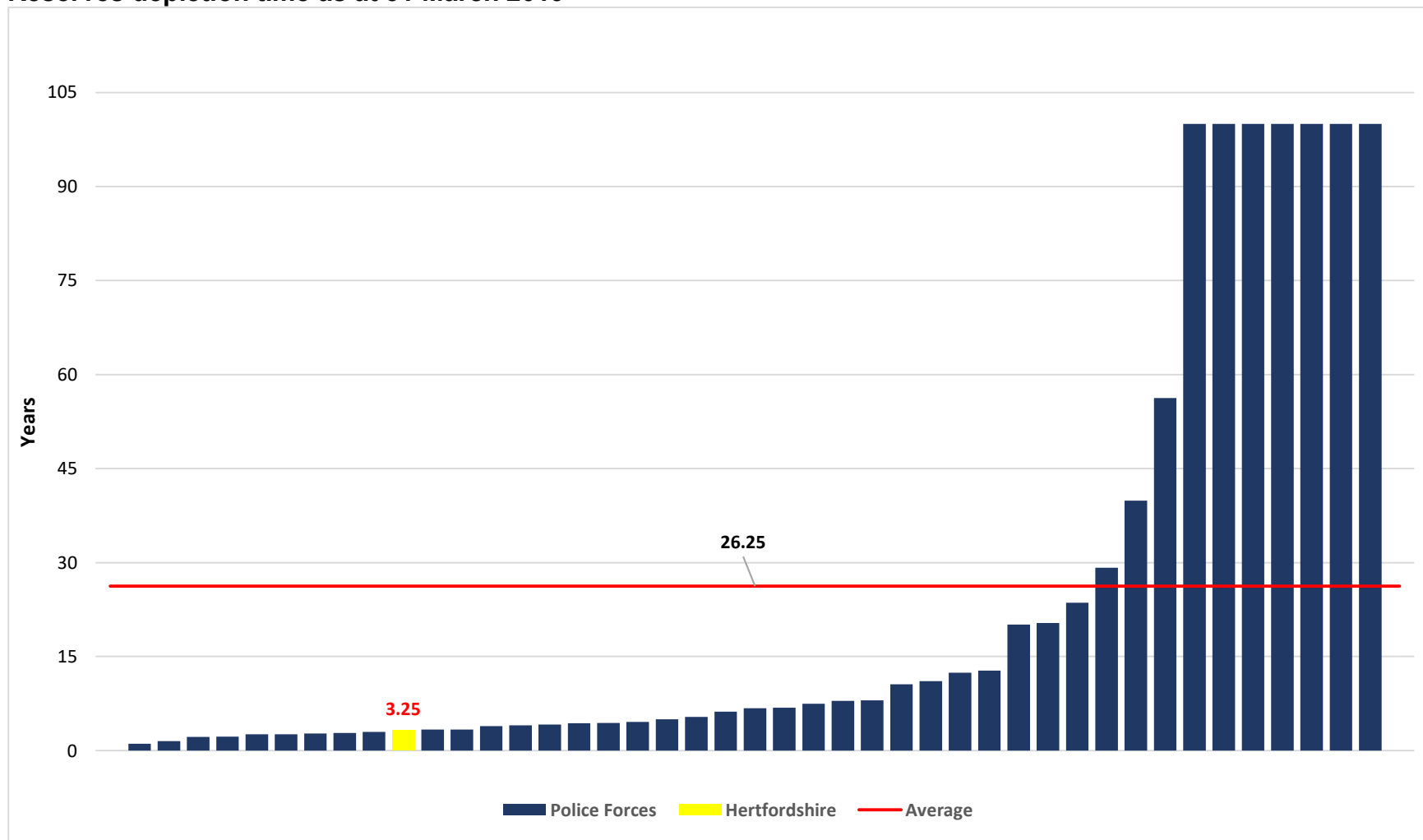
Reserves Analysis by Home Office Categorisation

Table 1: Detailed analysis

Analysis	Amount £'000
Planned expenditure on projects and programmes over the period of the current medium term financial strategy.	674
Specific projects and programmes beyond the current planning period.	764
General contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management.	17,080
Grand Total	18,518

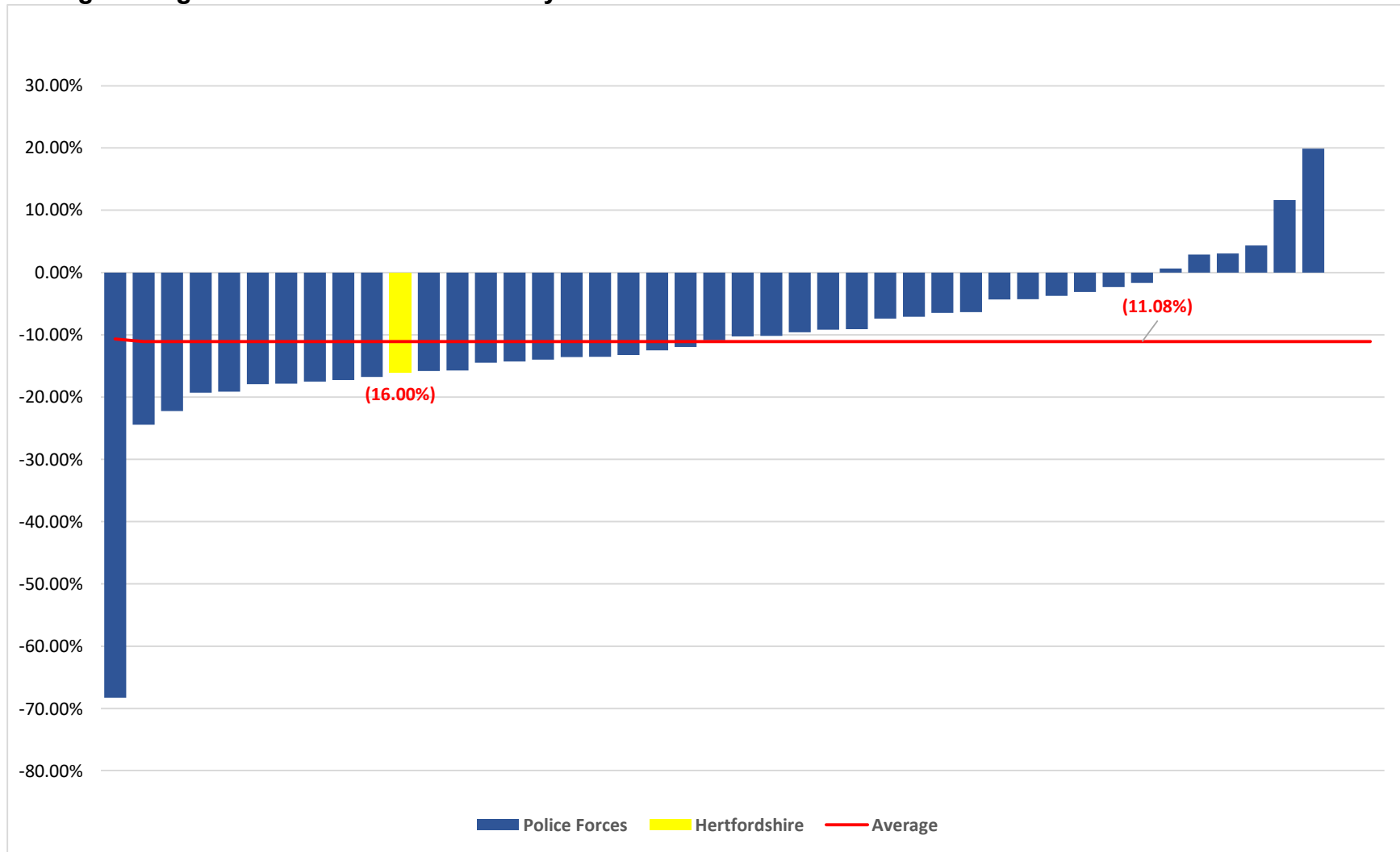
Issues of risk	Contingency £m
Business Continuity - major supplier failure	1.670
Bellwin threshold	0.400
Failure / Loss of operational IT systems	0.300
Major incident / investigation	0.300
Budgetary control	1.020
Non-delivery of local savings/efficiencies	0.100
Interest rate variations on investment income	0.070
Capital Expenditure overspend	0.250
Reliance on external Funding	0.040
Non Realisation of Capital Receipts	0.500
Localised Support Of Council Tax	0.160
BCH Collaboration Risk Of Underachievement / Slippage of Savings	0.050
Brexit - non 'YellowHammer' tarriff impact on goods & services	0.310
PoliceFed judicial review - pay award	0.380
Forensics Market Failure	0.260
Police ICT Underwriting	0.080
APCC LGPS Underwriting	0.020
McLeod remedy for class-action	0.080
Specialist unit allowances	0.330
Pay award differential	0.480
Vehicle insurance premium	0.070
Liability for police failings/negligence/legal claims	0.130
Total Section 25 (Local Government Act 2003) assessment	7.000

Reserves depletion time as at 31 March 2019



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Average change in Total Reserves for the 3 years to 31 March 2019



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