



Report of the Chief Finance Officer of the PCC to the Police and Crime Commissioner

24th February 2015

**Executive Officer: Michael Porter, CFO
Status: For Approval**

Robustness of Estimates and Adequacy of Financial Reserves

1. Purpose of the Report

1.1 The Local Government Act 2003 requires the Chief Financial Officer (CFO) of the Police and Crime Commissioner (PCC) to report formally on the robustness of the budget for consideration immediately prior to setting the Budget. This report aims to ensure that the PCC is aware of the opinion of the CFO of the PCC regarding the robustness of the budget as proposed, including the longer term revenue and capital plans, the affordability of the capital programme when determining prudential indicators and the adequacy of general balances and reserves. The PCC is required to take account of this report when determining its budget.

2. Recommendations

The PCC is asked to:

- 2.1 Note the contents of this report and take them into account when setting the 2015/16 Revenue and Capital Budgets, and when considering the Medium Term Financial and Capital Plans.
- 2.2 Approve the policy on reserves as set out in Appendix A.

3. Background

- 3.1 There is a requirement for the PCC's CFO to report formally and specifically on the robustness of estimates and the adequacy of the level of reserves contained within any budget proposals being considered by the PCC.

4. Robustness of Estimates

4.1 Financial Strategy

- 4.2 The PCC has established a framework, whereby the Medium Term Financial Plan (MTFP) regime seeks to provide stability and confidence in supporting the achievement of the PCC's priorities and objectives. These are set out in the Police and Crime Plan. The MTFP looks in detail at the forthcoming year and projects forward over the following three years.

4.1.1 Available Funding

The £146,972k of funding forecast to be available to the PCC in 2015-16 to support expenditure is expected from the following sources:

	2014/15	2015/16
Funding	£000s	£000s
Government Grant	(72,839)	(69,117)
Council Tax Precept	(58,342)	(60,806)
Council Tax Freeze Grant	(2,152)	(2,152)
Council Tax Support Grant	(5,746)	(5,746)
Funding for Net Budget Requirement	(139,079)	(137,821)
Specific Grants	(2,490)	(2,953)
Partnership Income/Fees and Charges	(4,589)	(6,198)
Total Funding	(146,158)	(146,972)
%age change in Total Funding	-1.5%	0.6%

- 4.1.2 Both the Government Grant and Specific Grants are based predominantly on national settlement figures with the exception of the Counter Terrorism grant which has yet to be announced. The risks to this source of funding is therefore if an in year funding cut was announced by the Government, following the General Election for instance, or if the Counter Terrorism grant is less than assumed. It has been assumed that the Counter Terrorism grant level will remain at the same level as received in 2014-15 given that the national budget for this area has remained at the same level as 2014-15.
- 4.1.3 In addition to these both the Council Tax Freeze Grant and the Council Tax Support Grant are government grants which have been agreed nationally and as such there is no risk attached to the receipt of this funding.

- 4.1.4 As a precepting Authority the PCC receives a proportion of the Council Tax paid within North Yorkshire based on the Band levels that were proposed and agreed with the Police and Crime Panel. These receipts have generally been a very secure source of income and this shouldn't change for 2015/16. Any shortfall due to lower than expected collection rates or from reductions in the number of properties within North Yorkshire would not impact on the finances for 2015-16 but would have to be taken into account in 2016-17.
- 4.1.5 Over the last 8 years there have been no instances where Council Tax receipts over the 8 councils collectively have been less than forecast. Now that the changes resulting from the Localisation of Council Tax support have been embedded it is unlikely that any issues that change this position will arise.
- 4.1.6 The £6,198k of income that is factored into the 2015-16 budget for Partnership Income and Fees and Charges, is £1.6m higher than 2014-15 which is predominantly driven by expected increases in funding received from driver training courses and the ability to recoup more of the costs associated with Firearms licensing. This area also includes secondment income, special services income and interest received on cash invested. While there are likely to be variances against the budgeted amounts at a specific level, the risk that the income received by the PCC in total from these and other sources being lower than budgeted is low. It is highly likely, given that not all of the expected income from the driver training scheme is factored into the 2015/16 budget, that income in this area will be higher than budget which will lead to an underspend. This is area that will continue into future years, based on current information and is therefore an area that will need to be kept under review both during 2015/16 and beyond.
- 4.1.7 The total funding that the 2015/16 budget is based upon can therefore be described as very secure and the PCC can take a high level of assurance that the budget is based on robust income assumptions.
- 4.1.8 The same level of assurance cannot be given to the level of funding beyond 2015/16. There are a number of risks and issues that currently make the calculation of accurate funding forecasts difficult. Each of the key issues is set out below. The uncertainty in respect of these areas makes it difficult to provide a high degree of assurance in relation to future funding levels. It is however my opinion that the approach taken within the MTFP is in line with the best information available at this time.
- 4.1.9 Government Funding for 2016/17 and beyond
- 4.1.10 Beyond 2015-16 there is very little information about future levels of government grant settlements, especially at a level that would allow accurate grant forecasts.
- 4.1.11 It is however reasonable to assume that the reductions in government funding levels that have occurred over the last 5 years will continue into both 2016-17 and beyond.
- 4.1.12 At this stage the MTFP assumes that real reductions in government funding of 2.5% year on year over the remaining years of the MTFP.
- 4.1.13 On top of the 2.5% grant reduction year on year, the MTFP also assumes that the £2.152m of Council Tax Freeze Grants that the PCC will receive in 2015/16 will end

in that year. The combined effect of which is that the MTFP effectively assumes the following reductions in Government Grant:

- 2016/17 – 5.4%
- 2017/18 – 2.5%
- 2018/19 – 2.5%

4.1.14 There is a significant risk that these assumptions may prove too low and given the significance of this risk, and the likelihood and size of the potential additional pressures that may result from future government grant settlements, any decisions around the level and use of General Reserves and decisions on Precept should be undertaken with this risk in mind.

4.1.15 Each 1% of further cuts in government funding equates to approximately £700k less funding for North Yorkshire on a recurring basis.

4.1.16 Precept

Despite the difficult economic situation, and the changes to the levels of Council Tax Support given to individuals, the Councils have collectively managed to collect more Council tax than they had assumed for at least the last 8 years.

4.1.17 For 2015/16 the assumptions factored into the Council's Band D equivalent forecast is that they will be unable to collect the value of around 4,200 Band D equivalent properties, this equates to nearly £900k for the 'Police' element.

4.1.18 Given the trends and the allowance for non-collection there is very little risk that the levels of precept contained within the 2015-16 budget will not be achieved.

4.1.19 Future Precept Plans

The PCC will recall that the government has set certain principles in relation to increases in Council Tax and announced that there would be a legislative requirement to hold a referendum if these principles are breached. For 2015-16 this is 2%. The MTFP assumes that the following changes to the Band D precept level across the life of the plan:

- 2016/17 – Freeze
- 2017/18 – 1.99% increase
- 2018/19 – 1.99% increase

4.1.20 There is a risk that, given the current size of the projected gap between forecast expenditure and forecast income across the MTFP, that the proposed precept freeze for 2016/17 may not be possible at the same time as delivering against the current Police and Crime Plan.

4.1.21 There is also no guarantee that a 1.99% increase in the precept in future years will not be in breach of future referendum principles.

4.1.22 To help mitigate some of these risks the MTFP doesn't currently include any assumed growth in the underlying council tax base and/or any annual collection fund surplus.

4.1.23 Precept is an annual decision for the PCC and as such there is scope for the PCC look to increase the precept for 2016/17, should the finances of the organisation require this. A 1.99% increase in precept in 2016/17 would reduce the currently projected gaps by around £1.2m in all years.

4.1.24 Expenditure Plans

Preparation of the budget, including decisions on key assumptions, while based on the most up to date information and forecasts will always have a degree of uncertainty and risk. This risk is managed by having a robust budget process and having balances and reserves that are set to take into account the financial and operational uncertainty that exists.

4.1.25 Office of the PCC Budget

The Office of the PCC budget for 2015/16 is set at £911k and based on current projections and previous years expenditure this should be sufficient to deliver against the known plans of the Office.

4.1.26 Commissioned Services

The 2015-16 budget sets aside nearly £2.6m for Commissioned Service, from which the PCC can commission services, make community safety grants, provide victims and witness services and provide funds to deliver against the Police and Crime Plan. It is likely that there will always be more demand for these funds than the total money available and therefore the challenge is which initiatives to support. As the budget is one where allocations are to be made there is no risk that it will overspend provided appropriate decisions are made, but there will be times when the PCC will be unable to support initiatives due to lack of resources.

4.1.27 Police Force and Corporate Services Budgets

4.1.28 There are a number of risks in the 2015/16 budget and MTFP, these are set out below:

4.1.29 Police Pay Awards and Levels of Police Officers

The MTFP assumes that Police Pay will increase by 1% in September 2015. This is in line with current government proposals to limit pay awards within the public sector to 1% and therefore the budget is built on the best information available. Given the recent proposals to Police Staff of a 2.2% pay award, over what was in effect a 2 year period, there is a risk that it may not be possible for national negotiations to contain Police Officer pay within these limits. Each 0.1% increase over the 1% budgeted within 2015/16 is expected to cost around £40k during 2015/16 and £70k per annum thereafter.

4.1.30 The MTFP assumes pay award for Police Officers will be 2% per annum thereafter. It is possible, given the current governments commitment to public sector pay constraint that 2% might be too high. If the MTFP assumed Police Pay awards remained at 1% across the life of the plan then the current gaps would reduce by approximately the following amounts:

- 2016/17 - £400k
- 2017/18 - £1,100k
- 2018/19 - £1,800k

4.1.31 In addition to pay awards, changes to National Insurance rates will impact on the public sector from the 1st April 2016. The expectation is that this will add around 2% to the pay bill from this date forward and this has been reflected within the Police Pay budget from 2016/17 onwards.

4.1.32 The projected increases in the Police Pay budget over the MTFP, based on 1392 FTEs, are as follows:

- 2016/17 – 4.6%
- 2017/18 – 2.0%
- 2018/19 – 1.6%

4.1.33 Further work needs to be done to ensure the increase in 2016/17 is realistic and that the Police Pay budget is not too high across the plan. This review will inform future updates of the MTFP.

4.1.34 As mentioned above the Police Pay budget assumes that 1,392 FTE Police Officers are maintained throughout the planning period. In particular the 2015/16 budget will be set, and balanced, with sufficient funding to pay for this number of Officers. If it is not possible to maintain these numbers through recruitment then under spends will develop very quickly within the Police Pay Budget.

4.1.35 The risk going forward in terms of Police Officer numbers is that, based on current projections, maintaining 1,392 FTE Police Officers is not sustainable financially in 2016-17 and beyond without significant, and as yet unidentified, savings being

developed by the Force or significantly more funding being made available to the Force.

4.1.36 PCSO and Staff Pay Awards and FTE's

The number of staff and PCSO's factored into the financial plans are as per the table below.

	2015/16 Average FTE	2016/17 Average FTE	2017/18 Average FTE	2018/19 Average FTE
PCSO and Staff FTE's				
Chief Constable:				
PCSO's	183	183	183	183
Police Staff	828	814	798	795
CC Sub-total	1,011	997	981	978
PCC:				
Corporate Support	193	183	181	181
OPCC	9	9	9	9
Commissioned Services	6	6	6	6
PCC	1	1	1	1
PCC Sub Total	209	199	197	197
Total Staff and PCSO's	1,220	1,195	1,178	1,174

4.1.37 Despite the financial challenges faced by the organisation there are only modest reductions in Police Staff numbers factored into the current plans. These all relate to expected reductions in temporary posts.

4.1.38 A review of the assumptions around future increases in Staff and PCSO Pay, in a similar way to Police Pay, would be beneficial. For instance PCSO pay, based on maintaining 183 FTE is projected to increase by the following amounts:

- 2016/17 – 4.0%
- 2017/18 – 2.8%
- 2018/19 – 2.0%

4.1.39 Both the PCSO and Staff budgets in 2015/16 assume that the 2.2% pay award, that has been offered to staff, covering the period to the 31st August 2016, with implementation from the 1st March 2015, is accepted. Therefore on review the assumed increase in PCSO budgets in 2016/17 (of 4%) might prove higher than needed, even given the impact of the National Insurance changes.

4.1.40 Around 75% of the total budget in 2015/16 is projected to be spent on 'Pay', this would increase to around 83% by 2018/19 based on current projections if savings to balance the plans are found solely from 'non-pay' budgets. Realistically this is unlikely to be possible, therefore to maintain the 75:25 split would require around £12m of savings/reductions in 'Pay' Budgets, from those currently projected over the next 3 years.

4.1.41 As mentioned in previous sections, it is possible that some of these reductions might come from revising and reviewing the assumptions and projections within the plan but reductions in the overall number of people 'employed' by the organisation will have to occur to meet the projected financial challenges.

4.1.42 This will be a key challenge for the organisation over the coming months and years and one that is likely to present significant challenges and potential risks to service delivery and as such is an area that the PCC will want to be fully sighted on.

4.1.43 Inflation

The 2015/16 budget allows for specific allocations of inflation where necessary in line with either contractual arrangements or estimates and therefore it is unlikely that any significant financial pressures will arise as a result of the assumptions made. There is the potential, given forecast reductions in wholesale gas prices of 10% and the falling fuel prices, that under spends might develop in year.

4.1.44 In terms planning assumptions, at this stage inflation has been provided on non pay budgets each year from 2016/17 onwards as follows:

- Utilities 5% inflation
- Fuel 5% inflation
- Other non Salary 2.5% inflation

4.1.45 From an income perspective 2.5% inflation has been applied on fees and receivables for 2016/17 onwards, subject to known variances. Targeted grants have no inflation assumed unless notified by payer, while any anticipated reductions have been accounted for.

4.1.46 With current levels of inflation running much lower than historic averages, CPI was 0.5% in December 2014 whereas RPI was 1.6%, there is the opportunity to reduce the assumed inflationary increases factored into the MTFP. This would then reduce the levels of savings required to balance the budget. This will be reviewed going forward into 2015/16 and any changes incorporated into future plans. The current MTFP includes the following cumulative amounts of inflation for Utilities, Fuel and non-salary budgets in comparison to 2015/16:

- 2016/17 - £850k
- 2017/18 - £1,700k
- 2018/19 - £2,600k

4.1.47 Savings Requirements

The plans and savings proposals included in the budget for 2015/16 seem robust. The vast majority relate to adjustments to the standard costs included within the Pay Budgets, delivering of the revised Operating Policing Model and the proposed repayment of the Pension Deficit on the Local Government Pension Scheme.

4.1.48 There is an element of risk in relation to this last item, as concerns have been raised by the External Auditors on this proposal. Work is therefore on-going in this area. Should the repayment of the deficit not prove possible at this stage then the funds that would have been used for the repayment of the deficit will be used to repay

part of the deficit annually in line with current practice. This will therefore ensure that there is no adverse impact on the 2015/16 budget.

4.1.49 Despite the significant cuts that have taken place over the last 5 years the tendency has been for the organisation to underspend each year. This trend has continued into 2014/15 where an under spend is again projected. This trend in underspending is more than likely to continue into 2015/16 especially given the continued need to develop and deliver savings. It is not possible for the savings required to balance the budget in 2016/17 to all be delivered on the 1st April 2016 and it is therefore inevitable that an underspend will develop in 2015/16 as the organisation moves to a lower cost base for 2016/17.

Future Savings Plans and Future Budget Gaps

4.1.50 The current MTFP is showing a significant imbalance beyond 2015/16 and the organisation will need to give this considerable focus over the coming months. However as mentioned within this report some of these gaps may be reduced by revising and revisiting some of the assumptions that are driving the increasing expenditure of the organisation.

4.1.51 Based on the current projections, savings and/or mitigating of expenditure increases of the following are required to balance the budget:

- 2016/17 - £9.8m (this includes a £3.8m transfer to Capital)
- 2017/18 - £14.2m (this includes a £4.9m transfer to Capital)
- 2018/19 - £18.1m (this includes a £4.9m transfer to Capital)

4.1.52 Work has begun as part of the Affordability Delivery Theme to pull together plans to deliver the savings required to close the current gaps, the work has significant attention and focus and the PCC can take a great deal of assurance that the necessary savings/amendments needed to close the gap in 2016/17 will be delivered. An update on the proposals will be provided to the PCC in March and incorporated in future financial plans.

4.1.53 Beyond 2016/17 the challenge will continue. Based on current assumptions additional savings of nearly £5m per annum will be needed after the £10m in 2016/17 to balance the budget.

4.1.54 Based on the current assumptions and projections of both income and expenditure, aligned to the current savings plan, there is a significant challenge for 2016/17 and beyond to enable policing and crime services in North Yorkshire to continue to be delivered in line with the current plans

4.1.55 Capital Expenditure and Financing

The capital programme to 2018/19 is based on spending nearly £49m over the 5 years including 2014/15 on additional capital schemes. While the plans approved to date, and those included within the 2015/16 budget, are affordable the plans for 2016/17 and beyond rely on £13.6m of contributions to capital from Revenue. Given the significant gaps highlighted within the current revenue budget this is an area that will need to be reviewed and reconsidered.

4.1.56 To put the contribution to capital from revenue in context the proposed contributions are sufficient, at the projected levels for 2016/17, to fund around 80 FTE Police Officers and around 100 FTE Police Officers in 2017/18 and 2018/19.

4.1.57 It is my view that the current projected levels of contributions to capital from revenue are ultimately unsustainable and while the PCC has no external borrowing currently, simply borrowing the funds is not the only answer. There is a need to ensure that the significant expenditure within the Capital programme is ultimately needed and essential.

5. Adequacy of Financial Provisions, Reserves and Balances

5.1 The adequacy of financial reserves is the second requirement on which the CFO must have confidence. In reality, there is no real difference between the factors that determine both the level of reserves and the estimates themselves. Reserves are simply longer term planning mechanisms to set aside resources for a future use. As such, the section above dealing with robustness of estimates can be fully applied to arriving at a confident statement that reserves are adequate in nature i.e. the Financial Strategy and processes and procedures within the overall budget strategy all culminate in determining the level of reserves required to support the Medium Term Financial Plan.

5.2 Reserves & Provisions

The PCC maintains a number of reserves with the main ones discussed below.

5.2.1 General Fund

At the 31st March 2014, the General Fund stood at £9,697k and is not currently projected to move across the life of the financial plan. This currently equates to around 7% of the Net Budget Requirement for the 2015/16 Budget.

5.2.2 The PCC's attention is drawn to the fact that while it is expected that there will be £9.7m in general reserves by the start of 2016/17, that 2016/17 does not currently balance by £9.8m and 2017/18 does not currently balance by £14.2m.

5.2.3 The PCC may also need to use some of this General Reserve to repay the deficit on the Local Government Pension Scheme and also to provide temporary support to the budget in future years if the delivery of the savings required to balance the budget are not fully delivered on time.

5.2.4 In terms of the general reserve of the PCC, it is both adequate and robust for the projected financial position over the next 2 years. This takes into account the risks of having to provide some support to balance the plan in 2016/17, the potential costs of delivering a revised organisational structure and the potential for some support to repay the deficit on the Local Government Pension Scheme.

5.2.5 Capital Reserves

As mentioned earlier in this report there are sufficient funds within the Capital Reserves to meet the currently approved plans and those seeking approval for 2015/16. By the end of 2015/16 there is projected to be £4.5m left in the Capital Reserves if all aspects of the current plans, up to 2015/16, are delivered. Thereafter a recurring projected Capital Programme of £5m to £6m per annum when the expectation is that the organisation will only receive a government grant of £1m per annum is ultimately unsustainable and will require the continuation of significant contributions from Revenue, Borrowing that will incur additional revenue costs, significant asset sales and/or significant reductions in the amount of resources spent in this area.

5.2.6 Insurance Fund

The PCC maintains Insurance and Legal Reserves totalling £3.8m, these make provision for the extent of our theoretical exposure in respect of our insurance claims in so far as they are not covered by the Commissioner's insurers Fund.

5.2.7 The level of these reserves will be the subject of regular reviews to ensure that the fund is at an adequate level. At this stage the PCC's CFO is content that the level of the reserve will be sufficient to meet the current needs of the organisation.

5.2.8 Further Earmarked Reserves

In addition to the Insurance Fund the PCC also has earmarked reserves that are expected to total around £1.0m at the 31st March 2015. The vast majority of these reserves are expected to support the PCC's Commissioning and Community Funds.

Usable Reserves

5.2.9 These reserves are collectively known as 'Usable' Reserves. The definition being reserves that 'can be used to fund expenditure or reduce local taxation'. As at the 31st March 2014 the Audited Statement of Accounts for the PCC showed that the organisation had Total Usable Reserves of £43.6m, these are however projected to reduce to £23.1m by the end of 2015/16.

5.2.10 While £23.1m may seem like a significant amount of money I would recommend, based on the rationale contained in this report, that the PCC does not seek to reduce this significantly until there is clarity on the savings plans for 2016/17, the Local Government Pension Fund deficit repayment is finalised and it is clearer how the future capital plans can be funded.

6. Chief Finance Officer to the PCC's Statement

- 6.1 As CFO to the PCC it is my duty to specifically comment on the robustness of the estimates put forward for the PCC's consideration. For the reasons set out in this report and from my own review of the estimates process I am satisfied that the proposed spending plan for 2015/16 is sound and robust.
- 6.2 A review has been undertaken of the PCC's reserves and general balances. The PCC's general balances and reserves are an important part of the PCC's risk management strategy giving the financial flexibility to deal with unforeseen costs or liabilities. Assuming the approval of the plan set out in the budget report, I am satisfied that the PCC would have adequate levels of financial reserves and general balances through 2015/16 provided that service restructuring is delivered and future growth, if any, is managed and funded from sustainable savings.
- 6.3 In 2016/17 and beyond there is a significant amount of risk around future levels of funding and where savings can be found to deliver the current services within the reducing funding levels. As such I recommend that until this uncertainty is resolved the PCC maintains general reserves closer to 7% of the Net Budget Requirement than the 6% that is set out in the reserves policy that is attached at Appendix A.

7. Implications

Finance

- 7.1 Other than the references made above there are no specific financial or staffing implications in respect of this report.

Risk

- 7.2 There will always be an element of risk that estimates are not fully robust or accurate which may lead to unfunded budget pressures becoming apparent during the year. This report sets out the process and basis for ensuring robustness and minimising the risk of unforeseen problems. As outlined in the report the PCC should ensure that it sets aside sufficient balances to ensure that any problems and liabilities can be dealt with.

8. Conclusion

- 8.1 The PCC's budget setting process has been designed to ensure that estimates brought forward for approval are sound and robust. This report confirms that approach.
- 8.2 Similarly, the PCC's policy is to ensure that it has sufficient levels of reserves and balances to provide for known, anticipated and unforeseen costs and liabilities. I am satisfied that the proposals emerging from the 2015/2016 budget process are clear, soundly based and deliverable, and that the approach to reserves and balances contained therein are appropriate.

- 8.3 In setting a budget for 2015/2016 the PCC will need to continue to have regard to the underlying level of available resources. The budget report requires the PCC to take a robust approach to this issue by agreeing a medium term financial plan aimed at maintaining a sustainable position through the Plan period.
- 8.4 While the financial position for 2015/16 is challenging, the estimates the budget is based on are robust. Beyond this period there is a significant risk, given the uncertainty about future cuts in government funding beyond the current CSR period, as to whether the PCC will have sufficient funding to support the current plans of both the PCC and the Police Force. Given the savings that have been delivered during the previous 5 years there will be limited scope from where additional savings, of the levels needed to balance the budget in future years, can be developed.

POLICY ON FINANCIAL PROVISIONS AND RESERVES*Preamble*

The Police and Crime Commissioner maintain provisions and reserves to ensure a sound financial position. The overriding aim is to ensure that, within the budget, the maximum amount of funding is available to deliver policing and crime services. To this end, the levels of provisions and reserves are regularly reviewed to ensure that funding is directed to service use rather than being tied up unnecessarily in balances. Retaining reserves is a useful and considered tool which enables a sound financial position to be maintained and which can be used to reduce or negate the need for higher cost funding alternatives, i.e. borrowing. The way in which provisions and reserves are managed and the distinction between them is determined by Accounting Standards.

Provisions

Provisions comprise estimates of known liabilities which have been incurred by the Police and Crime Commissioner, the settlement date for which could fall at any time. The exact value will not be known until settlement is agreed.

Reserves

Reserves are maintained to:-

- (a) Create a contingency to help cushion the impact of unexpected events or emergencies - the General Reserve.*
- (b) Build up funds (often referred to as earmarked reserves) to meet specific future requirements, including the smoothing out of peaks in costs and the effect of loss of external funding.*

The level of reserves is taken into account when calculating the council tax requirement. This ensures a balanced budget position is maintained and enables regard to be given to affordability when considering future revenue requirements and capital programmes.

The reserves must be reported to the Police and Crime Commissioner on a regular basis as part of budget and financial monitoring. Part of this exercise is to ensure continuing relevance and adequacy and to enable the Medium Term Financial Plan to be up-dated.

POLICY ON FINANCIAL PROVISIONS AND RESERVES (continued)

Policy

The actual level of reserves, earmarking and utilisation are considered when up-dating the MTFP and as part of its on-going review.

General Reserve

In setting the level of the General Reserve, consideration is given to the adequacy of financial control, the overall financial position, medium-term plans and strategic, operational and financial risks facing the Police and Crime Commissioner. The level of the General Reserve is reviewed by the Police and Crime Commissioner on the advice of the PCC's Chief Finance Officer having regard to these matters.

Key Principles are:-

- (a) The General Reserve will not be used to meet on-going revenue items.*
- (b) The General Reserve may be used, on an exceptional basis, as a short-term option to balance the budget, particularly where major operations are experienced.*
- (c) The Police and Crime Commissioner will aim to maintain the level of General Reserves at not less than 6% of the net revenue budget. Most of the reserve is effectively ring-fenced to cover major incidents should they happen in the year.*
- (d) Under the requirements of the Local Government Act 2003, the level of the General Reserve is re-assessed annually as part of the annual budget-setting process.*

Earmarked Reserves

The Insurance Reserve:

The Police and Crime Commissioner operate on a self-insurance basis determined by the level of excess on the cover provided by external policies. The reserve is ring-fenced for insurance requirements only and cannot be used for other purposes. It is calculated based on an historic assessment of claims history and is subjected to an actuarial audit to validate the fund level on a three-yearly basis. This reserve is available should the Police and Crime Commissioner face exceptional costs or suffer a major catastrophic incident or face premium increases which cannot be met by budget in year.

POLICY ON FINANCIAL PROVISIONS AND RESERVES (continued)

Working Earmarked Reserves:

Earmarked reserves may be created to build up reserves in advance where major schemes, such as asset purchases and capital schemes, are to be undertaken in future financial years. Such reserves are time-limited and for specified purposes only. These are predominantly to fund projects spanning more than one financial year. Spending against the reserve is monitored on an on-going basis. The level of earmarked reserves is re-assessed annually. Each reserve is reviewed to assess the validity of its retention and reserves overall are assessed to ensure both their adequacy and that excessive funds are not accruing for unspecified purposes.

Provisions

The Insurance Provision:

This comprises known anticipated outstanding amounts in respect of claim payments. The level of the provision fluctuates as anticipated claims are reassessed on an on-going basis. The provision is held separately from, and in addition to, the insurance reserve.

PURPOSE AND UTILISATION OF THE EARMARKED RESERVES AND PROVISIONS

1.0 Earmarked Reserves Held for Capital Purposes

1.1 Purpose:

These reserves are earmarked to support capital investment projects by setting aside resources to contribute towards the capital element of the Capital and Revenue Development Programme (CRDP) over the period of the Medium Term Financial Plan (MTFP).

1.2 Management and Control:

The adequacy and utilisation of the reserves is reviewed during the annual budget preparation process and as part of the annual closedown of the accounts. The proposed utilisation of these reserves is approved as part of the MTFP.

1.3 Usage:

Amounts are applied from the reserves at the end of each financial year to fund capital expenditure in year.

1.4 Detail of individual reserves:

Capital Reserve (RCCO)

The reserve is added to each year by way of a contribution from the Revenue Budget.

Major Capital Developments

This reserve was originally created from the balance in the pension reserve following changes to the funding arrangements for police pensions from 2006/07, and has been added to in subsequent years from underspends on the Revenue Budget, and by transfer from other earmarked reserves no longer required.

Reserve to Fund Estates Strategy

This reserve was created during 2011/12 to earmark the projected underspend on the revenue budget to fund the Estates Strategy.

2.0 Earmarked Reserves Held for Revenue CRDP Purposes:

2.1 Purpose:

These reserves are earmarked to support the revenue element of the Capital and Revenue Development Programme (CRDP) over the period of the Medium Term Financial Plan (MTFP).

2.2 Management and Control:

The adequacy and utilisation of the reserves is reviewed during the annual budget preparation process and as part of the annual closedown of the accounts. The proposed utilisation of these reserves is reported quarterly, and approved as part of the MTFP.

2.3 Usage:

Amounts are transferred from the reserves to revenue at the end of each financial year to fund revenue CRDP expenditure in year.

PURPOSE AND UTILISATION OF THE EARMARKED RESERVES AND PROVISIONS (continued)

2.4 Detail of individual reserves:

Revenue CRDP Reserve

The majority of this reserve is now expended. The reserve consists of balances previously provided from the Revenue Budget, plus amounts approved to be transferred from the Major Capital Reserve where some or all of a capital project has been reclassified as revenue.

3.0 Earmarked Long Term Reserves: The Insurance Reserve

3.1 Purpose:

The Commissioner operates on a self-insurance basis determined by the level of excess provided by external policies. The reserve is available should the Commissioner face exceptional costs or suffer a major catastrophic incident or face premium increases which cannot be met by budget in year.

3.2 Management and Control:

The reserve is calculated based on an historic assessment of claims history and is subjected to an actuarial audit to validate the find on a three yearly basis.

3.3 Usage:

Amounts are transferred from the reserves to revenue if required to fund relevant revenue expenditure in year.

4.0 Earmarked Short Term Reserves:

4.1 Purpose:

These Reserves are created from time to time to earmark funds for a particular purpose, predominately to fund projects which span more than one financial year. These reserves have been funded (as appropriate) from the Major Capital Reserve and the Capital Reserve (RCCO) or by specific transfers from revenue.

4.2 Management and Control:

The adequacy and utilisation of the reserves is reviewed during the annual budget preparation process and as part of the annual closedown of the accounts. The proposed utilisation of these reserves is reported quarterly, and approved as part of the MTFP.

4.3 Usage:

Amounts are transferred from the reserves to revenue during each financial year to fund relevant revenue expenditure in year.

4.4 Detail of individual reserves:

Major Incident Reserve:

This reserve was established by transfer from revenue, and is held to contribute to the funding of any one off major incident revenue costs over and above the annual budget set aside for major incidents.

PURPOSE AND UTILISATION OF THE EARMARKED RESERVES AND PROVISIONS (continued)

Misuse of Drugs Act 1971 Reserve and Incentivisation Reserve

These reserves hold monies raised from confiscated assets generated through the proceeds of crime, either directly or via grant from Central Government. The reserve is utilised to support crime fighting work, subject to statutory restrictions on usage.

Governance Reserve and PCC Technical Reserve:

These reserves have been funded by transfer from revenue in previous years and are held to support the PCC's own revenue budget and to fund governance development costs.

PCC Community Fund:

This reserve was funded for the first time in 2013/14 by a transfer directly from revenue. The reserve is under the direct control of the PCC, and will be utilised to support Community Projects.

Accounting Treatment Reserve and Priority Spending Reserve:

These reserves are funded by transfer from revenue to manage known commitments that extend over a number of financial years and/or to carry forward funding for commitments known at the financial year end but not materialising until the following year.

Transformation Reserve:

This reserve was funded by transfer from revenue in previous years and is held to manage costs of transformation, including restructuring costs and provision of resources to facilitate transformation.

PROVISIONS

5.0 Insurance

This fund makes provision for the extent of our theoretical exposure in respect of our insurance claims in so far as they are not covered by the Commissioner's insurers.