



**Staffordshire Police, Fire and Crime Panel
1st February 2021**

Reserves Strategy Update

Report of the Staffordshire Commissioner

Introduction

Statutory provision is made within the Local Government Finance Act 1992 that requires precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure. The Director of Finance/ S151 Officer for the Staffordshire Commissioner's Office has a duty to report on the robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its annual budget requirement.

This paper gives due consideration to the overall level of reserves held as at 31 March 2020 and the forecast position as at 31 March 2021. The Panel are asked to note the overall impact on Reserves as incorporated within the approved Medium Term Financial Strategy (MFTS).

The Reserves Strategy was last approved in February 2020 as part of the budget setting process for the current year and has now been updated to incorporate and reflect:

- The updated MFTS for 2021/22 to 2024/25
- The actual Reserves position as per the Audited Statement of Accounts for 2019/20, and a forecast for 2020/21
- The impact of approved reserve utilisation as per the current and updated strategy

A number of different reserves are held by the Staffordshire Commissioner (both usable and unusable) in line with the CIPFA guidance, however this paper focuses on the two key areas of reserves that impact on the future financial strategy:

- **General Reserve**, to allow for unexpected / emergency events –balance as at 31 March 2021 is forecast to be £6.4m (3%) (see **Appendix 1**),
- **Earmarked Reserve** – to meet future known or predicted requirements – balance as at 31 March 2021 is forecast to be £13.9m (See **Appendix 1**)

Overall the level of Usable Reserves at 31 March 2020 is £16.5m and forecast to increase by £3.8m in year to £20m by 2021. The general reserve will be maintained at £6.4m while the earmarked reserves (including capital reserves) are forecast at £13.8m by 2021. These reserves are low by sector standards in line with the commissioners reserves policy.

RECOMMENDATIONS

That the Police Fire and Crime Panel note:

1. the overall reserves position for both General and Earmarked Reserves as contained within this report,
2. to consider the adequacy and proposed earmarking of the reserve that will be incorporated into the budget setting exercise for 2021/22, and utilisation of reserves as incorporated within the updated MTFS
3. the updated Reserves Strategy

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1. Prudential Code and Capital Spend

- 1.1. CIPFA's (The Chartered Institute of Public Finance and Accountancy) Prudential Code requires chief finance officers in local authorities to have full regard to affordability when making recommendations about the local authority's future capital programme. Such consideration includes the level of long-term revenue commitments. Indeed, in considering the affordability of its capital plans, the Staffordshire Commissioner is required to consider all of the resources available, together with the totality of its capital plans and revenue forecasts for the forthcoming year and into the medium term.
- 1.2. The statutory reporting regime discussed within this paper and effective financial management underpin the need for clear, transparent reporting arrangements for reserves and CIPFA recommend that there should be clear protocol setting out the following:
 - the reason for / purpose of the reserve;
 - how and when the reserve can be used;
 - procedures for the reserve's management and control; and
 - timescale for review of the reserve to ensure continuing relevance and adequacy.
- 1.3. Whilst it is primarily the responsibility of the Staffordshire Commissioner and its S151 Officer and Treasurer to maintain a sound financial position, our external auditors Ernst & Young annually review for any material uncertainties and test to ensure that Staffordshire Police remain a going concern. Even where as part of their wider role Ernst & Young report on the organisation's financial position, it is not however, their responsibility to prescribe the optimum or minimum level of reserves for authorities in general.

2. Types of Reserve

- 2.1. When considering the Medium Term Financial Strategy and preparing annual budgets the Staffordshire Commissioner should consider the establishment and maintenance of reserves. Reserves can be held for three main purposes:
 - a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves
 - a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves
 - a means of building up specific funds, often referred to as earmarked reserves, to meet known or predicted requirements.
 - A capital receipts reserve generated from the sale of surplus assets, which in line with legislation can only be re-invested back into capital goods (or whilst specific legislation allows transformation spend).

3. Reporting of Reserves

- 3.1. The IFRS-based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) introduced the Movement in Reserves Statement to local authority financial statements in the 2010/11 financial year. This Statement presents the movement in the year of the reserves of the Authority analysed into **usable** reserves, (e.g. General and earmarked reserves) and unusable reserves.

3.2. The total Usable Reserves as per the statement of accounts is £16.5 million as at 31 March 2020, being the General Fund £6.4m and Earmarked Reserves £10.1m.

The Movement in Useable Reserves Statement can be found on page 56 of the Statutory Accounts for 2019/20, and is shown below:

31 March 2019 £'000		31 March 2020 £'000
4,564	General Fund	6,350
4,868	Capital receipt reserve	3,150
331	Capital grants unapplied	331
15	Reshaping the future	1,011
0	IT Transformation Reserve	2,205
0	Covid-19	478
0	ESN reserve	617
0	Capital Reserve	1,286
294	Insurance reserve	348
0	Pension reserve	1,314
0	Collaboration Reserve	250
597	Other operational reserves	2,636
906	Earmarked Reserves	10,145
10,669	Total Usable Reserves	19,976

- 3.3. Unusable reserves arise out of the interaction of legislation and proper accounting practice either to store revaluation gains or as adjustment accounts to reconcile accounting requirements (i.e. reconciliation of reporting standards to statutory requirements)
- 3.4. 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 local authorities. However, the Government has undertaken to apply this only to individual authorities in the circumstances where an authority does not act prudently, disregards the advice of its chief finance officer and is heading for serious financial difficulty.
- 3.5. Whilst it remains the responsibility of the Director of Finance/S151 Officer for the Staffordshire Commissioner to advise on the overall level of reserves that are held; the Staffordshire Commissioner should assist by providing clear protocols for the establishment and use of reserves, as reserves should not be held without a clear purpose.
- 3.6. The Staffordshire Commissioner has indicated that the level of General reserves be set at a target level of 3% of the annual revenue budget. As per Section 5 of this report the Panel should note that the level of General Reserves has now been restored to 3% during the current financial year in line with the approved budget and MTFS.

4. Reserves Strategy and Future Outlook

4.1. This paper gives due consideration to the overall level of reserves held as at 31 March 2020 and the forecast position for 31 March 2021, and the panel are asked to note the overall position as scheduled in **Appendix 1**.

4.2. General Reserve

4.3. The Commissioner's policy for the General Reserve Fund is for it to hold as a target balance of 3% of the net revenue budget of the combined budgets of the Commissioner and Staffordshire Police. This is currently considered to be a minimal safe level which would afford two incidents of maximum exposure to loss in any one year.

4.4. The maximum exposure to loss for a particular event is understood to be 1% of net budget in the light of the guidance which is issued by the Home Office relating to the Police Special Grant. This guidance establishes that in the event that a Force can prove it has proportionately policed a major incident which has created an unaffordable cost in one year, and that is reviewed by HMICFRS, the Force can claim for costs exceeding 1% of the net budget for each incident. This guidance was reissued in November 2017 and we expect it to continue to be in place during the period of the MTFS.

4.5. At the end of March 2020 the General Reserve was £6.4m and it is forecasted to maintain the reserve level in year. This represents 3% of the annual revenue budget.

4.6. Earmarked Reserve

4.7. The Earmarked Reserve provision is required not only to fund future projects and investments but also to provide funding –

- To cover specific risk items that are excluded from the MTFS but may present as financial pressures over the life of the MTFS such as the current age discrimination changes to public sector pensions
- To cover areas of the budget subject to fluctuations in spend based on risk such as self-insured Insurance claims
- Reserves earmarked to support transformation. Whilst current legislation allows for the use of capital receipts to fund transformation this means these receipts would be used on revenue spend as opposed to re-investing back into assets (which would increase long term debt). The Commissioner is re-investing all receipts back into the acquisition of new assets.
- To provide for future contingent liabilities that have been identified within the statutory accounts,
- Reserves held for specific operational requirements. The response to Covid from Staffordshire Police has been funded from such an earmarked reserve

4.8. The Balance on this reserve as at 31 March 2020 was £10.1m and is forecast to increase in year by £3.8m to close the year at £13.9m. This increase in the main is driven by the upfront funding for the Uplift programme received in 2020/21.

5. Reserve Forecast

5.1. The following table represent the forecast Reserves as stated in the MTFS. At the 31 March 2021 the total reserves represents 3% of the annual revenue budget.

	2020/21 Budget £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
General Fund	6,373	6,373	6,373	6,373	6,373
<u>Earmarked Reserves</u>					
Transformation Reserve	3,216	3,216	3,216	3,216	3,216
Capital Reserve	1,935	1,580	1,225	221	0
Insurance Reserve	987	987	987	987	987
Pensions Reserve	2,211	2,211	2,211	2,211	2,211
Collaboration Reserve	57	57	57	57	57
Uplift Reserve	2,644	2,644	2,644	2,644	2,644
Operation Reserves	2,848	2,933	3,018	3,103	3,188
Total Earmarked Reserves	13,898	13,628	13,358	12,439	12,303
Capital Receipt Reserve	1,775	0	0	0	0
Unapplied Grants	331	331	331	0	0
Total Reserves	22,377	20,332	20,062	18,812	18,676

Usable Reserves forecast 31 March 2021

Actual 31-Mar- 20 £'000		Transfer Out £'000	Transfer In £'000	Forecast 31-Mar-21 £'000
6,350	General Fund	0	23	6,373
	<u>Earmarked Reserves</u>			
3,216	Transformation Reserve	0	0	3,216
1,903	Capital Reserve	0	32	1,935
348	Insurance Reserve	(94)	733	987
1,164	Pensions Reserve	0	1,047	2,211
250	Collaboration Reserve	(193)	0	57
0	Uplift Reserve	0	2,644	2,644
3,264	Operation Reserves	(1,107)	691	2,848
10,145	Total Earmarked Reserves	(1,394)	5,147	13,898
3,150	Capital Receipt Reserve	(3,448)	2,074	1,775
331	Unapplied Grants	0	0	331
19,976	Total Reserves	(4,842)	7,244	22,377

The following earmarked reserves have been established (or aggregated as shown above) for the following purposes:

Transformation – These reserves are held to support transformation activity, and are divided between a general transformation reserve and an IT/Digital specific transformation reserve

Capital Reserve – to fund future capital projects on assets with a short asset life, as well as to support any urgent H&S works of a capital nature

Insurance Reserve – provides for the self-funding of certain uninsurable risks and also to cover the excess (£100,000) for any unknown claims before the insurance cover is applied.

Pension Reserve – Provides provision around future unknown costs relating to the public sector pensions age discrimination case (McCloud) as well as for flexibility in the payment of ill health pension payments to the pension fund

Collaboration Reserve – to support the one off costs associated with local public sector collaboration. This reserve is used to either support projects aimed at generating a financial return on the one off investment or improving partnership working and outcomes

Uplift reserve – to support the recruitment of c.300 additional officers into Staffordshire over a three year period, as part of the Governments 20,000 uplift programme. Funding for this programme has been front loaded into year one (2020/21) leading to the establishment of a reserve to equal out programme expenditure

Operational Budget Reserve – this includes a number of specific earmarked reserves, including the reserve used to deal with the direct costs incurred as part of Covid-19.