



Report to Executive Board
Report of Assistant Chief Officer



19th February 2018

**2018/19 Budget Report Regarding
Reserves and Balances**

Purpose of Report

To present to Executive Board guidance and background in respect of general revenue balances and earmarked reserves.

Background

The main budget setting report and medium term financial plan provides information in respect of reserves and balances. The Local Government Finance Act 1992 requires PCC's to have regard to the level of cash reserves needed for meeting estimated future expenditure when calculating the council tax requirement.

Section 25 of the Local Government Act 2003 requires Chief Finance Officers to report on the robustness of budget estimates and adequacy of reserves when the council tax requirement is set.

In December 2017 the Police Minister commented on the level of police reserves currently held and has indicated that new guidance will be issued to PCC's to ensure that the force and the public have access to more detailed information and how PCC's intend to use their reserves.

The Chartered Institute of Public Finance and Accountancy has established 7 key principles in respect of assessing the adequacy of reserves. The table below sets out the principles and a commentary in respect of Durham.

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| <u>Budget Assumptions</u> | <u>Current position in Durham</u> |
|---|--|
| Treatment of Inflation and Interest Rates | The budget is prepared at estimated outturn prices and includes inflation where necessary. The pay award is estimated at 2% which is externally set. There are no significant expected changes to interest rates. |
| Estimates of the level and timing of capital receipts | The receipts from the sale of the old HQ site has been agreed with Persimmon Homes which gives clarity in terms of cash flow and the funding of future capital programmes. |
| Treatment of demand led pressures | The Force is seeing significant demand pressures and invests in service provision where considered appropriate. Scope still exists to increase efficiencies e.g. through procurement activity, income generation, workforce modernisation etc. which will free up resources for investment elsewhere. Several specific earmarked reserves exist with which to manage demand where necessary e.g. NERSOU, SARC, Tactical Training Centre and PCVC reserves. The general reserve would be used as a last resort to manage and fund service pressures. |
| The treatment of planned efficiency savings/productivity gains | The Force has consistently achieved increased efficiency. It has been rated as the most efficient Police Force in England and Wales by HMIC. There are a number of current reviews in place which have started to yield efficiency savings which are also expected to generate further savings. These further savings are not yet built into future planning assumptions which means that the Force can determine when they are implemented and what the savings can be spent on. A significant amount of cash has already been taken out of the revenue budget as a result of austerity which therefore limits the future scope for further efficiencies. |
| Financial risk regarding partnerships / collaboration / outsourcing / capital schemes | No significant outsourcing is expected in the coming years. Collaboration is expected to progress in the short to medium term, however this is only where detailed business plans are produced and financial risks carefully considered. The capital programme is tightly |

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|--|---|
| | <p>controlled to ensure that any overspends are kept to a minimum. There is a risk that partner organisations may continue to withdraw funding from collaboration initiatives which needs to be carefully monitored by the PCVC and the Force. There are no known risks arising from work undertaken by private sector commercial partners on behalf of the Force which are considered to be significant and which will impact on the finances of the PCVC within the short term.</p> |
| <p>Availability of reserves etc.to deal with major contingencies</p> | <p>Provisions are considered adequate at present. They can be used where necessary to support day to day expenditure which would in turn free up resources to meet major contingencies. Any third party claims are dealt with as they arise and where significant would be reported to the PCVC. Additionally there is a facility to request a special grant from the Home Office to meet major contingency costs, but these are subject to independent scrutiny.</p> |
| <p>General financial climate</p> | <p>The PCVC plans to increase average Band D precept by £12 in 2018/19 and potential exists for this to be repeated in 2019/20. This has stabilised the overall financial position going forward, yet there remains a significant risk arising from the introduction of a revised funding formula. Whilst a contingency plan is in place for this eventuality, it would place a greater strain than ever on the Force.</p> <p>Inflation is currently 3% but is expected to fall back towards the Bank of England target of 2% over the coming year. Base rates are expected to rise slightly in the coming year, although this will not materially effect the overall financial position going forward. Overall, the medium term financial plan is balanced for the next 3 financial years but with deficits thereafter. Although these deficits are not considered large it will still need to be managed downwards.</p> |

The general balance is expected to be held at just under 5% of net revenue expenditure. This is in line with external guidance and is there to cover risks and uncertainties such as:

- Unforeseen emergencies e.g. a major investigation.

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- Changes in demand for services
- Failure to achieve income targets
- Uneven cash flows
- Nationally imposed costs

Should the Force apply for a special grant from the Home Office it can only do so once it has spent 1% of its net revenue budget on self-funding any one off costs. A recent example of this is Operation Seabrook. The 1% requirement equates to approximately £1.16m which would need to be met from reserves prior to any claim being submitted.

Expected Changes to Reserve Levels

Within the next 2 financial years it is expected that several reserves and provisions will be used. The table below gives an early indication as to which reserves may be used and the rationale.

| <u>Reserve</u> | <u>Rationale</u> |
|--------------------------|---|
| Pensions | This reserve is likely to be used in part to fund the costs of a further round of voluntary severance and ER/VR for police staff, where considered appropriate. |
| Capital Modernisation | This reserve is likely to be used in order to fund capital schemes, especially in respect of custody improvements. There is also a need to consider re-provision of the SARC and The Barnes as well as improvements to Section Offices. |
| Capital Receipt Reserves | This will also be used to fund the ongoing capital programme in respect of ICT. |

It is difficult at present to be precise as to how much of the above reserves are likely to be spent within the coming 2 years and therefore these have not been reflected in the medium term financial plan. However, a further report will be submitted once these figures become clearer.

Conclusion

The above report supplements information contained within the main budget setting report and also information within the annual accounts of the PCVC. The current

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policy of the PCVC is to maintain a general reserve of approximately 5%. The use of earmarked reserves would be reported to the PCVC prior to them being committed. It is clear that any future financial flexibility in respect of precept will be dependant upon the sound management of reserves and balances as part of wider financial governance and further reports will be presented as necessary in this regard.

Recommendation

The PCVC is recommended to consider the report.

Appendix 1: Risks and Implications

Finance

As outlined in the report. Further reports will be submitted as necessary.

Staffing

No direct impact arising.

Equality and Diversity

No direct impact/

Accommodation

It is expected that the capital modernisation reserve will be used to improve accommodation in the short term.

Crime and Disorder

No direct impact.

Children's Act 2004

No direct impact.

Stakeholder/Community Engagement

No direct impact.

Environment

No direct impact.

Collaboration and Partnerships

No direct impact.

Value for Money and Productivity

No direct impact.

Potential Impact on Police and Crime Plan Priorities

No direct impact.

Commissioning

No direct impact.

Other risks

No direct impact.

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Appendix 2: Summary of Total Reserves from Medium Term Financial Plan

| Financial Reserves | Balance at 31/3/17 | Variation 2017/18 | Estimated Balance 31/3/18 | Variation 2018/19 | Estimated Balance 31/3/19 |
|---------------------------|---------------------------|--------------------------|----------------------------------|--------------------------|----------------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| General | 5,666 | - | 5,666 | - | 5,666 |
| Capital Grants Unapplied | 2,115 | -1,174 | 941 | - | 941 |
| Capital Receipt Earmarked | 3,207 | 3,946 | 7,153 | -489 | 6,664 |
| | 7,344 | - | 7,344 | - | 7,344 |
| Total Reserves | 18,332 | 2,772 | 21,104 | -489 | 20,615 |