

West Mercia Police and Crime Commissioner

Reserves Strategy 2019/20 – 2021/22

1. Introduction

This report provides information on the estimated levels of reserves currently held and explains how some of these will be applied over the next three years to help support the revenue budget and capital programme, fund the Transformation Programme, ensure the PCC and Chief Constable meet statutory responsibilities, manage critical risks and contribute towards key strategic initiatives.

In July 2014 CIPFA issued updated guidance on the establishment and maintenance of local authority reserves and balances, setting out the key factors that should be taken into account locally in making an assessment of the appropriate level of reserves and balances to be held.

In the written statement that accompanied the Provisional Police Grant report on 19th December 2017, the Minister stated “You may be aware that police reserves currently stand at around £1.6bn, which compares to £1.4bn in 2011. We will be changing guidance to PCCs to ensure that police officers and the public have access to more detailed information on how PCCs intend to use this public money”. This report complies with the Ministerial requirement.

The first reserves strategy was published in September 2019. This has now been updated to reflect the 2019/20 budget and Medium Term Financial Plan.

2. Executive Summary

The use of a significant proportion of the Commissioner’s reserves over the life of the Medium Term Financial Plan is an important element of the financial strategy. This is summarised below and shows the full expected deployment of reserves over the life of the plan and the associated movement in the total reserve balance over the MTFP period.

	£m
Actual reserves at the 1st April 2018	33.022
Amount required to support the budget over the life of the Medium Term Financial Plan	(0.913)
Funds to transform policing and meet associated costs	(2.759)
Provisions to meet known risks and commitments	(2.963)
Investment in infrastructure	(12.569)
Reserves remaining at the end of the MTFP period.	<u>13.818</u>

Each year the Treasurer carries out an assessment of the risks facing the Commissioner to determine the minimum level of reserves which the Commissioner needs to continue to hold. This year the assessment is that £10.5m needs to be held to provide adequately for these risks. Further details of the risk assessment are included below.

In the short and medium term there are many challenges and opportunities for policing in West Mercia. These bring significant risks. Critical among them is the development of future collaborative arrangements, particularly with Warwickshire Police. The decision was taken in 2018 to disaggregate local policing budgets within the alliance with Warwickshire, restoring a greater degree of control over resources for West Mercia.. Further to this, notice has now also been served to end the strategic alliance in its current form as it is preventing the delivery of maximum police effectiveness and efficiency in West Mercia. Negotiations have commenced around the possibility of an alternative, mutually beneficial relationship with Warwickshire. This could enable the benefits of the alliance to be retained, but delivered under a different governance arrangement. The outcome of those negotiations is as yet unclear. The current timetable for withdrawal would see the alliance ending in October 2019, although this date can be amended by agreement.

The elements of this budget which include protective services and support services have been prepared within the current strategic alliance arrangement with Warwickshire. Budget requirements are in accordance with the agreed existing cost sharing approach. The budget assumes that from October 2019 new arrangements will be put in place within similar resource envelopes, whether or not that is within a revised collaborative arrangement. The budget will need to be revised at the end of the Strategic Alliance when new arrangements are confirmed.

West Mercia will be legally obliged to meet reasonable costs of implementing the exit strategy for the alliance with Warwickshire, which are as yet unknown. These risks are mitigated by the facts that Warwickshire are legally obliged to minimise costs, as well as by the possibility of a new mutually beneficial collaborative arrangement being negotiated. While an element of financial cost will inevitably be associated with withdrawing from the current alliance, it will also enable service improvements and efficiencies.

The 2019/20 reserves strategy recognises and indeed makes some provision for the risks associated with this change, though at this stage it is not possible to fully assess them.

The Police and Crime Commissioner has also proposed changes to the governance arrangements for the Fire and Rescue Authorities in West Mercia and has gained the approval of the Government to do so. The two Fire Authorities have chosen to seek a Judicial Review of the Home Secretary's decision, and at the time of writing, that Review is yet to be heard. There is potential for increased collaboration between the police and fire services regardless of the outcome of that legal action, but the full benefits are most likely to be realised if the Commissioner assumes governance of all services.

The Commissioner will continue to focus on improving the ICT infrastructure and to rationalise the estate. These initiatives create the need for a significant provision within the reserves, given the considerable risks and potential rewards.

The table below shows the estimated reserve balances at the end of each financial year:

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
General Reserves	10.587	10.587	10.587	10.587
Earmarked Reserves				
Budget Reserve	0.913	0.000	0.000	0.000
Transformation reserve	2.759	0.482	0.194	0.000
Investment in Infrastructure -	14.492	5.925	3.925	1.923
Safer Roads Partnership	1.081	0.510	0.510	0.510
Collaboration	0.300	0.000	0.000	0.000
YJS (collaboration with local authorities)	0.482	0.470	0.470	0.470
CCTV and Rock Project	0.880	0.000	0.000	0.000
Redundancy Reserve	0.400	0.000	0.000	0.000
Insurance and Legal Claims	0.300	0.000	0.000	0.000
Demand Management	0.328	0.328	0.328	0.328
Income	0.500	0.000	0.000	0.000
Total Earmarked Reserves	22.435	7.715	5.427	3.231
Total Reserves	33.022	18.302	16.014	13.818

3. Adequacy of Reserves

In considering the MTFP, the Commissioner needs to consider the level of reserves which he holds. The Commissioner holds a General Reserve, Earmarked Reserves and Capital Reserves. These will, in part, be governed by known or likely commitments, and, in part, by his appetite for risk. The Treasurer has reviewed thoroughly the financial risks facing policing in West Mercia and reassessed the level of reserves required. In doing so, the Treasurer has complied with CIPFA guidance on the establishment and maintenance of local authority reserves and balances, the intention being to ensure clear, transparent reporting around reserves.

Compliance with the 7 key principles in CIPFA's guidance

Budget assumptions	Current situation in West Mercia
The treatment of inflation and interest rates	<p>West Mercia Police (WMP) makes full and appropriate provision for pay and price rises.</p> <p>An informed assessment is made of interest rate movements.</p> <p>All individual expenditure and income heads in the revenue budget are prepared and published at estimated outturn prices</p>
Estimates of the level and timing of capital receipts	<p>The PCC and WMP make a prudent assumption of future capital receipts</p>
The treatment of demand level pressures	<p>The Force is required to operate and manage within its annual budget allocation.</p> <p>The Chief Constable retains an operational contingency within the budget to help finance large scale or corporate operations or issues and to deal with day to day changes in demand and pressure.</p> <p>The force has already identified £11.8m of cash savings which will be removed from the budget over the next three years. This is over and above the cash savings that have been removed from the base budget in the last eight years (i.e. 2011/12 to 2018/19). This cumulative level of budget reduction will inevitably mean that operational budgets will come under greater pressure and/or risk of overspending in future years.</p> <p>Some government grants (e.g. DSP) are announced annually in advance and are cash limited. Any new policing pressures arising during the year will have to be funded from the PCC's own resources.</p> <p>The PCC has created a number of earmarked revenue reserves to help finance specific, ad-hoc expenditure commitments. Appropriations are made to and from these reserves on an annual basis as required.</p> <p>Finally, general balances are used as a last resort to manage and fund demand-led pressures.</p>
The treatment of planned efficiency savings and productivity gains	<p>The force has consistently achieved its annual efficiency target. As in previous years, savings elsewhere in the revenue budget have been identified to cover any shortfall in year.</p>

<p>The financial risks inherent in any significant new funding partnerships, collaboration, major outsourcing arrangements or major capital developments</p>	<p>The financial consequences of partnership, collaboration working, outsourcing arrangements or capital investment are reported to the PCC as part of the medium term planning process. Where relevant any additional costs are incorporated in the annual revenue budget. These are reviewed regularly during the year in the Money Matters report and where necessary the MTFP is amended.</p> <p>There are risks associated with the decision to end the existing alliance with Warwickshire Police, and to seek to negotiate a further collaboration. West Mercia as the party giving notice is legally bound to meet the reasonable costs of implementing the exit strategy, although Warwickshire is legally bound to minimise these costs. It should be noted that the existing cost sharing arrangement excludes premises. There is already significant investment planned in both a Transformation Programme and in improvements to the ICT infrastructure. These projects will be reconfigured if necessary and may offset some costs</p> <p>There is clearly a risk that local authority partners will continue to withdraw funding as their own budgets are reduced and that the continued viability of private sector commercial partners will be exposed to risk in the face of an economic recession.</p>
<p>The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions.</p>	<p>The PCC has created a number of earmarked revenue reserves and provisions to meet specific expenditure items. These are shown below. The access criteria for special grants state that PCCs may be required to fund up to 1% of their net budget requirement themselves before the Government considers grant aid. This applies on an annual basis.</p>
<p>The general financial climate to which the authority is subject.</p>	<p>In December 2018, the Minister for Policing and the Fire Service announced that the police grants would be increased in 2019/20 to reflect the increased costs of police officer pensions. He also stated that PCCs could increase the council tax (band D equivalent) by up to £24 per year in 2019/20. All Police Forces faced a substantial increase in the cost of employer's contributions to the Police Officer Pension Scheme following a review by the Government Actuary. The costs to policing nationally are estimated at £330m a year. For 2019/20 central government is meeting this cost through</p>

	<p>a specific grant and an increase in general grants. Central government will also be considering this issue during the next Comprehensive Spending Review.</p> <p>General inflation in the U.K. has started to increase. CPI is currently at 2.3% and RPI 3.2% (Nov 2018).</p> <p>A provision of 2% p.a. for the pay award has been included in the MTFP. The base rate was increased for the first time in over a decade in Autumn 2017, raising it from 0.25% to 0.5%. It has risen further and now stands at 0.75%. The Governor of the Bank of England has indicated that any future increases will be minimal and gradual.</p> <p>The 4 year medium term financial plan reflects our local best estimate of future inflation rates, increases in government grants and contributions and revenues raised from Council Tax.</p>
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4. General Reserve

In recent years, the Treasurer has undertaken a review of the significant risks and pressures facing the Police and Crime Commissioner before setting a minimum level of reserves held in a General Reserve. In addition, the Treasurer has undertaken a comprehensive review of reserves held

The key risks the Police and Crime Commissioner faces (and for which no specific provision in Earmarked Reserves is made) are:

- a. The possibility of savings targets not being met. As in previous years, no provision will be made in reserves for this as the Force has consistently achieved its savings targets in year. If this approach is taken, the Commissioner recognises that any failure to deliver savings will have to be compensated for, potentially, by service reductions if alternative efficiencies cannot be found.
- b. Possible delays in the delivery of savings. Previous history of significant underspending has been reduced more recently due to tighter budgetary control and strong budget management arrangements. However, some delays in the delivery of savings may occur, particularly in relation to the Transformation Programme. In the current year, for example, there have

been delays in progressing Invest to save schemes, particularly the complex schemes such as the OCC and Athena in the capital programme. Given the achievement of the 2017/18 savings target and the progress made in implementing the savings plans for 2018/19 there is a decrease in the level of reserves held to cover potential delays in the delivery of savings from £4.5m in 2018/19 to £3.1m.

- c. To provide cover for “extraordinary” events or investigations, recognising that these would be likely to attract Special Police Grant (for costs in excess of 1% of the budget). A prudent provision would be for two such events over a five year period, which would require a provision of £4m.
- d. Any reasonable costs of implementing the exit strategy for the strategic alliance with Warwickshire and in negotiating and implementing a revised collaborative arrangement. Costs may be incurred in reconfiguring the ICT infrastructure and in reviewing and changing both policing and support services. Currently these costs cannot be accurately quantified though detailed work is underway to redesign the ICT Infrastructure and reorganise policing and support services. Provision of c£28m has been made in the Medium Term Financial Plan for the modernisation of the ICT infrastructure and funding has been provided for the Transformation Team and the non-recurring costs of review of Services to Policing (this is not linked to the termination of the alliance). There may be some additional legal and contractual costs. An indicative provision of £1m may be prudent within General Reserve.
- e. Any additional delivery costs of the Transformation Programme. These may be capital (e.g. IT costs), but capital costs have a revenue impact. Until the capital costs are determined, the revenue consequences cannot be. An alternative, and one with no marginal cost, would be to absorb any revenue impact by cash-limiting the capital programme and deferring schemes to accommodate any Strategic Alliance spending requirements. There is a specific provision in reserves to cover invest to save schemes, so no additional provision is recommended here.
- f. The risk on inflation, especially on pay. The Medium Term Financial Plan includes a provision of 2% for pay from 2018/19 onwards. Consequently no further provision will be made, although this will be kept under review, as the risk remains.

- g. The budget includes assumptions made around part time police officer working. These changes reduce the Police Officer budget in line with the levels of part time working. If all these officers then decided to return to full-time work this would lead to a budget pressure. History suggests that this is unlikely so no specific provision is likely to be required, however the risk remains.
- h. As already stated, the Home Office is currently undertaking a further review of the Police Funding Formula and may implement a new funding mechanism in the next Comprehensive Spending Review. Under current arrangements West Mercia benefits from the damping mechanism gaining £10m a year. The Home Office did consult on a new formula during 2015 but abandoned the consultation. During this process estimates of the impact on West Mercia ranged from an increase of £9.3m to a decrease of £0.8m. Given the continuing uncertainty around the outcome of this review and any likely date for implementation no provision is being made in 2019/20.
- i. The Government is currently developing plans for the replacement of the Airwaves network (referred to as ESN/ESCMP). There is still a lack of clarity, with not all details being known. However, a provision of £6m has been made in the Medium Term Capital Programme for the Alliance. Any capital costs that may fall to West Mercia could be met by increased borrowing or from the use of reserves. Any increased revenue costs or grant reductions in the short term would need to be funded either from further efficiencies or from the use of reserves.
- j. There should be a general contingency provision for unknowns. Assessing a prudent level for this is impossible, but would be unlikely to be less than 1% of net revenue expenditure, around £2m.

The aggregate cost of those elements which it is feasible to estimate is £10.5m. Coincidentally this is approximately 5% of the net revenue budget, in line with expected best practice and emerging guidance. It should be noted that the impact of higher pay increases, the funding review or increased economic and political uncertainty which cannot be accurately estimated could prove to be significant. The Commissioner does not necessarily have to provide money in reserves for each of these elements individually, unless they are certain to occur, as one contingency can provide for several possible events, provided that all of the events are unlikely to occur together. However, he does need to give realistic consideration to the likelihood of their occurring during the period covered by the plan, and it does need to provide explicitly for those which are certain to occur. Given the relatively low aggregate sum involved, a minimum level of £10.587m is provided in general reserves.

5. Earmarked Reserves

The predicted balance at 1st April 2019 for each earmarked revenue reserve – which has a specific purpose and particular timescale – is shown in the table below.

Earmarked Reserve	Balance at 1st April 2019 £m	Movement In Year £m	Forecast Balance at 31st March 2020 £m	Purpose of Reserve
Budget Reserve	0.913	0.913	0.000	To support the revenue budget whilst implementing the Transformation Programme
Transformation Reserve	2.759	2.277	0.482	To meet the costs of the Transformation Director and the Transformation Team
Investment in Infrastructure	14.492	8.567	5.925	To fund schemes within the capital programme and reduce the need for borrowing thereby minimising financing costs in future years. Current significant schemes include the new OCC at Southwell House and the ICT programme. The Force is currently developing a revised ICT programme to ensure its ICT infrastructure continues to be fit for purpose. Initial broad estimates suggest the combined capital and revenue costs of this programme will be approximately £40m over a four year period. Further detailed studies are being undertaken to determine robust and reliable estimates of the cost, the allocation between revenue and capital expenditure and the profile of this expenditure over the four years.
Safer Roads Partnership Reserve	1.081	0.571	0.510	To fund road safety initiatives. Plans for the deployment of this reserve in 2019/20 are included in the 2019/20 budget.
Redundancy Reserve	0.400	0.400	0.000	To fund redundancy costs arising from the Transformation Programme
Collaboration	0.300	0.300	0.300	To fund the development of collaborations and partnerships

YJS Reserve	0.482	0.012	0.470	Monies held on behalf of local authorities to fund youth justice services.
CCTV and Rock Project Reserve	0.880	0.880	0.000	To fund improvements and upgrades to CCTV systems in 2018/19 and 2019/20 as agreed with Local Authorities. To complete the Rock Project.
Insurance and Legal Claims	0.300	0.300	0.000	To meet the costs of high value claims
Demand Management Reserve	0.328	0.000	0.328	To spend on initiatives to address some of the underlying causes of the increased demand the force is facing. These initiatives include the creation of new improved Victims Services from April 2019.
Income Reserve	0.500	0.500	0.000	To meet budget shortfalls caused by volatility in demand led income streams which can vary considerably from year to year
Total Earmarked Reserves	22.435	14.720	7.715	

The tables in section 2 above show the deployment of all reserves over the life of the Medium Term Financial Plan, and the remaining reserve balances at the end of each financial year.

6. Capital Reserves and Balances

In addition to the revenue reserves capital reserves are also maintained. These are used to finance the capital programme.

There is a reserve holding Capital Grants Unapplied. This holds the capital grants from the Home Office that have not yet been spent. These grants are applied to fund the capital programme and can be carried forward without penalty until required. The balance on the reserve as at 1st April 2019 was £0.133

There is a Capital Receipts Reserve. This holds receipts from the sale of police houses and land and buildings which are no longer needed for operational policing as more efficient use is made of partners' and the policing estate.. The balance on the reserve as at 1st April 2019 was £0.133m. The Police and Crime Commissioner currently estimates that he will receive £3.8m from the sale of surplus assets over the life of this Medium Term Financial Plan. These receipts will be used to fund the capital programme and thus minimise additional borrowing and the associated financing costs.

7. Compliance with Home Office Guidance

On 31st March 2018 the Minister for Policing and the Fire Service published new guidance on the information that each PCC must publish in terms of police reserves. One of the key requirements is that the information on each reserve should make clear how much of the funding falls into each of the following three categories:

- Funding for planned expenditure on projects and programmes over the period of the current Medium Term Financial Plan
- Funding for specific projects and programmes beyond the current planning period
- As a general contingency to meet other expenditure needs held in accordance with sound principles of good financial management

This information is provided in Appendix 1 which analyses the estimated balance of £33.135m on 31st March 2019 over the headings.

8. Conclusions

There has been a comprehensive review of all reserves held by the Police and Crime Commissioner. This report sets out clearly and transparently the reserves held, the purpose for which they are held, the plans for their use and the risks and assumptions underpinning them.

Based on current planning assumptions, the level of general reserves should stay above the recommended minimum level through to 2021/22 and sufficient provision has been made in earmarked reserves to fund expected one-off pressures notably the further implementation of the Transformation Programme. In addition the capital reserves and the investment in infrastructure reserve will be used to fund a significant proportion of the Medium Term Capital Programme – an extensive programme to support much needed investment in land, buildings, ICT systems and vehicles. This will give policing officers and staff up to date, fit for purpose facilities and enable them to provide a modern, efficient and effective policing service. By generating efficiencies and reducing borrowing costs, the use of the infrastructure and capital reserves will ensure a more sustainable financial position in the longer term. Deploying these reserves over the medium term rather than in a single year also permits some flexibility should it be necessary.

The risks associated with the 2019/20 budget have increased significantly. The West Mercia Police Force is facing the challenge of dealing effectively with the demands placed by both an increase in crime and changes in the nature of crime. It is seeking to negotiate a revised collaboration with the Warwickshire Force or if this cannot be achieved, establishing its activities to operate independently. This creates greater uncertainty and risks in setting a budget for 2019/20. At the same time, West Mercia has an ambitious programme to reconfigure its operational estates and modernise its ICT infrastructure. The Force will require robust project and programme management arrangements if it is to successfully achieve its aims within the resources available. However the Police and Crime Commissioner holds substantial reserves and has increased the recurring revenue available (with a 9.94% increase in Council Tax). This, combined with the strong financial management arrangements in place, recent investment and improvements in programme and project management and planned changes to corporate governance, should give the Force the ability to implement this programme successfully. The Police and Crime Commissioner will hold the Chief Constable to account during this time.

Overall this reserves strategy together with the robust management and governance arrangements set out above creates an acceptable, appropriate and sustainable position as we continue the prolonged period of fiscal tightening in an increasingly uncertain world.

Appendix 1 - Analysis of revenue and capital reserves as at 31st March 2018

	Actual Balance 31.3.18 £m	Planned expenditure on projects & programmes over next 3 years £m	Funding for specific projects and programmes beyond 20/21 £m	As a general contingency or resource to meet other expenditure needs £m
GENERAL REVENUE RESERVE	10.587	0.000	0.000	10.587
EARMARKED REVENUE RESERVES				
Budget Reserve	0.913	0.913		
Transformation Reserve	2.759	2.759		
Investment in Infrastructure Reserve	14.492	12.569	1.923	
Safer Roads Partnership Reserve	1.081	0.571	0.510	
Redundancy Reserve	0.400	0.400		
YJS Reserve	0.482	0.012	0.470	
Collaboration	0.300	0.300		
Insurance and Legal Claims Reserve	0.300			0.300
CCTV and ROCK Project Reserve	0.880	0.880		
Demand Management	0.328	0.000	0.328	
Income Reserve	0.500			0.500
Total Earmarked Revenue Reserves	22.435	18.404	3.231	0.800
TOTAL REVENUE RESERVES	33.022	18.404	3.231	11.387
CAPITAL RESERVES				
Capital Grants Unapplied	0.000			
Capital Receipts	0.133	0.133		
Total Capital Reserves	0.133	0.133	0.000	0.000
TOTAL CASH RESERVES	33.155	18.537	3.231	11.387