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RESERVES STRATEGY

April 2018



HAMPSHIRE POLICE AND CRIME COMMISSIONER

Title:	Reserves Strategy
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1. Background

- 1.1. The PCC published a Reserves Strategy as part of the 2018/19 budget report.
- 1.2. On the 31 January 2018 (which was post the publication of the 2018/19 budget report), new reserves guidance was issued to all PCCs (see the link below). The requested information required in the new guidance is consistent with the existing Reserves Strategy but requests a further level of detail. This report sets out the relevant information already published in the Budget report and also the additional detail requested.
<https://www.gov.uk/government/publications/police-finance-reserves-guidance>
- 1.3. The Reserves Profile shows that existing planned commitments will result in a forecast reduction of reserves by March 2022 to £14m (down from £66m at the end of March 2017), of which the General Reserve would be £8m which is just under 3% of the annual revenue budget at that point. This assumes that there are no adverse issues that impact on the General Reserve.
- 1.4. The Chief Finance Officers have a responsibility to ensure that the level of reserves maintained is sufficient. The Police Reform and Social Responsibility Act 2011 states that only the PCC, and not the Chief Constable, is permitted to hold reserves. In Hampshire, it was agreed that this would continue to be the case after the Stage 2 transfer in May 2014.
- 1.5. The Chartered Institute of Public Finance and Accountancy (CIPFA) produces guidance on reserves, but the exact level of reserves to be held is left as a local decision due to the need to reflect individual circumstances. Whilst there are no firm requirements on the amount, it is clear that reserves must be held to ensure that the organisation is able to meet any unexpected liabilities. CIPFA warned that the use of reserves to deal with shortfalls in day-to-day spending would be a “recipe for significant financial problems”.
- 1.6. The current financial climate has resulted in the Government introducing a programme of austerity measures that has reduced the amount of funding made available to many public sector organisations, including the police service. Other Government fiscal policy decisions such as the increase in employers’ national insurance contributions have had a significant impact on costs. Some of the changes made have to be implemented at relatively short

notice. Therefore, the austerity programme and the resulting changes create an increased risk to financial stability which will naturally require an increase in reserves to reflect this risk. Reserves will also be required to support the significant investment required to reform policing and achieve the Policing Vision 2025.

- 1.7. Reserves required for accounting purposes only are not covered by this strategy as they are not optional and follow proper accounting practices.

2. Financial Stability

- 2.1. The PCC continues to use reserves to pay for the cost of change that is required to meet both the financial challenge and the necessary investment to ensure that the Constabulary remains a modern, operationally effective Police Service.
- 2.2. The level of reserves continues to be reviewed by the PCC, Chief Finance Officers and auditors to ensure that suitable reserves are in place to mitigate and manage the risk of the financial challenges faced, and to ensure that reserves are not unnecessarily held to the extent that is detrimental to current service delivery.
- 2.3. Additionally, Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) also review reserves. The current rating for efficiency is 'good' with no areas for improvement recommended for financial management or reserves.
- 2.4. Reserves are necessarily and appropriately held as part of good strategic financial management and are a key element in supporting the PCC's medium term planning and Medium Term Financial Strategy. Reserves held by the PCC are reducing, and are likely to reduce further in the medium term.
- 2.5. Reserves are also a one off resource, which unless replenished, can rapidly diminish.
- 2.6. In the medium term there is significant financial stress in the system to be managed, including:
 - i) managing the impact of declining government funding against a back drop of increasing demand
 - ii) funding necessary investment to deliver the PCC's ambition in relation to delivery of the Police and Crime Plan and commissioning of services
 - iii) the consequences of national programmes (e.g. ESMCP) which require a local funding stream for delivery of its outcomes as well as being subject to growing needs for top sliced contributions to deliver the national infrastructure.
 - iv) the significant investment required to embrace an ever evolving technology and digital landscape.
 - v) the investment required to ensure that the Constabulary remains modern and fit for purpose, ahead of those who wish us harm and are engaged in criminal activities using technology as the vehicle.

- 2.7. In view of the cost pressures faced by the PCC and the Constabulary, in the medium term there will be a significant call on reserves to fund one off pressures, initiatives and investment.
- 2.8. In setting a precept increase for Band D of £12 per annum, the PCC has been able to fund the current priority growth/pressure items from within the revenue budget over the next 4 years.
- 2.9. This allows the draw on reserves to be reduced, and the current level of the Transformation Reserve to be protected (net of the earmarked projects already agreed), with the remaining balance available for future utilisation to fund the required ongoing change and transformation which the Constabulary will be required to deliver in later years of the MTFs; there is already a significant pipeline of projects which due to funding constraints have not been prioritised for inclusion in the current budget/MTFS, but will need to be continually reassessed and prioritised for future investment.
- 2.10. There therefore remains a significant number of potential calls for one off investment for consideration by the PCC, and we know that change and transformation will be continual.
- 2.11. In his letter to PCCs the Minister of State for Policing and Fire and Rescue set out that:

'the protection offered by this settlement must be matched by a serious commitment for PCCs and Chief Constables to reform and improve productivity and efficiency to deliver a better, more transparent service to the public, that can meet the demands it faces today and in the future.....I expect police leaders to deliver clear and substantial progress on productivity and efficiency.....we also need to take advantage of the opportunities offered by mobile technology'

- 2.12. It is clear that to meet the Minister's aspirations, ongoing investment to support transformation and keeping up to date with technology will be required. Similarly, investment will also be required to meet the PCC and Chief Constable's aim of ensuring that the Constabulary continues to be a modern, operationally effective Police service.
- 2.13. The CFO's assessment is therefore that far from being sat on significant unwarranted reserves, that the level of transformation reserve available will potentially be insufficient to meet the ongoing requirement for one off expenditure to meet future cost pressures, initiatives and investment in the medium term.

3. Reserves

- 3.1. The PCC continues to use reserves to pay for the cost of change that is required to meet both the financial challenge and the necessary investment to ensure that the Constabulary remains a modern, operationally effective Police Service.
- 3.2. The forecast Reserves position is as set out in full in appendix 1, with a snapshot of the position below which shows the position as at 31 March

2017, the forecast position 31 March 2018 and the forecast position through to the end of the medium term financial strategy as at 31 March 2021:

	Actual as at 31 March 2017	Forecast as at 31 March 2018	Forecast as at 31 March 2019	Forecast as at 31 March 2022
General Reserve	9.979	9.592	9.205	8.044
Earmarked Reserves	62.510	40.472	17.604	5.100
Total Reserves available for use by the PCC to support Policing and 'Beyond Policing' to deliver the Police and Crime Plan	72.489	50.064	26.809	13.144
Ring fenced Reserves held on behalf of others not available to spend by the PCC	11.962	11.962	11.962	11.962
Revenue grant unapplied	0.307	0	0	0
Total Reserves	84.758	62.026	38.771	25.106

- 3.3. The table above shows that whilst the total reserves attributable to the PCC are forecast to be £62m at 31st March 2018, only £50m is available to be used directly by the PCC to support Policing and the 'beyond policing' element of his Police and Crime Plan.
- 3.4. The table also shows that reserves are forecast to reduce significantly by March 2022.
- 3.5. The two main reserves available to the PCC to fund investment, transformation and cost pressures are the General Reserve and the Transformation Reserve (which is included with 'Earmarked Reserves').
- 3.6. Whilst the General Reserve will remain fairly static over the timeline of the medium term financial plan (see section 4.1 – 4.4), there are already significant plans in place to fund a range of committed or anticipated projects from the Transformation Reserve, and further detail is set out in section 3.14 – 3.18.

Categorisation of Reserves

- 3.7. The Reserves Guidance issued on the 31st January 2018 requests that reserves are split across the following headings:
- 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 will currently be the balances remaining as at March 2021.

- The general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management

The above split of reserves is shown in Appendix 1.

4. General Reserve (Forecast 31 March 2018 is £9.6m)

- 4.1. The General Reserve is the main reserve held to manage unidentified and unforeseen risk. The PCC CFO is required to set a minimum level for the General Reserve.
- 4.2. General reserves are by nature 'not specific' (they are not earmarked), and are held to cover unforeseen risk and cost pressure, for example:
 - cost of national programmes overrun
 - uneven cashflows and managing the timing of savings
 - unforeseen emergencies requiring significant one off spend e.g a significant incident
 - demand pressures
- 4.3. The general reserve balance is forecast to be £9.6m at the end of March 2018, which equates to 3.33% of the 2018/19 net budget which is within the 5% maximum set by the Minister of State for Policing.
- 4.4. The forecast position for the General Reserve over the course of the medium term financial plan is as follows:

	£m	% of Net Budget for following year
Balance at 31 March 2017	9.979	3.38%
Forecast balance as at 31 March 2018	9.592	3.33%
Forecast balance as at 31 March 2019	9.205	3.18%
Forecast balance as at 31 March 2020	8.818	2.99%
Forecast balance as at 31 March 2021	8.431	2.84%
Forecast balance as at 31 March 2022	8.044	2.84%*

* the March 2022 balance is shown as a percentage of the 2021/22 forecast net budget as the MTFs does not include a forecast budget for 2022/23.

5. Earmarked Reserves

- 5.1. In addition to the general reserve, the PCC also holds a number of earmarked reserves, as set out below (the table shows the March 2017

balance, the forecast March 2018 balance and the forecast March 2021 balance, with more detail shown in appendix 1):

	Actual as at 31 March 2017	Forecast as at 31 March 2018	Forecast as at 31 March 2019	Forecast as at 31 March 2022
Transformation Reserve	45.852	29.768	15.015	2.811
Commissioners Reserve	3.346	2.750	0	0
Equipment Reserve	1.000	1.000	1.000	1.000
Performance Reserve	1.693	0.693	0.300	0
Insurance Reserve	1.477	1.000	1.000	1.000
Laboratory Reserve	0.153	0.050	0.50	0.050
Repairs and Maintenance	4.972	4.972	0	0
Technology	0.986	0	0	0
Netley Business Plan	0.239	0.239	0.239	0.239
Capital revenue contributions	2.792	0	0	0
Total Earmarked Reserves	62.510	40.472	17.604	5.100

5.2. Further detail as to the purpose of each earmarked reserve is set out below:

Transformation Reserve (Forecast 31 March 2018 is £29.8m)

- 5.3. The Transformation Reserve is the reserve was specifically set up to recognise the significant investment required to deliver transformational change, support the significant investment requirements linked to technology development and digital initiatives, and to provide a buffer to help manage the budget in the medium term at a time when the PCC's funding is being significantly reduced.
- 5.4. These programmes generally impact over more than one financial year and allocating funds to ensure delivery of the programmes and their outcomes makes prudent sense in a time when budgets continue to be based on annual settlements.
- 5.5. The opening balance of the Transformation Reserve as at 31 March 2017 was £45.9m. Approvals for use are covered by published PCC decisions. At the point the budget was approved, allocations of £25.6m had been approved for use, but unspent as at 31 March 2017. The breakdown of the 2017/18 approved draws from this reserve is set out overleaf:

Transformation Reserve - committed but unspent

Commitment	£m
Force Development Programme – the overarching programme that looks at options for further effectiveness and efficiencies	2.0
ICT 5 year plan – investment in technology infrastructure	7.9
Estates Change Programme - delivery of new estate	2.1
Commissioning – funding to third parties to deliver PCC priorities	0.8
Contact Management Platform	6.3
Crime Data Integrity team to improve the quality of crime reporting data in line with national standards	2.1
Digital Policing Programme to deliver digital assets to frontline (e.g. smartphones and laptops)	1.6
Role of the Manager changes to HR processes within SAP to save officer time	1.1
Investigator payments to incentivise more officers to become investigators due to local and national shortage	0.5
Fire Governance review	0.4
other smaller allocations to deliver change	0.8
Total Commitments	25.6

5.6. The commitments of £25.6m against an opening balance of £45.9m left a balance of £20.3m available for allocation at the time of approving the Budget report. The 2018/19 budget report included two further commitments against the Transformation Reserve for:

- I. **Emergency Services Mobile Communications Programme (ESMCP) £7m** - an upgrade to RMS. ESMCP is a national programme led by the Home Office to replace the existing Airwave radios. The £7m cost to Hampshire is the Home Office's current best estimate of the local cost to the PCC but delivery is currently behind schedule so there is a risk that costs could increase. The existing airwave network will be decommissioned and ESMCP will be the only option available.
- II. **RMS Upgrade £1m** - The force's current crime recording system (known as RMS) is on an operating system that will be unsupported so an upgrade is required to ensure that the system remains available. There will be new functionality provided by the

upgrade that will assist with effectiveness and efficiency. There are set out below:

Transformation Reserve – committed in Budget 2018/19

	£m
Unallocated balance prior to Budget 18/19	20.3
Initiatives funded in Budget 2018/19	
ESMCP	(7.0)
RMS Upgrade	(1.0)
Remaining Unallocated Balance	12.3

- 5.7. There is also an earmarked sum of £5m available for further Force Development costs. This sum is not approved as yet by the PCC as it will be subject to business cases but the amount is earmarked within the Transformation Reserve as it will be essential to continue to deliver effectiveness and efficiency improvements. The deduction of that £5m leaves £7.3m available as shown in the table overleaf:

Transformation Reserve – earmarked

	£m
Current unallocated balance	12.3
Force Development	(5.0)
Remaining Balance	7.3

Commissioner’s Reserve

- 5.8. The Commissioner’s Reserve (Forecast 31 March 2018 of £2.750m) holds amounts that are used specifically to support the Commissioner’s priorities. The programmes that this is intended to support are the Estate Change Programme (£2.750m) and Commissioning. A contribution to the reserve of £1.140m will be made in 2018/19. The amount is expected to be released for spending during 2018/19, including £700k to support commissioning and partnership projects.

Other Earmarked Reserves

- 5.9. The PCC holds some other smaller reserves for specific purposes. These are the:
- **Equipment Reserve** (£1m) is available to offset the impact of large scale equipment replacement such as the need to replace body armour when the warranty for body armour expires. This reserve will be used when needed and then replenished as the financial position allows.

- **Performance Reserve** (£0.639m) used to pay for specific targeted medium term operations such as Cyber Crime.
- **Insurance Reserve** (£1m) available to pay for items that are not covered by the insurance contract. Research and experience has shown that it is more cost effective to hold a reserve for some things that are low risk and low probability rather than pay an insurance premium to cover them. This reserve is expected to be maintained at a similar level.
- **Laboratory Reserve** (£0.050m) available to pay for renewal of equipment as part of a joint scheme with Hampshire County Council. This reserve will be used periodically and replenished in between.
- **Capital (Revenue Contributions) Reserve** (£nil) holds funds that have been set aside from within the annual revenue budget to pay for capital schemes. This reserve will collect funds on a temporary basis as the funds will usually then be paid out in the next one or two years to cover the cost of a capital scheme.
- The **Netley Business Plan** (£0.239m) holds surpluses from hiring of the venue to allow for further investment in the site to generate further income
- **Repairs and Maintenance** (£0.497m) ring-fenced for essential repairs and maintenance agreed.
- **Technology carry forward** (£0.986m) ring-fenced to pay for technology projects that have funding in the previous year but are not completed as at the financial year end so the funding needs to be carried forward to pay for the remaining elements of the project delivered in the new financial year.

6. Ringfenced Reserves held by but not available to use by the PCC

- 6.1. In addition to the reserves set out above, the accounts include earmarked reserves that are ring fenced for specific purposes and are not available for use by the PCC. These are:

	Actual as at 31 March 2017	Forecast as at 31 March 2018	Forecast as at 31 March 2022
ACRO Surety	4.000	4.000	4.000
AVCIS Surety	0.346	0.346	0.346
ACRO surplus	6.553	6.553	6.553
Safer Roads Unit	1.063	1.063	1.063
Total Ringfenced Reserves not available to use by the PCC	11.962	11.962	11.962

6.2. The purpose of these reserves is as follows:

- **ACRO** is the national ACPO Criminal Records Office which is hosted in Hampshire. The funds are not available to the PCC for use in the Hampshire policing area. **ACRO Surety** (£4m) and **AVCIS Surety** (£0.346m) held to cover any potential costs to the Chief Constable or PCC should ACRO cease to trade on its current basis.
- **ACRO Surplus balance** - other net surplus balances held on behalf of ACRO (£6.6m). The governance board for ACRO determines the use of reserves. The annual budget and use of reserves is presented to the National Police Chief's Council each year.
- **Safer Roads Unit** (£1.1m) balance ring-fenced to be used on safer roads initiatives. This funding is planned to be used to replace existing safety cameras with digital cameras.

Appendix 1 – Analysis of Useable Reserves

		Analysis of how the Predicted 31 st March 2018 Reserves will be utilised		
	Forecast Balance 31.3.18 £m	Planned Expenditure on projects and programmes over the medium term to 2021/22 £m	Funding for Specific projects and programmes beyond 2021/22 £m	As a general contingency to meet other expenditure needs £m
General Reserve	9.592	1.548	0.000	8.044
Transformation Reserve	29.768	26.957	2.811	0.000
Commissioner's Reserve	2.750	2.750	0.000	0.000
Equipment Reserve	1.000	0.000	1.000	0.000
Performance Reserve	0.693	0.693	0.000	0.000
Insurance Reserve	1.000	0.000	1.000	0.000
Laboratory Reserve	0.050	0.000	0.050	0.000
Netley Business Plan	0.239	0.000	0.239	0.000
Repairs and Maintenance	4.972	4.972	0.000	0.000
Technology	0.000	0.000	0.000	0.000
Total Useable Reserves	50.064	36.920	5.100	8.044

Appendix 2 – Analysis of profile

Reserves	As at	17/18	As at	18/19	As at	19/20	As at	20/21	As at	21/22	As at	As at	Planned spend	Specific funding	General	
	31/03/17		31/03/18		31/03/19		31/03/20		31/03/21		31/03/22	31/03/18	by 2021/22	beyond 21/22	contingency	
	£000											£000				
General Reserve:																
Other movements		(387)		(387)		(387)		(387)		(387)						
Balance	9,979		9,592		9,205		8,818		8,431		8,044	9,592	1,548	0	8,044	
Transformation Reserve																
Contributions to Transformation Reserve																
Use of reserve		(16,084)		(14,753)		(6,204)		(2,000)		(2,000)		29,768	26,957	2,811	0	
Balance	45,852		29,768		15,015		6,811		4,811		2,811					
Commissioner's Reserve																
Movement		2,750		(2,750)		0		0		0		2,750	2,750	0	0	
Balance	0		2,750		0		0		0		0					
Estate Risk Reserve																
Movement		(2,750)		0		0		0		0						
Balance	2,750		0		0		0		0		0					
Commissioning																
Movement		(596)		0		0		0		0						
Balance	596		0		0		0		0		0					
Equipment Reserve:																
Movement		0		0		0		0		0		1,000	0	0	1,000	
Balance	1,000		1,000		1,000		1,000		1,000		1,000					
Performance Reserve:																
Movement		(1,000)		(393)		(300)		0		0		693	693	0	0	
Balance	1,693		693		300		0		0		0					
Insurance Reserve:																
Movement		(477)		0		0		0		0		1,000	0	0	1,000	
Balance	1,477		1,000		1,000		1,000		1,000		1,000					
Laboratory Reserve:																
Used to replace equipment		(153)		(50)		(50)		(50)		(50)		50	0	50	0	
Contributed for future costs		50		50		50		50		50						
Balance	153		50		50		50		50		50			50		
Capital (Revenue Contributions) Reserve:																
Contribution from revenue account		200		200		200		200		200		0	0	0	0	
Used to support capital programme		(2,992)		(200)		(200)		(200)		(200)						
Balance	2,792		0		0		0		0		0					
Carry Forward Ringfenced funding:																
Estate repairs and maintenance	4,972	0	4,972	(4,972)	0	0	0	0	0	0	0	4,972	4,972	0	0	
Technology etc	986	(986)	0	0	0	0	0	0	0	0	0	0	0	0	0	
Netley Business Plan	239	0	239	0	239	0	239	0	239	0	239	239	0	239	0	
Sub-total of Reserves available to use	72,489	(22,425)	50,064	(23,255)	26,809	(8,891)	17,918	(2,387)	15,531	(2,387)	13,144	50,064	36,820	3,100	30,044	
% of Total Net Expenditure Budget	24.7%		17.3%		9.4%		6.3%		5.4%		4.6%					
Earmarked Reserves:																
ACRO surety	4,000	0	4,000	0	4,000	0	4,000	0	4,000	0	4,000	4,000	0	0	4,000	
AVCIS surety	346	0	346	0	346	0	346	0	346	0	346	346	0	0	346	
ACRO general reserves	6,553	0	6,553	0	6,553	0	6,553	0	6,553	0	6,553	6,553	0	6,553	0	
Safer Roads	1,063	0	1,063	0	1,063	0	1,063	0	1,063	0	1,063	1,063	0	1,063	0	
Balance on earmarked reserves	11,962	0	11,962	0	11,962	0	11,962	0	11,962	0	11,962	11,962	0	7,616	4,346	
Revenue Grants Unapplied																
Balance	307	(307)	0	0	0	0	0	0	0	0	0	0	0	0	0	
Total Revenue Reserves:	84,758	(22,732)	62,026	(23,255)	38,771	(8,891)	29,880	(2,387)	27,493	(2,387)	25,106	62,026	36,820	10,716	34,390	