

## RESERVES STRATEGY 2016/17

### Introduction

1. This appendix sets out the latest position in relation to the level of the Commissioner's reserves and the strategy regarding the use of reserves in future years. It is a statutory requirement that the Chief Finance Officer presents a report to the Commissioner, as part of the budget process, which assesses the adequacy of reserves in the context of corporate and financial risks facing the Commissioner and the Force.
2. This Reserves Strategy has therefore been submitted to the Commissioner as part of the process for setting the 2016/17 budget, capital programme and council tax precept. The Strategy sets out the purpose of the general reserve and earmarked reserves and the recommended approach for their use in the medium term.

### Purpose of Reserves

3. The Commissioner holds Reserves which fall into two distinct categories:
  - General Reserves: these are necessary to fund day to day cash flow requirements and also to provide a contingency in the event of any unexpected events or emergencies, and
  - Earmarked Reserves: these have been created for specific purposes and involve funds being set aside to meet known or predicted future liabilities. By establishing such reserves, it will avoid liabilities being met from Council Tax or Grant in the year that payments are made.
4. The required level of reserves needs to be assessed against the potential risks that face the Commissioner and the Force in 2016/17 and beyond. This assessment is even more important as the Finance Settlement from the Government in 2016/17 is for one year only with the review of the Funding Formula mechanism being deferred to 2017/18 increasing the uncertainty of future cuts.
5. The factors that need to be considered will include the financial risks associated with:
  - The deliverability of savings proposals within the intended year of implementation,
  - The potential for additional demand led pressures and costs,

- The likelihood of any additional government funding to offset unforeseen or unbudgeted expenditure, and
  - The nature of any historic events and potential liabilities arising from these events e.g. including the legacy issues associated with Hillsborough, Orgreave and cases of child sexual exploitation.
6. Reserves can be used to meet one off expenditure and once they are used, they are not available to support future years. They are therefore most suited to covering one off unexpected costs including expenditure that funds initiatives that will generate efficiencies in the future (on an invest to save basis) or costs that are likely to be incurred in the future but where the level and timing is uncertain (e.g. legal or other claims against the Commissioner/Force).
  7. There is no nationally recognised measure of the level of reserves that should be maintained. As a broad rule of thumb, the Audit Commission (in its 2012 report “Striking a Balance”) suggested that most Chief Finance Officers regard an amount of “between 3% and 5%” of net revenue spending as a prudent level for general reserves. However, the required level is a matter of judgement based on known/estimated risks, budgetary pressures and local factors.

### Earmarked Reserves

8. The Earmarked Reserves that currently exist are set out below:

PCC Commissioning Reserve: underspends on commissioning budgets have been carried forward for use in the following year.

Insurance Reserve: this represents sums set aside to fund potential liabilities under current insurance arrangements.

Devolved Budget Reserve: as part of the devolved financial management arrangements, budget holders are allowed to carry forward underspends up to approved limits to fund expenditure in the following year.

Capital Reserve: this represents amounts set aside to support the Commissioners capital investment programme.

### Current and planned level of reserves

9. At the start of the 2015/16 financial year, the total level of reserves stood at £44.8m including £16.4m of general reserves. There has been movement during the financial year involving the use of approximately £7.4m from reserves to fund capital expenditure, legacy liabilities and Commissioning costs. The Commissioner agreed during 2015/16 to change the original reserves strategy so as to maintain reserves at an adequate level. The capital

programme no longer relies on a revenue contribution of £4.3m and the Innovation Reserve has been brought into the General Reserve. Forecast revenue underspends of £4.2m in 2015/16 are now included in the forecast year-end position.

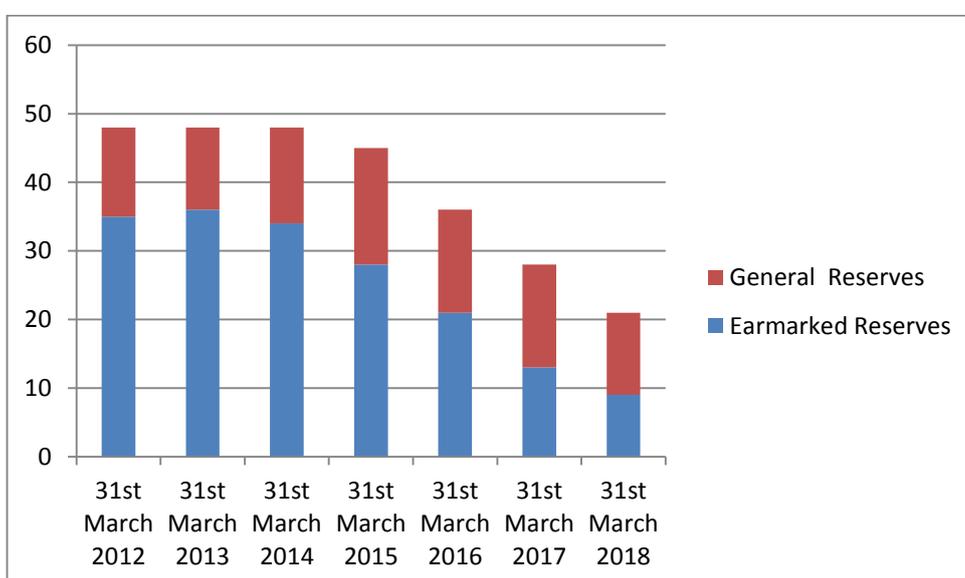
10. The proposed budget for 2016/17 includes contributions from reserves amounting to approximately £7.7m including:
- Funding of £1.6m from the Devolved Budget Reserve to support the planned redundancy programme,
  - Funding of £2.4m from General Reserves for potential Legacy Issue Costs
  - Funding of £3.7m from the Capital Reserve to contribute to the funding of the Capital Programme.
11. The estimated position at 31 March 2017 is that total reserves will stand at £28.1m as set out below:

	Forecast Balance at 31/3/16	Planned Contributions in 16/17	Forecast Balance at 31/3/17
<b>RESERVES</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
General Reserve balance	15,293	-2,302	12,991
<u>Earmarked Reserves - Revenue</u>			
PCC Commissioning reserve	511	0	511
Insurance Reserve	10,806	0	10,806
Devolved Budgets	1,742	-1,660	82
Total Earmarked Revenue Reserves	13,059	-1,660	11,399
<u>Earmarked Reserves - Capital</u>			
Capital Reserves	7,484	-3,742	3,742
Capital Grants unapplied	25	-25	0
Total Earmarked Capital Reserves	7,509	-3,767	3,742
<b>OVERALL TOTAL</b>	<b>35,861</b>	<b>-7,729</b>	<b>28,132</b>

12. There is the potential for a further call upon reserves in 2016/17 as a result of the Innovation Fund bid of £0.4m. The results of the Innovation Fund bids will

not be known until the end of March 2016 and therefore the present forecast does not include any support from reserves for innovation expenditure.

13. The level of General Reserves is estimated to be approximately £12.9m by 31 March 2017. This would represent approximately 5.3% of the net revenue budget for 2016/17. Although this measure can only be regarded as a guide, it does suggest that the overall level of General Reserves is within the adequate range. This does not include any further potential legacy liabilities which could affect the level of the reserves and the adequacy of reserves. Therefore, the overall level must be kept under review as part of medium term planning and the monitoring of risks.
14. The level of reserves has fallen in recent years. The following chart shows the level of reserves from March 2012 and the forecast levels from March 2016 to March 2018.



### Adequacy of Reserves

15. The proposed revenue budget includes provisions for potential expenditure on legacy issues. The amounts included in the proposed budget amount to £7.2m and contributions from reserves of £2.4m support this expenditure. These provisions reflect an assumption that any potential expenditure on legacy issues will largely be met from additional funding from Government
16. On the basis of the assumptions reflected in the proposed budget, the level of General Reserves is adequate. There is the potential for legacy costs to be significant in the future and the likelihood of additional funding from Government is uncertain. While the maximum total impact of this risk could far exceed the reserves held, the overall likelihood of these costs falling in any one year, if at all, is low and therefore it is not deemed prudent or feasible to build up reserves to cover all eventualities.