



COMMUNITY JUSTICE SECURITY

## EXECUTIVE ORDER 0058

### Review of the Commission's Reserves and Provisions Policy for 2016-17

By the authority of the Police and Crime Commissioner as designated by the Police Reform and Social Responsibility Act 2011, and, by democratic mandate invested in me by the electorate of Northamptonshire, I have taken the following decisions:

#### **To approve the revised Reserves and Provisions policy for 2016-17 (attached)**

All publicly funded organisations should have a reserves policy to demonstrate transparency and accountability, to comply with best practice financial management and to justify the levels of reserves held.

The Commission maintains reserves to provide a measure of protection against risk.

Without this protection, any unforeseen expenditure would have to be met either by increases in Council Tax or immediate savings (potentially through reductions in service levels).

Provisions are required for any liabilities where the timing of the payment of the amount is uncertain.

In accordance with best practice the Commission reviews its Reserves and Provisions policy annually.

**ADAM SIMMONDS**  
NORTHAMPTONSHIRE POLICE AND CRIME COMMISSIONER  
15<sup>th</sup> February 2016



## **NORTHAMPTONSHIRE POLICE AND CRIME COMMISSION RESERVES AND PROVISIONS POLICY FOR 2016-17**

### **1. The importance of a Reserves and Provisions Policy**

- 1.1. Reserves are a key part of medium-term financial planning – other components include revenue spending plans, income forecasts, potential liabilities, capital investment plans, borrowing and council tax levels. Decisions on these are inter-linked. Consequently some organisations will need to maintain reserves at higher levels than others.
- 1.2 All publicly funded organisations should have a reserves policy to demonstrate transparency and accountability, to comply with best practice financial management and to justify the levels of reserves held.
- 1.3 The Commission maintains reserves to provide a measure of protection against risk. Without this protection, any unforeseen expenditure would have to be met either by increases in Council Tax or immediate savings (potentially through reductions in service levels).
- 1.4 The term "reserves" has a variety of technical and every day meanings, depending on the context in which it is used. For the purposes of this policy it is taken to mean funds set-aside at the Commission's discretion for general or specific future purposes.
- 1.5 Reserves are required to protect and enhance the financial viability of the Commission and in particular:
  - To maintain a degree of in-year financial flexibility;
  - To enable the Commission to deal with unforeseen circumstances and incidents;
  - To set aside monies to fund major developments in future years;
  - To enable the Commission to invest to transform and achieve improved service effectiveness and efficiency;
  - To set aside sums for known and potential liabilities;
  - To provide an operational contingency at service level.
- 1.6 Reserves should not be held to fund ongoing revenue expenditure as this is unsustainable in the long term; however they may be important in smoothing a major financial imbalance (revenue or capital) over a longer timescale. CIPFA guidance LAAP 77 published November 2008 states:

*"Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option. However it is not normally*

*prudent for reserves to be deployed to finance recurrent expenditure. Where such action is to be taken this should be made explicit, and an explanation given as to how such expenditure will be funded in the medium to long term”*

- 1.7 The Reserves Policy assumes that the Medium Term Financial Plan [MTFP] is broadly balanced on a sustainable basis across the five year planning period. Reserves should reflect the agreed financial strategy and should represent the quantified impact of risks and opportunities over the planning period, weighted for their probability.
- 1.8 Provisions are required for any liabilities where the timing of the payment or the amount is uncertain.

## **2. Aspects to consider**

- 2.1 The policy should specifically consider the aspects set out below.

### Rationale

- 2.2. The purpose behind each reserve should be clearly stated. The policy should also state how and when the reserve may be used.

### The adequacy of Reserves

- 2.3. There is no prescribed level of reserves that Police and Crime Commissions should hold and this is influenced by individual discretion, local circumstances, advice from external auditors, risk management arrangements and risk appetite. CIPFA guidance in LAAP Bulletin 77 specifically cautions against prescriptive national guidance for a minimum or maximum level of reserves and states:

*“The many factors involved when considering appropriate levels of reserves can only be assessed properly at a **local** level. A considerable degree of professional judgement is required”*

- 2.4. Factors to be taken into account include:
  - The general economic conditions;
  - The financial impact of service and business risks specific to the Commission, including cost and demand fluctuations during the planning period, and the inevitable uncertainty as to the financial impact of major changes currently being progressed.
  - The extent to which fixed or semi-fixed costs reduce the flexibility to respond to financial shocks.

- 2.5. Some risks facing the Commission are 'involuntary' or inescapable; others are voluntarily taken by the Commission. An example of an involuntary risk might be the government's public spending policy. An example of a voluntary risk might be a major change programme.
- 2.6. Currently there is significant uncertainty regarding future government funding. The Home Office has not announced funding allocations beyond 2016-17. There is to be a review of the distribution formula of Police Grant, and there is no certainty that Council tax freeze grant will be continued in respect of precept decisions from April 2017.
- 2.7. The proposed Strategic Alliance between Northamptonshire, Nottinghamshire and Leicestershire could be a major change programme, in the delivery of both policing and back office support. Currently this has approval to the detailed design stage and should the go ahead be given, would involve a considerable amount of investment before the savings start to materialise.

#### The opportunity cost of holding Reserves

- 2.8. This represents the opportunity foregone by maintaining a level of reserves.

#### Procedures for management and control

- 2.9. Generally these will be the same for all reserves. Procedures for approval and drawdown are set out in Financial Regulations and any exceptions should be clearly explained.
- 2.10. The Local Government Act 2003 requires the s151 officer (currently the Acting Director for Resources), to report annually on the adequacy of the reserves.

#### Risk

- 2.11. The risks of not having a Reserves policy that is reviewed on a regular basis include auditor and other stakeholder criticism, higher levels of funds might be held than necessary, without a clear rationale, and the possibility that some reserves might become dangerously low.

- 2.12. Conversely any approved policy should not be allowed to act as a straitjacket, constricting the essential element of judgement in determining the appropriate level of reserves.

Reviewing the policy

- 2.13. Regular reviews of the policy are important to ensure its continuing relevance and adequacy.
- 2.14. It is proposed that the Commission's Reserves and Provisions Policy is normally reviewed annually.

**3. Northamptonshire Police and Crime Commission Reserves and Provisions**

- 3.1. During 2015-16 the opportunity was taken to combine the Transformation Reserves with the Police and Crime Commission Initiatives Fund, along with several smaller reserves. Consequently the approved Reserves of the Police and Crime Commission are:

- General
- Capital
- Pension (ill health and injury awards)
- Insurance
- Expenditure b/f from previous years
- Police and Crime Commission Initiatives Fund
- Safety Camera
- Employee Benefit

- 3.2. The opportunity has been taken to create a new Capital/Transformation Reserve, initially funded from the underspend on the revenue budget for 2015-16. This reserve will be supplemented each year from Police Grant and increases attributable to changes in the tax base.

The reserve will provide for:

- Unachievable 2016-17 Forces savings.
- Strategic Alliance Investment (revenue and capital).
- Capital Programme pressures.
- Estates Programme Phase 2 investment (excess over receipts)
- Government funding fluctuations

- 3.3. These reserves represent an accumulated surplus of income over expenditure.
- 3.4. Any drawdown from Reserves is subject to the approval of the Commissioner, on advice from the Commission's Chief Finance Officer or Deputy Chief Finance Officer; or under the delegated authority of the

Commission's Chief Finance Officer or Deputy Chief Finance Officer as specified in Financial Regulations.

- 3.5. The Police and Crime Commission inherited from the former Police Authority an Insurance Provision in respect of Motor, Property, Public and Employers Liability claims. The Police and Crime Commission intend to continue with this provision. Additional provisions will be established, if required in accordance with the criteria set out at paragraph 1.8 of this policy
- 3.6. The attached appendix details the proposed Reserves for 2016-17.

February 2016

