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## PCC RESERVES STRATEGY

### Introduction to PCC Reserves and the statutory landscape

Revenue and Capital Reserves are an important resource for day to day as well as medium term financial planning. The Chartered Institute of Public Finance and Accountancy consider that PCCs should establish appropriate levels of reserves based on the advice of their chief finance Officers and after making their own judgements taking into account all the relevant local circumstances.

The requirement for financial reserves is acknowledged in statute. Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when preparing budgets. The Chief Finance Officer is required as part of the budget setting process to provide a statement on the adequacy of reserves.

The Chief Finance Officers (CFOs) of the PCC and Chief Constable have a fiduciary duty to local taxpayers and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds. Within the existing statutory and regulatory framework, it is the responsibility of the Chief Finance Officer to advise about the level of reserves that the PCC should hold and to ensure that there are clear protocols for their establishment and use.

Reserves are only held with clear purpose. In assessing the appropriate level of reserves the PCC has considered the advice from the CFO and has ensured that the reserves are not only adequate but are also necessary. The many factors involved when considering appropriate levels of reserves can only be assessed properly at a local level despite the pressures to compare between PCCs nationally.

The PCC is also compliant with the requirements of the Home Office Financial Management Code of Practice.

### Why does the PCC hold reserves?

- As a working balance to manage the impact of unexpected cash flows; manage unavoidable unbudgeted expenditure; manage the timing of delivering savings programmes; and avoid unnecessary temporary borrowing – these all form part of general reserves
- Provide funds to manage risk as assessed by the PCC annually from an annual review carried out by the PCC's Chief Finance Officer, including a cushion to mitigate the impact of unexpected events or emergencies - this also forms part of general reserves
- Funds held for planned use in the future according to PCC approved projects, approved change programmes and planned investments in capital infrastructure. Such projects include: new technology to make officers more efficient and effective; collaborative work; funding for national police programmes and funding the PCC's five year capital plan
- Funds held for specific non –discretionary earmarked purposes, such as grants and contributions received which have restrictions placed on their use. Examples include specific grants received which are not fully spent at year end (e.g. regional organised crime unit, counter terrorism units); value of detained property; funds from roads policing; and funds received from the proceeds of crime.
- As an accounting requirement to smooth the funds flows associated with PFI funded buildings in the PCC's estate

### Year end reserve balances

The reserves held by the PCC are agreed annually with the Chief Constable and the Chief Finance Officers and set out in detail in the annual accounts which are subject to external audit and may be found here: <https://www.avonandsomerset-pcc.gov.uk/wp-content/uploads/2020/09/2019.20-PCC-Statement-of-Accounts.pdf> and <https://www.avonandsomerset-pcc.gov.uk/wp-content/uploads/2020/09/2019.20-Chief-Constable-Statement-of-Accounts.pdf>

## **The PCC's RESERVES POLICY – IN DETAIL:**

### **A) General and Discretionary Revenue reserves**

#### **General Revenue Reserve**

March 2018 balance is £10.4 million

Provides a working balance to manage unplanned budget pressures, to manage risk as assessed annually by the PCC and the PCC's CFO and to cover exceptional unforeseen financial risks. The level of the reserve is reviewed as part of the annual budget setting process.

Currently 3% of the PCC's net revenue expenditure budget. Set by the PCC following a risk assessment conducted annually by the PCC's CFO.

#### **Home Office category:**

"Held as a resource to meet expenditure needs in accordance with sound principles of good financial management"

#### **Earmarked Revenue Reserves**

March 2018 balance is £3.6 million

Provides funding set aside to cover specific operational risks. The main components are:  
- a provision in case of a major incident and  
- funding to settle overtime due to officers that is due and not yet claimed.

Currently 1.5% of the PCC's net revenue expenditure budget. Set as part of the medium term financial planning process and annual year end closure process.

#### **Home Office category:**

"Held as a resource to meet expenditure needs in accordance with sound principles of good financial management"

### **B) Investment, Capital, PFI and Non-Discretionary Earmarked reserves**

#### **Projects and transformation Reserves**

March 2018 balance is £3 million

To support planned one-off and non-recurring investments in capital projects and change management initiatives to support transformation and cost-saving initiatives.

Projects identified for this reserve funding are:  
Digital mobilisation of smartphones and laptops and WIFI to improve officer efficiency and visibility;  
Digital evidence management and storage including body worn video evidence;  
Collaborative ERP systems;  
funding for national policing digital programmes.

Currently 1.5% of the PCC's net revenue expenditure. In line with the Medium Term Financial Plan ("MTFP") and dependant on financing requirements of the PCC's capital plan.

This reserve will be fully utilised in the next 3 years.

#### **Home Office category:**

"This provides funding for planned expenditure on projects and programmes over the period of the current medium term plan."

### **Capital Receipts and capital funding Reserve**

March 2018 balance is £6.1 million

This reserve holds the proceeds from the sale of capital assets and earmarked capital funding reserves and these can only be used for financing new capital expenditure such as ICT technology investments, in accordance with regulations.

Currently less than 1% of PCC's net revenue expenditure. This balance is set as part of the MTFP process and year end closure process by assessing the requirement for capital funding in the medium term. The capital receipts reserve element will fluctuate with the timing of capital receipts from the sale of assets which are taken to this reserve, pending their use to fund future capital investment.

#### **Home Office category:**

"This provides funding for planned expenditure on projects and programmes over the period of the current medium term"

### **Non-discretionary Grants & Contributions reserve**

March 2018 balance is £8 million

This reserve holds unused elements of grants and other external funding to be spent in the following financial year(s) in line with the conditions of the grant or external funding.

The main elements are:

- (i) Regional organised crime unit grant received and to be spent in future years
- (ii) Detained property receipts to be used in future years
- (iii) Road safety income to be spent on road safety policing in future years
- (iv) Victims support services money set aside by the PCC to spend during the remainder of this PCC term

Typically 2-3% of PCC's net revenue expenditure. The year-end balance is determined by the conditions and timings of the grant or contribution received.

#### **Home Office category:**

"This provides funding for planned expenditure on specific programmes over the period of the current medium term plan."

### **PFI Reserves**

March 2018 balance is £4.6 million

This reserve is not money set aside for discretionary use by the PCC. The reserve is an accounting entry to smooth the financing and expenditure on the PCC's PFI buildings over their 25 year life.

Under 2% of PCC's net revenue expenditure and will decline slowly over the 25 life of the PFI buildings. The balance is determined by the PFI accounting rules and as agreed with external auditors in the

***This PFI reserve is a unique feature of PFI accounting and does not apply to most PCCs. This reserve should not be considered as available funds for other police expenditure and should be treated as a separate item when comparing levels of reserves with other PCCs.***

annual accounts.

**Home Office category:**

“financial balances set aside for specific long term (PFI) capital project during and beyond the current planning period”