

## WYPCC – Decision

**From:** Judith Heeley

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<b>Timing:</b>	Required as part of the closure of accounts process for 2012/13
<b>Purpose:</b>	Confirmation of the reserves strategy.
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**SUBJECT OF ADVICE:** Review of the reserves strategy agreed during the budget planning process for 2013/14.

**Consideration:** The reserves strategy was agreed during the budget planning process for 2013/14. The Commissioner is requested to review this as part of the closure of accounts for 2012/13. Details of the legislative framework and requirements and the position in West Yorkshire is set out at Appendix A.

**Affordability:** Set out in the accompanying decision notice.

**Supporting and dissenting Views:**n/a.

**APPENDICES:**

Appendix A Review of Reserves Strategy

**POLICE AND CRIME COMMISSIONER FOR WEST YORKSHIRE**

**RESERVES STRATEGY**

**PURPOSE OF THE REPORT**

1. To review the key considerations surrounding the maintenance of general and earmarked reserves, the reserves strategy and the protocols for earmarked reserves.

**KEY INFORMATION**

2. Guidance on local authority reserves and balances, including the legislative framework, the role of the chief finance officer (CFO), types of reserve and principles to assess the adequacy of reserves, is set out in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Local Authority Accounting Panel (LAAP) Bulletin 77 published in November 2008.
3. The Bulletin contains guidance which represents good financial management and should be followed as a matter of course.

**Legislative Framework**

4. The requirement for reserves is acknowledged in statute and the level of reserves must be taken into account in calculating the council tax requirement. In addition there is statutory provision intended to ensure financial prudence, including
  - The balanced budget requirement
  - The CFO's duty to report on the robustness of estimates and the adequacy of reserves
  - The Commissioner's duty to make arrangements for the proper administration of his financial affairs
  - The requirements of the Prudential Code
  - The external auditor's responsibility to consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based.

**Role of the CFO**

5. It is the responsibility of the CFO to advise commissioners about the level of reserves they should hold and to ensure that there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose.

6. The LAAP Bulletin does not accept the case for introducing a generally applicable minimum level of reserves, and advises that commissioners, on the advice of their CFO's, should make their own judgements taking into account all relevant local circumstances. There is a broad range within which commissioners might reasonably operate depending upon their particular circumstances.

### **Types of Reserve**

7. Reserves can be held for three main purposes
  - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves
  - A contingency to help cushion the impact of unexpected events or emergencies – this also forms part of general reserves
  - A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements.
8. Common examples of earmarked reserves include
  - Sums set aside for major schemes such as capital developments or asset purchases, or to fund major reorganisations
  - Reserves of trading accounts and business units
  - Reserves retained for service departmental use
9. For each earmarked reserve there should be a clear protocol setting out
  - The reason for/purpose of the reserve
  - How and when the reserve can be used
  - Procedures for the reserve's management and control
  - A process and timescale for review of the reserve to ensure continuing relevance and adequacy

### **Principles to assess the adequacy of reserves**

10. In order to assess the adequacy of unallocated general reserves, account should be taken of the strategic operational and financial risks facing the authority. In addition to cash flow requirements the following factors should be considered
  - The treatment of inflation and interest rates
  - Estimates of the level and timing of capital receipts
  - The treatment of demand led pressures
  - The treatment of planned savings
  - The financial risks inherent in any significant new funding partnerships, major outsourcing or major capital developments

- The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions
- The general financial climate to which the authority is subject.

11. Advice on the adequacy of reserves should be set in the context of the commissioner's risk register and medium term plans and should not focus exclusively on short term considerations. 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. Advice should be given on the adequacy of reserves over the lifetime of the medium term financial plan, and should also take account of the expected need for reserves in the longer term.

### **Home Office Financial Management Code of Practice**

12. The Code includes the following in respect of reserves

The PCC should establish a policy on reserves (including how they might be used by the Chief Constable) and provisions in consultation with the Chief Constable. This should have due regard to the need to ensure the ongoing funding of policing activities and the requirement to meet exceptional or extraordinary policing operations.

General reserves should be held by the PCC and managed to balance funding and spending priorities and to manage risks. This should be established as part of the medium term financial planning process.

Locally agreed financial regulations and schemes of consent should

- contain full details of how the reserves and provisions policy will operate locally
- ensure that the annual budget includes a realistic amount of operational contingency that is available to the Chief Constable for operational priorities without the need for additional approval
- make provision for budgets to be carried forward from one financial year to the next.

### **Position in West Yorkshire**

13. The level of general reserves (Police Fund Balance) has for many years been assessed annually as part of the budget planning process using a risk based methodology which takes into account economic, budgetary and operational risks, as set out in paragraph 10 above. The balances risk matrix was reported to the Commissioner in January 2013 and the outcome of the assessment was included in the annual budget report, alongside the CFO's report on robustness of estimates and adequacy of reserves.

14. General balances following the provisional outturn for 2012/13 stand at £41.1m as compared with the risk assessed minimum prudent level of £7.3m. This results from significant efforts to minimise spending during recent years to support the budget reduction strategy over the period of the Spending Review and beyond. The agreed strategy looks to utilise remaining balances in a phased way over the medium term to reduce the base budget, fund organisational change costs and provide flexibility where necessary for future financial years. The level of general balances is anticipated to reduce to some £12.2m by 31 March 2017.
15. Earmarked reserves held by the Commissioner are as follows:
  - Devolvement Reserve
  - VIPER Reserve
  - PFI Reserve
  - Regional Working Reserve
  - Body Armour Reserve
  - Dilapidations Reserve
  - Capital Financing Reserve
16. Protocols for each of these reserves were considered as part of the budget planning cycle for 2013/14 and agreed as part of the budget report. The agreed protocols are set out below. The level of earmarked reserves as at 31 March 2013 will be reported in the outturn report and as part of the Statement of Accounts for 2013/14.

**APPENDIX G**

**PROTOCOLS FOR EARMARKED RESERVES**

<b>RESERVE</b>	<b>DEVOLVEMENT RESERVE</b>	<b>VIPER RESERVE</b>
<b>REASON/PURPOSE</b>	To carry forward underspendings on devolved budgets for use in the following financial year, in accordance with Resource Standing Orders.	To retain the operating surplus on VIPER resulting from increased efficiencies and reduction in replacement costs (net of cost savings passed on to users).
<b>HOW AND WHEN USED</b>	<p>Amounts underspent are transferred into the reserve at the year end.</p> <p>Expenditure in the following year is supported by a contribution from the reserve.</p>	<p>To support future replacement of equipment and research and development costs for existing or new proposed products or services.</p> <p>To meet any trading deficit should one arise.</p>
<b>MANAGEMENT AND CONTROL</b>	Budget holders must submit a proposal to Command Team to justify the amount carried forward and spending plans for the following year.	The ACO Finance and Business Services retains management control of the reserve.
<b>PROCESS AND TIMESCALE FOR REVIEW</b>	The principle of carry forward is reviewed as part of the annual update of Resource Standing Orders.	The adequacy of the reserve is considered as part of the budget and closedown process.

<b>RESERVE</b>	<b>PRIVATE FINANCE INITIATIVE RESERVE</b>	<b>REGIONAL WORKING RESERVE</b>
<b>REASON/PURPOSE</b>	To support the delivery of the PFI scheme for police operational and training accommodation.	Formed from an underspending in excess of the agreed carry forward, this is ringfenced to promote future collaborative activity within the region.
<b>HOW AND WHEN USED</b>	To finance professional consultancy costs and internal PFI project team costs over the period of preparation for delivery of the scheme.	Proposals for utilisation of this reserve are subject to a business case to be approved by the Joint Police Authorities Committee.
<b>MANAGEMENT AND CONTROL</b>	Utilisation of the reserve is controlled by the ACO Finance and Business Services.	Approved expenditure would be controlled by the Regional Programme Director in consultation with regional finance lead officer (ACO Finance and Business Services West Yorkshire Police).
<b>PROCESS AND TIMESCALE FOR REVIEW</b>	The reserve is reviewed during budget preparation and as part of the annual closure of accounts to assess its adequacy and utilisation.	The reserve is reviewed during budget preparation and as part of the annual closure of accounts to assess its adequacy and utilisation.

<b>RESERVE</b>	<b>BODY ARMOUR RESERVE</b>	<b>DILAPIDATIONS RESERVE</b>
<b>REASON/PURPOSE</b>	To fund the purchase of replacement body armour.	To fund the repair, redecoration and return of lease properties to their original condition.
<b>HOW AND WHEN USED</b>	The reserve will be utilised during 2012/13.	To meet the costs of repair, decoration and alteration of lease properties at the end of the lease agreement.
<b>MANAGEMENT AND CONTROL</b>	Utilisation of the reserve is controlled by the Head of Procurement in consultation with the ACO Finance and Business Services.	The ACO Finance and Business Services retains management control of the reserve.
<b>PROCESS AND TIMESCALE FOR REVIEW</b>	The reserve is non recurring and any surplus or deficit as compared with the actual cost of the body armour contract will be returned to/met from general balances.	The reserve is reviewed during budget preparation and as part of the annual closure of accounts to assess its adequacy and utilisation.

<b>RESERVE</b>	<b>CAPITAL FINANCING RESERVE</b>	<b>PFI SINKING FUND</b>
<b>REASON/PURPOSE</b>	To provide additional flexibility in the financing of the capital programme.	To smooth the impact of PFI costs on the revenue budget.
<b>HOW AND WHEN USED</b>	Funds may be drawn down when a decision is made to take new long term borrowing	Contributions made and drawn down annually for the purpose above.
<b>MANAGEMENT AND CONTROL</b>	The Commissioner's Chief Finance Officer has delegated responsibility for treasury management decisions including utilisation of the reserve.	The ACO Finance and Business Services retains management control of the reserve.
<b>PROCESS AND TIMESCALE FOR REVIEW</b>	Reviewed annually as part of the budget planning process process.	Reviewed annually as part of the budget planning process process.