

RESERVE STRATEGY 2021/22

1. In addition to the requirements covering the robustness of estimates, Section 25 of the Local Government Act 2003 also requires the Chief Finance Officer (Director of Finance, OPCC) to present a report assessing the adequacy of the unallocated reserves in the context of policing threats and demands together with corporate and financial risks facing the organisation. The Commissioner needs to balance the necessity for reserves against the cost to council taxpayers and arrive at a level that is both prudent and adequate for the current climate but not excessive.
2. The Reserves Strategy sets out the reserves held, their intended usage and the strategy for ensuring the funds are maintained at an appropriate level. Reserves are held for three main purposes:
 - a. To cover unforeseen risks and expenditure that may be incurred outside of planned budgets – known as a general reserve
 - b. To set-aside funds for specific purposes; known or predicted pressures or future liabilities – known as earmarked reserves
 - c. To hold capital receipts from sale of assets. The use of which is restricted under legislation to the purchase of new assets or the repayment of debt.
3. In addition to the above reserves, Cheshire Constabulary act as lead force for a number of regional collaborations for which it holds reserves. These reserves are owned by all regional partners on an agreed share basis in line with each collaboration agreement.
4. Over the past few years, the level of reserves held by all forces have been under scrutiny by the Home Office and it is now considered best practice to produce a reserve strategy covering the medium term financial strategy (MTFS) period.
5. Based on the audited Statement of Accounts published in November 2020, £17.3m was held in reserves of which £1.8m belongs to the regional collaborations (of which Cheshire Constabulary is a partner and therefore part owner). Annex 1 sets out the proposed usage of the reserves over the next four years in line with MTFS plans together with other known commitments and liabilities. Reserves are forecast to fall to £13.8m by the end of March 2021 and to £10.5m by March 2025 (including collaborations reserves of £1.4m and £1.2m respectively).

6. As part of the Home Office scrutiny process; it classifies reserves in three main categories:
- a. Funding for planned expenditure on MTFS projects and programmes
 - b. Funding for specific projects and programmes beyond the current MTFS timeline
 - c. Those held as a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management.

Annex 2 provided analysis of the reserves in line with the above.

7. The purpose of each reserve is set out below:

General Reserves

The purpose of general reserves is to provide funding to cover specific and general risks identified in setting the budget but also in recognition of unforeseen risks and expenditure that may arise in year. Given the current levels of threats and demands facing policing the amount held in this reserve is deemed both prudent and adequate.

Earmarked Reserves:

Medium Term Financial Strategy (MTFS) Reserve

The origins of this reserve dates back to the start of the austerity programme and has been successfully used to support transition, implementation costs of transformational changes together with 'invest to save' projects. With increasing demands, the implementation of Digital Policing and the level of uncertainty over future funding, this reserve will provide some mitigation to these risks and challenges.

Redundancy Reserve

It is recognised that the cost of reforms, efficiencies and restructuring can require changes to staffing levels. This reserve is held to meet any associated costs. While current forecasts do not show any major redundancy pressures, it remains prudent in the current uncertainties to have funding available should it be required.

Pay and Pensions Reserve

There are currently several issues in relation to pay and pensions that could impact on the revenue funding, the main being the outcome of the McCloud ruling (see financial risks below). The level of administration to service these is considerable and the uncertainty of how these will be funded has resulted in this reserve being created to cover any initial costs. It is anticipated that this will be utilised over the next three years.

Carry Forward Reserve

This is a temporary reserve for any underspend from the previous financial year that has been approved to be spent in the following financial year. For example, if a project is delayed funding can be carried forward into the following year to meet delayed spend.

Proceeds of Crime Community Fund Reserve

The Commissioner has committed to investing money seized under the Proceeds of Crime Act (POCA) 2002 back into local communities under his Proceeds of Crime Community Fund to send a clear message to criminals that crime doesn't pay.

The Proceeds of Crime Community Fund is split into various funds that will allow:

- Members of the community to bid directly to this fund for activity that supports the prevention crime and anti-social behaviour.
- Allows for applications that facilitate wider community safety.

Hardship Reserve

It is acknowledged that individuals may find themselves needing assistance in achieving a greater sense of wellbeing; it is known that wellbeing comprises elements of physical, emotional, social and financial health. As such a scheme has been created to address any short term financial issues personnel (Officers and Staff) may experience. The intent being to prevent/break the cycle of financial difficulty without the exposure to high interest loan schemes (pay day loans). This small reserve covers the loans until repaid.

Mortgage Guarantee Scheme Reserve

The PCC and the Constabulary are jointly developing a scheme to enable them to assist Officers and Staff to secure a mortgage as part of a financial wellbeing initiative. This reserve will be used to hold appropriate funds to cover any guarantee until repaid upon implementation of the scheme.

Revenue Reserve for Capital

This reserve is for the general funding of capital, especially those annual replacement schemes such as Information Technology.

HQ IT Reserve

This reserve was created as part of the private finance initiative (PFI) scheme to support the replacement of computer equipment. It is supplemented each year in line with the scheme's requirement and applied to finance relevant capital.

Emergency Services Network (ESN) Reserve

The Emergency Services Network (ESN) programme will see the current Airwave based communication systems replaced with a new 4G based communication service. All Airwave radios currently used by officers and staff will be replaced with a mobile phone type device which offers improved functionality. Funding will be required for these replacements.

Unapplied Capital Grants Reserve

This reserve contains the capital grant received by the Commissioner but not yet used to finance capital investment. Funding is now generally applied in full in the year it is received, with the exception of specific grants which are applied when the associated expenditure is made.

Capital Receipts

Capital Receipts represents the net proceeds from the sale of assets. Use of this funding is limited by regulation to re-investment in new assets or the repayment of debt.

Collaboration Reserves:

Armed Police Alliance

This reserve has arisen from underspends in previous financial years due to high turnover of officers. It is being utilised to support training, ammunition and other expenditure to support the training of new trainees to replace these officers.

Underwater Search Unit

Funding held on behalf of all partners for future demands – e.g. replacement of the boat, vehicles and equipment as part of an agreed asset replacement strategy.

Local Resilience Forum

Cheshire Resilience Forum partners work together to prepare for emergencies, including Cheshire Constabulary, Cheshire Fire and Rescue Services and local authorities. The reserve is held to support strategic training and as a contingency for unforeseen pressures.

National Blue Light Procurement Reserve

This is a national collaboration which Cheshire Constabulary leads, with the reserve being held for development of the system in conjunction with the Home Office.

Dog Alliance

The alliance with North Wales Police for the provision of dogs has been a pilot over the last year or so and this reserve is being held to support the transition to a permanent alliance. It is anticipated that this will be finalised within 2021/22.

KEY RISKS

8. There are a number of uncertainties and risks over the next few years that hold the potential of significant financial impact, not least the Government funding and the impact of the Coronavirus Pandemic. Uncertainty over funding beyond this makes planning difficult and reserves are a key tool in providing flexibility to deal with this challenge.
9. The following set out key financial risks:
 - a. Government funding remains uncertain and is currently only provided on a year on year basis. With no future clarity on funding beyond the next financial year, planning is exceptionally difficult in the medium to long-term.
 - b. The coronavirus pandemic has had a profound impact not just on the UK's economy but the world at large. The level of national debt has increased considerably and together with the restrictions in place to combat infection rates, play into both Government funding options and operational policing. However, the medium to long-term impact of these remains unknown.
 - c. Claims of unlawful discrimination were made in relation to the changes to the Judiciary and Firefighters Pension regulations and in December 2018 the Court of Appeal (McCloud / Sargeant) ruled that the 'transitional protection' offered to some members as part of the reform to public sector pensions amounts to unlawful discrimination. On 16 July 2020 the Government launched a consultation on proposals to remove the discrimination identified and on 21 August, the Home Office issued guidance to Police Forces (in England and Wales) on processing prospective 'immediate detriment' cases in advance of a decision on the Government's final approach to removing the age discrimination. The cost and funding of this remains uncertain.

FORWARD STRATEGY

10. The foremost principle of holding reserves remains affordability versus risk. To set aside reserves for all potential risks scenarios that may arise would be prohibitively expensive and result in demands on council taxpayers considerably higher than likely need.

11. As such, the strategy for general reserves is to hold the level of this reserve at around 3% of the net budget requirement. The level should be reviewed annually after the budget for the forthcoming year has been set. Any excess will be released in support of capital funding to limit the need to borrow and the associated impact on revenue budgets. Any shortfall will be recognised as a first call on any in-year underspends or built into the following year's budget proposals.
12. Earmarked reserves are reviewed quarterly and reported to the Commissioner as part of the formal financial reviews. The reviews will take into account purpose of the reserve, the risks they are designed to mitigate and the current and future demands. Any reserve deemed no longer required will be returned to general reserves.
13. Strategic risks are monitored through Chief Officer Group, Joint Management Board and Joint Audit Advisory Committee. Any new risk or significant change to existing risks will be monitored with any impact on reserves presented to Chief Officer Group for recommendation to the Commissioner for the creation or adjustment to Earmarked Reserves.
14. Capital reserves are the primary source of funding for all capital investments and are therefore linked to the approved capital strategy. The use of such reserves are designed to cover short-life assets, limiting the need to borrow over short periods.
15. Capital receipts of more than £10,000 from the sale of assets can only be used to fund future capital investment or the repayment of debt. Receipts of less than £10,000 are returned to revenue budget.
16. In recognition of the decreasing level of Government Capital Grant and in order to meet the minimum asset replacement cycles, a revenue contribution is made each year into Revenue Reserve for Capital reserve and used to finance that year's capital programme.

RESERVES HELD

	2020/21			2021/22			2022/23			2023/24			2024/25			
	01-Apr £000	Revenue £000	Capital £000	31-Mar £000	Revenue £000	Capital £000	31-Mar £000	Revenue £000	Capital £000	31-Mar £000	Revenue £000	Capital £000	31-Mar £000	Revenue £000	Capital £000	31-Mar £000
Police Fund - General Reserve	£5,773	£0	£0	£5,773	£0	£0	£5,773	£0	£0	£5,773	£0	£0	£5,773	£0	£0	£5,773
Earmarked Reserves: Revenue																
Carry Forwards Reserve	£1,803	-£1,553	£0	£250	£0	-£100	£150	£0	-£150	£0	£0	£0	£0	£0	£0	£0
POCA Reserve	£437	-£437	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Hardship Loan Reserve	£50	£0	£0	£50	£0	£0	£50	£0	£0	£50	£0	£0	£50	£0	£0	£50
Pay and Pensions Reserve	£830	£0	£0	£830	-£330	£0	£500	-£250	£0	£250	-£250	£0	£0	£0	£0	£0
Mortgage Guarantee Scheme Reserve	£500	£0	£0	£500	£0	£0	£500	£0	£0	£500	£0	£0	£500	£0	£0	£500
MTFS Reserve	£2,151	£0	£0	£2,151	£0	£0	£2,151	£0	£0	£2,151	£0	£0	£2,151	£0	£0	£2,151
Redundancy Reserve	£782	£0	£0	£782	£0	£0	£782	£0	£0	£782	£0	£0	£782	£0	£0	£782
	£6,553	-£1,990	£0	£4,563	-£330	-£100	£4,133	-£250	-£150	£3,733	-£250	£0	£3,483	£0	£0	£3,483
Earmarked Reserves: Capital																
Capital Receipts	£2,526	£0	-£2,251	£275	£0	-£275	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Capital Reserve - Unapplied Grant	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
ESN Reserve	£485	£0	£782	£1,267	£0	£1,153	£2,420	£0	-£2,420	£0	£0	£0	£0	£0	£0	£0
HQ IT Reserve	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Revenue Reserve for Capital	£177	£0	£279	£456	£0	-£306	£150	£0	-£150	£0	£0	£0	£0	£0	£0	£0
	£3,188	£0	-£1,190	£1,998	£0	£572	£2,570	£0	-£2,570	£0	£0	£0	£0	£0	£0	£0
Collaboration Reserves:																
Armed Police Alliance Reserve	£321	-£219	£0	£102	£0	£0	£102	£0	£0	£102	£0	£0	£102	£0	£0	£102
Dog Alliance Reserve	£206	£0	£0	£206	£0	£0	£206	£0	£0	£206	£0	£0	£206	£0	£0	£206
Local Resilience Forum Reserve	£145	£51	£0	£195	£0	£0	£195	£0	£0	£195	£0	£0	£195	£0	£0	£195
MFSS Development Fund	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
National Blue Light Procurement	£136	£0	£0	£136	£0	£0	£136	£0	£0	£136	£0	£0	£136	£0	£0	£136
UWSU Reserve	£971	-£159	-£14	£798	£0	-£197	£601	£0	£0	£601	£0	£0	£601	£0	£0	£601
	£1,779	-£327	-£14	£1,437	£0	-£197	£1,240	£0	£0	£1,240	£0	£0	£1,240	£0	£0	£1,240
TOTAL RESERVES	£17,293	-£2,317	-£1,204	£13,771	-£330	£275	£13,716	-£250	-£2,720	£10,746	-£250	£0	£10,496	£0	£0	£10,496

RESERVES HELD - Home Office classification

	2020/21			2021/22			2022/23			2023/24			2024/25			
	01-Apr £000	Revenue £000	Capital £000	31-Mar £000	Revenue £000	Capital £000	31-Mar £000	Revenue £000	Capital £000	31-Mar £000	Revenue £000	Capital £000	31-Mar £000	Revenue £000	Capital £000	31-Mar £000
General Reserve / Contingency:																
Police Fund - General Reserve	£5,773	£0	£0	£5,773	£0	£0	£5,773	£0	£0	£5,773	£0	£0	£5,773	£0	£0	£5,773
MTFS Reserve	£2,151	£0	£0	£2,151	£0	£0	£2,151	£0	£0	£2,151	£0	£0	£2,151	£0	£0	£2,151
	£7,924	£0	£0	£7,924	£0	£0	£7,924	£0	£0	£7,924	£0	£0	£7,924	£0	£0	£7,924
Funding for Projects/Programmes - current MTFS																
Armed Police Alliance Reserve	£321	-£219	£0	£102	£0	£0	£102	£0	£0	£102	£0	£0	£102	£0	£0	£102
Capital Receipts	£2,526	£0	-£2,251	£275	£0	-£275	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Capital Reserve - Unapplied Grant	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Carry Forwards Reserve	£1,803	-£1,553	£0	£250	£0	-£100	£150	£0	-£150	£0	£0	£0	£0	£0	£0	£0
Dog Alliance Reserve	£206	£0	£0	£206	£0	£0	£206	£0	£0	£206	£0	£0	£206	£0	£0	£206
ESN Reserve	£485	£0	£782	£1,267	£0	£1,153	£2,420	£0	-£2,420	£0	£0	£0	£0	£0	£0	£0
POCA Reserve	£437	-£437	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Hardship Loan Reserve	£50	£0	£0	£50	£0	£0	£50	£0	£0	£50	£0	£0	£50	£0	£0	£50
Pay and Pensions Reserve	£830	£0	£0	£830	-£330	£0	£500	-£250	£0	£250	-£250	£0	£0	£0	£0	£0
Mortgage Guarantee Scheme Reserve	£500	£0	£0	£500	£0	£0	£500	£0	£0	£500	£0	£0	£500	£0	£0	£500
HQ IT Reserve	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Local Govt Pension Scheme Reserve	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Local Resilience Forum Reserve	£145	£51	£0	£195	£0	£0	£195	£0	£0	£195	£0	£0	£195	£0	£0	£195
MFSS Development Fund	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
National Blue Light Procurement	£136	£0	£0	£136	£0	£0	£136	£0	£0	£136	£0	£0	£136	£0	£0	£136
Redundancy Reserve	£782	£0	£0	£782	£0	£0	£782	£0	£0	£782	£0	£0	£782	£0	£0	£782
Revenue Reserve for Capital	£177	£0	£279	£456	£0	-£306	£150	£0	-£150	£0	£0	£0	£0	£0	£0	£0
UWSU Reserve	£971	-£159	-£14	£798	£0	-£197	£601	£0	£0	£601	£0	£0	£601	£0	£0	£601
	£9,369	-£2,317	-£1,204	£5,847	-£330	£275	£5,792	-£250	-£2,720	£2,822	-£250	£0	£2,572	£0	£0	£2,572
TOTAL RESERVES	£17,293	-£2,317	-£1,204	£13,771	-£330	£275	£13,716	-£250	-£2,720	£10,746	-£250	£0	£10,496	£0	£0	£10,496

