



SOUTH WALES POLICE RESERVES STRATEGY 2020-2024

A BACKGROUND

1. Introduction

1.1 **This Reserve Strategy seeks to ensure that the level of Reserves retained by South Wales Police are necessary and proportionate to the risks and challenges facing the force in delivering its strategic objectives, maintenance of critical force infrastructure, or as contingencies to avoid adverse impact on policing plans in the event of a critical incident or incidents.**

1.2 As part of the 2018/19 Police Funding Settlement, Nick Hurd, the Minister of State for Policing and the Fire Service provided guidance on what information Police and Crime Commissioners (PCCs) should publish on their reserves. This guidance will form part of the next iteration of the Financial Management Code of Practice (FMCOP).

1.3 In July 2014 the Chartered Institute of Public Finance issued updated guidance on the establishment of local authority reserves and balances, setting out the key factors that should be taken into account locally in making an assessment of the appropriate level of reserves and balances to be held.

- 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 calculating the budget requirement. Section 93 of the 1992 Act requires Scottish authorities, in calculating council tax, to take into account 'any means by which those expenses may otherwise be met or provided for'. This includes reserves.

There are also a range of safeguards in place that help to prevent local authorities over-committing themselves financially. These include:

- The balanced budget requirement: - England, sections 31A, 42A of the Local Government Finance Act 1992, as amended - Wales, sections 32 and 43 and Scotland, 93 of the Local Government Finance Act 1992 and - section 85 of the Greater London Authority Act 1999.
- Chief finance officers' duty to report on robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its budget requirement (England and Wales)
- Chief finance officers' duty to report on the robustness of estimates and the adequacy of reserves (under sections 4 and 6 of the Local Government and Finance Act (Northern Ireland) 2011
- The legislative requirement for each local authority to make arrangements for the proper administration of their financial affairs and that the chief finance officer / proper officer has responsibility for the administration of those affairs section 151 of the Local Government Act 1972, section 95 of the Local Government (Scotland) Act 1973 and section 1 of the Local Government and Finance Act (Northern Ireland) 2011

- The requirements of the Prudential Code. CIPFA's Prudential Code requires chief finance officers in local authorities to have full regard to affordability when making recommendations about the local authority's future capital programme. Such consideration includes the level of long term revenue commitments. Indeed, in considering the affordability of its capital plans, the authority is required to consider all of the resources available to it/estimated for the future, together with the totality of its capital plans and revenue forecasts for the forthcoming year and the following two years.
- These requirements are reinforced by section 114 of the Local Government Finance Act 1988 which requires the chief finance officer in England and Wales to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year. The issue of a section 114 notice cannot be taken lightly and has serious operational implications. Indeed, the authority's full council must meet within 21 days to consider the s114 notice and during that period the authority is prohibited from entering into new agreements involving the incurring of expenditure.
- Within the existing statutory and regulatory framework, it is the responsibility of chief finance officers (proper officer in Scotland) to advise local authorities about the level of reserves that 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.
- CIPFA and the Local Authority Accounting Panel consider that local authorities should establish reserves including the level of those reserves based on the advice of their chief finance officers. Authorities should make their own judgements on such matters taking into account all the relevant local circumstances. Such circumstances vary. A well-managed authority, for example, with a prudent approach to budgeting should be able to operate with a level of general reserves appropriate for the risks.
- (both internal and external) to which it is exposed. In assessing the appropriate level of reserves, a well-managed authority will ensure that the reserves are not only adequate but are also necessary. There is a broad range within which authorities might reasonably operate depending on their particular circumstances.
- Section 26 of the Local Government Act 2003 gives Ministers in England and Wales a general power to set a minimum level of reserves for local authorities. However, the government has undertaken to apply this only to individual authorities in the circumstances where an authority does not act prudently, disregards the advice of its chief finance officer and is heading for serious financial difficulty. This accords with CIPFA's view that a generally applicable minimum level is inappropriate, as a minimum level of reserve will only be imposed where an authority is not following best financial practice.

- When reviewing their medium term financial plans and preparing their annual budgets local authorities should consider the establishment and maintenance of reserves. These 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 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 (or earmarked portion of the general fund in Scotland - see below), to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund.

1.4 This Reserves Strategy is therefore published in order to supplement the current Medium Term Financial Strategy and comply with the forthcoming updated Financial Management Code of Practice. The Force retains and classifies Reserves to three broad categories:

- **Earmarked Revenue Reserves:** Known Revenue expenditure commitments for specified items which transition over more than a year.
- **Earmarked Capital Reserves:** Known Capital Infrastructure and specific capital project commitments which may straddle a number of years in the completion cycle.
- And a **General Reserve:** – a relatively small contingency Reserve that reflects the complexity and uncertainty in a 24 hour seven days a week emergency service. The General Reserve (Police Fund), is funded from historic accumulated surplus of income over expenditure and is maintained to meet exceptional and unforeseen expenditure. Such as;
 - Unforeseen emergencies linked to a major incident, terrorist incident, civil contingency,
 - In year changes to Nationally Funded programmes with local implementation costs for example the police radio communications systems.
 - A shift in police demand examples include a spike in gun crime, knife crime, a serial serious and organised crime spree.
 - The smoothing of timing differences between grant receipts and expenditure for example South Wales Police manages Regional Units for which grant funding does not get allocated until a number of months into the financial year and without reserve funding short term expensive bank loans would be required.

- The general guidance from the Chartered Institute of Public Finance that a risk assessed General Reserve.

1.5 The Medium Term Financial Strategy (MTFS) 2020/24 approved by the Commissioner in February 2020, considered the level of general and earmarked reserves needed over the MTFS period.

B FINANCIAL CONSIDERATIONS

2. Reserves at 31st March 2020

2.1 The table below details the South Wales Police Reserve balances reported in the (subject to external audit) Group statement of accounts as at the 31st March 2020. A future expenditure profile of these reserves over the 2020/24 MTFS period is also provided.

	Balance at 31 March 2020 £000	Comments	Spend Profile				Balance at 31 March 2024 £000
			2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000	
Police Fund:	9,907	General Reserve for contingencies	0	0	0	0	9,907
Earmarked Revenue Reserves:							
Health & Wellbeing Reserve	1,340	To support Health and Wellbeing strategy to	(447)	(447)	(446)		0
OPCC - Partnership Fund	1,300	Pathfinder, MH, Drive, 18-25	(1,300)				0
National Enabling Programme (Microsoft)	709	National Enabling programme transition	(709)				0
OPCC - Community Safety Fund	488	Violence Prevention, ACE, NOMADS.	(488)				0
Regional Incentivisation	405	3 Force Reserve ARIS receipts	(405)				0
PEQF	305	Required for Tuition Costs	(305)				0
Operational Policing	250	CT Contingency	(250)				0
PSC Overtime	250	Significant reduction on previous year	(250)				0
Other Specific reserves under £150,000	245	Various minor reserves relating to delayed	(245)				0
Bank Holiday Reserve	225	For additional bank holiday overtime	(225)				0
Major Crime Fund	210	Reserve held to contribute to potential	(210)				0
ROCU	195	Regional collaborative functions funding	(195)				0
Training- Health & Safety	101	Health & Safety training requirements (IOSH)	(101)				0
Specialist Crime Various	89	Various Operations	(89)				0
Devolved Budget carry Forwards	89	Approved devolved budget carry forward in	(89)				0
Joint Scientific Support Unit	75	Remote transmission finger print technology	(75)				0
Forensics Contract price increases	31	To mitigate against expected price increases	(31)				0
Sub-total	6,307	Sub-total	(5,414)	(447)	(446)	0	0
Capital Reserves							
Estate Redevelopment	6,388		(6,388)	0	0	0	0
ANPR	1,345		(336)	(336)	(336)	(336)	0
Technology	1,590		(1,590)	0	0	0	0
Other							
Sub-total	9,323	Sub-total	(8,314)	(336)	(336)	(336)	0
Total Earmarked Revenue Reserves	25,537	Total Spend Profile	(13,728)	(783)	(782)	(336)	9,907

3. Purpose/Description of individual Reserves

3.1 A brief description of the most significant revenue and capital reserves is as follows.

3.2 Police Fund (General Reserves)

Our operational experience and sound financial principles would advocate that the force should maintain a General Reserve balance at a level of 3% of the gross operating expenditure as follows:

- 1% for major incidents,
- 1% for day to day operating cash-flow risk and
- 1% for other unknown events.

This would result in a General Reserve Balance of circa £9M. Given that this balance has been funded from an accumulation of small budget surpluses over many years it represents a considerable achievement and reflects positively on the financial standing of the force. Our experience of change management and the need to invest in the short term to save over the longer term in an austere environment has demonstrated that such a risk assessed General Reserve is vital to maintain an effective policing service.

3.3 Earmarked Revenue Reserves

The main Earmarked Reserves rationale and purpose is explained below.

Health and Well-being Reserve

The Health & Wellbeing Reserve will ensure the reorientation and organisational development necessary to deliver a motivated productive force is sustained.

Commissioner's Partnership and Community Safety Funds

Required for Commissioning Strategy and includes partnership working, diversionary work with 18-25 year offender group and reducing Violence Against Women and Girls, Women's Pathfinder – a diversionary scheme to reduce re-offending.

Regional Organised Crime Unit

This is committed expenditure that transitions across financial years to support the objectives of the Regional Organised Crime Unit.

Other Specific Reserves less than £150,000

A variety of small budget requests by departments as part of the financial control framework that encourages prudence within devolved budgets to carry forward required underspends into approved business cases to be delivered in the following year.

Joint Scientific Support Unit (JSIU)

This funds a variety of joint initiatives such as the Drug Driving analysis costs, the Filtration system for Forensics and Remote Transmission Finger Print Technology.

Regional Incentivisation

This represents a share of funds determined by the courts from asset seizures and confiscation of cash to deny criminals benefiting criminal activity. The money is used to undertake further activity to disrupt serious and organised crime activity across the three Southern Wales Forces.

National Enabling Programme

The force is working with the Home Office National Enabling Programme to standardise technology infrastructure and this sum represents the migration to Microsoft Office 365.

Police Education and Qualification Framework

This represents funds required to fund tuition fees in the early years of the education programme for new Police Constables.

3.4 Earmarked Capital Reserves

The rationale and purpose of the main Earmarked Capital Reserves are as follows:

Estate Redevelopment

Required to support the redevelopment of Police Headquarters in Bridgend which will include a new Learning and Development Facility and a joint firearms range necessary to meet current operational threats. The internal funds are supported by planned contributions from other forces in the Joint Firearms Unit as well as long term prudential borrowing.

Technology

This reserve is required to support the delivery of a number of integrated technology platforms to ensure the right people are in the right place at the right time with the right skills to improve productivity and effectiveness.

ANPR

Required to upgrade and replace as well as extend the use of Automatic Number Plate Recognition technology across the Force. This is a major tool in the fight against organised crime.

4. Home Office Transparency

- 4.1 The Minister's guidance to Forces also requires Commissioners to analyse their current reserves by those required for general contingencies, those required over the MTFS period and those extending beyond the MTFS period. This analysis is shown in the table below.

Projected Reserve Balances for Reserves held at 31st March 2020					
	March 2020 £000	March 2021 £000	March 2022 £000	March 2023 £000	March 2024 £000
Funding held as a general contingency or resource to meet other expenditure needs in accordance with sound principles of financial practice.	9,907	9,907	9,907	9,907	9,907
Funding for planned expenditure on projects and programmes over the period of the current Medium Term Financial Strategy.	15,630	1,902	1,119	336	0
Funding on specific projects and programmes beyond the current planning period.	0	0	0	0	0
TOTAL	25,537	11,809	11,026	10,243	9,907

C. LEGAL AND HUMAN RIGHTS CONSIDERATIONS

Detailed in within the Financial Considerations within paragraphs 2.1 to 2.2.

D. PERSONNEL, EQUAL OPPORTUNITIES AND DIVERSITY ISSUES

None.

E. REVIEW ARRANGEMENTS

The Reserves Strategy will be updated as part of the preparation of the MTFS for 2021-25.

F. LIST OF BACKGROUND PAPERS

CIPFA LAAP bulletin 99 – July 2014.

Financial Management Code of Practice.

Group Statement of Accounts 2019/20.