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| **GREATER MANCHESTER**  **POLICE FUND RESERVE STRATEGY**  **2018/19 – 2020/21** | | |

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| **POLICE FUND RESERVES STRATEGY 2018/19 TO 2020/21** | | |
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| **1.** | **The role of reserves in managing financial strategies** | |
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|  | **1.1** | Reserves are a vital tool in local financial management and are one of the mechanisms for managing that risk. |
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|  | **1.2** | The main purposes for which reserves are held include:   * To provide contingencies to deal with the risks inherent in the impact of unexpected events and emergencies, or events which turn out to be more costly than originally estimated * A means of building up funds to meet known or predicted requirements; examples include capital projects, asset replacement, special initiatives, or end of year carrying forward of budget provisions. * To increase the range of options available for financing the Mayoral (PCC) budget and capital programme. Two current examples are the initial funding of local invest to save schemes, and the use of reserves to fund capital expenditure as an alternative to borrowing in the current financial environment. * Within the ear marked reserves is a PFI reserve which holds the balance of the PFI grant paid by the Home Office to be released over the remaining life of the PFI contract. * There are other reserves which are held for accounting purposes. Examples include capital receipts, asset revaluation, and international requirements on pension’s liabilities. Other than capital receipts, which can be used to fund new capital expenditure, these reserves are not useable to defray revenue or capital expenditure. They are not optional, and they are held solely to ensure compliance with relevant accounting standards. * As a consequence this can provide a working balance to help cushion the impact of uneven cash flows, in order to minimise the need for temporary borrowing |
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| **2.** | **GM Mayoral (PCC) reserve principles** | |
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|  | **2.1** | The general reserves must reflect the risk to the organisation and reviewed at least annually. |
|  | **2.2** | Reserves can be used to support the delivery of ‘Standing Together’ the Police and Crime plan. |
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|  | **2.3** | Such projects can be undertaken by solely GMP, GMP plus partners or solely partners. |
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|  | **2.4** | Reserves can be used to support the capital programme. |
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|  | **2.5** | In association with the above point reserves can be used to smooth the budget profile on the basis that the realisation of savings can take time. |
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| **3.** | **The regulatory framework** | |
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|  | **3.1** | Various legislative requirements prescribe the basis on which local authorities (including PCCs) should manage their finances, and the statutory responsibilities of the Treasurer. Section 114 of the 1988 Local Government Finance Act requires the Treasurer to report on an unbalanced budget, and this was strengthened by the 1992 Act. The Local Government Act 2003 required chief finance officers to report amongst other things on the adequacy of reserves. |
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|  | **3.2** | Guidance has been issued by CIPFA and the Local Authority Accounting Panel in 2003 and 2008, highlighting the need to maintain appropriate levels of reserves. This is supported by other guidance such as the Prudential Code on capital finance which requires chief finance officers to have regard to affordability. |
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|  | **3.3** | As part of the ‘going concern’ judgement external auditors will normally review the adequacy of the reserves provisions as part of the statutory audit. |
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| **4.** | **CIPFA guidance** | |
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|  | **4.1** | Within the existing statutory framework it is the responsibility of the Treasurer to advise on levels of reserves and to ensure their adequacy and appropriateness. Reserves should not be held without a clear purpose. |
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|  | **4.2** | CIPFA does not accept there is a case for introducing a generally applicable minimum level, either as an absolute level or as a % of the budget. Reserves levels are based on a local assessment of budgetary and operational risks, and the factors shaping this will vary in each area. |
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| **5.** | **Current issues for managing reserves** | |
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|  | **5.1** | The current financial climate increases the budgetary risk profile significantly, particularly single year settlements, rising levels of demand linked to complexity and rising crime levels and the unknown impact of Brexit on future public sector expenditure plans. |
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|  | **5.2** | The challenge to transform the service increases over time as opportunities to save money are driven out; this means that the ability to contain variations within approved budget provision is much reduced, and reserves have to carry that risk. |
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|  | **5.3** | External factors such as tighter rules on national support under schemes such as Home Office Special Grant and Riot Damages claims mean that an increasing proportion of total risks has to be carried locally. |
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|  | **5.4** | Reserves management can only be considered over the lifetime of a rolling medium term strategy. |
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| **6.** | **SUMMARY OF RESERVES** | |
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|  | **6.1** | The table below summarises the level of reserves held.   |  |  | | --- | --- | |  | Position  as at 1.4.18  £m | | General Fund reserve | 13.880 | | Insurance reserve | 15.173 | | PFI reserve | 12.302 | | Earmarked reserves | 34.197 | | **TOTAL USEABLE RESERVES** | **75.551** |   *This represents 14% of the net budget requirement*  Details of the reserves can be found from section 8 to 10. In addition there are a number of unusable reserves which are shown at section 11. |
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| **7.** | **Minimum levels of reserves (General Fund)** | |
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|  | **7.1** | The Treasurer makes a regular assessment of the level of budgetary risks over the lifetime of the medium term financial strategy. A General Fund level has to be set annually based on an assessment of risk. |
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|  | **7.2** | There is no prescriptive guidance on the minimum (or maximum) level of general reserves required, either as an absolute amount or a percentage of the budget. |
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|  | **7.3** | When recommending a minimum level of the General Fund level the Treasurer takes account of the strategic, operational and financial risks, and that level can be expressed in cash terms or as a percentage of the budget. |
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|  | **7.4** | The General Fund is held to act as a contingency to cushion the impact of unexpected events or emergencies |
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|  | **7.5** | Factors to be considered in setting the level of General Fund are:   * cash flow requirements * 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/efficiencies * financial risks inherent in any significant new funding partnership, major outsourcing arrangement or major capital development * the adequacy of other funds, e.g. insurance provision |
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|  | **7.6** | Taking into account the factors listed above, the assessment indicates minimum and maximum levels of £11.784m and £14.564m respectively during 2018-2019. |
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|  | **7.7** | The General Fund Balance at 31st March 2018 is forecast to be £13.880m and represents 2.5% of the net budget requirement. |
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|  | **7.8** | The forecast is within the assessed range. In the past, part of the General Fund balance has been used to fund budget savings that could not be fully realised within a financial year. Another option could be to use balances to fund investment required to deliver longer-term efficiencies. These are legitimate short-term options, but the Chief Finance Officer’s advice would be not to finance recurrent expenditure from reserves. The amount held in cash balances contribute to investment income received and is credited to the Income and Expenditure Account. |
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|  | **7.9** | The 2018-19 budget and future year’s estimates do not include any use of General Fund balances. |
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| GENERAL FUND RISK ASSESSMENT  |  |  |  |  |  | | --- | --- | --- | --- | --- | |  |  |  | **General Fund  Amount  Minimum  £m** | **General Fund  Amount  Maximum  £m** | | **1** | **Large scale major incident** |  |  |  | |  | Funding 2018-19 | £m |  |  | |  | Police Grant | 428.018 |  |  | |  | Precept & Collection fund balance | 130.840 |  |  | |  | Funding total | 558.858 |  |  | |  |  |  |  |  | |  | Allow between 2% and 2.5% of funding total |  | 11.177 | 13.971 | |  |  |  |  |  | | **2** | **SFO Savings** |  |  |  | |  | Assume cumulative identified savings are not achieved by between 3% and 5%. |  | 0.327 | 0.545 | |  | Assume cumulative unidentified savings are not identified by between 5% and 10%. |  | 0 | 0 | |  |  |  |  |  | |  | **SUGGESTED GENERAL FUND LEVEL AT 31/3/18** |  | 11.504 | 14.516 | |  |  |  |  |  | |  | **Level at 31/3/18** |  | 13.880 | 13.880 | |  |  |  |  |  | |  | **Difference between suggested and forecast levels at 31/3/18** |  | -2.376 | 0.636 | | | |
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| **8.** | **PFI reserve** | |
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|  | 8.1 | This reserve holds the balance of PFI grant paid by the Home Office to be released over the remaining life of the PFI contract. |
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| **9.** | **Insurance reserve** | |
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|  | 9.1 | Funds held in case insurance provision proves inadequate to meet known liabilities. The reserve was calculated as part of the actuarial review and represents sums held to meet potential and contingent liabilities where these liabilities do not meet the requirements of FRS12 which states ‘the economic benefit to settle the obligation is more than remote’. |
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| **10.** | **Earmarked Reserves** | |
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|  | 10.1 | Budgetary risks – held to fund known but unquantified risks e.g. legal costs, in year demand pressures |
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|  | 10.2 | Support for medium term budget - utilised to meet costs of existing projects which span years |
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|  | 10.3 | Police and Crime Plan utilised to meet costs of future projects which support the delivery of the Police and Crime Plan |
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|  | 10.4 | Capital Expenditure – utilised to fund future year costs of the existing Information Systems Transformation Programme |
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|  | The table at Appendix 1 sets out the movement in earmarked reserves over the medium term financial period.  The table at Appendix 2 categorises the reserves in line with Home Office Guidance. | |
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| **11.** | **Unusable Reserves** | |
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|  | 11.1 | **Revaluation Reserve** - The Revaluation Reserve contains the gains made by the Mayor, in their role as Police and Crime Commissioner, arising from increases in the value of Property Plant and Equipment. The balance is reduced when assets with accumulated gains are:   * Revalued or impaired and the gains are written off * Used in the provision of services and the gains are consumed through depreciation; or * Disposed of, and the gains are realised   The reserve contains only gains accumulated since 1st April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital adjustment Account. |
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|  | 11.2 | **Financial Instruments Adjustment Account** - The Financial Instruments Adjustment Account holds the timing differences arising from the arrangements for accounting for income and expenses relating to certain financial instruments. The Mayor, in their role as Police and Crime Commissioner, used the account to manage premiums and discounts received on the early redemption of loans and accounting adjustments in relation to Effective Interest Rates. |
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|  | 11.3 | **Capital Adjustment Account** - The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of these assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation; impairment losses and amortisation are charged to the CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Mayor, in their role as Police and Crime Commissioner, as finance for the costs of acquisition, construction and enhancement.  The account contains accumulated gains and losses on Investment Properties that have yet to be consumed by the PCC. The account also contains revaluation gains accumulated on Property Plant and Equipment from periods prior to 1st April 2007, the date on which the Revaluation Reserve was created to hold such gains. |
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|  | 11.4 | **Pensions Reserve** - The pensions reserve absorbs the timing differences arising from different arrangements for accounting for post-employment benefits and funding benefits in accordance with statutory provisions. The Mayor accounted for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed, as the Mayor makes employer’s contributions to pension funds, or eventually pay any pensions for which it is directly responsible. The debit balance on the pensions reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Mayor has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid. |
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|  | 11.5 | **Collection Fund Adjustment Account** - The Collection Fund Adjustment Account manages the differences arising from the recognition of the police portion of council tax income (precept) in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the Combined Authority from billing authorities. |
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|  | 11.6 | **Deferred Capital Receipts Reserve** - Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which the cash settlement has yet to take place. Under statutory arrangements, the Mayor does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve. |
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|  | 11.7 | **Accumulated Absences Account** - The accumulated absences account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 1 April of a new financial year. Statutory arrangements require that the impact on the General Fund balance is neutralised by transfers to or from the Account. |

**Appendix 1**

The table below shows the movement in reserve over the medium term and demonstrates a 50% reduction in earmarked reserves over the medium term with a further 24% a contractually committed beyond the medium term.

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2017/18** | **2018/19** | | **2019/20** | | **2020/21** | | **2021/22** | |  |
|  | **31.03.18** | **In year use** | **31.03.19** | **In year use** | **31.03.20** | **In year use** | **31.03.21** | **In year use** | **31.03.22** | **Contractually committed after 2023** |
|  | **Actual** | **£m** | **Balance** | **£m** | **Balance** | **£m** | **Balance** | **£m** | **Balance** |
| **Earmarked Reserves:** | **£m** |  | **£m** |  | **£m** |  | **£m** |  | **£m** |
| Budgetary risks | 5.4 | -1.4 | 4 | -1.4 | 2.6 | -0.8 | 1.8 | 0 | 1.8 |  |
| Support for medium term budget | 9.8 | -3.9 | 5.9 | -1.1 | 4.8 | -0.9 | 3.9 | -0.7 | 3.2 | 2 |
| Police and crime plan | 16.8 | -3.7 | 13.1 | -2.1 | 11 | -1 | 10 | -0.2 | 9.8 |  |
| Capital expenditure | 2.2 | -2.2 | 0 |  | 0 |  | 0 |  | 0 |  |
| **SUB-TOTAL (Earmarked)** | **34.2** | **-11.2** | **23** | **-4.6** | **18.4** | **-2.7** | **15.7** | **-0.9** | **14.8** | **2** |
|  |  |  |  |  |  |  |  |  |  |  |
| **PFI Reserve** | **12.3** | **-0.8** | **11.5** | **-0.8** | **10.7** | **-0.8** | **9.9** | **-0.8** | **9.1** | **9.1** |
| **TOTAL EXCL GENERAL** | **46.5** | **-12** | **34.5** | **-5.4** | **29.1** | **-3.5** | **25.6** | **-1.7** | **23.9** | **11.1** |
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| **General & Insurance reserves** | **29.1** |  | **29.1** |  | **29.1** |  | **29.1** |  | **29.1** |  |

**Appendix 2**

The table below categorises the reserves as per Home Office guidance

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|  | **Balance as at 1.4.18 £m** | **18/19 £m** | **19/20 £m** | **20/21 £m** | **21/22 £m** |
| Funding for projects & programmes over the period of the current MTFP | 26.2 | 14.2 | 8.8 | 5.3 | 3.6 |
| Funding for projects & programmes beyond the current MTFP | 20.3 | 20.3 | 20.3 | 20.3 | 20.3 |
| General Contingency (incl insurance) | 29.1 | 29.1 | 29.1 | 29.1 | 29.1 |
| **TOTAL** | **75.6** | **63.6** | **58.2** | **54.7** | **53.0** |