

LEICESTERSHIRE POLICE AUTHORITY

PAPER MARKED

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Meeting **POLICE AUTHORITY**
Date **FRIDAY 18 FEBRUARY 2011 – 12.30 P.M.**
Report of **TREASURER**
Subject **RESERVES AND BALANCES**

Summary

1. In accordance with Authority policy an annual review of the Authority's reserves and balances is presented.

Recommendation

2. It is recommended that:
 - i. The General Reserve be maintained at between 2 and 3 percent of the net revenue budget requirement, the aim being to maintain it as close as possible to 3%;
 - ii. A maximum figure be set of 5%;
 - iii. The position be monitored in-year through the Strategic Financial Planning Group;
 - iv. The policy be reviewed each year when the budget and precept are set.

Background

3. The Authority maintains a working balance (the **General Reserve**) to manage uneven cash flows and avoid unnecessary temporary borrowing, and also to cushion the impact of unexpected events or emergencies. In addition **earmarked reserves** are maintained to meet known or predicted future expenditure. **Provisions** are established when the Authority has a financial obligation or liability as a result of a past event and that liability can be reliably estimated.
4. Section 25 of the Local Government Act 2003 requires the Treasurer to report to the Authority when setting its council tax precept on a number of issues, including the adequacy of its financial reserves.
5. The Chartered Institute of Public Finance and Accountancy (CIPFA) has produced guidance for chief financial officers on the establishment and maintenance of reserves and balances. That guidance is reflected in the comments included in this report.
6. On 9 February 2010 the Authority resolved, that:-
 - i. The General Reserve be maintained at between 2 and 3 percent of the net revenue budget requirement.
 - ii. When and if possible the aim be to increase it to nearer 3% rather than 2%.

- iii. A maximum figure be set of 5%.
- iv. The position be monitored in-year through the Strategic Financial Planning Group.
- v. The policy be reviewed each year when the budget and precept are set.

Commentary

- 7. Given the financial pressures facing the Authority it is important that a policy is in place to guide future decisions on budget and precept levels.
- 8. CIPFA does not support the introduction of a statutory minimum level of reserves. Authorities, on the advice of their chief financial officer, 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 relatively low level of general reserves.
- 9. Setting the level of general reserves is just one of several related decisions in the formulation of the medium term financial strategy and the budget for a particular year. Account should be taken of the key financial assumptions underpinning the budget alongside a consideration of the authority’s financial management arrangements. In addition to cash flow requirements the CIPFA guidance suggests that the following factors should be considered.

Budget Assumptions	Financial Standing and Management
The treatment of inflation and interest rates	The overall financial standing of the authority
Estimates of the level and timing of capital receipts	The authority’s track record in budget and financial management including the robustness of the medium term plans
The treatment of demand led pressures	The authority’s capacity to manage in-year budget pressures
The treatment of planned efficiency savings / productivity gains	The strength of the financial information and reporting arrangements
The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments	The authority’s virement and end of year procedures in relation to budget under / overspends at authority and departmental level
The availability of other funds to deal with major contingencies and the adequacy of provisions	The adequacy of the authority’s insurance arrangements to cover major unforeseen risks

- 10. A further issue to be examined is the impact of a major incident. Although the Government is generally supportive under such circumstances, Ministers will have regard to the level of reserves held by the authority, and will expect a contribution from the authority of at least 1 percent of its net revenue budget.
- 11. Regard should also be had to financial control arrangements including internal and external audit arrangements, availability and timeliness of information on changes in the authority’s

financial position, the tightening budget position that has already driven out budget efficiencies, and the challenging national funding position.

12. As well as a minimum level for reserves it is also appropriate to consider a maximum. Large reserves that cannot be justified from an operational point of view not only disadvantage local council tax payers (whose money it is) but also draws attention from Ministers when grant levels are determined.

Conclusions

13. The recommendations that follow are based upon a review of the above against the particular circumstances in Leicestershire, as follows:

14. The General Reserve currently stands at £5.253 million, equal to 3% of the net revenue budget requirement for 2011/12. The only significant earmarked reserves remaining are the Police Pensions Reserve at £0.751 million to cover any abnormal ill health retirement costs, and the Police Community Support Officer Reserve at £2.176 million to meet any future unbudgeted expenditure. In addition, a Budget Equalisation Reserve (BER) exists to carry forward any savings in a particular financial year to support budgets in future years (See Paper C on this agenda) which currently totals £7.77 million.

15. Paper C includes the Treasurer's view on the adequacy of these reserves.

16. In assessing the adequacy of the General Reserve there are some positive and some negative issues to consider.

17. The positive issues are:

- The Authority's sound financial standing and management as perceived by auditors and inspectors, in particular its track record in budget and financial management;
- The strength of financial information and reporting arrangements.

18. The negative issues are:

- The fact that only one small earmarked reserve exists to cushion any major cash flow deficits;
- The challenging national funding position going forward and the resilience of the Force should major incidents or events impact on service delivery and costs.

Background Papers

CIPFA LAAP Bulletin 77 – November 2008 "Guidance note on local authority reserves and balances"

Financial Implications

There are no immediate financial implications although the Authority will need to have regard to the policy when setting future budgets.

Legal Implications

None

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