

MAYOR OF LONDON

OFFICE FOR POLICING AND CRIME

Reserves Strategy 2018-2022

Part A – Reserves Strategy

Part B – Operational addendum

Part A - Reserves Strategy 2018-22

Background

1. In January 2018, guidance was issued to Police and Crime Commissioners (PCCs) by the Minister for Policing & the Fire Service. This set out the Government's expectations around the information to be published by Police & Crime Commissioners on their financial reserves strategies.

2. The guidance stipulated;

"Each PCC should publish their reserves strategy on their website, either as part of their medium term financial plan or in a separate reserves strategy document. The reserves strategy should include details of current and future planned reserve levels, setting out a total amount of reserves and the amount of each specific reserve held for each year. The reserves strategy should cover resource and capital reserves and provide information for the period of the medium term financial plan (and at least two years ahead).

Sufficient information should be provided to enable understanding of the purpose(s) for which each reserve is held and how holding each reserve supports the PCC's medium term financial plan.

The strategy should be set out in a way that is clear and understandable for members of the public, and should include:

- how the level of the general reserve has been set;
- justification for holding a general reserve larger than five percent of budget;
- details of the activities or items to be funded from each earmarked reserve, and how these support the PCC and Chief Constable's strategy to deliver a good quality service to the public. Where an earmarked reserve is intended to fund a number of projects or programmes (for example, a change or transformation reserve), details of each programme or project to be funded should be set out.

The information on each reserve should make clear how much of the funding falls into the following three categories:

- Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan.
- Funding for specific projects and programmes beyond the current planning period.
- As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance)."

3. The Reserves Strategy has been produced in accordance with this guidance.
4. The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Act require precepting authorities (and billing authorities) in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
5. In England and Wales, earmarked reserves remain legally part of the General Reserve, although they are accounted for separately.
6. There are other safeguards in place that help to prevent MOPAC/MPS over-committing themselves financially. These include:
 - a) The balanced budget requirement (Local Government Act 1992 s32 and s43).
 - b) Chief Finance Officer's duty to report on the robustness of estimates and adequacy of reserves (Local Government Act 2003 s25) when the Mayor is considering the budget requirement.
 - c) Legislative requirement to make arrangements for the proper administration of their financial affairs and that the Chief Finance Officer has responsibility for the administration of those affairs (section 151 of the Local Government Act 1972).
 - d) The requirements of the Prudential Code
 - e) Auditors will consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based.
7. These requirements are reinforced by section 114 of the Local Government Finance Act 1988, which requires the Chief Finance Officer to report if there 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 MOPAC/ MPS will not have the resources to meet its expenditure in a particular financial year.
8. Whilst it is primarily the responsibility of both the MPS Chief Finance Officer and the MOPAC Chief Finance Officer to maintain a sound financial position, external auditors will, as part of their wider responsibilities, consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based. However, it is not the responsibility of auditors to prescribe the optimum or minimum level of reserves for individual organisations.
9. CIPFA's Prudential Code requires both the Chief Finance Officers to have full regard to affordability when making recommendations about the future capital programme. Such consideration includes the level of long-term revenue commitments. Indeed, in considering the affordability of its capital plans, the MOPAC/MPS is required to consider all of the

resources available to it and estimated for the future, together with the totality of its capital plans and revenue forecasts for the forthcoming year and the following two years. There is a requirement for three-year revenue forecasts across the public sector and this is achieved through the Medium Term Financial Strategy (MTFS) and annually published GLA consolidated budgets. The Comprehensive Spending Review (CSR) has provided details of proposed revenue grant for one year and the capital grant settlement has yet to be announced. This provides limited ability to focus on the levels of reserves and application of balances and reserves.

10. CIPFA and the Local Authority Accounting Panel do not accept that there is a case for introducing a generally acceptable minimum level of reserves. MOPAC/MPS, on the advice of their Chief Finance Officers, should make their own judgements on such matters taking into account all relevant local circumstances. Such circumstances will vary between local policing areas. A well-managed organisation, 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 organisation will ensure that the reserves are not only adequate, but also are necessary.
11. Reserves arise out of the interaction of legislation and proper accounting practice. Reserves cannot be used for any other purpose.

Types of Reserve

12. When reviewing the medium term financial plans and preparing the annual budgets the establishment and maintenance of reserves should be considered. These can be held for four main purposes:
 - a) A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves.
 - b) A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves.
 - c) A means of building up funds often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately, but remain legally part of the general reserve.
 - d) A means to respond to uncertainty in the economic climate and provide assurance on the safety of the MOPAC's financial assets. This would link closely with the Treasury Management and Prudential Code Strategy - this also forms part of general reserves.
13. Other reserves may be created in future where developments in local authority accounting

result in timing differences between the recognition of income and expenditure under proper accounting practice and under statute or regulation, such as the Capital Grants Unapplied Reserves.

14. In addition, there has been and will continue to be a Capital Receipts Reserve. This reserve holds the proceeds from the sale of assets and can only be used for capital purposes in accordance with the regulations. The use of capital receipts is regulated by Part 1 of the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) England Regulations 2003.
15. When establishing reserves, there needs to be compliance with the Code of Practice on Local Authority Accounting and in particular, the need to distinguish between reserves and provisions.

Procedure for Use of Reserves

16. The use of reserves requires approval in line with the Scheme of Consent and Delegation. This means that approval from the Deputy Mayor for Policing and Crime is required for all transfers into and out of reserves.

Monitoring

17. The level of reserves is kept under continuous review by both the MPS Chief Finance Officer and the MOPAC Chief Finance Officer. This is mainly achieved through the Medium Term Financial Strategy and the quarterly monitoring reports.

Risk Analysis

18. In reviewing reserves plans for the Annual Budget the MPS Chief Finance Officer will take account of the needs of operational policing balanced against the need to retain prudent levels of reserves and will make recommendations for MOPAC approval.
19. There are significant risks, which affect the level of reserves to be maintained.
20. The significant risks that have been considered, but which will also be kept under review are:
 - a) Reduction of Grant funding from 2020/21 onwards with a potential new Comprehensive Spending Review and Funding Formula Review.

- b) Further terrorist or other significant additional activity which will be subject to Special Grant claims with no guarantee of reimbursement from government
- c) National settlements for pay awards being higher than we have planned for.
- d) Increases in the cost of borrowing, as we are moving from a period of our capital programme reusing receipts into a period with significant planned borrowing.
- e) The financial impact of Brexit.
- f) Unexpected challenges in being able to achieve the required efficiencies and savings during the year.
- g) The need to finance any organisational change and redundancies
- h) The ability to recover any significant overspends by departments would be very difficult in the current financial climate.
- i) Instability of the Financial Markets means that the investments we make with balances could be exposed to greater risk. This is mitigated by the Treasury Management Strategy.
- j) Once utilised there is very little opportunity for reimbursing the level of reserves through precept due to referendum limits or grant, due to the impact it would have operationally.

Strategy Review

- 21. This Strategy is based on data in the Outturn report for 2017/18 as approved by Management Board in May 2018. It has been adjusted in July for a change in the planned use of MOPAC's own reserves. This strategy will be reviewed annually.
- 22. During the year changes may occur in the MTFs, which affect this strategy. Such changes will be monitored by the MPS Chief Finance Officer and the MOPAC Chief Financial Officer and reported to the Commissioner and MOPAC for approval.

Part B – Operational Addendum

Current Financial Climate

23. There is significant pressure on public finances. At the local level reducing expenditure to an affordable base whilst maintaining service at an acceptable level remains a challenge.
24. The Medium Term Financial Strategy identifies risks in achieving the required savings to ensure balanced budgets over future years. Given the challenge inherent in the current budget any unexpected budget pressure in one area may be hard to manage out across the organisation. Therefore, the ability to retain reserves for unforeseen events and circumstances requires careful consideration.
25. The Minister for Policing and the Fire Service has written to all forces in relation to reserves. The following section of this document maps to the requirements in his letter.

Reserves details

26. The MPS holds 2 categories of reserves:
 - a) A General Reserve for unexpected pressures that cannot be managed within existing budgets.
 - b) Earmarked capital and revenue reserves, set aside for specific activities, such as for investment, to support the medium-term budget, and those held for ongoing purposes as per legislation (such as POCA proceeds).
27. Total revenue reserves (earmarked and general) peaked at £420m at the end of 2014/15. We have been using our reserves since this date. Since 2015/16 we have utilised our reserves to support transformation including the cost of planned redundancies (1,200 staff FTEs), outsourcing some back-office functions, uplifting our firearms capacity and investing in IT. We ended 2017/18 with £201m (£46.6m General Reserves, 1.8% of Net Revenue Expenditure and £154m of Earmarked Reserves, 5.9% of Net Revenue Expenditure).
28. Looking forward, our plans include the use of reserves to fund transformational change to support the delivery of police services, including major investments in our digital capabilities and in the modernisation of our estate. There are a number of smaller earmarked reserves which exist to manage specific near-term pressures, including the costs of historical public inquiries and action to tackle issues in vetting. The majority of reserves in these areas will be fully utilised by 2021/22.

29. We will however be using reserves to achieve a more stable trajectory for workforce numbers over the medium term. This will see growth in one line of our reserves in the short term, followed by planned drawdown over the following years.
30. Overall, our plans show earmarked reserves are forecast to be £20m by 2022/23; these are the reserves that are required long-term to manage insurance risks and funds held for third parties.
31. The MPS capital reserve (including capital grants unapplied) peaked at £345m in 2016 following the sale of the former NSY building; this reserve was used in 2017/18 to secure the long-term future of the Empress State Building for use as a Counter Terrorism and Organised Crime hub for London and held a balance in March 2018 of £18m. The capital reserve may be used as required to manage any future timing differences between capital receipts and investments in capital assets. This is topped up whenever we dispose of buildings and is then used to fund capital investment. The reserve is planned to have a zero balance from the end of 2018/19 onwards and new borrowing will be required to fund the ongoing capital programme.

The General Reserve

32. The General Reserve has been held at a consistent level of £46.6m for several years. This equates to 1.8% of NRE and is considered a prudent level given the challenges in our operating environment.
33. The purpose of this reserve is to provide for any unexpected expenditure that cannot be managed within existing budgets. Such expenditure would be one- off and resulting from an extraordinary event.
34. In reviewing this reserve, the MOPAC/MPS takes into account challenges in funding, the controls in place and the necessity to ensure budgetary resilience. These factors may require a change in the level of General Reserve held. However, MOPAC/MPS will seek to avoid significant fluctuations in the level held. We have no current plans for the general reserve to be increased, and would in any event ensure that the maximum level would not exceed 5% of the overall net budget. As the net budget position changes the level of General Reserve will be monitored to ensure that an appropriate and prudent level is maintained.
35. Authorisation to finance any expenditure from the General Reserve expenditure must be obtained in line with the Scheme of Consent and existing delegations.

Earmarked Reserves

36. Unlike General Reserves, earmarked reserves have been identified for specific areas of expenditure where there are anticipated costs that can only be estimated. It is therefore prudent for the MPS Chief Finance Officer to identify such areas of expenditure and set aside amounts that limit future risk exposure (e.g. balancing budget shortfalls in the MTFS).
37. Expenditure relating to earmarked reserves must specifically relate to the purpose of the reserve.
38. The Minister requires MOPAC to break these reserves down into two areas:
 - a) Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan. This equates to the planned use of reserves that would form the basis of the MOPAC/MPS element of the approved GLA budget.
 - b) Funding for specific projects and programmes beyond the current planning period.
39. The grouping of funding beyond the current planning period includes reserves held where:
 - a) usage is expected within the current medium-term finance plan, but formal plans are not yet in place (e.g. MOPAC/ MPS own reserves).
 - b) funding has been received from third parties (e.g. airports) where the usage depends on decisions that need to be reached with these parties.
 - c) funding has been received under the Proceeds of Crime Act and the usage is subject to a Government-approved process to incentivise further POCA activity.
 - d) funding is being set aside to support our self-insurer position to ensure coverage should we receive any significant claims. A Provision to the accounts exists to cover future outgoings based on past events. This is supported by a revenue budget each year and an actuarial review is undertaken every three years. This reserve is in place to provide additional smoothing to the provision should the revenue budget be insufficient in year.
40. In addition to the categories required by the Policing Minister the Police and Crime Commissioners' Treasurers Society (PACCTS) seeks categorisation according to the following:
 - a) Held to facilitate change programmes
 - b) Help to support the medium-term budget
 - c) Held on behalf of other organisations

Earmarked Reserves headings

41. Within these categorisations this reserve strategy specifies the purpose for which reserves are earmarked:

Held to facilitate change programmes

- a) **Supporting transformation and local change:** this holds funding to deliver the MPS One Met Model transformation programme, which supports much-needed investment to replace outdated technology, improves the effectiveness of officers, increases productivity and drives future efficiencies, enabling the delivery of a more effective and efficient Met.

Examples include the major change enabling reserve which holds funds for programmes including the roll out of mobile devices to officers enabling more agile working and improving visibility; and changes to local policing through Basic Command Units, leading to improved victim care and a more joined-up approach to safeguarding. The reserve also holds funds for firearms uplift and fleet contract changes.

Held to support the medium-term budget

- a) **Property:** Reserves accumulated or drawn down on to facilitate the MPS estates rationalisation programme. This covers a reserve for dilapidations to fund future expenditure on properties where the leases have expired and a reserve for property related costs which reflect the requirement to provide for the cost of various building related projects as part of our central estates strategy.
- b) **Historical public inquiries:** To fund the provision of resources to respond to requests for information and other legal requirements arising from the work of the public inquiries. It does not make allowance for public inquiries not yet in operation on a contingency basis.
- c) **Operational costs:** Exists to fund a number of specific operational requirements such as investigative coaches where it has been agreed funding would be carried forward to enable the profiling of these costs in future years.
- d) **Vetting delays:** £1.1m was set aside in 2017/18 to fund the requirement to update the vetting status of existing officers and staff.
- e) **Business group initiatives:** This relates to specific plans to invest in initiatives across the MPS, including the Leading for London programme.
- f) **Managing officer FTEs:** This reserve was established in 2017/18 following a Management Board decision to work towards a relatively stable trajectory for officer FTEs over the medium term. Forward planning of officers is dependent on assumptions about future resources available and there is a time lag for feed

through to officer numbers recruited. Owing to uncertainty over future funding, the plan is for underspends in police pay in 2017/18, 2018/19 and 2019/20, which can be moved to reserves and then released in 2020/21 and 2021/22 to maintain officer FTEs at the intended level. This gives the MPS a steady officer establishment over the medium term, allowing improved operational planning. It is based on a set of assumptions for costs and funding agreed by Management Board in March 2018 – these assumptions do not include any future grant reductions via a new Spending Review or Funding Formula review.

- g) **Insurance:** To cover our insurance costs in line with the insurance strategy.
- h) **Specifically funded for third parties (airports):** Monies held for future Airwave replacement requirements at Heathrow and London City Airports.
- i) **MOPAC:** MOPAC holds a reserve for its own internal budget. This exists to provide for a variety of insurance, legal and project risks/pressures. MOPAC aim to draw down a managed amount from these reserves each year to fund a variety of commissioned services reflecting the priorities set out in the Mayor's Police and Crime Plan to: provide a better police service for London; tackle violence against women and girls; keep children and young people safe; tackle hate crime and intolerance; and provide a better Criminal Justice Service for London.

Held on behalf of other organisations

- j) **Specifically funded for third parties:** This is a Counter Terrorism fund to support future capital expenditure.
- k) **Specifically funded for third parties (airports):** Monies held for future Airwave replacement requirements at Heathrow and London City Airports.

Other Earmarked reserves

- l) **Other earmarked (POCA):** Monies held after successful operations to recover proceeds of crime that are ringfenced to fund future recovery activity.

42. **Appendix A** provides details of the required break down.

MPS CFO Opinion

43. It is my opinion that the current level of reserves is prudent. Over recent years our need to use these when savings have not been achieved or other unplanned expenditure has arisen has resulted in significant reductions in reserves. Other forces are facing similar issues.

44. Once the total of earmarked reserves have been utilised we will have exhausted our ability to fund the costs of change for the future.

45. We ensure that there is significant oversight and governance of the level of reserves we hold. Monitoring is undertaken regularly throughout each financial year and all uses of reserves require the approval of the Deputy Mayor for Policing and Crime.
46. There is significant review and audit of our reserves position through our internal audit function, external auditors and HMICFRS.

MOPAC CFO Opinion

47. It is my opinion that the current level of general reserves is prudent. The strategy set out here for the use of earmarked reserves is reasonable, as the use of reserves has been appropriately planned to support the MPS in delivering a very significant transformation programme over this period and providing stability in the officer workforce during this time.

2018-22; Reserves Strategy

Appendix A

Ministerial Grouping	Description	PACCTS category	Closing Balance 2016/17 £m	Outturn 2017/18 £m	Estimated Closing Balance 2017/18 £m	Estimated use in 2018/19 £m	Estimated use in 2019/20 £m	Estimated use in 2020/21 £m	Estimated use in 2021/22* £m	Estimated Closing Balance £m
General Reserve	General Reserve	General Reserve	46.6	0.0	46.6	0.0	0.0	0.0	0.0	46.6
Use within the current MTFP	Supporting OMM and local change	Held to facilitate change programme	93.1	-58.5	34.6	-19.6	-14.8	0.4	-0.6	0.0
	Property	Held to support medium term budget	21.8	-1.9	19.9	4.8	4.1	-2.4	-26.4	0.0
	Historical Public Inquiries	Held to support medium term budget	9.6	0.0	9.6	-7.8	-1.8	0.0	0.0	0.0
	Operational Costs	Held to support medium term budget	12.1	-2.4	9.8	-3.6	-3.6	-1.2	-1.4	0.0
	Vetting Delays	Held to support medium term budget	0.0	1.1	1.1	-1.1	0.0	0.0	0.0	0.0
	Specifically funded for third parties	Held on behalf of other organisations	14.1	0.0	14.1	-5.0	-9.1	0.0	0.0	0.0
	Business Group initiatives	Held to support medium term budget	12.0	-4.7	7.3	-7.2	-0.2	0.0	0.0	0.0
	Managing Officer FTE's	Held to support medium term budget	0.0	27.1	27.1	9.1	21.9	-11.3	-46.8	0.0
Use beyond the current MTFP	Insurance	Held to support medium term budget	6.7	0.0	6.7	0.0	0.0	0.0	0.0	6.7
	Other earmarked (POCA)	Other Earmarked	7.4	-0.5	6.9	0.0	0.0	0.0	0.0	6.9
	Specifically funded for third parties- airports	Held on behalf of other organisations	1.8	0.2	2.0	0.2	0.2	0.0	0.0	2.5
	MOPAC	Held to support medium term budget	14.4	0.9	15.3	-3.8	-3.8	-3.0	0.0	4.7
Grand Total			239.6	-38.7	201.0	-33.9	-7.0	-17.5	-75.2	67.4
	% Reduction in reserves held from 2016/17									72%

*These planned usages may extend across future years beyond the scope of the table but are committed in the medium term.