

OFFICE OF POLICE AND CRIME COMMISSIONER

TITLE: Police and Crime Commissioner for Gwent Reserves and Committed Funds Strategy

DATE: 8th December 2022

TIMING: Annually - Commencement of the Annual Budget Setting Process

PURPOSE: For information

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| 1. | <u>RECOMMENDATION</u> To provide Members of the Joint Audit Committee (JAC) with the Police and Crime Commissioner’s (Commissioner) Reserves and Committed Funds Strategy 2022/23, for their consideration. This will enable Members to discharge their responsibilities in relation to the budget setting process and the annual financial statements. This strategy will also be considered by the Police and Crime Panel (PCP) in due course as part of their deliberations regarding the Commissioner’s Council Tax Precept proposal for 2023/24. |
| 2. | <u>INTRODUCTION</u> |
| 2.1 | The current Medium Term Financial Projections (MTFP) (Appendix 1) currently forecasts on-going financial challenges until at least 2027/28 and potentially beyond. The basis for these projections is taken from a number of Governmental and non-Governmental sources such as: a) 2021 Comprehensive Spending Review (CSR); b) The Chancellor’s Autumn Statement 2022; c) Final Police Funding Settlement 2021/22; d) Liaison with Home Office (HO) and Ministry of Justice (MoJ) officials; e) Bank of England (BoE) economic forecasts; f) Institute of Fiscal Studies (IFS) analysis; g) Office of Budget Responsibility (OBR) forecasts; h) Police Staff Council and Police Negotiating Board; i) Internal intelligence and local strategies; and j) Data sharing with peers from the Police and Crime Commissioner Treasurers’ Society (PACCTS), the Welsh Police Finance and Resources Group (WPFRG) and the National Police Chief’s Council’s (NPCC) Finance Coordination Committee. |
| 2.2 | The future financial challenge to 2027/28 is exacerbated by the HO’s review of the Police Funding Formula. By way of background, once the overall size of the policing budget is determined by the HO (via the CSR), then the amount of funding provided to respective Police and Crime Commissioners will be determined by the Police Funding Formula. It has been well publicised that the current formula is out-dated, overly complex, opaque and in need of review. Following a ‘false start’ to the review process during the latter half of 2015, the review was brought back on track with a hope to produce its findings by February/March 2017, with implementation for the 2018/19 financial year. However, it is believed that with the significant implications of the Brexit |

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| | <p>negotiations; the result of the ‘snap’ General Election in June 2017 (and subsequent one in December 2019); the significant increase in the threat of terrorism; and the impact of Covid-19, the implementation was further delayed.</p> |
| 2.3 | <p>However, the review commenced in November 2021. The Association of Police and Crime Commissioners (APCC) and National Police Chief’s Council (NPCC) have selected representatives for both the Senior Sector Group (SSG) and Technical Reference Group (TRG). The Gwent Commissioner’s Chief Finance Officer represents Welsh interests on the TRG. The Home Office team has an open-door approach to engagement and are keen to hear from the Policing Sector.</p> |
| 2.4 | <p>The Review is currently in its initial ‘Technical Phase’, which will deliver proposals for a new Police Funding Formula. The Technical Phase covers three stages - Modelling, Weighting and Adjustments.</p> |
| 2.5 | <p>At the end of the Technical phase, the TRG will put forward recommendations for a new formula. The SSG Group will respond with a report for consideration by Ministers and a full public consultation will take place before any new funding arrangements are implemented. The Home Office have also mentioned a separate consultation prior to this on the principles of a new formula.</p> |
| 2.6 | <p>The ambitious timetable set at the start of the Technical phase in November 2021 has slipped for both valid (e.g. academic due diligence) and other reasons, such as delays which have been put down to the political uncertainty in recent months. Thankfully, a TRG meeting took place at the end of November 2022 after a six-month pause.</p> |
| 2.7 | <p>It is hoped that the TRG will continue to meet on a monthly basis and the personal expectations from the Gwent CFO, is that the final proposal from TRG to SSG will be in the spring. Therefore, any final report from SSG to Ministers will be the latter half of 2023. Public consultation will follow this prior to any implementation. Completion and sign-off is expected by December 2024 at the latest, with implementation from the 2025/26 financial year onwards.</p> |
| 2.8 | <p>Importantly however, early exemplifications from the HO received during 2015 (showing the effect of the then revised Police Funding Formula being suggested), identified a £6m cut in Central Government Grant Funding for Gwent. Therefore, from the 2025/26 financial year onwards, the Commissioner could be faced with a £6m cash cut in addition to the underlying ‘real term’ cuts forecast from the effect of the Government’s future approach to police funding. It is also likely that this cut will not be actioned in one fell swoop, but transitional arrangements will affect the cut over a number of financial years.</p> |
| 2.9 | <p>Historically, although the revision and setting of the Commissioner’s Reserves and Committed Funds Strategy has formed an integral part of the budget setting process, it has not necessarily been separately formally reported. In September 2014 however, in order to provide the PCP with a greater insight into the Commissioner’s overall financial position, the 2014/15 Reserves and</p> |

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| 2.10 | <p>Committed Funds Strategy was formally reported to them. The benefits of this approach, linked with the impact of continuing financial austerity, has prompted the continuation of separate formal reporting moving forward.</p> <p>This approach is also supported in that over recent years, with the heightened scrutiny of police funding; the guidance issued to Commissioners by the Minister for Policing & the Fire Service, setting out the Government's expectations around the information to be published by Police and Crime Commissioners on their financial reserves strategies; the planning for future budget setting and funding rounds; and the proposed transition arrangements for the implementation of a new funding formula, reserves and committed funds held by Commissioners have come under the spotlight from Central Government and the wider public. Therefore, an endorsed and publicly available Reserves and Committed Funds Strategy provides context to the Commissioner's overall financial position.</p> |
| 3. | <p><u>BACKGROUND</u></p> <p>3.1 The Local Government Finance Act 1992, Sections 31A, 32, 42A and 43 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. In this context, the Commissioner is a Precepting Authority.</p> <p>3.2 There are also a range of safeguards in place that help prevent the Commissioner over-committing himself financially. These include:</p> <ul style="list-style-type: none"> a) The balanced budget requirement, as stipulated in Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992, as amended; b) The Chief Finance Officer's (CFO) duty to report on the robustness of estimates and adequacy of reserves (under Section 25 of the Local Government Act 2003) when the Commissioner is considering his budget requirement; c) The legislative requirement for the Commissioner to make arrangements for the proper administration of his financial affairs and that the CFO has responsibility for the administration of those affairs (Section 151 of the Local Government Act 1972); d) The requirements of the Prudential Code and the Treasury Management in Public Services Code of Practice; and e) The Chartered Institute of Public Finance Accountants' (CIPFA's) Financial Management Code (FM Code), published in October 2019 - The FM Code is designed to support good practice in financial management and to assist Local Authorities (and other designated bodies such as Policing) in demonstrating their financial sustainability. The FM Code therefore for the first time sets the standards of financial management for a number of public bodies. The first full year of compliance with the FM Code was 2021/22, but the Commissioner and Chief Constable recognised that their organisations would need time to reflect on the contents of the FM Code and therefore used 2020/21 to demonstrate how they are working towards compliance. The Annual Governance Statement for 2021/22 included the overall positive conclusion of the assessment of the Commissioner's and Chief Constable's compliance with the principles of the FM Code. |

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| 3.3 | The above requirements are reinforced by Section 114 of the Local Government Finance Act 1988, as amended by Schedule 16 Part 3 of the Police Reform and Social Responsibility Act 2011, which requires the CFO in England and Wales to report to the Commissioner, PCP and External Auditor if there is or 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 Commissioner will not have the resources to meet his expenditure in a particular financial year. |
| 3.4 | As confirmed above, within the existing statutory and regulatory framework, it is the responsibility of the CFO to advise the Commissioner about the level of reserves and committed funds that he should hold and to ensure that there are ¹ clear protocols for their establishment and use. Reserves and committed funds should not be held without a clear purpose. By way of example, the Prudential Code requires CFOs to have full regard to affordability when making recommendations about the Commissioner's future Capital Programme. Such consideration includes assessing all the resources available to/estimated for the Commissioner, such as his level of long-term revenue commitments and also the level of reserves and committed funds. |
| 3.5 | It is evident therefore (and supported by the CIPFA and the Local Authority Accounting Panel) that Commissioners should make their own judgements (on the advice of their CFO) on the level of reserves and committed funds; after taking into account all the relevant local circumstances. It is recognised that such circumstances vary. For example, a Commissioner operating in a well-managed environment, with a prudent approach to budgeting, should be able to operate with a level of General Reserve appropriate to the risks (both internal and external) to which it is exposed. In this scenario, in assessing the appropriate level of reserves and committed funds, the Commissioner will ensure that the reserves and committed funds are not only adequate but are also necessary. There is a broad range therefore, within which Commissioners might reasonably operate depending on their particular circumstances. |
| 3.6 | As a final point by way of background, whilst it is primarily the responsibility of the Commissioner and their CFO to maintain a sound financial position, external auditors will confirm that there are no material uncertainties about going concern. Even, where as part of their wider role, auditors have to report on the Commissioner's financial position, it is not their responsibility to prescribe the optimum or minimum level of reserves for individual Commissioners or Commissioners in general. Section 26 of the Local Government Act 2003 however, gives Ministers in England and Wales a general power to set a minimum level of reserves for Commissioners. Nonetheless, the Government has undertaken to apply this only to individual Commissioners in the circumstances where they do not act prudently; disregard the advice of their CFO; and are heading for serious financial difficulty. This accords with CIPFA's view that a generally applicable minimum |

¹ The Commissioner follows best practice in that for each reserve/committed fund, a clear protocol exists setting out:

- The reason for/purpose of the reserve/committed fund;
- How and when the reserve/committed fund can be used;
- Procedures for the reserve/committed fund's management and control; and
- A process and timescale for review of the reserve/committed fund to ensure continuing relevance and adequacy.

level is inappropriate, as a minimum level of reserve will only be imposed where a Commissioner is not following best financial practice.

4. ISSUES FOR CONSIDERATION

4.1 As an integral part of the annual budget setting process, the Commissioner (via his CFO and the Finance Department) considers the establishment and maintenance of reserves and committed funds. The Commissioner’s reserves and committed funds are held for three main purposes:

- a) As ‘working capital’ to help cushion the impact of uneven cash flows, thereby avoiding unnecessary temporary borrowing (e.g. the timing of Government Grant or Council Tax Precept receipts may not coincide with large payment runs, such as the monthly payroll coinciding with large contractual commitments) – This forms part of the General Reserve, which is revenue in nature;
- b) As a contingency to mitigate the impact of unexpected events or emergencies (e.g. a complex/high profile murder case) – this too forms part of the General Reserve; and
- c) As a means of ring-fencing or building up funds, often referred to as Earmarked Reserves or Committed Funds (referred to hereon as Committed Funds), to meet known or predicted requirements – these are accounted for separately from the General Reserve and can be either revenue or capital in nature.

4.2 The following table identifies the broad categories of Committed Funds held by the Commissioner:

| Category of Committed Funds | Rationale for Holding |
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| Committed Funds set aside for major schemes, such as capital developments, or to fund major reorganisations such as those determined by the Service Improvement Board. | Where expenditure is planned in future accounting periods, it is prudent to set aside resources in advance. For example, to fund the future Capital Programme spend to avoid borrowing costs, or to pump-prime organisational change programmes. |
| Other Committed funds to support the medium-term budget E.g. Forecast Accelerated Efficiency Savings. | These are reserves and committed funds, which are either planned to be generated in the future and as such, may not yet have been committed to fund expenditure as of yet; or are existing reserves, which by their nature of being no longer required, are available for recycling either fully or in part to fund other committed areas of expenditure. |
| Committed Funds to meet and manage forecast budgetary risks. | With £52.751m of efficiency savings delivered to the end of the 2021/22 financial year; £1.021m planned for delivery during 2022/23; and a gross forecast deficit of £22.400m by 2027/28, it is prudent to underwrite a degree of the |

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| | | budgetary imbalance remaining of £18.496m after taking into account future efficiency savings. |
| | Committed Funds set aside in previous reporting periods for potential liabilities arising out of tribunal or ombudsman decisions. | These funds are established to meet potential and contingent obligations arising from 'live cases' which did not meet the definition of a provision ² . These are reviewed regularly on a case-by-case basis on whether they are still required (and therefore remain 'committed') or can be released back into the wider reserves and committed funds position. |
| | Committed Funds for unspent revenue grants and sums held on behalf of third parties. | Where revenue grants have no conditions attached or the conditions are met and the expenditure has yet to take place, these sums are permissible to be held as committed funds. The same applies for sums held on behalf of third parties. |
| | Committed funds retained for Workstream/Department use (including utilisation of 'Proceeds of Crime Act' (POCA) monies). | The Commissioner's Reserves and Committed Funds protocol permits Workstreams/Departments to carry forward commitments at the year-end (in the form of a committed fund), on the basis that the expenditure will take place in the following financial year(s) – these are subject to extensive scrutiny at each year-end and also during the following budget setting round. |
| 4.3 | <p>Appendix 2 provides a detailed projection of the Commissioner's reserves and committed funds up until 31st March 2028. The Appendix also categorises reserves and committed funds to meet the Home Office Guidance (issued January 2018) which determines that Commissioners' Reserves and Committed Funds should be categorised between:</p> <ul style="list-style-type: none"> a) A general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management; b) Funding for planned expenditure on projects and programmes over the period of the current MTFP; and c) Funding for specific projects and programmes beyond the current planning period of the MTFP. | |

² A provision exists when the Commissioner is faced with a present obligation (legal or constructive) which has arisen as a result of a past event. Furthermore, the payment is probable ('more likely than not') and the amount can be estimated reliably. Provisions are therefore provided for and accounted via the Comprehensive Income and Expenditure Statement (CIES) in the year in question, i.e., not set aside as a Committed Earmarked Fund for utilisation in future years.

4.4 The following table summarises the detail in Appendix 2 into the analysis above.

| Home Office Category | 31 st March 2023 | 31 st March 2024 | 31 st March 2025 | 31 st March 2026 | 31 st March 2027 | 31 st March 2028 |
|------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| General Contingency | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| Utilised Over current MTFP | 1,110 | 0 | 0 | 0 | 0 | 0 |
| Utilised Beyond Current MTFP | 18,455 | 6,878 | 6,238 | 5,586 | 5,582 | 4,433 |
| Total | 24,565 | 11,878 | 11,238 | 10,586 | 10,582 | 9,433 |

4.5 Paragraph 4.1 above, articulates the categories of 'usable reserves and committed funds' held by the Commissioner, i.e. those reserves and committed funds that are 'cash-backed'. On the technical accounting side however, the Commissioner also holds 'unusable reserves'. These reserves are not cash-backed and arise out of the interaction of legislation and proper accounting practice, either to:

- a) Store revaluation gains (e.g. on property revaluations); or
- b) As adjustment accounts to reconcile accounting requirements driven by reporting standards, to statutory requirements (e.g. the Pension Reserve).

4.6 The remainder of this report will focus on the Commissioner's usable and therefore cash-backed reserves and committed funds.

4.7 Whilst Appendix 2 provides a detailed projection of the Commissioner's reserves and committed funds up until 31st March 2028, it must be noted that the Commissioner commenced his review of the Estate Strategy in February 2022 and significant work has been undertaken since in reshaping the vision and strategic objectives of the Strategy. At the time of writing, indicative and budgeted costs for the delivery of the Strategy, at various degrees of refinement, have been accounted for in the MTFP and the Reserves and Committed Funds Strategy.

4.8 In a similar vein, Gwent Police continue to set and refine the revenue and capital investments requirement into continuing their Programme Fusion³ with South Wales Police, which delivers the National and Force's Digital Strategies; and the ICT Strategy delivered through the Shared Resources Services (SRS) collaboration with Local Authorities across Gwent. As the Estate Strategy and Digital/ICT Strategies' costings are further refined during

³ Programme Fusion is a collaborative venture between South Wales and Gwent Police, helping both forces cut crime, reduce costs, and provide an effective, efficient police service, by ensuring officers and staff are using the latest technology, giving them the information they need, when they need it.

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| | <p>forthcoming months, the funding of both will be updated in the MTFP and Reserves and Committed Funds Strategy presented to the January 2023 PCP.</p> |
| 4.9 | <p>On the basis of the above caveats, the following paragraphs provide the purpose/reason for each individual reserve and committed fund identified on Appendix 2 and also details of its planned utilisation.</p> |
| 4.10 | <p><u>Statutory Revenue Reserves</u></p> <p>a) <u>General Reserve - (Line A1)</u></p> <p>i. Purpose – This is held as working capital to help cushion the impact of uneven cash flows and also as a contingency to mitigate the impact of unexpected events or emergencies. At the end of the financial year, the General Reserve will amount to £5.000m which represents 3.2% of 2022/23 Net Revenue Expenditure (NRE) (this % figure has remained relatively static since 2015/16) and in the view of the CFO represents an appropriate level in terms of the overall risk-profile.</p> <p>ii. Planned Utilisation – By its very nature, this reserve is held for unfunded and unexpected events or emergencies. Therefore, as a statutory contingency reserve there is currently no call upon this reserve.</p> |
| 4.11 | <p><u>Revenue Committed Earmarked Funds – Utilised Within the Current MTFP</u></p> <p>a) <u>Capital Grant - (Line B1a)</u></p> <p>i. Purpose – This line simply represents the movement of the Capital Grant received from the Home Office, from the Capital Grant line A1 within the Capital Reserves and Committed Funds section of Appendix 2, into the Revenue Reserves and Committed Funds section. It should be noted that this balance is historic in nature, as the Home Office ceased Capital Grant to Police and Crime Commissioners from the 2022/23 financial year.</p> <p>ii. Planned Utilisation – This committed fund has been used to fund the requirements of the overall Capital Programme.</p> <p>b) <u>Capital Receipts - (Line B1b)</u></p> <p>i. Purpose – This line simply represents the movement of Capital Receipts received from the sale of estate premises from the Capital Receipts line A2 within the Capital Reserves and Committed Funds section of Appendix 2, into the Revenue Reserves and Committed Funds section.</p> <p>ii. Planned Utilisation – This committed has and will be used to fund the requirements of the overall Capital Programme.</p> <p>c) <u>Revenue Contribution to Capital Programme – (Line B1c)</u></p> <p>i. Purpose – Members may recall from previous MTFP presentations, that the Commissioner’s Capital Programme is funded by 5 means:</p> |

- Use of reserves and committed funds;
- Capital Grant (from the Home Office);
- Capital receipts (from the sale of capital assets);
- Revenue Contribution to Capital; and
- Borrowing.

The above list is constructed in order of historic financial contribution, i.e. the use of reserves and committed funds is by far the most significant contributor to the Capital Programme at present. By way of emphasis, the second largest historic contributor (capital grant) has now ceased in entirety. Furthermore, turning to the next source on the list, the availability of capital receipts is variable in terms of value and timing. Therefore, with reserves and committed funds being finite in nature, coupled with significant reductions in capital grant and the unreliability of capital receipts, a greater emphasis is placed upon the establishment of a recurring Revenue Contribution to Capital, in order to provide surety to the delivery of the Commissioner's Capital Programme. To this end, the recurrent Revenue Contribution to Capital was increased significantly from £2.645m to £6.145m during the 2022/23 budget setting round. The further non-recurrent increase showing for 2022/23 relates predominantly to the utilisation of the non-recurrent forecast surplus for 2022/23 of £2.380m.

- ii. Planned Utilisation – This committed fund will be used to fund the requirements of the overall Capital Programme.

d) External Borrowing – (Line B1d)

- i. Purpose – This line simply represents the levels of external borrowing required to deliver the Commissioner's Capital Programme beyond 2022/23 and is explained in greater depth within the Commissioner's 2023/24 Treasury Management Strategy.
- ii. Planned Utilisation – This committed fund will be used to fund the requirements of the overall Capital Programme.

e) ESN/Capital Committed Funds – (Line B1e)

- i. Purpose – This line represents two distinct sources of funding. Firstly, it captures Reserves and Committed Funds which are deemed suitable for 'recycling', in order to fund the Capital Programme (See paragraph 4.11 i) below). Secondly, it captures appropriate movements from the Airwave Committed Fund (Line C3 of the Revenue Reserves and Committed Funds section), to match the spend in relation to its successor technology. The Emergency Services Mobile Communications Programme's (ESMCP) Emergency Service Network (ESN) will succeed Airwave, providing the next generation communication system for the three Emergency Services (Police, Fire & Rescue and Ambulance) and other public safety users. The Airwave Committed Fund must remain to fund both continuing Airwave commitments (such as device refreshes until full transition to ESN has been achieved) and to also fund the transition costs to ESN itself.
- ii. Planned Utilisation – This 'recycled' element of this committed fund will be fully utilised during 2022/23 to fund the requirements of the overall

Capital Programme. In relation to the ESN element, paragraph 4.11 h) below provides the proposed utilisation

f) Estate Works - Replacement Headquarters (HQ) - (Line B1fi)

- i. Purpose – The previous HQ, at nearly 50 years old presented itself as uneconomical to maintain/renovate and also expensive to run when compared to more modern buildings. This committed fund has therefore been created to provide for the full costs associated with transitioning to a new HQ.
- ii. Planned Utilisation – This committed fund was fully utilised by the end of the 2021/22 financial year in line with the budget for the new HQ. The remaining costs that fall within the 2022/23 financial year will be treated the same as those schemes explained in paragraph 4.11 h) below.

g) Estate Works - Victims' Hub - (Line B1fii)

- i. Purpose – This committed fund was established to fund the completion of the building work associated with creating Connect Gwent, the multi-agency Victims' Hub in Gwent.
- ii. Planned Utilisation – This committed fund remained following the completion of the building, commissioning and implementation of Connect Gwent. The committed fund has therefore been maintained to fund further investment to improve the delivery and efficiency of Connect Gwent into the future. A programme of work, undertaking a Post Implementation Review of Connect Gwent and development of a new business case has been concluded, which identified a mix of efficiencies and additional investment in certain areas. Where these generated efficiencies were insufficient to fund new investment areas, this committed fund was called upon. The remaining balance will stay in place for any future investment in services to Victims and as such, has been transferred into Line C4e of the Revenue Reserves and Committed Funds section.

h) Estate Works - Minor Works and Planned Maintenance through to ESN - (Lines B1fiii to B1k)

- i. Purpose – Members will note that no actual committed funds have been created to fund the remaining aspects of the Commissioner's Capital Programme in relation to:
 - Estate Works – Minor Works and Planned Maintenance;
 - Estate Works – Police Hubs and Spokes;
 - Estate Works – Other;
 - Fleet Replacement;
 - ICT Investment;
 - Other Projects/Schemes;
 - Long Term Projects; and
 - ESN.
- ii. Planned Utilisation – Members will further note that only the expenditure is shown for each year, which mirrors the above capital requirements between 2022/23 and 2027/28. Lines B1a (Capital

Grant), B1b (Capital Receipts), B1c (Revenue Contribution to Capital Programme), B1d (External Borrowing) and B1e (ESN/Committed Capital Funds) will be used in their entirety to fund these requirements. Historically, with insufficient further reserves and committed funds available in totality to fund these requirements, the position highlighted that a degree of 'internal borrowing' was required to fund the overall current Capital Programme. In essence, the Commissioner would internally borrow from certain reserves and committed funds (such as the General Reserve or Future Budgetary Imbalances Committed Fund) to fund the Capital Programme and thereby, in the short term, avoid external borrowing. However, in order to create the underlying true and transparent position of the Commissioner's reserves and committed funds, the external borrowing requirement to 2027/28 has now been factored into this Strategy.

i) Forecast Accelerated Efficiency Savings - (Line B2)

- i. Purpose – As well as the depletion of reserves and committed funds, the Commissioner's Reserves and Committed Funds Strategy also identifies potential sources of reserve and committed fund creation. In this instance, the primary source is from the in-year surplus generated from the acceleration of efficiency schemes in a particular financial year. Estimates are made on previous experience balanced against the potential for accelerated efficiencies in the future. These forecast reserves remain uncommitted initially, but will become committed as the amount crystallises and is matched against future liabilities.
- ii. Planned Utilisation – The future estimates of this reserve (as it builds up) are assumed (due to their uncertainty) to contribute to the overall reserve and committed fund's position and fund the requirements to deliver the future Capital Programme. Members will note that this reserve is fully depleted during 2021/22 to contribute to the overall Capital Programme. No in-year addition is shown, which is not to say that there isn't a surplus being generated during 2022/23, rather, the surplus being generated is not by virtue of accelerated efficiency savings, but being generated by the mechanism by which Operation Uplift Police Officers are funded by the Government. The 2022/23 forecast revenue surplus is therefore utilised as a non-recurrent addition into the Revenue Contribution to Capital Programme (Line B1c).

4.12 Revenue Committed Earmarked Funds – Utilised Beyond the Current MTFP

a) Future Budgetary Imbalances - (Line C1)

- i. Purpose – This committed fund was established in 2015/16 to mitigate future financial deficits from 2016/17 and beyond, in order to achieve a balanced budget. The backdrop for its creation was that up to the 2015 Autumn Statement, policing was facing the potential of 7% cuts in Central Government Grant per annum. The 2015 Autumn Statement however (and Settlements since), reduced the anticipated policing budget cuts.

ii. Planned Utilisation – The current MTFP highlights a financial recurrent deficit prior to efficiencies of £22.400m by 2027/28. After taking into account known efficiency schemes and opportunities (some of which will be very challenging to deliver from a practical perspective and also a public expectation viewpoint), a deficit of £18.496m remains. The deficit is based on assumed 3-year funding settlements from the CSR, with ‘flat cash’ grant per annum beyond, coupled with the first, second and third year reductions (£2m p.a.) of the total £6m reduction arising from the Funding Formula Review. Furthermore, the deficit is based upon assumed cost neutrality of future Operation Uplift funding; maintaining Government funding for the now reversed National Insurance increases; the cost neutrality of future Pension cost increases funding; all offset by Council Tax Precept increases of 6.82% per annum. Plugging the recurrent gaps non-recurrently on an annual basis up to 2027/28 (and accounting for the non-recurrent surpluses), would require not only the entirety of this committed fund, but a further £62.149m of additional funding. However, one would not necessarily require this committed fund to be sufficient to cover the future unmet deficit, as the deficit needs to be addressed through recurrent efficiency schemes, as opposed to a non-recurrent ‘sticking plaster’. The committed fund may therefore be fully utilised moving forward, in order to manage the timing differences of balancing the budget on an annual basis (a statutory requirement) against the implementation of additional efficiency schemes.

b) Commissioning Strategy and Force Initiatives - (Line C2)

- i. Purpose – This committed fund is primarily designed to pump-prime both the delivery of the Commissioner’s Strategic Commissioning Intentions, and also specific Office of the Police and Crime Commissioner (OPCC) and Gwent Police initiatives, to deliver the Commissioner’s Police and Crime Plan.
- ii. Planned Utilisation – As a result of the Wellbeing of Future Generations Act 2015 and the associated creation of Public Service Boards (PSB), the Commissioner’s Commissioning Strategy will become intrinsically linked to the work of PSBs in the future. Once the priorities and the work programme of the Gwent PSB has become embedded, the opportunities for co-commissioning (with both the OPCC and Gwent Police) will become clearer and subsequently, so too will the utilisation of this committed fund. In addition, this committed fund may be destined to support the delivery of a more targeted approach to deliver certain aspects of the Commissioner’s Police and Crime Plan, such as supporting the Commissioner’s Police Community Fund or developing diversion/crime prevention initiatives. It may also provide the funding of initiatives to drive out efficiency and productivity improvements.

c) Airwave - (Line C3)

- i. Purpose – Due to the length of the lifecycle and the complexity of the funding model for the initial Airwave replacement programme it was necessary, at its inception, to create a committed fund (in this instance, as with the Commissioner’s previous Private Finance Initiative committed fund, also referred to as a ‘sinking fund’). This ensures

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| | <p>that the affordability of the scheme is safeguarded for its entire duration and the variable impact of its financial cycle is minimised.</p> <p>ii. Planned Utilisation – the Airwave system is being phased out and as highlighted above will be replaced by the ESMCP ESN. Based on current estimates of the cost of transition and dual running implications of this programme, coupled with the revenue contribution into the committed fund from base budgets, it is estimated that although this committed fund will not be fully utilised at the current date of transition sometime during 2027/28, further delays in the delivery of ESN may necessitate further dual running costs, which would ultimately deplete this reserve in its entirety.</p> <p>d) <u>Other Financial Liabilities – Tribunal and Ombudsman Liabilities through to PCSO Increase - (Lines C4a to C4h)</u></p> <p>i. Purpose – The rationale for these committed funds has been previously articulated in the table in paragraph 4.2 above.</p> <p>ii. Planned Utilisation – Again, as mentioned previously, these committed funds receive extensive scrutiny at the year-end and also during each budget setting cycle. Therefore, although these committed funds still show a balance of £1.229m in 2027/28, this does not mean that the committed funds are not required up to this point in time, rather the plans for their utilisation are not finalised to identify the timing of the individual committed fund’s utilisation.</p> |
| 4.13 | <p><u>Capital Reserves and Committed Funds</u></p> <p>a) <u>Capital Grant - (Line A1)</u></p> <p>i. Purpose – This is the committed fund referred in paragraph 4.11 a) above.</p> <p>ii. Planned Utilisation – As per paragraph 4.11 a) above.</p> <p>b) <u>Capital Receipts - (Line A2)</u></p> <p>i. Purpose – This is the committed fund referred in paragraph 4.11 b) above.</p> <p>ii. Planned Utilisation – As per paragraph 4.11 b) above.</p> |
| 5. | <p><u>NEXT STEPS</u></p> |
| 5.1 | <p>In discharging their scrutiny duty, this reporting of the Commissioner’s Reserves and Committed Funds Strategy will hopefully assist Members in understanding the overall financial landscape.</p> |
| 5.2 | <p>With the unknowns remaining on the CSR (particularly the detail of year two and year three more generally) and also the impact of the Funding Formula Review, this strategy will be instrumental in stakeholder engagement and any mitigation strategies.</p> |

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| 5.3 | <p>Furthermore, at the 2022 December meeting of the PCP, the Commissioner will present his Budget Requirement and Council Tax Precept Proposal for 2023/24. The extent of the Commissioner's reserves and committed funds position will be a key component in discussing his proposal. In advance of the December meeting, in summarising the detailed explanations in Section 4 above, the following key messages emerge:</p> <ul style="list-style-type: none"> a) Following the audit of the 2021/22 Statement of Accounts, Audit Wales were satisfied that the levels of the Commissioner's reserves and committed funds position presents no material uncertainties about going concern; b) By the end of the 2027/28 financial year, it is forecast that the Commissioner will have reserves and committed funds totalling £9.433m (bottom right-hand corner of Appendix 2) – this assumes however, that the current outstanding future recurrent budgetary imbalance in 2023/24 (highlighted in the MTFP), will be underwritten from reserves and committed funds (Line C1 in the Committed Earmarked Funds Beyond the MTFP Section). As already stipulated, recurrent budgetary imbalances must be found from recurrent efficiencies – reserves and committed funds should only be utilised to manage annual timing differences. However, if reserves and committed funds are not required to balance the budget on an annual basis, the total forecast reserves and committed funds figure to 2027/28 increases to £15.358m; c) Taking into account the CFO's judgement (based on relevant local circumstance), that a General Reserve of £5.000m should be held – this leaves a committed funds balance of £4.433m, which equates to those committed funds that are required beyond the current MTFP; d) Indeed, the committed funds set aside to fund the current Capital Programme are exhausted during 2023/24, whereby, the Commissioner faces the need to borrow moving forward with the associated impact upon revenue budgets within the MTFP; e) The forecast reserves and committed position does not take into account the following events which would increase this figure: <ul style="list-style-type: none"> i. Additional sales of capital assets than those already identified; ii. Additional sums from further acceleration of the delivery of efficiency schemes; and iii. Underspending in the Capital Programme or slippage which defers spend to future financial years. f) Similarly, the forecast reserves and committed funds position does not take into account the following events which would further reduce this figure: <ul style="list-style-type: none"> i. The impact on reserves from the CSR or any transitioning arrangements to a new Funding Formula allocation; ii. Further significant investment to deliver the Estate Strategy and Programme Fusion; iii. Pump-priming for future areas of service improvement; and |
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| | iv. Overspending in the Capital Programme or acceleration which brings forward spend. |
| 6. | <u>FINANCIAL CONSIDERATIONS</u> |
| 6.1 | This is a financial report. |
| 7. | <u>PERSONNEL CONSIDERATIONS</u> |
| 7.1 | The generation and utilisation of the Commissioner’s reserves and committed funds have significant impact on the personnel of both the OPCC and also Gwent Police. Therefore, the individual movements of funds both in and out of the overall reserves and committed funds’ portfolio are subject to specific reporting and governance requirements, to ensure personnel considerations are documented. |
| 8. | <u>LEGAL IMPLICATIONS</u> |
| 8.1 | The legal background and framework within which the Commissioner manages his reserves portfolio have been identified throughout this report. |
| 9. | <u>EQUALITIES AND HUMAN RIGHTS CONSIDERATIONS</u> |
| 9.1 | This report has been considered against the general duty to promote equality, as stipulated under the Strategic Equality Plan and has been assessed not to discriminate against any particular group. |
| 9.2 | Consideration has been given to requirements of the Articles contained in the European Convention on Human Rights and the Human Rights Act 1998 in preparing this report. |
| 10. | <u>RISK</u> |
| 10.1 | The management of the Commissioner’s Reserves and Committed Funds Strategy holds significant inherent risks, as by their very nature, reserves and committed funds reflect the risk profile of local circumstances. However, as previously articulated, the Reserves and Committed Funds Strategy is formally scrutinised once a year and is also subject to regular review during monthly management reporting and also during periodic revisions to the MTFP. |
| 11. | <u>PUBLIC INTEREST</u> |
| 11.1 | This is a public document. |
| 12. | <u>CONTACT OFFICER</u> |
| 12.1 | Darren Garwood-Pask, Chief Finance Officer. |
| 13. | <u>ANNEXES</u> |
| 13.1 | Appendix 1 – Medium Term Financial Projections 2023/24 to 2027/28. Appendix 2 – Reserves and Committed Funds Position at 23 rd November 2022. |

