

OFFICE OF POLICE AND CRIME COMMISSIONER

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

DATE: 14th September 2017

TIMING: Routine

PURPOSE: For information

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 2017/18, 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 Precept proposal for 2018/19.
2.	<u>INTRODUCTION</u>
2.1	<p>The current Medium Term Financial Projections (MTFP) (Appendices 1 to 4) currently forecasts on-going austerity until at least 2022/23 and potentially beyond. The basis for these projections are taken from a number of Governmental and non-Governmental sources such as:</p> <ul style="list-style-type: none">a) 2015 Comprehensive Spending Review (CSR);b) the Chancellor's Autumn Statement 2016;c) Final Police Funding Settlement 2017/18;d) March 2017 Budget;e) Liaison with Home Office and Ministry of Justice officials;f) Bank of England (BoE) economic forecasts;g) Institute of Fiscal Studies (IFS) Analysis;h) Office of Budget Responsibility (OBR) forecasts;i) Police Staff Council and Police Negotiating Board;j) Internal intelligence and local strategies; andk) 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	<p>In addition, in the 2016 Budget, Her Majesty's Treasury (HMT) announced its Efficiency Review. The Review will take a strategic look at how Government delivers services across the whole public sector, looking for opportunities to make improvements and drive value for money. The Review will generate £3.5 billion of savings in 2019/20, with up to a £1 billion to be reinvested in</p>

	<p>priority areas. Government Departments have therefore been commissioned to draw up proposals for contributions by modelling scenarios of 3% and 6% savings.</p> <p>2.3 Further to the financial effect of this Review, the Commissioner must plan for the estimated financial effect of changes to the current police funding formula. Although the review is currently ‘on hold’, pending Ministerial consideration of the work of both the Technical Reference Group and Senior Sector Group, the potential financial impact cannot be discounted at this stage. The estimated financial impact remains the same as during the 2017/18 budget round, although the first year of transition has moved from 2018/19 to 2019/20.</p> <p>2.4 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 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>2.5 This approach is also supported in that over recent months, with the heightened scrutiny of police funding in light of the recent terror attacks; recent statement by the Minister of State for Policing and the Fire Service on the level of Commissioner’s reserves; the ongoing Efficiency Review; and in particular in the proposed transition arrangements for the implementation of a new funding formula, reserves held by Commissioners have come under the spotlight from Central Government. Therefore, an endorsed and publically available Reserves and Committed Funds Strategy provides context to the Commissioner’s overall financial position.</p>
<p>3.</p> <p>3.1</p> <p>3.2</p>	<p><u>BACKGROUND</u></p> <p>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>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

	<p>requirement;</p> <p>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); and</p> <p>d) The requirements of the Prudential Code and the Treasury Management in Public Services Code of Practice.</p>
3.3	<p>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.</p>
3.4	<p>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 are¹ 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.</p>
3.5	<p>It is evident therefore (and supported by the Chartered Institute of Public Finance Accountants (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.</p>

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.

3.6	<p>There is a broad range therefore, within which Commissioners might reasonably operate depending on their particular circumstances.</p> <p>As a final point by way of background, whilst it is primarily the responsibility of the Commissioner and his CFO to maintain a sound financial position, external auditors will confirm that there are no material uncertainties about going concern (and conversely, where excess reserve balances are held). 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 level is inappropriate, as a minimum level of reserve will only be imposed where a Commissioner is not following best financial practice.</p>
4.1	<p>4. <u>ISSUES FOR CONSIDERATION</u></p> <p>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:</p> <ul style="list-style-type: none"> a) As 'working capital' to help cushion the impact of uneven cash flows, thereby avoiding unnecessary temporary borrowing (e.g. the timing of grant or 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; c) Reserves, which are either planned to be generated in the future and as such, have not yet be committed to fund expenditure as of yet; or are existing reserves, which by their nature of being uncommitted, are available for recycling either fully or in part to fund other committed areas of expenditure; and d) 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. The following table identifies the categories of Committed Funds held by the Commissioner:

	Category of Committed Funds	Rationale for Holding
	Committed Funds to meet and manage forecast budgetary risks.	With over £42m of efficiency savings delivered to the end of the 2016/17 financial year; over £7m planned for delivery during 2017/18; and a forecast deficit of over £12m remaining by 2022/23, it is prudent to underwrite a degree of the budgetary imbalance remaining (even after taking into account future efficiency savings).
	Committed Funds set aside for major schemes, such as capital developments, or to fund major reorganisations such as the Staying Ahead Programme.	Where expenditure is planned in future accounting periods, it is prudent to set aside resources in advance. For example, to fund future capital programme spend in line with insufficient capital grant or to provide for future Private Finance Initiative (PFI payments) following the planned removal of related Welsh Government Grant funding.
	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	The Commissioner's Reserves and

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.

	<p>Workstream/Department use (including utilisation of 'Proceeds of Crime Act' (POCA) monies)</p>	<p>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.</p>
4.2	<p>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:</p> <ul style="list-style-type: none"> 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). 	
4.3	<p>The remainder of this report will focus on the Commissioner's usable and therefore cash-backed reserves and committed funds.</p>	
4.4	<p>Appendix 5 provides a detailed projection of the Commissioner's reserves and committed funds up until 31st March 2022. However, it must be noted that the Commissioner commenced his review of the Estate Strategy in March 2017 and significant work has been undertaken since in shaping the vision and strategic objectives of the strategy. The next stage will be to assign indicative costs to the delivery of the strategy. Therefore, at the time of writing, the funding of this strategy, beyond ongoing maintenance of the existing estate and the delivery of a new headquarters has not been accounted for in the MTFP or the Reserves and Committed Funds Strategy.</p>	
4.5	<p>In a similar vein, Gwent Police are currently confirming the revenue and capital investment requirement into their Programme Fusion³ with South Wales Police. £5m of investment to 2019/20 has been reflected in the Reserves and Committed Funds Strategy, but this may be subject to change. As the Estate Strategy and Fusion costings are refined during the Autumn, the funding of the Strategy will be reflected in the MTFP and Reserves and Committed Funds Strategy presented to the December JAC and PCP.</p>	
4.6	<p>On the basis of the above caveats, the following paragraphs provide the</p>	

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.

<p>4.7</p> <p>4.8</p>	<p>purpose/reason for each individual reserve and committed fund identified on the Appendix and also details of its planned utilisation.</p> <p><u>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. The General Reserve amounts to £4.000m which represents 3.3% of Net Revenue Expenditure (NRE) (this figure has remained 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> <p>b) <u>Forecast Accelerated Efficiency Savings - (Line A2)</u></p> <p>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.</p> <p>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 internal borrowing required to deliver the future Capital Programme.</p> <p><u>Revenue Committed Funds</u></p> <p>a) <u>Future Budgetary Imbalances - (Line B1)</u></p> <p>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 policing was facing the potential of 7% cuts in Central Government Grant per annum; prior to the 2015 Autumn Statement which softened the policing budget cuts.</p> <p>ii. Planned Utilisation – The current MTFP highlights a financial recurrent deficit of £2.749m by 2022/23, even after taking into account known efficiency schemes and opportunities. Plugging the recurrent gaps non-recurrently on annual basis up to 2022/23 (and accounting for the non-</p>
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recurrent surpluses), would require £4.132m of this committed fund. (Note, Appendix 5 only forecasts to the end of the 2021/22 financial year). The deficit is based on assumed grant reductions of 2% per annum, coupled with a further £6m reduction arising from the Funding Formula Review; offset by precept increases of 3.99% per annum. The current level of this committed fund therefore (£4.379m) is barely sufficient to meet the £4.132m required up to 2022/23. However, one would not necessarily require it 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) Future PFI Commitments - (Line B2)

- i. Purpose – Due to the length of the lifecycle and the complexity of the funding model for the Ystrad Mynach PFI Scheme, it was necessary, at its inception, to create a committed fund (in this instance, also referred to as a 'sinking fund'). This ensures that the affordability of the scheme is safeguarded for its entire duration and the variable impact of its financial cycle is minimised.
- ii. Planned Utilisation – The Ystrad Mynach PFI Scheme building passes into the ownership of the Commissioner in 2036. Therefore up to and including the 2035/36 financial year, payments are required to the PFI contractor for use of the premises. These payments are funded primarily by a budgeted contribution from the Commissioner and also two separate streams of Welsh Government Grant. The financial model that underpins the scheme identifies that one stream of Welsh Government grant ceases at the end of the 2024/25 financial year and the second stream at the end of the 2030/31 financial year. Therefore, the committed fund which is being built up currently is designed to be fully utilised when it will be called upon to replace the loss of the grant streams until the end of the contract.

c) Capital Grant - (Line B3a)

- i. Purpose – This line simply represents the movement of the Capital Grant received from the Home Office, from the Capital Grant line C1 within the Capital Reserves and Committed Funds section of Appendix 5 into the Revenue Reserves and Committed Funds section.
- ii. Planned Utilisation – This committed fund will be used to fund the requirements of the overall Capital Programme.

d) Capital Receipts - (Line B3b)

- i. Purpose – This line simply represents the movement of Capital Receipts received from the sale of estate premises, from the Capital Receipts line C2 within the Capital Reserves and Committed Funds section of Appendix 5 into the Revenue Reserves and Committed Funds section.
- ii. Planned Utilisation – This committed fund will be used to fund the requirements of the overall Capital Programme.

e) Revenue Contribution to Capital Programme – (Line B3c)

- i. Purpose – Members may recall from previous MTFP presentations, that the Commissioner’s capital programme is funded by 5 means:
 - 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 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 contributor (capital grant) amounts to approximately £0.449m per annum, which in itself is insufficient to meet the Commissioner’s fleet replacement programme on an annual basis. Furthermore, turning to the next source on the list, the availability of capital receipts are 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 raised to £0.575m during the 2017/18 budget setting round.

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

f) Estate Works - Replacement HQ - (Line B3di)

- i. Purpose – The existing HQ is over 40 years old and is presenting itself as uneconomical to maintain/renovate and is 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 is planned to be fully utilised over the next 3 to 4years to fund the totality of costs associated with a move to a new HQ.

g) Estate Works - Victims' Hub - (Line B3dii)

- 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 is well advanced, which may conclude that efficiencies can be delivered or that additional investment is required in certain areas. Where generated efficiencies are insufficient to fund new investment areas, this committed fund may be called upon.

h) Estate Works - Minor Works and Planned Maintenance through to Other Projects/Schemes - (Lines B3diii to B3g)

- 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 – Other
 - Fleet Replacement
 - ICT Investment
 - Other Projects/Schemes
- ii. Planned Utilisation – Members will further note that only the expenditure is shown for each year, which mirrors the above capital requirements between 2015/16 and 2019/20. Although lines B3a (Capital Grant), B3b (Capital Receipts) and B3c (Revenue Contribution to Capital Programme) will be used in their entirety to part fund these requirements, further committed funds cannot be created, as there are insufficient further reserves and committed funds in totality to fund these requirements. This position highlights that a degree of 'internal borrowing' is required to fund the overall current capital programme. In essence, the Commissioner will internally borrow from certain reserves and committed funds (such as the General Reserve, PFI, Replacement HQ or Forecast Accelerated Efficiency Savings Committed Funds) to fund the Capital Programme and thereby, in the short term, avoid external borrowing.

i) Airwave - (Lines B3h)

- 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 PFI, also referred to as a 'sinking fund'). This ensures that the affordability of the scheme is safeguarded for its entire duration and the variable impact of its financial cycle is minimised.

- ii. Planned Utilisation – the Airwave system is being phased out and will be replaced by the Emergency Services Mobile Communications Programme (ESMCP). This will provide the next generation communication system for the 3 emergency services (police, fire and rescue, and ambulance) and other public safety users. Based on current estimates of the cost of transition to this programme, coupled with the revenue contribution into the committed fund from base budgets, it is estimated that this committed fund will be fully utilised in 2019/20 when it is expected that Gwent will transition to ESMCP.

j) Commissioning Strategy and Police Service Initiatives - (Line B4)

- 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 Service 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 five PSBs in Gwent have become embedded, the opportunities for co-commissioning (with both the OPCC and the Gwent Police Service) 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 delivering the Commissioner's Partnership Fund.

k) Staying Ahead 8 (SA 8) Programme Team - (Line B5a)

- i. Purpose – In order to effectively and speedily deliver the significant efficiencies required from Phase 8 of the Staying Ahead Programme, a centralised, multi-skilled programme team was created to undertake this work. The team was staffed by a combination of individuals who were budgeted for within the existing base staff establishment and also a number of 'supernumerary individuals', who although did not feature in the new operating model moving forward, had the skill sets required to deliver the required efficiency schemes. This committed fund was therefore established to fund these supernumerary posts; associated consultancy time to effectively deliver the programme of work and undertake individual service reviews; and also pump-prime initiatives (both revenue and capital) to deliver the efficiencies required from the

Staying Ahead Programme.

- ii. Planned Utilisation – The Staying Ahead Programme, sitting within the Service Delivery Department, has evolved to become ‘business as usual’. Therefore, supernumerary posts have either been deleted, or placed within the budgeted establishment. In addition, pump-priming initiatives have become more mainstream and are funded within the overall Capital Programme, or, where more appropriate, the Commissioning Strategy and Police Service Initiatives committed fund at line B4. It is currently planned therefore that this entire committed fund is reclassified into Lines B3di (Replacement HQ), to contribute to the overall delivery of the Capital Programme (in addition to the financial requirements of the Replacement HQ).

l) Other Financial Liabilities – Tribunal and Ombudsman Liabilities through to Proceeds of Crime Act (POCA) - (Lines B6a to B6e)

- i. Purpose – The rationale for these committed funds has been previously articulated in the table following paragraph 4.1d) above.
- 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 £2.798m in 2021/22, 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.

4.9 Capital Committed Funds

a) Capital Grant - (Line C1)

- i. Purpose – This is the committed fund referred in paragraph 4.8c above.
- ii. Planned Utilisation – As per paragraph 4.8c above.

b) Capital Receipts - (Line C2)

- i. Purpose – This is the committed fund referred in paragraph 4.8d above.
- ii. Planned Utilisation – As per paragraph 4.8d above.

c) Replacement Command and Control - (Line C3)

- i. Purpose – This committed fund was established to fund the replacement of the Command and Control System in the Gwent Police Service.
- ii. Planned Utilisation – The spend in relation to the new Command and Control System was coded against the Replacement HQ committed fund - (Line B3di) as this is the only physical cash-backed committed fund available in the overall Capital Programme. Therefore, this

	committed fund has been transferred to Line B3di to offset the spend.
5.	<u>NEXT STEPS</u>
5.1	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.
5.2	With the unknowns surrounding the next CSR, the Efficiency Review and also the impact of the Funding Formula Review, this strategy will be instrumental in stakeholder engagement and any mitigation strategies.
5.3	<p>Furthermore, at the December meeting of the PCP, the Commissioner will present his budget and precept proposal for 2018/19. 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 2016/17 Statement of Accounts, it is expected that the Wales Audit Office will be satisfied with the levels of the Commissioner's reserves and committed funds; b) By the end of the 2021/22 financial year, it is forecast that the Commissioner will have reserves totalling £20.078m (bottom right hand corner of Appendix 5) – this assumes however, that the current outstanding future recurrent budgetary imbalances up to 2021/22 (highlighted through the MTFP) will be underwritten from reserves and committed funds (Line B1 in the Committed Funds 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. Therefore adjusting Line B1 back to its current carrying amount, produces an underlying total reserves and committed funds figure of £21.461m; c) However, taking into account the PFI committed fund (£12.059m), whose use is currently unavoidable, the Commissioner's reserves and committed funds are realistically £9.402m in 2021/22; d) Continuing the theme, the CFO's judgement based on relevant local circumstance, determines a General Reserve of £4.000m should be held – this leaves a reserve and committed funds balance of £5.402m. With the 'Other Financial Liabilities' section representing £2.798m of this amount, only £2.604m of reserves and committed funds remain moving forward. 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. Underspensing in the capital programme or slippage which defers

	<p>spend to future financial years.</p> <p>f) Similarly, the forecast reserves and committed funds position does not take into account the following events which would further reduce this figure:</p> <ol style="list-style-type: none"> i. The impact on reserves of future CSRs, the Efficiency Review or any transitioning arrangements to a new Funding Formula allocation; ii. Further significant investment to deliver the Estate Strategy (beyond the HQ provision and ongoing maintenance) and Programme Fusion; iii. Pump-priming for future Phases of Staying Ahead; and iv. Overspending in the capital programme or acceleration which brings forward spend. <p>g) If the underlying reserve and committed funds position is an accurate reflection of the future, then the affordability of the capital programme beyond 2021/22 will be questionable without the need to undertake borrowing, and the subsequent impact upon revenue within the MTFP.</p>
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 the Gwent Police Service. 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 portfolio 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 portfolio is formally scrutinised twice 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 2018/19 to 2022/23. Appendix 2 – Assumptions 2018/19 to 2022/23. Appendix 3 – Service Pressures and Budget Developments 2018/19 to 2022/23. Appendix 4 – Staying Ahead 8 Savings Initiatives. Appendix 5 – Reserves Position at 14 th September 2017.