



Reserves Strategy to March 2027

1. Purpose

1.1 The document sets out the Police and Crime Commissioner for the West Midlands reserves strategy up until March 2027. This includes details of reserves currently held, the purpose of the reserves and the predicted balances by 31 March 2027. The strategy also includes the historical balances of reserves since March 2023.

2. Reasons for holding reserves

2.1 The PCC must consider the required level of general policing fund balances that should be retained before deciding the level of council tax precept. General balances are maintained as a matter of prudence and to meet financial risks. They enable the PCC to provide for known and unknown risks and offer financial resilience.

2.2 Earmarked reserves are retained for specific risks and planned investments.

2.3 Provisions are retained for specific purposes or for known future financial obligations.

2.4 The reserves strategy has been drawn up within the parameters of the Financial Regulations adopted by the Police and Crime Commissioner. The use and maintenance of reserves is based on the following principles and are classified into two categories:

- Maintaining a working balance or general reserve to cover the effects of uneven cash flows and to avoid temporary borrowing.
 - Reserves in place to provide flexibility in managing future year's budget pressures.
 - Funding investment in the Change Programme including the Estates Strategy.
 - Earmarking specific funds to meet known or predicted requirements in the future.
 - Creating contingencies to cushion the impact of unexpected events or emergencies.
- i. Funding for planned expenditure on projects and programmes
 - ii. As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management.

3. Reserves Strategy

3.1 The Commissioner's overall reserves strategy is to use reserves over the medium term up to 2026 to support the medium-term financial strategy including the Change Programme and Estates Strategy. Over the next 5 years we will look to use a net £32.9m of reserves as detailed in the table below:

Contribution to / From Reserves, £m	2023/24	2024/25	2025/26	2026/27	2027/28	Total
Uniform and Equipment Reserves	(3.7)	0.0	(0.7)	0.0	0.0	(4.4)
Estates Strategy	(1.2)	(6.4)	(2.4)	0.0	0.0	(10.0)
Budget Reserve	(2.6)	(10.7)	0.0	0.0	0.0	(13.3)
Short-Term Borrowing from Uniform and Equipment Reserve	0.0	(2.7)	2.7	0.0	0.0	0.0
OPCC - Commissioned Services	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(2.0)
NaBIS / ROCU Reserves	(0.3)	0.0	0.0	0.0	0.0	(0.3)
PCC Office Carry Forward (from 2022/23)	(2.9)	0.0	0.0	0.0	0.0	(2.9)
Total	(11.1)	(20.2)	(0.8)	(0.4)	(0.4)	(32.9)

3.2 This includes utilising the £10.7m of the 2023/24 forecast underspend to alleviate some of the financial pressures for 2024/25.

3.3 The table below details the current level of reserves held from the outturn for March 2023 through to the forecasted level by March 2028 based on use of / contribution to reserves detailed above.

Reserves £m	31st March 2023 Actual	31st March 2024 Forecast	31st March 2025 Forecast	31st March 2026 Forecast	31st March 2027 Forecast	31st March 2028 Forecast
Funding for Planned Expenditure on Projects & Programmes - Revenue						
Regional / National Reserve	4.3	4.0	4.0	4.0	4.0	4.0
PPA / Misuse of Drugs Act	1.7	1.6	1.5	1.5	1.4	1.4
POCA (Proceeds of Crime Act) Reserve	0.9	0.9	0.9	0.9	0.9	0.9
Change Programme Reserve	2.6	2.6	2.6	2.6	2.6	2.6
Estates Strategy Reserve	11.2	9.9	3.5	1.1	1.1	1.1
Carry Forward Reserve	13.0	0.0	0.0	0.0	0.0	0.0
Funding for Planned Expenditure on Projects & Programmes - Capital						
Useable Capital Receipts Reserve	3.5	6.0	0.0	22.3	30.7	30.7
Capital Grants Unapplied	0.8	0.8	0.8	0.8	0.8	0.8
Reserves held in accordance with sound principles of good financial management						
Uniform and Equipment Reserve	6.7	11.2	8.5	10.5	10.5	10.5
Budget Reserve	16.2	26.7	16.0	16.0	16.0	16.0
National Contingency Reserve	1.4	1.4	1.4	1.4	1.4	1.4
Council Tax Funding Reserve	0.8	0.0	0.0	0.0	0.0	0.0
Total Earmarked Reserves	63.1	65.1	39.2	61.1	69.4	69.4
General Fund Reserve	12.0	12.0	12.0	12.0	12.0	12.0
Total Useable Reserves	75.1	77.1	51.2	73.1	81.4	81.4
Provisions	13.0	9.7	10.0	10.2	10.5	10.7
Total Useable Reserves & Provisions	88.1	86.8	61.2	83.3	91.9	92.1

3.4 The total reserves of the West Midlands Police and Crime Commissioner as of 31 March 2023 was 13% of the net revenue budget (NRB), if all the funding for planned expenditure is utilised by March 2028 this will reduce to around 8% of the forecast NRB.

3.5 **Appendix 1** provides an explanation of each reserve grouped into the categories outlined above. Reserves and provisions will continue to be monitored and reviewed regularly throughout the year and medium-term.

Appendix 1 – Explanation of Reserves

2. The following paragraphs provide an explanation of each reserve split by Home Office Category.

Category (i) Funding for planned expenditure on projects and programmes

Regional / National Reserve

3. The Regional / National Reserve includes balances held for regional and national projects including the Regional Organised Crime Unit (ROCU), National Ballistics Intelligence Service (NaBIS), Central Motorway Policing Group (CMPG), Lock-Up Museum and County Lines. This reserve is therefore held by West Midlands on behalf of ourselves and other forces. This reserve has been generated from in year under spends and will be agreed and drawn down annually over the course of the medium term in line with decisions made at the respective boards to support operational activity.

PPA / Misuse of Drug Act Reserve

4. The Police Property Act (PPA) and Misuse of Drug Act reserve allows recovered assets of criminality to be used to fund community-based activity. Funding is secured in several ways including cash seizures and the confiscation of assets through the courts following convictions. The Home Office collect the assets, and these are shared between the Treasury, Courts, Crown Prosecution Service and Police using a prescribed formula. This reserve is being used to fund the Commissioner's Helping Communities Fund which supports projects at Neighbourhood Policing Units.

POCA Reserve

5. The POCA Reserve has been created to hold any surplus POCA income received in year, this will be utilised in future years to either support a deficit in POCA receipts against the budget during a budget year or future planned initiatives.

Change Programme Reserve

6. The Change Programme reserve is made up of carry forwards of phased underspends on projects and programmes between budget years and an enabler for initiatives through the change programme to deliver planned cashable benefits. Future change business cases will be assessed on a case-by-case basis and reserves utilised as required.

Estates Strategy Reserve

7. The estates strategy reserve is made up of:
 - Carry forwards of phased underspends on live estates projects between budget years; and
 - Uplift Estates budgets due to timing of grant received versus work carried out.

Carry Forward Reserve

8. This reserve is used to carry forward specific / agreed under spends from the revenue budget and will usually be utilised the following year. Any unutilised carry forwards will be transferred to the budget reserve. This includes:
 - Grant No Conditions across BAU Departments,
 - Revenue Contribution to Capital Outlay carry forward due to delays in the capital programme,
 - BAU requests to carry forward due to committed spend moving into future years.

Useable Capital Receipts Reserve

9. The capital receipts reserve holds the balance of receipts received through the sale of police assets and will be used to capital part of the Estates Strategy or BAU capital programme over the current medium-term financial planning cycle. It should be noted capital receipts can only be used for capital purposes.

Capital Grants Unapplied

10. This reserve holds previous year's capital grants that have not yet been applied. The unapplied grants are ring-fenced to be used over the medium-term planning cycle.

Category (ii) Reserves held in accordance with sound principles of good financial management

Uniform and Equipment Reserves

11. The Uniform & Equipment Reserve was created to mitigate the effects of legislative changes in uniform and equipment and to provide some flexibility if policies in relation to uniform and equipment issues change. The reserve has recently been expanded to cover to periodic replacement of major equipment such Tasers, and mobility devices

National Contingency Reserve

12. This reserve is to fund projects and national policing initiatives the West Midlands may be required to contribute funding towards.

Council Tax Funding Reserve

13. The Council Tax Funding reserve, as at 31st March 2023 is made up of the balance of the Local Council Tax Support Grant paid during 2021/22 in recognition of the additional costs of providing local council tax support as a result of the pandemic and the final third of the Local Council Tax Guarantee Scheme paid to cover the repayment of collection fund deficits arising in 2020/21 that were spreadable over the next 3 years rather than the usual period of a year. The reserve will be drawn down to ensure that sufficient income is available in 2023/24 to offset the phased deficit on collection fund arising from 2020/21.

Budget Reserve

14. This reserve will be applied as part of the Commissioner's Medium-Term Financial Plan (MTFP) to reduce the impact of financial pressures.
15. Consideration will be given to utilising the reserve to further support 2024/25 as part of the budget setting cycle.
16. The plan thereafter is to hold the Budget Reserve at the forecast level as of 31st March 2025 to fund any potential future funding gaps from 2025/26 and beyond, linked to the risks associated with potential increases in inflation over and above those forecast through the medium-term financial plan.

General Fund

17. The Police Service, as one of the major emergency services, is required to respond to incidents of an unexpected nature over which it has little or no control. A major incident, or a series of events, could put extraordinary pressure on the budget in a particular year. As a result, financial prudence dictates that a level of General Balances should be retained to provide resilience against the effect of such a situation.
18. The balance of the general fund has been assessed considering the financial risks included within the PCC and Force Risk Registers. A breakdown of these is shown in **Appendix 2**. This provides the PCC with more accurate, timely and risk-based information on the type of issues that may have significant potential implications for the level of general fund reserves held, both now and in the future.
19. The biggest risk is the additional costs of one-off operational incidents or in-year emergencies that cannot be contained within budget or be fully grant funded by Government.
20. Nationally, Police and Crime Commissioners have provided financial guarantees to organisations in case they fail. This is in respect of the Police ICT Company and the Association of Police and Crime Commissioners Association. In the unlikely event these guarantees are called in these will be funded from the general reserve.

Provisions

21. The CIPFA Statement of Recommended Practice is prescriptive about when provisions are required (and when they are not permitted). A provision must be established for any material liabilities of uncertain timings or amount, to be settled by the transfer of economic benefits. In accordance with this statutory guidance West Midlands Police has established several provisions for prospective claims, damages, and legal costs in association with ongoing claims.
22. The majority of the £13.0m balance relates to insurance provisions (£9.5m). The insurance policies held by the PCC require a significant level of self-insurance, the level of this being recommended by independent advisers. The current provision is expected to be used within the next seven years, however future claims are also expected, the overall provision is expected to increase slightly year on year. The Insurance provision includes Public and Employers Liability, Fire and Uninsured Losses.
23. An additional provision has been made for historic mileage claims in respect of dog handlers (£0.7m). The remaining provision balance (£2.8m) relates to prospective damages and legal costs in association with ongoing claims from 2018-19 which are live legal discussions. Both these provisions are expected to be utilised during 2023/24 as we settle the claims.

Appendix 2 – Financial Risk Assessment

Appendix 2 – Financial Risk Assessment	<i>Likelihood</i>	<i>Impact</i>	<i>Comment</i>
Medium-Term funding remains unclear.	Medium	High	The 3-year settlement ends in 2024/25. The future funding assumes the grant inflates with the rate of inflation for pay awards. Due to the nature of funding settlements future years funding remains unclear and could vary significantly to that planned. £1 change in precept results in £0.7m movement and 1% change in grant results in £5.5m movement in grant
The Capital Programme requirement changes as work streams develop, for example, development of the Estates Strategy.	High	High	The programme has been written with some flexibility built in, but should strategic choices vary significantly the programme would be reviewed and re-shaped in line with the new requirement.
Pay awards in the future differ from the assumptions in our financial planning	Medium	Medium	Current assumptions are in line with pay award offers to Police Officers and Staff. If pay awards are higher than this, the savings requirement will increase as outlined in the sensitivity analysis above.
Increase in volume and/or cost of policing public order incidents linked to the general economic conditions or other factors	Medium	Medium	Depending on the volume and complexity of any incidents, this could place a significant strain on current contingency budgets. In the first instance savings would look to be found across budgets areas. If this were not sufficient then reserves would need to be used.
Interest rates increase	Medium	Medium	The budget reflects the current rates of interest being received on investments. Forecasts from our Treasury Management advisers suggest that borrowing rates are likely to increase before coming back down by December 2024. Further borrowing will be considered as we review our capital and revenue plans, consideration will be given to interest rates at the time before making borrowing decisions.
General inflation is different to the assumptions included in the budget.	Medium	Medium	A 1% increase would cost around £1.5m. Significant increases in building costs in the medium-term capital programme period could have an impact on some estimates.
Income levels not achieved	Low	Low	A 1% loss of income (excluding grants & interest) would cost around £0.3m.
Planned savings from the Change Programme and other savings included within the Medium-Term Financial Plan are not achievable.	High	High	Budget Managers have considered the planned savings and confirmed they believe them to be achievable, however if circumstances change and the planned level of savings is not achievable alternatives will be sought in year.
Further Cost Transfer from National Programmes / Projects	High	High	Further cost transfers from the centre (e.g., Emergency Services Network and IT company costs.)