

May 2020

Financial Strategy incorporating Reserves Strategy 2020/21

Police and Crime Commissioner for Lincolnshire

1. Introduction

- 1.1 The purpose of the Financial Strategy is to provide a framework and parameters for financial management. It aims to ensure that finances are managed in order to ensure:
 - Financial management facilitates the delivery of the Police and Crime Plan;
 - Taxpayers' money is used effectively, efficiently and demonstrates good value for money;
 - Lincolnshire Police is in sound financial health;
 - There is effective corporate governance with sound systems of internal financial control.
- 1.2 The Strategy is implemented through a number of plans and policies as shown in Appendix A.
- 1.3 Content of the Financial Strategy:
 2. Statutory requirements and guidance
 3. Revenue spending and council tax
 4. Fairer funding
 5. Value for money
 6. Capital spending and funding
 7. Carry forward of over and under spending
 8. Financial health and governance
 9. Reserves Strategy
 10. Budget management
 11. Procurement
 12. Income and charging
 13. Treasury management
 14. Accounting and financial processes
- 1.4 Implementation of the Financial Strategy will be monitored through the measures of financial health and performance attached at Appendix B. There will also be an Annual Report on Financial Performance to the Chief Constable and the Commissioner which will include actual performance compared to the targets shown in Appendix B.

2. Statutory Requirements and Guidance

- 2.1 The financial affairs of the Commissioner and the Chief Constable will comply with statutory requirements including the requirements of the Police Reform and Social Responsibility Act 2011.
- 2.2 Financial affairs will also comply with the considerable amount of secondary legislation and guidance including:
 - The Accounts and Audit Regulations
 - The Code of Practice on Local Authority Accounting
 - The Code of Practice on Internal Audit in Local Government
 - Delivering Good Governance in Local Government
 - Prudential Code for Capital Finance in Local Authorities
 - The Code of Practice for Treasury Management in Public Services
 - Financial Management Code of Practice for the Police Service.

3. Spending and Council Tax

- 3.1 Resources will be allocated in budgets to support and promote achievement of the Police and Crime Plan.
- 3.2 The total resources available and their allocation will be planned for a number of years ahead and agreed in a Medium Term Financial Plan.
- 3.3 Budgets will be set realistically with expenditure balanced to the income available. Whilst financial balance is achieved across the medium term, the implied expenditure reductions lead to a risk of service degradation for Lincolnshire from 2022 onwards; a more equitable slice of the national police grant, or substantial precept rises in future years would mitigate this risk.
- 3.4 The council tax will be set so as to deliver the Police and Crime Plan and with regard to the impact on Lincolnshire council tax payers and council tax capping limits set by the government.

4. Safer Funding

- 4.1 Lincolnshire's case for an increased share of government funding will continue to be promoted with the government and those that can influence government, including Lincolnshire MPs. This will include working with others where there are common interests. Improving productivity and achieving a fairer share of government funding for Lincolnshire remain key to maintaining safe levels of policing into the medium term.
- 4.2 It is intended that the Core Grant Distribution Review (funding formula) will be revisited at the next Spending Review, which should set government spending plans for 2021/22 and subsequent years. Forecasting beyond 2020/21 is challenging particularly as future grant allocations are uncertain, now even more so following the Covid-19 pandemic.

5. Value for money

- 5.1 The Commissioner will agree an annual Value for Money & Efficiency Plan before the start of each financial year. There will be specific arrangements to oversee its delivery with regular monitoring and reporting to the Chief Constable and the Police and Crime Commissioner.
- 5.2 Value for money will be a key consideration in decision making. This includes:
- Having robust business plans linking policing plans with the budgets available.
 - Applying a rigorous business case for all major projects involving new revenue or capital spending. All business cases will include the Chief Finance Officer's comments on financial implications, compliance, risk and value for money.
 - Reviewing all areas of spending periodically through a planned programme of value for money reviews.
- 5.3 Services will be delivered in partnership with other bodies where this provides better value for money including better services and / or lower costs. This may include:
- Working jointly with partners particularly other police bodies in the region
 - commissioning services from other bodies
 - contracting out services to private sector providers
6. **Capital Spending and Funding**
- 6.1 Resources will be allocated in the capital programme to maintain and replace existing assets including buildings, vehicles and ICT systems.
- 6.2 Resources will also be allocated for new developments with priority given to projects, particularly ICT projects, which will generate worthwhile future savings or promote performance and productivity improvements such as Command & Control.
- 6.3 Specific resources will be allocated for collaborative programmes such as the Blue Light Collaboration.
- 6.4 Capital spending will be funded largely through long term borrowing. Surplus assets will be disposed of where appropriate in accordance with the Asset Management Strategy. A review of the estate may result in property disposals and/or shared locations with other public services; this is in line with the One Public Estate agenda.
- 6.5 Annual provision will be made for the repayment of debt. The amount charged will be related directly to the useful life of the assets acquired through borrowing so that debt is not outstanding after an asset's useful life.

6.6 Provision for the repayment of debt including interest as a proportion of annual income from government grants and council tax will not exceed the limit set to ensure that long term borrowing is affordable and sustainable.

7. Carry forward of over and under spending

7.1 Under and over spends on department budgets are not carried forward into the following year automatically.

7.2 The use of any under spends will be considered overall as part of the outturn report and will be decided by the PCC.

7.3 All under and over spends on the following budgets will be carried forward without exception:

- capital budgets
- specific grants

8. Financial Health and Governance

8.1 The Commissioner's Chief Finance Officer is responsible for ensuring that the Commissioner's financial affairs are properly administered having regard to their probity, legality and appropriate standards. The Chief Constable's Chief Finance Officer has the same responsibilities in relation to the Police Force.

8.2 The PCC and the Chief Constable will both prepare and publish codes of corporate governance and annual governance statements.

8.3 The PCC and the Chief Constable will also prepare risk registers and keep them under review.

8.4 A Joint Independent Audit Committee will monitor and report on the effectiveness of corporate governance and risk management arrangements.

8.5 Detailed Financial Regulations will be maintained and compliance monitored.

8.6 An internal audit function will be maintained in accordance with the CIPFA Code of Practice.

8.7 A register of financial risks will be maintained and kept under review, and appropriate arrangements made to eliminate or mitigate risks including establishing provisions, earmarked reserves and the use of insurance.

9. Reserves Strategy

9.1 CIPFA's Guidance makes clear that the adequacy of reserves should be assessed in the context of its strategic, operational and financial risks. Reserves can be categorised according to their intended use as:-

- Specific projects/activity – these provide earmarked reserves in respect of specific approved projects within the current MTFP.

- Timing differences – these allow the organisation to manage variations between years in committed spending programmes and may extend beyond the current Medium Term Financial Plan (MTFP)
- Risk based earmarked and general reserves – these are intended to provide mitigation from operational and financial risk

Table A below shows the projected reserves across the Medium Term Financial Plan under these categories. Details of each reserve held are provided in Appendix C.

Table A

General & Earmarked Reserves (incl. regional)	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
	31-Mar-19 £'000	31-Mar-20 £'000	31-Mar-21 £'000	31-Mar-22 £'000	31-Mar-23 £'000	31-Mar-24 £'000
Grand Total	12,460	11,550	9,224	7,971	7,943	7,917
Of which:						
Earmarked Reserves for Specific Projects / Activity within the MTFP	3,031	2,979	953	0	0	0
Earmarked Reserves for Specific Projects / Activity beyond the MTFP	3,347	2,239	1,939	1,639	1,611	1,585
Risk based reserves (general contingency)	6,082	6,332	6,332	6,332	6,332	6,332

- 9.2 Since 2018/19 the Financial Strategy required that ‘general risk based reserves be maintained at the minimum point of a target range’ this has been reviewed and maintained at this level as part of updating this Financial Strategy. Table B provides a summary of the risk based assessment that has been undertaken.
- 9.3 The PCC currently holds a General Reserve of £3.2m, following a £0.7m top up in 2018/19 to replenish previously utilised funds to support the revenue budget; there are no plans for future use to balance the revenue budget. Table B below provides a summary of the risk based assessment that has been undertaken.
- 9.4 The range of required reserves is assessed as £6.1m - £13.3m, the minimum point of which is £6.1m. This is set against forecast risk based reserves of £6.3m: General Reserve £3.2m, Major Incident Reserve £1.9m, Victim’s Major Incident Reserve £0.25m and Insurance Reserve £1m. As a result, the previous policy is maintained and this Financial Strategy continues to require risk-based reserves at the minimum of the target range. This continues the financial risk being carried by the PCC and is a consequence of the desire to accept minimal risk based reserves to mitigate the operational risk.
- 9.5 Nevertheless, given the context of increased financial risk, the need for sound financial control is further emphasised. The role of the Force Chief Financial Officer in supporting the Chief Constable and his team is key to delivering this.

Table B – Risk Based Assessment

Area	Risk addressed	Calculation basis		Proposed allocation	
		Min	Max	Min £000	Max £000
General balance	Budget overspend & general contingency	0.5% budget requirement	1% budget requirement	677	1,353
Major Disaster	First 1% of budget requirement to be met on major disasters	50% of potential impact	100% of potential impact	677	1,353
Council Tax	To provide for future non-payments, reducing yields etc.	1% of council tax (2020/21)	3% of council tax (2020/21)	586	1,757
Police Staff Pension Scheme Contributions	Actuarial variations in the level of contributions due to market volatility			500	1,000
Business Transformation Partnership	Risk of financial collapse or force majeure event before end of contract term (£1.5m of contract retender costs built into MTFP).	Based on 10% of Estimated cost of retendering (£1.5m)	Based on 50% of Estimated cost of retendering (£1.5m)	150	750
Brexit	To provide for potential adverse effects of Brexit	1% of non-pay budget (2020/21)	2% of non pay budget (2020/21)	335	669
National Officer Uplift	To provide for potential shortfall in funding for the national police officer uplift whilst the establishment is revised down to a sustainable level	Officer intake of 30 in one year	Officer intakes of 60 in one year	1,020	2,040
Council Tax	To provide for the potential costs of a referendum	Costs of referendum	Cost of referendum & rebilling	1,000	1,500
Major Incidents	Possibility of in-year major incident costs exceeding provision in revenue budget	Maximum spend in last 5 years less revenue budget provision	2 x the maximum spend in last 5 years less revenue budget provision	400	1,400
Major Incidents - Victims	Possibility of in-year incident from a Victim's Service perspective	25% of Victim's Services budget	50% of Victim's Services budget	263	525
Insurance	Covers excess on insurance position	2 x current excess	4 x current excess	500	1,000
				6,106	13,348

10. Budget Management

- 10.1 The PCC and the Chief Constable will manage within approved budgets.
- 10.2 Budget management responsibilities for every revenue and capital budget will be delegated to nominated budget holders who will be expected:
 - to set realistic budgets and to manage actual expenditure and income within these budgets
 - to manage in a way which maximises service performance and benefits, and;
 - to take responsibility for financial management in their service area.
- 10.3 The PCC and the Chief Constable will monitor overall financial performance on a monthly basis and take any necessary corrective action. This will include ensuring that there is a planned approach to finding the savings necessary to balance the budget and that the required savings are achieved.
- 10.4 The Chief Finance Officer will ensure that budget holders and senior managers receive appropriate support including training. The CFO will also ensure that the finance function is resourced to be fit for purpose, including the availability of specialist financial expertise as necessary.

11. Procurement

- 11.1 The Commissioner will agree an annual Procurement Plan before the start of each financial year. The Joint Independent Audit committee will receive a mid-year report and a year-end annual report.
- 11.2 Procurement arrangements will be designed to ensure that the right things are acquired at the best price. This recognises both price and value.
- 11.3 Procurement processes will promote
 - Value for money
 - Transparency, accountability and probity
 - And compliance with legal requirements
- 11.4 Strong centralised controls will be maintained to ensure high levels of compliance with approved processes.
- 11.5 Competitive prices will be achieved through maximizing the use of national or regional contracts which provide significant savings. Higher value contracts will be subject to tendering or other competitive processes.

12. Income and Charging

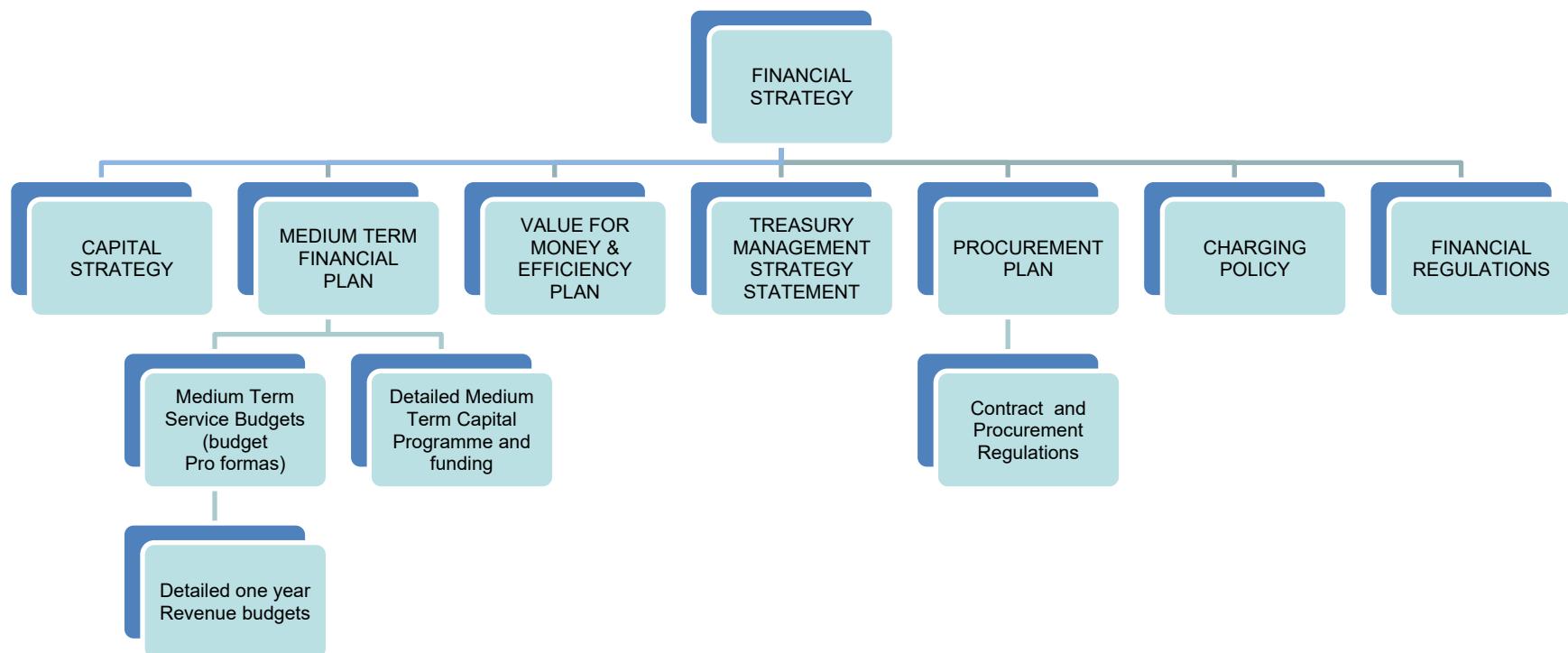
- 12.1 Charges for services will be set to comply fully with national guidance. National rates of charges will be applied where set.
- 12.2 Charges will be set to recover the full economic cost for policing commercial events. An abatement of 50% will apply to charges for charitable and community events.
- 12.3 Discretionary charges will, as a minimum, recover the costs of providing services.
- 12.4 All charges will be updated annually.

13. Treasury Management

- 13.1 The Commissioner will agree an annual Treasury Management Strategy Statement before the start of each financial year. The Joint Independent Audit Committee will receive, as a minimum, a six month progress report and a year-end annual report.
- 13.2 Long term borrowing will be taken from the Public Works Loan Board to fund capital expenditure. Decisions on borrowing will be based on a range of treasury management considerations including the cash flow position, current and projected interest rates, and the maturity profile of current debt.
- 13.3 Policies for the investment of surplus cash will be security first, liquidity second and then return. Protection of the capital invested will be the overriding priority. Return on investment will be maximized but will be modest, commensurate with this level of risk.
- 13.4 The Commissioner will agree targets for specified prudential indicators in relation to capital financing and other treasury management matters before the start of each financial year. The main purpose of these is to ensure that capital financing, in particular its long term borrowing, is prudent, affordable and sustainable.
- 13.5 The Commissioner agrees a formal Capital Strategy following the introduction of the requirement by the CIPFA Prudential Code (2017) in 2019/20.

14. Accounting and Financial Processes

- 14.1 Strong financial controls will be maintained with the Chief Finance Officers responsible for agreeing all financial processes, systems and financial records.
- 14.2 Accounting policies will comply fully with International Financial Reporting Standards and statutory requirements as set out in the Code of Practice on Local Authority Accounting in the UK. The annual financial statements will give a true and fair view of the financial position and transactions in the opinion of the external auditor.



APPENDIX B

PERFORMANCE MEASURES: financial health and performance

REF	MEASURE	TARGET
	Financial health	
1	Risk & General reserves	Maintained around the minimum level of a target range based on a financial risk assessment, currently around 4% of total annual expenditure.
2	Borrowing	Annual cost of debt repayment and interest not to exceed 5% of annual income.
3	Internal control	All core financial systems to receive "significant assurance" internal audit conclusions.
4	Accounting	Unqualified external audit opinion on the annual financial statements.
	Fairer funding	
5	Government grant	Increased share of national Police Grant.
	Value for money	
6	Spending	Lower than national average spending per head of population
7	Spending	Unqualified VFM Conclusion from the external auditor.
	Financial performance	
8	Revenue budget management	More than 50% of budgets managed to within 1%.
9	Capital programme management	Actual capital spending managed to more than 80% of the approved programme.
10	Income from fees and charges	Annual Income from fees and charges (with the exception of mutual aid) to exceed £1m.
11	Income collection	Average number of debtor days not to exceed 30 days.
12	Payments	More than 90% of undisputed invoices to be paid within 30 working days.
13	G4S contract – finance functions	100% of G4S contractual targets achieved.
	Treasury management	
14	Interest earned	Interest rate on investments higher than average bank rate.
15	Interest paid	Interest paid on new long term borrowing less than average government borrowing rate.
	Procurement	
16	Extent of competition	Percentage of spending via national and regional frameworks and other competitive processes
17	Major contracts	Savings achieved on major contracts

APPENDIX C

	Actual 31 st March 2019	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
		£'000	£'000	£'000	£'000	£'000	£'000
General & Earmarked Reserves							
Grand Total	12,460	11,550	9,224	7,971	7,943	7,917	
Of which:							
Earmarked Reserves for Specific Projects/Activity within the MTFP							
Strategic Partnership	Reserve relating to service improvements for strategic partnership contract. Current balance is for any re-tender/extension costs	75	75	-	-	-	-
Body Worn Cameras	To fund purchase of Body Worn Cameras as part of the Innovation Fund scheme. Project funding carried over, could be used to fund further schemes in this area.	76	-	-	-	-	-
Employee Welfare	To improve the working environment of employees. This reserve is forecast to be spent in the next year. Reserve created from excess VAT receipts.	52	-	-	-	-	-
Innovation Funds	Round 2 PIF funds. This has funded one outstanding NICHE / Innovation Round 2 payment to G4S	35	-	-	-	-	-
CATS/Niche Back Office	To support the CATS / Niche system record conversion. This funding was reserved 3 years ago for a specific project, but as yet there is no confirmed commencement date	100	0	-	-	-	-
Performance & Productivity	To fund business change and efficiency projects.	944	600	300	-	-	-
ARV Grant Notts	Home Office grant held for distribution in 2019/20.	257	0	-	-	-	-
Excellence in Police Finance	To fund the annual subscription to the programme, £30k due in 2020/21	60	30	-	-	-	-
Forensic Services	For future forensic services	100	100	-	-	-	-
Operations Tasers	Taser consumables, expenditure in 2019/20	38	0	-	-	-	-
Specials ANPR equipment	ANPR equipment, expenditure in 2019/20	12	0	-	-	-	-
Local Policing West (Football)	Home Office allocation for football related ops in 2019/20	15	0	-	-	-	-
EMSOU Collaboration	Reserve to cover the risk around future regional commitments	60	60	-	-	-	-
EMOpSS Disaggregation Risk	Reserve to cover the risk associated with disaggregation adjustments	151	151	-	-	-	-
Sandi Starfish	Income received in 2018/19 to be utilised in 2019/20 for Sandi Starfish related activity on the East Coast	3	0	-	-	-	-
Domestic Abuse PTF Grant	Balance of PTF Domestic Abuse Grant for allocation to the project in future years	74	74	-	-	-	-
Corporate Comms Income Generation	To utilise the income earned in Comms on the Family Day in 2019/20	10	-	-	-	-	-
Police Officer Bank Holiday Overtime	To provide budget for Bank Holidays in years when there are more than the base budget covers.	95	0	-	-	-	-
Specific grant for Specialist Ongoing Operations	Grant received in order to fund on going specialist operation.	874	1,889	653	0	0	0
Total Funding of Specific Projects/Activity within the MTFP	3,031	2,979	953	0	0	0	
Risk based Reserves:							
General Reserve		3,198	3,198	3,198	3,198	3,198	3,198
Regional General Reserve		34	34	34	34	34	34
Major Incidents	The requirements of operational policing vary significantly from year to year. The reserve ensures that the PCC Group has funds available to respond to the requirements of major incidents. It is protection against large incidents.	1,850	1,850	1,850	1,850	1,850	1,850
Victim's Major Incidents	The reserve ensures that the PCC has funds available to respond to a major incident from a Victim's Service perspective	0	250	250	250	250	250
Insurance	To support the costs of on-going claims and for future unforeseen claims which have not yet arisen and for which revenue provision is insufficient. It is protection against large claims.	1,000	1,000	1,000	1,000	1,000	1,000
Total Risk Based Reserves	6,082	6,332	6,332	6,332	6,332	6,332	6,332
Earmarked Reserves for Specific Projects/Activity beyond the MTFP							
Development & Partnership Working	Reserve to be used for Victims commissioning, force Intranet, governance, and Channel Management. £150k has been added in 2018/19 from underspending on community grants and contributions.	1,144	543	293	43	15	15
Partner Agency Funding	Reserve for Funding received from NHS (custody transformation) & LCJB. This includes £35k LCJB funding in order to cover cost of post redundancy should regional posting cease, and £71k of NHS Custody Grant.	106	35	35	35	35	35
Capital Financing	Reserve allocation set aside to fund future capital programme items.	1,000	1,000	1,000	1,000	1,000	1,000
III Health	Reserve to ensure the Force can meet the cost of potential III Health retirements.	375	225	225	225	225	225
Staffing	To provide for potential base budget shortfalls in the event that the vacancy factor isn't met.	100	100	100	100	100	100
Regional Reserve	Surplus of funding relating to regional expenditure.	436	200	200	200	200	200
Proceeds of Crime	The police share of assets recovered from the proceeds of crime is reserved for investing in further financial investigation work.	186	136	86	36	36	10
Total Specific Projects/Activity beyond the MTFP	3,347	2,239	1,939	1,639	1,611	1,585	