

March 2021

Financial Strategy incorporating Reserves Strategy 2021/22

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 Joint Independent Audit Committee, 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
 - CIPFA Financial Management Code 2019, (FM Code) see para 2.3.
- 2.3 The FM Code 2019 'identifies the risks to financial sustainability and introduces an overarching framework of assurance which builds on existing financial management good practice. For the first time it sets out explicit standards of financial management'.

'The FM Code is designed to support good practice in financial management and to assist PCCs and CCs in demonstrating their financial sustainability. It has been introduced because the exceptional financial circumstances faced by local authorities has revealed fundamental weaknesses in the financial management of a few organisations'.

By the end of March 2021 a self assessment will be completed to reflect on Lincolnshire's position against the standards. An action plan will be drawn up to work towards full compliance in 2021/22.

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 single year grant settlements do not provide a sustainable basis on which to set an MTFP. The long-awaited review of the funding formula is yet to be concluded. Lincolnshire requires a more equitable slice of the national police grant, or substantial precept rises in future years would be required to mitigate the risk of budget shortfalls. Funding for the Police Officer Uplift Programme has allowed the Force to grow the police officer establishment.
- 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 taxpayers and council tax referendum thresholds 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 not known when the Core Grant Distribution Review (funding formula) will be revisited and concluded. Forecasting beyond 2021/22 is challenging particularly as future grant allocations are uncertain, now even more so following the Covid-19 pandemic. The Government remains committed to the 20,000 National Officer Uplift Programme which as it has benefitted Lincolnshire in tranches 1 and 2, it is hoped tranche 3 will materialise for 2022/23.

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.

- 6.3 Specific resources will be allocated for collaborative programmes.

- 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 the end of 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.

9.2 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-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25
	£'000	£'000	£'000	£'000	£'000	£'000
Grand Total	15,773	18,793	14,392	12,770	11,963	11,628
Of which:						
Earmarked Reserves for Specific Projects / Activity within the MTFP	5,994	6,333	2,326	867	200	0
Earmarked Reserves for Specific Projects / Activity beyond the MTFP	3,328	3,365	2,971	2,808	2,668	2,533
Risk based reserves (general contingency)	6,451	9,095	9,095	9,095	9,095	9,095

- 9.3 The appropriate level of risk based earmarked and general reserves is considered each year, informed by an assessment of the potential impact of a range of financial risks. Table B below provides a summary of the risk-based assessment that has been undertaken. The range of required reserves is assessed as £6.1m - £13.3m.
- 9.4 Since 2018/19 the Financial Strategy has required that 'general risk-based reserves be maintained at the **minimum** point of a target range'; prior to 2018/19, the requirement had been to maintain risk-based reserves at the **mid-point** of a target range. The decision in 2018/19, to increase the level of financial risk being carried by the PCC, was made so as to mitigate the level of operational risk at the time, albeit that the funding thus released provided only non-recurrent mitigation. In 2019, the introduction of the national police uplift programme has provided recurrent resources to mitigate operational risk. As a result, it is proposed that the risk-based reserves policy revert to the **mid-point** of the target range (£9.7m).
- 9.5 Following a review of all earmarked reserves, it is intended that certain of them be reallocated and others reduced to enable risk based reserves to be increased towards the mid-point of the target range (£9.1m). Whilst not yet achieving full compliance with the revised policy, progress towards it is clear.
- 9.6 There are no plans for future use of the General Reserve to balance the revenue budget. In the context of general financial risk and continuing uncertainty post pandemic, 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	700	1,400
Major Disaster	First 1% of budget requirement to be met on major disasters	50% of potential impact	100% of potential impact	700	1,400
Council Tax	To provide for future non-payments, reducing yields etc.	1% of council tax (2021/22)	3% of council tax (2021/22)	623	1,868
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 transition costs built into budget).	Based on 10% of Estimated cost of transition (£1.5m)	Based on 50% of Estimated cost of transition (£1.5m)	150	750
Brexit	To provide for potential adverse effects of Brexit	1% of non-pay budget (2021/22)	2% of non pay budget (2021/22)	485	970
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
Insurance	Covers excess on insurance position	2 x current excess	4 x current excess	500	1,000
				6,078	13,328

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 maximising 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

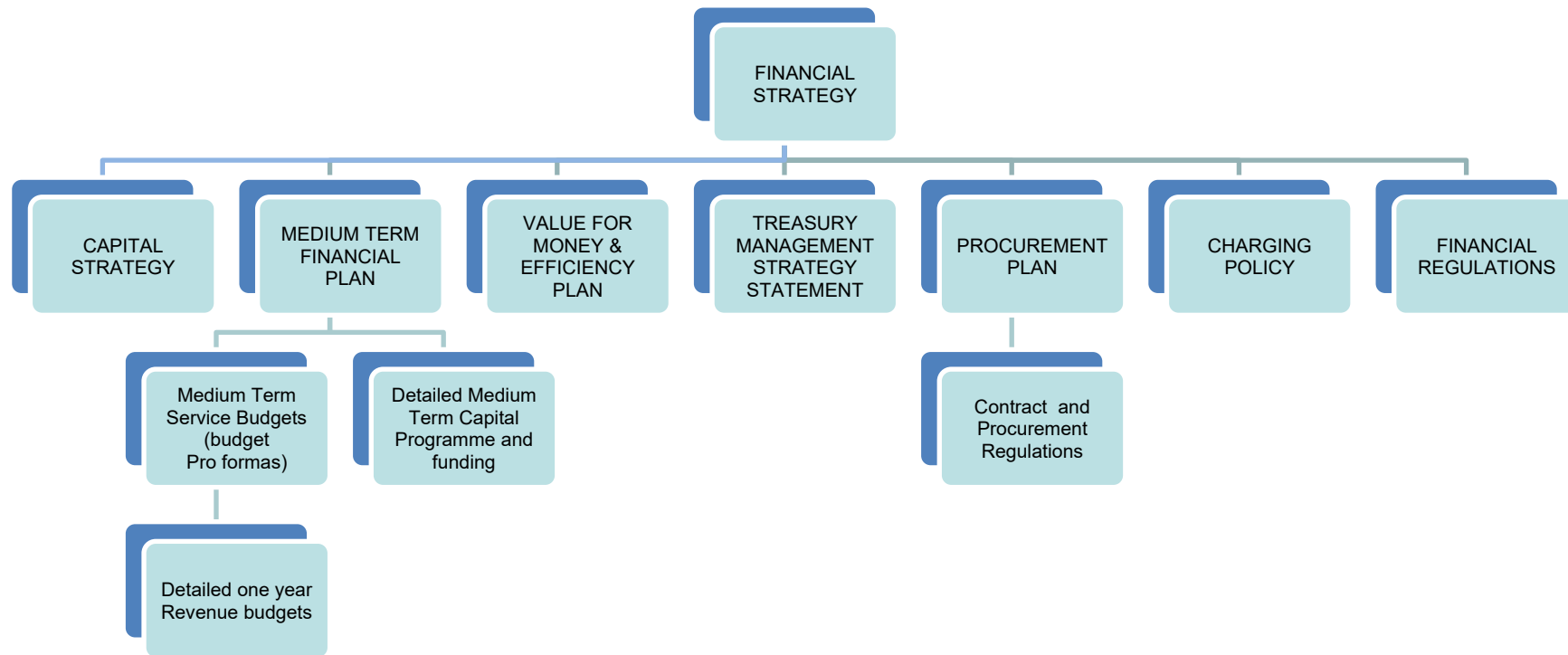
- 12.1 Charges for services will be set to comply fully with national guidance. National rates of charges will be applied where set.
- 12.2 Charges will be set to recover the full economic cost for policing commercial events. An abatement of 50% will apply to charges for charitable and community events.
- 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 monthly 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 maximised 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 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 mid-point of a target range based on a financial risk assessment, currently around 6.7% of total annual revenue 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	<ul style="list-style-type: none"> a) Actual capital spending managed to more than 80% of the approved programme total. b) More than 50% of individual programme budget lines manage actual capital spending of 80% or more.
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

General & Earmarked Reserves		Actual	Forecast	Forecast	Forecast	Forecast	Forecast
		31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25
		£'000	£'000	£'000	£'000	£'000	£'000
Grand Total		15,773	18,793	14,392	12,770	11,963	11,628
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	20	30	-	-	-	-
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 transferred in the next year. Reserve created from excess VAT receipts.	52	-	-	-	-	-
Innovation Funds	Round 2 PIF funds. The majority will be distributed to other Regional Forces	339	309	-	-	-	-
Performance & Productivity	To fund business change and efficiency projects.	924	1,087	1,000	600	200	-
PCC Regional Staffing	Balance of funding to be carried forward in order to cover one off costs as required.	26	49	19	-	-	-
ARV Grant Notts	H/Office grant held for distribution re BWC for ARV	257	189	-	-	-	-
Excellence in Police Finance II	To fund the annual subscription to the programme, £20k due in 2021/22 and 2022/23	30	40	20	-	-	-
Forensic Services	For future forensic services should additional costs arise.	100	-	-	-	-	-
Local Policing West (Football)	Football Policing Unit -cost recovery of football related ops	25	40	20	-	-	-
EMSOU Collaboration	Reserve to cover the risk around future regional commitments	12	-	-	-	-	-
EMOpSS Disaggregation Risk	Reserve to cover the risk associated with disaggregation adjustments	151	-	-	-	-	-
Domestic Abuse PTF Grant	Balance of PTF Domestic Abuse Grant for allocation to the project in future years	51	45	-	-	-	-
Police Officer Bank Holiday Overtime	To provide budget for Bank Holidays in years when there are more than the base budget covers.	389	294	-	-	-	-
Specific grant for Specialist Ongoing Operations	Grant received in order to fund ongoing specialist operation.	394	-	-	-	-	-
Home Office ICT Recharges	Cover specific charges in ICT M&M	122	-	-	-	-	-
Operation Forge	On going regional MI	60	-	-	-	-	-
South Park Bandwidth	Increase communication provision at South Park	32	-	-	-	-	-
HQ Crime (Review) building works	Building works within Crime at HQ	100	88	-	-	-	-
Income Pressures	Initially set aside to manage pressure on income but is not needed so transferred to the General Reserve	400	-	-	-	-	-
Violence & Vulnerability Fund	Specific fund to address priorities of the CC which align with the Police & Crime Plan	2,106	2,267	1,267	267	-	-
Blue Light Collaboration	Carry forward to match timing of expenditure	3	-	-	-	-	-
Contingency for Developments	Identified for carry forward from 20/21 for one off projects		167	-	-	-	-
Aiwaves Booster	Increase the signal		40	-	-	-	-
Mini Police Income	Grant income not spent, project should recommence post Covid19	46	46	-	-	-	-
Fixed Term Posts	Funding available to extend posts		471				
Time Limited Funding	DAMS, BI, Wellbeing etc		1,171	-	-	-	-
Regional Underspend	Underspends arising on regional budgets	279	-	-	-	-	-
Total Funding of Specific Projects/Activity within the MTFP		5,994	6,333	2,326	867	200	0
Risk based Reserves:							
General Reserve		3,298	5,942	5,942	5,942	5,942	5,942
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	269	269	269	269	269	269
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		6,451	9,095	9,095	9,095	9,095	9,095
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.	822	900	596	523	473	423
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	90	75	60	45	35
Capital Financing	Reserve allocation set aside to fund future capital programme.	1,000	1,000	1,000	1,000	1,000	1,000
Ill Health	Reserve to ensure the Force can meet the cost of potential Ill Health retirements.	375	375	375	375	375	375
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.	527	527	527	527	527	527
Complaints Handling	New reserve to provide for base budget shortfall in any one year	-	20	20	20	20	20
Proceeds of Crime	The police share of assets recovered from the proceeds of crime is reserved for funding local crime reduction initiatives to benefit the community	398	353	278	203	128	53
Total Specific Projects/Activity beyond the MTFP		3,328	3,365	2,971	2,808	2,668	2,533