

March 2024

# **Financial Strategy incorporating Reserves Strategy 2024/25**

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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. Commercial & Contract Management
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 (JIAC), 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'*.

An updated self-assessment will be completed during 2024/25 to reflect on Lincolnshire's position against the standards. An action plan will then be developed to address any areas for necessary improvement including any gaps in compliance identified by the assessment.

## **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 Council Tax receipts and Police Grant comprise the majority of the PCC's funding; neither of these are certain into the medium term.
- 3.4 The government published its approach to Council Tax referendum principles for 2024/25 on 31 January 2024. In 2024/25 PCCs will be allowed to increase Band D bills by as much as £13 without triggering a local referendum. The PCC's decision on Council Tax is informed by his annual consultation with the people of Lincolnshire. The medium term plan for council tax increases is based upon current government policy for 2024/25, reverting to historic norms (2%) beyond 2024/25.
- 3.5 In terms of Police Grant, the government has not published Force level allocations beyond 2024/25; government departmental allocations are not

published beyond 2024/25. The government's own medium term forecasts indicate pressure on public spending beyond 2024/25.

- 3.6 The long-awaited review of the funding formula is yet to be concluded, although progress is being made. Whilst Lincolnshire continues to make its case for a more equitable slice of the national police grant, it recognises that the introduction of a new funding formula is likely to be accompanied by transitional measures limiting the impact of any resulting benefit to Lincolnshire over a number of years. In these circumstances, the medium term plan assumes that Police Grant remains flat throughout the period.
- 3.7 Budgets will be set realistically with expenditure balanced to the income available. Whilst the approved medium term plan indicates that financial balance is achieved only across the first year of the plan by drawing extensively upon Reserves, it is recognised that a savings plan will need to be developed during 2024/25 to ensure financial balance beyond 2024/25. Given the scale of the budget gap, savings are likely to require a significant reduction in police officer and staff numbers.

#### 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 concluded and introduced, nor what the transition arrangements will be. The Government remains committed to the 20,000 National Officer Uplift Programme which has benefitted Lincolnshire in the three tranches to 2022/23. However, given the scale of the savings required beyond 2024/25, police officer numbers are likely to reduce into the medium term.

#### 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 Director of Finance & Corporate Services (S151) comments on financial implications, compliance, risk and value for money. A scoring mechanism has been in place since 2021/22 to allow business cases to be more easily prioritised against available funds and competing priorities.

- 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 and after approval by the PCC. A review of the estate may result in property disposals and/or shared locations with other public services; this is in line with the Local Government Association 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 for incomplete projects
  - 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 Director of Finance & Corporate Services (S151) 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 Revenue and Capital Reserves are an important resource for day to day as well as medium term financial planning, whilst being one-off in nature.
- 9.2 The requirement for financial reserves is acknowledged in statute. Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when preparing budgets. The Chief Finance Officer is required as part of the budget setting process to provide a statement on the adequacy of reserves.
- 9.3 Guidance issued to PCC's by the Minister for Policing & the Fire Service, sets out the Government's expectations around the information to be published by PCC's on their financial reserve strategies. This is included in the Home Office Financial Management Code of Practice and states the information on each reserve should make clear how much of the funding falls into the following three categories:

- Funding for planned expenditure on projects and programmes over the period of the current medium term financial strategy.
- Funding for specific projects and programmes beyond the current planning period.
- As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance).

9.4 The Chief Finance Officer of the PCC should send the Home Office a copy of their reserves strategy each year.

9.5 CIPFA's Guidance makes clear that the adequacy of an organisation's reserves should be assessed in the context of its strategic, operational and financial risks.

The PCC for Lincolnshire categorises Reserves according to their intended use as:

- Specific projects/activity – these provide earmarked reserves in respect of specific planned and approved projects and programmes within the current MTFP.
- Timing differences – these earmarked reserves 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 general contingency resources 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-23	31-Mar-24	31-Mar-25	31-Mar-26	31-Mar-27	31-Mar-28
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Grand Total</b>	<b>34,130</b>	<b>37,933</b>	<b>23,232</b>	<b>15,443</b>	<b>14,757</b>	<b>14,751</b>
<b>Of which:</b>						
<b>Earmarked Reserves for Specific Projects / Activity within the MTFP</b>	20,939	23,106	8,481	692	6	-
<b>Earmarked Reserves for Specific Projects / Activity beyond the MTFP</b>	3,844	3,580	3,504	3,504	3,504	3,504
<b>Risk based reserves (general contingency)</b>	9,347	11,247	11,247	11,247	11,247	11,247

- 9.6 Since 2021/22 the Financial Strategy required that 'general risk-based reserves be maintained at the 'mid-point' of a target range' based on a financial risk assessment in respect of residual financial risks. The latest assessment indicates the mid-point for 2024/25 would be £19m, which is beyond the level of available reserves which can be maintained. It is therefore recommended that this Financial Strategy is revised and approved on the basis of a **reserves policy based upon the minimum of the risk assessed target range** to enable drawdown of risk-based reserves to support the MTFP. General risk-based reserves will therefore be maintained at the minimum point of target range (£11.2m) for 2024/25. This reflects an increase to risk appetite in line with the 2023/24 Financial Strategy view of that likelihood. Table B provides a summary of the risk-based assessment that has been undertaken.
- 9.7 The range of required reserves according to the latest risk based assessment is £11.2m - £26.8m, the mid-point of which is £19m. This is set against forecast risk-based reserves as at 31 March 2024 of £11.2m: General Reserve £7.8m, Major Incident Reserve £1.9m, Victim's Major Incident Reserve £0.3m, Insurance Reserve £1m, National Police Air Support £0.2m, Regional Reserve of £0.03m and Complaints Handling Reserve £0.02m.
- 9.8 The PCC forecasts a General Reserve of £7.8m as at 31 March 2024, there are no plans to use this to balance the 2024/25 revenue budget, however it may become necessary to do so beyond 2024/25. It is likely that, for 2025/26 onwards, there will be a requirement to continue with a reserves policy based upon the minimum of the risk assessed target range to enable drawdown of risk-based reserves to support the MTFP. Table A shows the forecast use of reserves.
- 9.6 Given the context of general financial risk, the need for sound financial control is further emphasised. The role of the Director of Finance & Corporate Services (S151) in supporting the Chief Constable and his team is key to delivering this.



**Table B – Risk Based Assessment of Reserves**

Area	Risk addressed	Calculation basis		Proposed allocation	
		Min	Max	Min £000	Max £000
<b>General balance</b>	Budget overspend & general contingency	0.5% Total budget requirement	1% Total budget requirement	891	1,781
<b>Major Disaster</b>	First 1% of budget requirement to be met on major disasters	50% of potential impact	100% of potential impact	891	1,781
<b>Council Tax</b>	To provide for future non-payments, reducing yields etc.	1% of council tax (2024/25)	3% of council tax (2024/25)	744	2,233
<b>Police Staff Pension Scheme Contributions</b>	Actuarial variations in the level of contributions due to market volatility	1% of chief constable staff pay budget (2024/25)	2% of chief constable staff pay budget (2024/25)	427	854
<b>Economic uncertainty</b>	To provide for potential adverse effects, for example inflation, following Brexit and the Covid Pandemic	1% of non-pay budget (2024/25)	2% of non pay budget (2024/25)	491	982
<b>Medium Term Financial Plan</b>	Risk of non-delivery of efficiency savings and/or increased funding required within the MTFP to match spend to funding	50% Savings/Funding required to cover deficit in Year 2 of the MTFP	Savings/Funding required to cover deficit in Year 3 of the MTFP	7,013	17,016
<b>Major Incidents</b>	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	281	1,126
<b>Insurance</b>	Covers excess on insurance position	2 x current excess	4 x current excess	500	1,000
<b>Total</b>				<b>11,237</b>	<b>26,774</b>

## **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 Where Savings Targets are indicated, these will be developed into a Savings Delivery Plan and incorporated into the delegated budget in advance of the start of the financial year.
- 10.4 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.
- 10.5 The Director of Finance & Corporate Services (S151) will ensure that budget holders and senior managers receive appropriate support including training. The Director of Finance & Corporate Services (S151) will also ensure that the finance function is resourced to be fit for purpose, including the availability of specialist financial expertise as necessary.

## **11. Commercial and Contract Management**

- 11.1 The PCC will agree an annual Commercial Strategy/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 Commercial and contract management arrangements will be designed to ensure that the right things are acquired at the best price. This recognises both price and value.
- 11.3 Commercial and contract management 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**

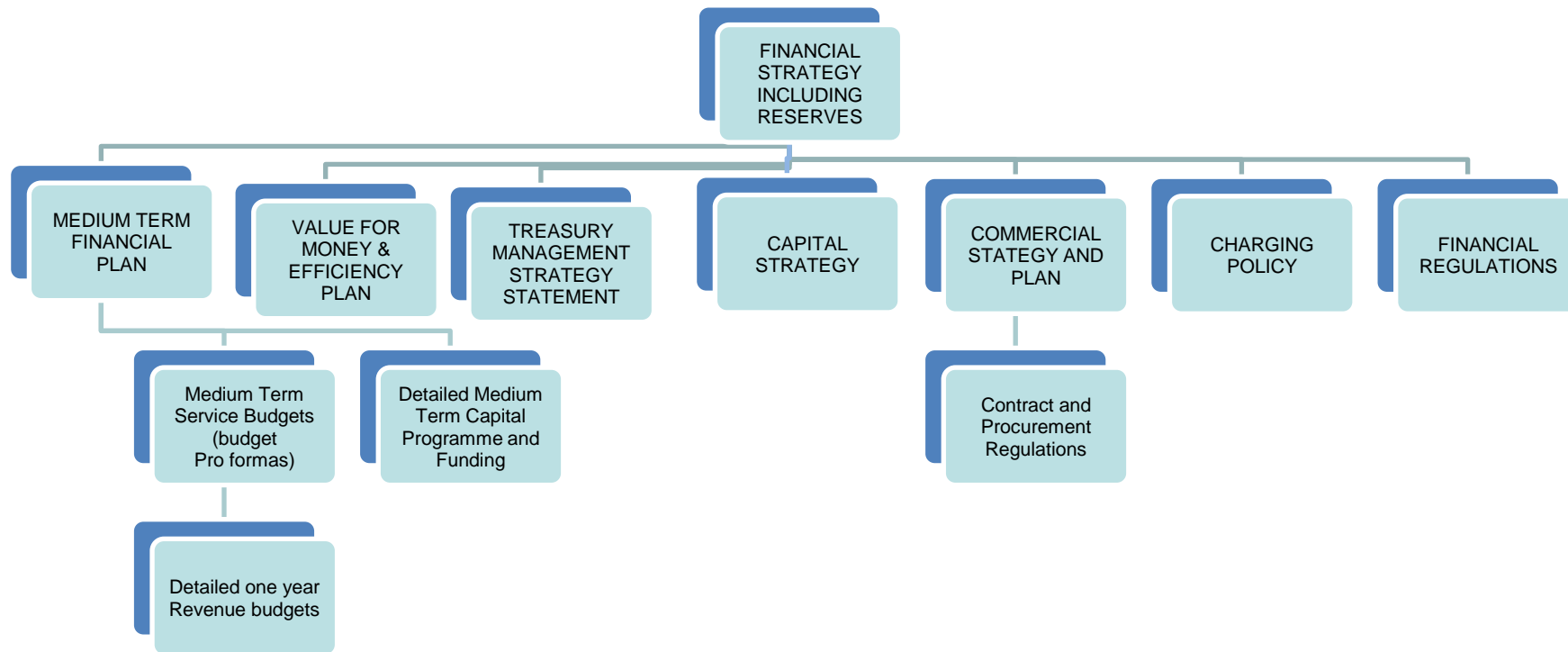
- 12.1 Charges for services will be set to comply fully with national guidance. National rates of charges will be applied where set.
- 12.2 Charges will be set to recover the full economic cost for policing commercial events. An abatement of 50% will apply to charges for charitable and community events.
- 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.
- 12.4 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.
- 12.5 The Commissioner agrees a formal Capital Strategy as required by the CIPFA Prudential Code (2021).

## **14. Accounting and Financial Processes**

- 14.1 Strong financial controls will be maintained with the Commissioner's Chief Finance Officer and Chief Constable's Director of Finance & Corporate Services (S151) who are 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
	<b>Financial health</b>	
1	Risk & General reserves	Maintained around the minimum point of a target range based on a financial risk assessment, currently around 6.3% 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.
	<b>Fairer funding</b>	
5	Government grant	Increased share of national Police Grant.
	<b>Value for money</b>	
6	Spending	Lower than national average spending per head of population
7	Spending	Unqualified VFM Conclusion from the external auditor.
	<b>Financial performance</b>	
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 total.
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.
	<b>Treasury management</b>	
13	Interest earned	Interest rate on investments higher than average bank rate.
14	Interest paid	Interest paid on new long term borrowing less than average government borrowing rate.
	<b>Commercial and Contract Management</b>	
15	Extent of competition	Percentage of spending via national and regional frameworks and other competitive processes (Increasing Trend)
16	Major contracts	Savings achieved on major contracts (Increasing Trend)
17	Contract Performance	100% of contractual targets achieved.

**APPENDIX C**

**RESERVES HELD BY THE PCC FOR LINCOLNSHIRE**

<b>General &amp; Earmarked Reserves</b>		<b>Actual 31-Mar- 23 £'000</b>	<b>Forecast 31-Mar- 24 £'000</b>	<b>Forecast 31-Mar- 25 £'000</b>	<b>Forecast 31-Mar- 26 £'000</b>	<b>Forecast 31-Mar- 27 £'000</b>	<b>Forecast 31-Mar- 28 £'000</b>
<b>Grand Total</b>		<b>34,130</b>	<b>37,933</b>	<b>23,232</b>	<b>15,443</b>	<b>14,757</b>	<b>14,751</b>
<b>Of which: Earmarked Reserves for Specific Projects/Activity within the MTFP</b>							
Revenue Budget Support	Used to address budget pressures	16,271	15,373	6,174	-	-	-
Excellence in Police Finance	To fund the annual subscription to the programme	20	-	-	-	-	-
Partner Agency Funding	Various elements of funding including NHS allocations	82	47	-	-	-	-
Performance & Productivity	To fund business change and efficiency projects	949	876	576	276	-	-
Domestic Abuse Grant	Balance of PTF Domestic Abuse Grant	43	43	-	-	-	-
Bank Holiday	To provide budget for Police Officer Bank Holidays (budget smoothing)	250	200	400	400	-	-
PCC Regional Collaboration	Balance of funding to be carried forward	34	34	-	-	-	-
Mini Police	Project Funding	32	32	32	16	6	-
Violence & Vulnerability Fund	Fund to address priorities of the CC & Police & Crime Plan	2,360	2,092	1,298	-	-	-
Transitional Costs	Transitional/Restructuring Costs	750	-	-	-	-	-
PCC & Joint Services Carry Forward	PCC & Joint Services Carry Forward	18	-	-	-	-	-
Automation and IOM 18-25 Cohort	Allocation to increase 2022/23 Force Executive budget/Supply	12	-	-	-	-	-
Supply of PPE	Allocation to increase 2022/23 Crime budget/Culture	6	-	-	-	-	-
Culture	Allocation to increase 2022/23 Strategic Development budget/Vehicle	66	-	-	-	-	-
Vehicle equipment	Allocation to increase 2022/23 Operations budget/CBRN	30	-	-	-	-	-
CBRN Compliant Headsets	Allocation to increase 2022/23 Operations budget	16	-	-	-	-	-
ERP Plus Project	To fund the ERP Plus Project	-	3,521	-	-	-	-
Staffing Reserve	To fund temporary posts in 2024/25	-	886	-	-	-	-
<b>Total Funding of Specific Projects/Activity within the MTFP</b>		<b>20,939</b>	<b>23,106</b>	<b>8,481</b>	<b>692</b>	<b>6</b>	<b>-</b>
<b>Risk based Reserves:</b>							
General Reserve	General Reserve	5,944	7,844	7,844	7,844	7,844	7,844
Regional General Reserve	Regional General Reserve	34	34	34	34	34	34
Major Incidents	To cover extenuating circumstances	1,850	1,850	1,850	1,850	1,850	1,850
Victims Major Incidents	Ensures PCC can respond to a MI from a Victim's Service perspective	269	269	269	269	269	269
National Police Air Support	NPAS new model increase costs	230	230	230	230	230	230
Complaints Handling	New reserve to provide for base budget shortfall in any one year	20	20	20	20	20	20
Insurance	Insurance cost support	1,000	1,000	1,000	1,000	1,000	1,000
<b>Total Risk Based Reserves</b>		<b>9,347</b>	<b>11,247</b>	<b>11,247</b>	<b>11,247</b>	<b>11,247</b>	<b>11,247</b>
<b>Earmarked Reserves for Specific Projects/Activity beyond the MTFP</b>							
Development & Partnership Working	PCC Reserve to fund initiatives	633	369	293	293	293	293
Capital Financing	Reserve allocation set aside to fund future capital programme.	1,934	1,934	1,934	1,934	1,934	1,934
Ill Health Reserve	To ensure the Force can meet the cost of potential Ill Health retirements.	487	487	487	487	487	487
Regional Reserve	Surplus of funding relating to regional expenditure.	473	473	473	473	473	473
Proceeds of Crime Act	Reserve to collate additional surplus arising on POCA income	317	317	317	317	317	317
<b>Total Specific Projects/Activity beyond the MTFP</b>		<b>3,844</b>	<b>3,580</b>	<b>3,504</b>	<b>3,504</b>	<b>3,504</b>	<b>3,504</b>

