

## **APPENDIX 2**

### **11.0 POLICY ON FINANCIAL PROVISIONS AND RESERVES**

#### Preamble

The Police and Crime Commissioner maintains provisions and reserves to ensure a sound financial position for North Yorkshire Police. The overriding aim is to ensure that, within the budget, the maximum amount of funding is available to deliver policing. To this end, the levels of provisions and reserves are regularly reviewed to ensure that funding is directed to service use rather than being tied up unnecessarily in balances. Retaining reserves is a useful and considered tool which enables a sound financial position to be maintained and which can be used to reduce or negate the need for higher cost funding alternatives, ie borrowing. The way in which provisions and reserves are managed and the distinction between them is determined by Accounting Standards.

#### Provisions

11.1 Provisions comprise estimates of known liabilities which have been incurred by the Police and Crime Commissioner, the settlement date for which could fall at any time. The exact value will not be known until settlement is agreed.

#### Reserves

11.2 Reserves are maintained to:-

- (a) Create a contingency to help cushion the impact of unexpected events or emergencies - the General Reserve.
- (b) Build up funds (often referred to as earmarked reserves) to meet specific future requirements, including the smoothing out of peaks in costs and the effect of loss of external funding.

11.3 The level of reserves is taken into account when calculating the council tax requirement. This ensures a balanced budget position is maintained and enables regard to be given to affordability when considering future revenue requirements and capital programmes.

11.4 The reserves must be reported to the Police and Crime Commissioner on a regular basis as part of budget and financial monitoring. Part of this exercise is to ensure continuing relevance and adequacy and to enable the Medium Term Financial Plan to be up-dated.

#### Policy

11.5 The actual level of reserves, earmarking and utilisation are considered when up-dating the MTFP and as part of its on-going review.

#### General Reserve

11.6 In setting the level of the General Reserve, consideration is given to the adequacy of financial control, the overall financial position, medium-term plans and strategic, operational and financial risks facing the Police and Crime Commissioner. The level of the General Reserve is reviewed by the Police and Crime Commissioner on the advice of the PCC's Chief Finance Officer having regard to these matters.

11.7 Key Principles are:-

- (a) The General Reserve will not be used to meet on-going revenue items.
- (b) The General Reserve may be used, on an exceptional basis, as a short-term option to balance the budget, particularly where major operations are experienced.
- (c) The Police and Crime Commissioner will aim to maintain the level of General Reserves at not less than 6% of the net revenue budget. Most of the reserve is effectively ring-fenced to cover major incidents should they happen in the year.
- (d) Under the requirements of the Local Government Act 2003, the level of the General Reserve is re-assessed annually as part of the annual budget-setting process.

Earmarked Reserves

11.8 The Insurance Reserve:

The Police and Crime Commissioner operates on a self-insurance basis determined by the level of excess on the cover provided by external policies. The reserve is ring-fenced for insurance requirements only and cannot be used for other purposes. It is calculated based on an historic assessment of claims history and is subjected to an actuarial audit to validate the fund level on a three-yearly basis. This reserve is available should the Police and Crime Commissioner face exceptional costs or suffer a major catastrophic incident or face premium increases which cannot be met by budget in year.

11.9 Working Earmarked Reserves:

Earmarked reserves may be created to build up reserves in advance where major schemes, such as asset purchases and capital schemes, are to be undertaken in future financial years. Such reserves are time-limited and for specified purposes only. These are predominantly to fund projects spanning more than one financial year. Spending against the reserve is monitored on an on-going basis. The level of earmarked reserves is re-assessed annually. Each reserve is reviewed to assess the validity of its retention and reserves overall are assessed to ensure both their adequacy and that excessive funds are not accruing for unspecified purposes.

Provisions

11.10 The Insurance Provision:

This comprises known anticipated outstanding amounts in respect of claim payments. The level of the provision fluctuates as anticipated claims are reassessed on an on-going basis. The provision is held separately from, and in addition to, the insurance reserve.