

Budget and Reserves Strategy

Budget Setting

1. The Budget Strategy sets out how the Commissioner in conjunction with the Chief Constable is to achieve stable and sustainable finances that are directed at meeting the top policing risks within our county.
2. Reserves play a key role within this strategy to ensure that we are able to manage through a period of changing and evolving policing risk, while still facing considerable financial uncertainty.
3. Reserves also provide funding to invest in efficiency improvements as well as setting money aside to deal with known future commitments (earmarked reserves) so that these do not have an undue impact on annual spending plans.
4. This strategy sets out below the principles that are followed to ensure stable and sustainable finances are achieved:-
 - Maintain a prudent level of general balances. A General Reserve of £4m is being maintained. This is broadly equal to 2% of its net revenue budget, considered to be the minimum prudent level. It also reflects the levels of financial risk inherent in the service.
 - Maintain a sustainable level of provisions, including a prudent inflation contingency to cushion the impact of inflation and pay awards.
 - Ensure, as far as possible, that the revenue budget is sufficient to cover ongoing capital commitments e.g. replacement vehicles, equipment etc.
 - Ensure that an operational funding and investment reserve is maintained to, primarily, offset any shortfall in funding for at least 2 years. Its secondary purpose is to support investment in the force to update its assets and IT systems.
 - Manage uncertainty around police officers, PCSOs and police staff turnover.
 - Maintain a focus on continuous efficiency improvement with a culture of continual review and challenge of all aspects of spending as a way of generating additional resources for new and emerging policing risks.
 - Consider setting police precept increases at the maximum level permitted by Government excessiveness principles (previously Capping Criteria). For the last few years this has limited Council Tax increases to not more than 2%. If increases are considered above the limit set by the Government then a local referendum would be triggered.
 - Consider using reserves to fund capital projects, where uncommitted. This will help reduce/avoid the long term revenue financing costs associated with prudential borrowing.
 - Continue to support partners and agencies to develop and implement strategies to protect local communities from crime and to help people feel safe. Contributions towards funding will be considered, but only in exceptional

circumstances will Derbyshire Constabulary be the sole funding provider. The Commissioner, however, will maintain his own Grants and Commissioning activity through his own office and will continue to work with partners across Derby and Derbyshire in pursuit of the objectives of his Police and Crime Plan.

- Maintain lobbying pressure for a fairer grant settlement for Derbyshire Constabulary, including full and prompt implementation of the Home Office’s proposed revised funding formula. Make representation that, at the minimum, any contribution to protection arrangements is minimised.
- Keep the property portfolio under review to ensure that it is affordable and meets the long term needs of the Commissioner and Derbyshire Constabulary. In addition look at creating opportunities to dispose of surplus landholdings and to working in partnerships with other public bodies.

A Risk Based Approach to Budget Setting

5. In 2008, Derbyshire Constabulary adopted a comprehensive risk based approach to setting the budget. This aligned the budget process with the strategic operational risks facing Derbyshire Constabulary. This was highlighted by Her Majesty’s Inspectorate of Constabulary (HMIC) as notable practice within their national report on Protective Services “Get Smart – Planning to Protect”.
6. Derbyshire Constabulary keeps under review its operational risks which is set out within the “Force Level Strategic Threat and Risk Assessment”.
7. The purpose of the Strategic Risk Assessment was to identify those areas of greatest risk. Essentially a high risk area is where only limited resources had been allocated to address a substantial risk i.e. this creates a significant risk gap.
8. A key part of this work is to bring together the Office of the Police and Crime Commissioner, Key Partners and Senior Officers across the Constabulary to consider the key risks that are faced and how best to address them.
9. The Risk Seminar is scheduled for November 2017 and the results of this seminar will be reflected in the Strategy below.

<i>Operational Risks</i>	<i>Organisational Risks</i>

Impact of Failing to Address Risks

10. Failure to address the policing risk that Derbyshire Constabulary faces comes at a price. Failure to address the policing and financial risks adequately could have a damaging effect on public confidence. In terms of: -
 - **Financial Impact** – if serious harm results through failure to address any of the risks identified above, this will have a significant financial consequence for Derbyshire Constabulary, with the investigation effort and resources needed to address it.

- **Damage to service delivery** – apart from the financial impact, funding a major investigation will also take resources away from local policing.
- **Inspection Performance** – with inspections focussed on serious and organised crime, failure to address risks in these areas will lead to a decline in the inspection performance of Derbyshire Constabulary.
- **Damage to its reputation** – Derbyshire Constabulary has first-hand experience of the impact of failures to address issues around domestic violence.
- **Health & Safety** – The shooting at the Stockwell tube station and the subsequent conviction of the Metropolitan Police Service under Health and Safety legislation highlighted the considerable risk and level of responsibility for Police and Crime Commissioners and forces to address known or anticipated risks.

Addressing the Risk Gap

11. Derbyshire Constabulary recognises that it would be unrealistic to close its entire risk gap in one year. Indeed the continuing financial uncertainty makes this an even greater challenge.
12. Over recent years Derbyshire Constabulary has delivered considerable budget reductions totalling some £37m. It knows that it will need to make further efficiencies if it is to close its remaining budget gap as well as providing headroom to redirect resources to new and emerging policing risk.
13. It has therefore developed an efficiency strategy set out below aimed to deliver some £5m of savings over the next two years. This target will be kept under review.

1. Risk Based Decisions	2. Investment for the Future	3. Local Savings
Strategic Decision around force priorities based on threat harm/risk	Clear business case setting out business & financial benefits e.g. analytics	PBB lite approach to Focus on areas highlighted by Department Heads
<i>Supported by:-</i> Risk Seminar	<i>Supported by:-</i> Programme Team	<i>Supported by :-</i> Finance/Business Futures
Senior Officer Team	Change Board	Heads of Department

<p>4. Cross Departmental Reviews</p> <p>Review areas that cross more than one department or are force-wide e.g. Fleet</p> <p><i>Supported by:-</i> Small central review team</p> <p style="text-align: right;">Chief Officers</p>	<p>5. Process Change</p> <p>Streamline existing bureaucratic processes</p> <p><i>Supported by:-</i> Lean Team</p> <p style="text-align: right;">Heads of Department</p>	<p>6. Collaboration</p> <p>Opportunities for further collaboration</p> <p><i>Supported by:-</i> Joint Police & Fire Board</p> <p style="text-align: right;">Senior Officer Team</p>
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14. The following table assesses the financial risks currently facing Derbyshire Constabulary and the actions taken to address these risks: -

Risk	Mitigation
Further substantial loss of grant.	An operational funding and investment reserve and general reserve is maintained to cushion the impact of further grant losses.
Reliance on investment income to fund base budget – volatility in interest rates may have a significant impact on income.	The budget is based on a significantly reduced level of investment income as interest rates remain low.
Revenue Funding – the Constabulary relies on specific grants to fund a significant share of its net revenue budget. In particular the Constabulary is the lead for the EMCTIU.	<p>The Constabulary is now less reliant on specific grants.</p> <p>The EMCTIU presents a considerable risk which is mitigated by the fact that other East Midlands forces are still responsible for the employment of police officers within the EMCTIU.</p>
Major Incidents – potential impact on police overtime of a number of major incidents.	Maintain reserves in accordance with the Reserves Strategy.

Reliance on use of reserves to fund the capital programme.	Disposal of surplus land and property helps to achieve some of the capital aspirations that are set out within the capital strategy.
Unforeseen spending items and inflationary pressures.	<p>Maintain reserves at a realistic level to ensure that they can sustain items of unforeseen spending.</p> <p>Monitor the level of provision set aside to cover inflationary pressures.</p> <p>Frequently update four-year financial forecasts to provide a more realistic view of future spending commitments.</p> <p>Specific insurance reserve exists to cover insurance excess.</p>

Contribution from Reserves

15. During this period of uncertainty, it will be necessary to utilise reserves to help manage the medium to long term financial position of Derbyshire Constabulary.
16. There is always the need to strike the right balance between holding money in reserve to protect against future risk against using that money to invest for the future.
17. There is a danger that an overly cautious approach can lead to delays in using reserves to address more immediate policing risks and service issues. The current level of reserves shows that there is sufficient cover to address new policing risk.
18. While reserves cushion the impact of unforeseen spending and known future commitments, they also result in money being held back from local taxpayers. It is therefore important to ensure reserves are maintained at an appropriate level.
19. To aid this process the Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance setting out the factors that should be taken into account when assessing the level of reserves: -
 - Assumptions regarding inflation (e.g. police pay awards).
 - Estimates and timing of capital receipts (e.g. proceeds of land sales).
 - Management of demand-led pressures (e.g. major policing operations).
 - Achievement of savings (e.g. efficiency savings).
 - Risks inherent in any partnerships.
 - Financial Standing.

- Track record in budget management.
- Capacity to manage in year budget pressures.
- Procedures in relation to under and over spends.
- Adequacy of insurance arrangements.

20. The policy that has been followed in relation to reserves is set out in paragraph 4 above.

21. Underpinning all of this are the key financial risks that need to be considered to ensure that reserves are adequate in relation to these risks.

22. Examples of how risk may increase the pressure on already constrained budgets is detailed in the table below: -

<i>Unforeseen / Unpredictable Risk</i>	<i>£m</i>
<i>Pay and Price Increases</i>	
<i>Additional 1% increase: -</i>	
Police Pay	0.9
Police Staff Pay	0.3
Police Staff Pension Contribution	0.3
<i>Additional 10% increase: -</i>	
Fuel costs	0.1
Utilities costs	0.1
<i>Capital Programme Risks</i>	
10% increase in tender costs for 25% of the capital programme	0.5
<i>Policing Pressures</i>	
Complex Murder Enquiry	1.0
Medium Range Murder Enquiry	0.5
Major Policing Operation e.g. public order	0.5
<i>Loss of Specific Grant</i>	
<i>Impact of loss: -</i>	
1% of general funding	0.9
10% of specific grant	1.1
<i>Over-spending</i>	
1% over-spend against budget	1.6