

Report of the Chief Finance Officer of the PCC to the Police and Crime Commissioner

27th February 2017

Executive Officer: Michael Porter, CFO

Status: For Approval

Robustness of Estimates and Adequacy of Financial Reserves

1. Purpose of the Report

1.1 The Local Government Act 2003 requires the Chief Financial Officer (CFO) of the Police and Crime Commissioner (PCC) to report formally on the robustness of the budget for consideration immediately prior to setting the Budget. This report aims to ensure that the PCC is aware of the opinion of the CFO of the PCC regarding the robustness of the budget as proposed, including the longer term revenue and capital plans, the affordability of the capital programme when determining prudential indicators and the adequacy of general balances and reserves. The PCC is required to take account of this report when determining its budget.

2. Recommendations

The PCC is asked to:

- 2.1 Note the contents of this report and take them into account when setting the 2017/18 Revenue and Capital Budgets, and when considering the Long Term Financial and Capital Plans.
- 2.2 Approve the policy on reserves as set out in Appendix A.

3. Background

- 3.1 There is a requirement for the PCC's CFO to report formally and specifically on the robustness of estimates and the adequacy of the level of reserves contained within any budget proposals being considered by the PCC.

4. Robustness of Estimates

4.1 Financial Strategy

- 4.2 The PCC has established a framework, whereby the Long Term Financial Plan (LTFP) regime seeks to provide stability and confidence in supporting the achievement of the PCC's priorities and objectives. These are set out in the Police and Crime Plan. The LTFP looks in detail at the forthcoming year and projects forward over the following three years.

4.1.1 Available Funding

The £131,705k of funding forecast to be available to the PCC in 2017-18 to support expenditure is expected from the following sources:

	Actual	Actual	Movement Year on Year
	2016/17	2017/18	
Funding	£000s	£000s	£000s
Government Grant	(84,684)	(83,500)	1,184
Council Tax Precept	(31,642)	(32,656)	(1,014)
Council Tax Freeze Grant	(800)	(800)	0
Council Tax Support Grant	(6,868)	(6,868)	0
Funding for Net Budget Requirement	(123,994)	(123,824)	170
%age change in Net Budget Requirement	0.5%	-0.1%	
Specific Grants	(5,843)	(4,558)	1,285
Witness and Victims Funding	(663)	(659)	4
Partnership Income/Fees and Charges	(2,760)	(2,664)	96
Total Funding	(133,260)	(131,705)	1,555
%age change in Total Funding	1.1%	-1.2%	

- 4.1.2 The Government Grant, Council Tax Freeze Grants, Council Tax Support Grant and Specific Grants are based predominantly on national settlement figures and therefore the risks to these sources of funding are minimal. There are a number of specific grants for which allocations have yet to be announced, such as the Counter Terrorism grant and therefore this could be less than assumed.

- 4.1.3 The Specific Grants budget is nearly £1.3m less than 2016/17, this is made up of around £800k less Counter Terrorism/Security funding being paid directly to Cleveland and nearly £500k less for a Capital Financing Grant. This latter increased by £430k in 2016/17 due to the timing of a repayment of a Grant and therefore this reduction return the grant to its 'normal' level.

- 4.1.4 As a precepting Authority the PCC receives a proportion of the Council Tax paid within Cleveland based on the Band levels that were proposed and agreed with the Police and Crime Panel. These receipts have generally been a very secure source of income and this shouldn't change for 2017/18. Any shortfall due to lower than expected collection rates or from reductions in the number of properties within Cleveland would not impact on the finances for 2017-18 but would have to be taken into account in 2018-19.
- 4.1.5 Over the last 12 years there have been no instances where Council Tax receipts over the 4 councils collectively have been less than forecast. Now that the changes resulting from the Localisation of Council Tax support have been embedded it is unlikely that any issues will arise that change this position.
- 4.1.6 The £2,664k of income that is factored into the 2017-18 budget for Partnership Income and Fees and Charges, is in line with 2016-17 and as has been seen throughout 2016/17 the receipt of income within this area is in line with this budget. This area includes secondment income, special services income and interest received on cash invested. While there are likely to be variances against the budgeted amounts at a specific level however the risk that the income received by the PCC in total from these and other sources being lower than budgeted is low.
- 4.1.7 The total funding that the 2017/18 budget is based upon can therefore be described as very secure and the PCC can take a high level of assurance that the budget is based on robust income assumptions.
- 4.1.8 Government Funding for 2018/19 and beyond
- 4.1.9 Beyond 2017-18 there is more information about future levels of government grant settlements than there has been in previous years. While allocations have not been provided for individual PCC's a reasonable amount of information has been provided to allow reasonable grant forecasts.
- 4.1.10 In announcing the final settlement figures for 2017/18 the government also stated that *'Following the principles laid out on the 4 February, when setting out the final police funding settlement for 2016/17, I have decided that direct resource funding for each PCC, including precept, will be protected at flat cash levels compared to 2015/16, assuming that precept income is increased to the maximum amount available within the referendum limits in both 2016/17 and 2017/18. No PCC who chooses to maximise precept within the referendum limits in both years will face a reduction in cash funding next year compared to 2015/16. We have updated our precept forecasts for 2017/18 since February to reflect actual tax base increases in 2016/17. In 2017/18 PCCs will be able to increase their police precept by up to 2%'*
- 4.1.11 The 1.4% reduction in Government Grant, which followed on from a 0.6% reduction in the previous years, was calculated to ensure there was a 'flat cash protection' to all PCC's who maximised their precept increases. As a result of this Cleveland has seen a modest increase of 0.7% or £879k based on this measure since 2015/16. There are some that have seen increases approaching almost 3%, whereas others have seen no increase.

- 4.1.12 If the Government continues to provide 'flat cash' settlements as indicated for the period to 2019/20 then future reductions, in Government Grants, will be determined by what provides a flat cash settlement for those that have seen zero increases over the last 2 years. It should be possible to model this when each PCC has set their budget for 2017/18 however for planning purposes we have assumed that reductions will be 1.4% per annum for the next 2 years which is a reasonable assumption based on the information currently available.
- 4.1.13 Given this, there is a clearer indication on the level of future grant reductions than there has been in many of the last 7 years and therefore in theory the future grant forecasts should be less variable than in previous years.
- 4.1.14 This being said without a clearer indication of what is likely to happen to any review of the funding formula, and the impact that this may have on the funding provided to Cleveland, there is still some element of uncertainty to the level of grant funding to be received by the PCC from 2018/19.
- 4.1.15 In terms of assessing the likely risk from a revised funding formula, the 'Simplified Funding Formula' that was initially proposed for implementation in 2016/17 was forecast to result in an increase in Funding for Cleveland of around £5m per annum. After the discovery of the error in the Formula a subsequent recasting of the Formula, although on an unofficial basis, suggested an increase in funding of around £2m per annum to Cleveland.
- 4.1.16 There is currently no allowance for any financial impact from a revised funding formula within the LTFP.
- 4.1.17 Precept
Despite the difficult economic situation, and the changes to the levels of Council Tax Support given to individuals, the Councils have collectively managed to collect more Council tax than they had assumed for at least the last 14 years.
- 4.1.18 The average collection surplus payable to the 'Police' in relation to the amounts that the 4 councils managed to collect in excess of their forecasts has been £375k over the last 14 years. The LTFP has assumed that this collection surplus will be £300k each year. As such this is a reasonable estimate given that the average is inflated by very higher surpluses experienced in the last 4 years.
- 4.1.19 In addition to incorporating an annual collection surplus the precept plans also incorporate annual growth in the underlying tax base of 1.0% per annum. This is in line with forecast from the Local Councils. Average tax base growth over the last 14 years has been 1.1% however this has, in a similar way to the collection surplus information, been inflated by significant growth in the last 4 years in particular. The 1.0% growth per annum is however a reasonable assumption although could prove to be a prudent estimate if housebuilding continues to develop at its current pace.
- 4.1.20 Future Precept Plans
The government has given a very clear steer in relation to precept covering the period to 2020, in that they have informed PCC's that **'You should plan on the basis that the overall referendum limit for police precept will be**

maintained at 2% over the Spending review period for Police and Crime Commissioners in England'

- 4.1.21 The planning assumption within the LTFP is based on an assumption that the level of precept charged to each household will increase by 1.99% per annum. This is however an annual decision for the PCC.
- 4.1.22 Based on the current projections it is unlikely that there will be any external factors that will impact on the achievement of the forecast levels of precept income contained within the LTFP.
- 4.1.23 Expenditure Plans
Preparation of the budget, including decisions on key assumptions, while based on the most up to date information and forecasts will always have a degree of uncertainty and risk. This risk is managed by having a robust budget process and having balances and reserves that are set to take into account the financial and operational uncertainty that exists.
- 4.1.24 There are a number of key estimates within the 2017/18 budget and LTFP, these are set out below along with the potential risks where applicable:
- 4.1.25 Police Pay Awards and Levels of Police Officers
The LTFP assumes that Police Pay will increase by 1% in September 2017 and each September thereafter. This is in line with current government proposals to limit pay awards within the public sector to 1% and therefore the budget is built on the best information available. There is a risk that it may not be possible for national negotiations to contain Police Officer pay within these limits, this was previously the case when the Police Staff pay award was settled at an increase of 2.2%, over what was in effect a 2 year period.
- 4.1.26 Unlike in previous years both general inflation and wage inflation are increasing at levels significantly above a 1% increase in pay. The Consumer Price Index level of inflation was 1.6% in January 2017, the Retail Price Index measure of inflation was 2.5% and UK wage inflation was measured as increasing by 2.6% per annum in December 2016. Each 0.5% increase over the 1% budgeted within 2017/18 would cost around £175k during 2017/18 and £350k per annum thereafter.
- 4.1.27 The Force have a stable resource requirement based on demand analysis factored into their financial plans, and while this will change over time the current expectation is that there will be a requirement for 1,280 FTE Police Officers to deliver against the Police and Crime Plan objectives. 2016/17 has been the first year since 2012/13 where significant underspends have not developed against Police Pay budgets. This has been possible due to being able to provide more surety around finances which has enabled recruitment of Police Officers within a more stable planning environment.
- 4.1.28 Based on the plans in place, with 4 planned intakes of Student Officers during the 2017/18 financial year, to replace the expected 60-70 FTE leavers there is no reason to expect that an underspend will develop in this area in 2017/18 or that the

resources won't be available to the Police Force to deliver against the Police and Crime Plan.

4.1.29 The final area to consider in relation to Police Pay is the average pay costs that are factored into the LTFP, these are currently projected to be:

- 2017/18 - £52,141
- 2018/19 - £51,860
- 2019/20 - £52,395
- 2020/21 - £52,675

4.1.30 It would be reasonable to assume that given 1% pay awards that average pay would increase by around £500 per annum. However the organisation is forecasting to recruit significantly over the next 4 years, the majority of which will be taken on initially as student Police Officers and whose initial pay costs are around £20k per annum lower than the average. This is currently projected to keep the average pay costs lower than would otherwise be expected.

4.1.31 The assumptions that underpin these calculations are reasonable but will need to be kept under review. Should the organisation recruit less student police officers, due to fewer leavers than expected and/or take on more transferees than planned then this could have an impact on the average pay levels and ultimately the overall pay costs.

4.1.32 For example taking 20 more transferees than planned could cost the organisation around £400k per annum, in the short term, more than currently budgeted.

4.1.33 PCSO and Staff Pay Awards and FTE's

The number of staff and PCSO's factored into the financial plans are as per the table below.

	Actual	Forecasts			
	2016/17	2017/18	2018/19	2019/20	2020/21
Employee Numbers (Average per year)	FTEs	FTEs	FTEs	FTEs	FTEs
PCSOs	132	148	148	148	148
Police Staff - Police Force	230	285	280	280	280
PCC/Corporate Staff	14	14	14	14	14

4.1.34 As at March 2017 there is forecast to be 127 FTE PCSOs employed by the Force and therefore reaching 148 FTEs is likely to require only two in-takes. The Force has a plan that can accommodate 3 in-takes during 2017/18. It is vital that the plan is flexed to take into account any leavers and any PCSOs that are successful in becoming Police Officers. It is also vital that if leavers do not materialise that the proposed recruitments do not take place. Achieving an average of 148 FTEs employed during 2017/18 should not be at the expense of over recruiting to the extent that the Force then has more PCSOs that it can afford for the start of 2018/19. This area will need to be closely monitored throughout 2017/18.

4.1.35 The assumptions in relation to the Pay Award for staff and PCSOs are the same as for Police Officers, in that there is an assumption that there will be an annual increase of 1% each year in September. The risk is the same as for Police Officer pay in that national negotiations may settle at a higher level which is something that the PCC and CC have little to no control over and should this occur then the current budgets will come under some pressure. Each 0.5% increase in pay beyond the 1% factored into Staff and PCSO budgets would cost the organisation around £35k in 2017/18 and £70k per annum thereafter.

4.1.36 In addition to Pay Award the PCC and CC have been informed that Employer's Contributions in the Local Government Pension Scheme will increase by 1% from 1st April 2017 and then a further 1% in 2018/19 and yet another 1% in 2019/20. This will have the impact of increasing costs by the following cumulative amounts:

- 2017/18 - £200k
- 2018/19 - £400k
- 2019/20 - £600k

4.1.37 While these additional costs are factored into the LTFP it will have an impact in terms of the need to deliver additional savings.

4.1.38 Inflation

The 2017/18 budget allows for specific allocations of inflation where necessary in line with either contractual arrangements or estimates however inflation in general is rising and forecast to rise quite significantly during 2017/18. If this does occur then there is the potential for in year pressures to materialise.

4.1.39 From an income perspective inflation has been applied on fees and receivables for 2017/18 onwards, subject to known variances. Specific grants have no inflation assumed unless notified by the payer, while any anticipated reductions have been accounted for.

4.1.40 With current levels of inflation starting to increase (CPI was 0.3% in January 2016 – now 1.6% and RPI was 1.3% in January 2016 – now 2.5%) there might be a requirement to factor in higher levels of inflation into future years of the LTFP.

4.1.41 Savings Requirements

The plans and savings proposals included in the budget for 2017/18 and the LTFP in general seem robust.

4.1.42 To deliver against the 2017/18 budget the Force will need to deliver £500k of savings within the year. Beyond 2017/18 this increases to £2.5m by 2018/19 and £2.9m in 2019/20.

4.1.43 The £500k of savings needed for 2017/18 would appear to be in hand and shouldn't prove too difficult however the PCC will want to seek assurance and updates on the programme for the delivery of savings thereafter.

4.1.44 Despite the significant cuts that have taken place over the last 7 years the final outturn for each of the last 6 financial years has been an under spend. This is likely to continue into 2016/17 with a small underspend projected. This small underspend in 2016/17 will be as a result of an overspend by the Force in their allocated budget offset by the Force not being able to deliver against one of the key areas of investment for the PCC, which was increased resources in Neighbourhood Policing.

4.1.45 The PCC will see from the Budget and LTFP report that based on the current funding assumptions, as set out in this report, that the budget for 2017/18 will balance providing the above savings plans are delivered. There are little risks from these savings plans and the financial estimates are robust. The risks are as outlined within this report.

4.1.46 Delivery of these savings plans will need to be kept under review during 2017/18 and beyond to ensure, not only, that the financial savings are delivered but in many cases to ensure that the increases in productivity, expected from some of the proposals, are delivered. This in turn should lead to a more effective and efficient organisation in the years to come.

4.1.47 The current LTFP is showing a balanced budget across the next 2 financial years however this is dependent on the Force delivering unidentified savings of £0.5m in 2017/18 and £2.5m by 2018/19.

4.1.48 Should these savings be delivered and recurring savings of £2.9m be delivered by the Force by 2019/20 this will not necessarily lead to a balanced financial plan. Based on current projections the PCC would still be £1.5m short of funds to support the current plans in 2019/20, with this rising to £2.0m in 2020/21.

4.1.49 It is important to therefore appreciate that any improvement in the funding position from that which is currently forecast, from either the funding formula review, better than forecast Government Grant settlements or better than forecast increases in precept income will not result in the ability to make further funds available to either the Force or other Partners. It will be needed to be able to maintain the current plans, mitigate the need for additional cuts/savings and provide funding into the Capital Programme as contributions from Revenue in both 2018/19 and 2019/20 have been reduced to zero to help support the overall Revenue budget.

4.1.50 The organisation therefore has a secure and stable financial platform from which to deliver against the Police and Crime Plan next year whilst developing and delivering efficiencies and savings for the following 3 years.

4.1.51 This is arguably a more challenging position than the one reported a year ago however the overall funding position is not forecast to be as strong in 2018/19 and beyond than it was a year ago.

4.1.52 Capital Expenditure and Financing

The capital programme to 2020/21 is based on spending just over £25m in those 4 years however the vast majority of this is in relation to the Community Safety Hub and will be funded from the sale of Ladgate Lane. Given the worse than forecast funding position, referenced earlier in this report, in comparison to a year ago, and the continued reductions in Capital Grant, there will be a requirement to borrow more funding than was forecast last year to be able to support the required investment.

4.1.53 In terms of the funding of this investment and expenditure, the £25m will be funded as follows:

- Government Grants -£2.0m (down from £2.4m a year ago)
- Capital Receipts - £6.5m (down from £9.3m a year ago)
- Contributions from Revenue - £2.3m (down from £6.3m a year ago)
- Borrowing - £14.0m (up from £11.0m a year ago)
- Use of Reserves - £1.0m – no change

4.1.54 Prior to 2014/15 I highlighted that there was a recurring and ultimately unsustainable need to borrow to fund capital given the very small amount of Capital Grant that the PCC now receives each year – it will be £0.5m in 2017/18. This was addressed from 2014/15 onwards which put the financing of capital expenditure on a more sustainable footing.

4.1.55 It is vital that this is not lost otherwise significant amounts of reducing revenue funding will then need to be set aside to fund interest on loans and to set aside for minimum revenue provision.

4.1.56 In terms of the robustness of these funding sources the Government Grant for Capital purposes seems to continue to be reduced year on year. The Government Capital grant has reduced by 15% over the last year alone, on the back of a 40% reduction in the previous year, and now only provides the PCC with £515k per annum. While no future reductions are factored into the plans there is now so little left of the Capital Grant that any future reductions are likely to be marginal.

4.1.57 The level and timing of Capital Receipts is all predominantly covered by a contract for the sale of Ladgate Lane and therefore can be viewed as a robust source of funding.

4.1.58 The contributions from revenue are factored into the balanced LTFP. These contributions are therefore as robust as the overall revenue plans which has been discussed in detail within this paper.

4.1.59 The financial implications of borrowing are factored into the revenue plans, decisions as to whether to borrow will be made at the most appropriate time and in line with cash flow needs. The PCC has access to the Public Works Loans Board (PWLB) for borrowing and therefore the availability of the finances needed to fund the plans will not cause any issues.

4.1.60 Capital Reserves is discussed further in section 5 of this report.

4.1.61 Other Significant Areas of Consideration

In previous years I have highlighted that a significant risk, which was not covered within the financial plans, was in relation to the potential impact of the previous use of Regulation A19 by the Force – Under the A19 police regulation, those officers below chief officer rank could be required to stand down after 30 years "in the general interests of efficiency"

4.1.62 The Court of Appeal has now dismissed these claims.

5. Adequacy of Financial Provisions, Reserves and Balances

5.1 The adequacy of financial reserves is the second requirement on which the CFO must have confidence. In reality, there is no real difference between the factors that determine both the level of reserves and the estimates themselves. Reserves are simply longer term planning mechanisms to set aside resources for a future use. As such, the section above dealing with robustness of estimates can be fully applied to arriving at a confident statement that reserves are adequate in nature i.e. the Financial Strategy and processes and procedures within the overall budget strategy all culminate in determining the level of reserves required to support the Long Term Financial Plan.

5.2 Reserves & Provisions

The PCC maintains a number of reserves with the main ones discussed below.

5.2.1 General Fund

At the 31st March 2016, the General Fund stood at £8,627k. Based on the LTFFP for 2017/18 to 2020/21 the level of General Fund is expected to reduce to £4,602k by 2020/21. By 2020/21 the General Fund would then equate to the equivalent of 3.4% of the overall funding expected to be available to the PCC in 2020/21 and 3.7% of the forecast Net Budget Requirement for that same year.

5.2.2 Both the amount and percentage are slightly higher than those projected last year and result from a slightly more challenging financial position than the one projected a year ago. There is a need to develop more savings plans, than a year ago, to deliver against current projections but there is also the potential that even if these savings are delivered than there could still be a gaps within the financial plans.

5.2.3 It is therefore prudent to plan to hold more General Reserves until some of these risks can be better understood.

5.2.4 In terms of the general reserve of the PCC, it is both adequate and robust for the current projected financial position over at least the next 2 years based on the current risks and the potential risks as referenced within this report.

5.2.5 Capital Reserves and Capital Receipts

At the 31st March 2016 the PCC held Capital Reserves that totalled £3.6m; this is expected to reduce to £0.6m by 2019/20.

5.2.6 There are undoubtedly areas of investment that the organisation will need, or want, to make that are currently unknown and there will also be changes to the timing and amounts of the funding estimated within the plans, however these plans will need to be assessed and prioritised against those already planned.

5.2.7 The current plans seem to require much less investment in 2019/20 and 2020/21 than has been the experience and expectation over the 5 years prior to these timeframes. These will need to be carefully considered and planned as any increases in these years will have an impact elsewhere in terms of either borrowing, and the costs associated with that, or through reducing the funding available for revenue expenditure.

5.2.8 Further Earmarked Reserves

The PCC has additional earmarked reserves that are detailed at Appendix B along with the projected movements over the LTFP period.

Useable Reserves

5.2.9 These reserves are collectively known as 'Useable' Reserves. The definition being reserves that 'can be used to fund expenditure or reduce local taxation'. As at the 31st March 2016 the Audited Statement of Accounts for the PCC showed that the organisation had Total Useable Reserves of £15.2m and based on the current plans I expect this to reduce significantly to a balance of £6.7m by the end of 2019/20.

5.2.10 While £6.7m may still seem like a significant amount of money I would not recommend that the PCC seeks to reduce this significantly below this level.

6. Statement of the PCC's Chief Finance Officer

6.1 As CFO to the PCC it is my duty to specifically comment on the robustness of the estimates put forward for the PCC's consideration. For the reasons set out in this report and from my own review of the estimates process I am satisfied that the proposed spending plan for 2017/18 is sound and robust. There are however a number of areas of savings that will need to be delivered from a revenue perspective in 2017/18 to deliver a balanced financial position. The likely risk from a financial perspective, however, in terms of revenue spending is likely to be similar to 2016/17 where small underspends might develop but in general the finances of both the PCC and Force will continue to be very tight and will need to be very well managed.

6.2 It will be vital to continue to closely monitor the financial position throughout 2017/18 to ensure that the finances support the delivery and achievement of the Police and Crime Plan objectives.

- 6.3 The funding available to deliver the Capital plans of the organisation are robust and the focus will continue to be on delivering the schemes and the benefits that are expected from those scheme.
- 6.4 A review has been undertaken of the PCC's reserves and general balances. The PCC's general balances and reserves are an important part of the PCC's risk management strategy giving the financial flexibility to deal with unforeseen costs or liabilities. Assuming the approval of the plan set out in the budget report, I am satisfied that the PCC would have adequate levels of financial reserves and general balances through 2017/18 provided that service restructuring is delivered and future growth, if any, is managed and funded from sustainable savings.
- 6.5 In 2018/19 and beyond there is less risk around future levels of funding than there has been for most of the last 6 years and as such, in the same way as last year, I recommend that the level of general reserves can reduce to around 3% of the Total Funding Available to the PCC. This is reflected in the reserves policy that is attached at Appendix A.

7. Implications

Finance

- 7.1 Other than the references made above there are no specific financial or staffing implications in respect of this report.

Risk

- 7.2 There will always be an element of risk that estimates are not fully robust or accurate which may lead to unfunded budget pressures becoming apparent during the year. This report sets out the process and basis for ensuring robustness and minimising the risk of unforeseen problems. As outlined in the report the PCC should ensure that it sets aside sufficient balances to ensure that any problems and liabilities can be dealt with.

8. Conclusion

- 8.1 The PCC's budget setting process has been designed to ensure that estimates brought forward for approval are sound and robust. This report confirms that approach.
- 8.2 Similarly, the PCC's policy is to ensure that it has sufficient levels of reserves and balances to provide for known, anticipated and unforeseen costs and liabilities. I am satisfied that the proposals emerging from the 2017/18 budget process are clear, soundly based and deliverable, and that the approach to reserves and balances contained therein are appropriate.
- 8.3 In setting a budget for 2017/18 the PCC will need to continue to have regard to the underlying level of available resources. The budget report requires the PCC to take a robust approach to this issue by agreeing a long term financial plan aimed at maintaining a sustainable position through the Plan period.

- 8.4 While the financial position for 2017/18 is relatively challenging, the estimates they are based on are robust. This is also the same for the remaining period covered by the LTFP.

Appendix A

Police and Crime Commissioner for Cleveland Reserves Policy

1. Reserves will only be established in accordance with legislation or codes of practice, for defined purposes and only with the approval of the Police and Crime Commissioner as advised by the PCC's CFO. When reviewing the long term financial plan and preparing the annual budget, the PCC shall consider the establishment and maintenance of reserves.
2. These can be held for three main purposes:
 - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing - this forms part of general reserves.
 - A contingency to cushion the impact of unexpected events or emergencies - this also forms part of general reserves.
 - A means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.
3. The PCC's general reserve will act as a safety net against the risks of:
 - a) reductions in damping grant,
 - b) in year reductions in budgeted funding
 - c) work force modernisation costs
 - d) delays in delivery of savings plans
 - e) and unforeseen circumstances such as:
 - Expenditure on major incidents that significantly exceed the budgeted provision for such incidents.
 - Levels of inflation that significantly exceed the budgeted provision.
 - Expenditure on "demand-led" lines that significantly exceed the budgeted provision.
4. The appropriate level of the general reserve will be assessed each year when the budget is set. The assessment will have regard to the circumstances and budget for that year, to prospects for future years' budgets, and to any Home Office policy on special grant. The minimum level of the general reserve shall be 3% of the Total Funding available to the PCC.
5. The application of the general reserve will require the specific approval of the PCC as advised by the PCC's CFO. In the normal course of events decisions will be made on the principle that a one-off contribution from the general reserve should be made to support one-off and not continuing expenditure.
6. The position on the general reserve will be monitored in-year by the PCCs CFO as part of the budgetary control process, and proposals brought to deal with any significant adverse movements compared with the budgeted position. The presumption will be that any net underspending on the revenue budget shall flow to the general reserve unless there is an in year decision to utilise this to address performance matters.

NOT PROTECTIVELY MARKED

Forecast Usable Reserves	APPENDIX B													
	Balance at 31 March 2016	Transfers 2016/17		Balance at 31 March 2017	Transfers 2017/18		Balance at 31 March 2018	Transfers 2018/19		Balance at 31 March 2019	Transfers 2019/20		Balance at 31 March 2020	
	£000	In	Out	£000	In	Out	£000	In	Out	£000	In	Out	£000	
Direct Revenue Funding of														
Capital	(3,228)	(2,104)	2,832	(2,500)	(750)	2,240	(1,010)	164		(846)	240			(606)
Injury Pension Reserve	(640)			(640)		320	(320)			0			0	0
PFI Sinking Fund	(295)	(40)	197	(138)	(75)		(213)	(75)		(288)	(75)			(363)
Incentivisation Grant	(193)	(80)	180	(93)	(80)	173	(0)	(80)	80	(0)	(80)		80	(0)
Specials	(39)		39	0		0	0			0				0
Urley Nook TTC	(81)			(81)			(81)			(81)				(81)
NERSOU	(3)			(3)			(3)			(3)				(3)
Estates Reserve	(173)		75	(98)		98	0			0				0
Job Evaluation Reserve	(550)			(550)		250	(300)		300	0				0
Police Property Act Fund	(17)		17	(0)			(0)			(0)				(0)
ER/VR/CR Reserve	0	(625)	625	0			0			0				0
Community Safety Initiatives	(600)		150	(450)		150	(300)		150	(150)			150	0
Road Safety Initiatives Fund	(449)	(240)	150	(539)	(240)	150	(629)	(240)	150	(719)	(240)		150	(809)
Collaboration Reserve	(204)			(204)			(204)			(204)				(204)
Revenue Grants Unapplied	(137)		137	(0)			(0)			(0)				(0)
Total Earmarked Reserves	(6,608)	(3,089)	4,402	(5,295)	(1,145)	3,381	(3,059)	(231)	1,000	(2,290)	(155)	380	(2,065)	
General Reserves	(8,627)	(975)	1,550	(8,052)	0	2,000	(6,052)	0	600	(5,452)	0	850	(4,602)	
Total Usable Reserves	(15,235)			(13,347)			(9,111)			(7,742)			(6,667)	

NOT PROTECTIVELY MARKED