



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

28th February 2018

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 2018/19 Revenue and Capital Budgets, and when considering the Long Term Financial and Capital Plans.
- 2.2 Approve the Reserves Strategy 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 £134,644k of funding forecast to be available to the PCC in 2018-19, to support expenditure, is expected from the following sources, and is shown in comparison to the 2017/18 budgeted figure of £131,705k:

	Actual	Actual	Movement
	2018/19	2017/18	Year on Year
Funding	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Government Grant	(83,500)	(83,500)	0
Council Tax Precept	(34,583)	(32,656)	(1,927)
Council Tax Freeze Grant	(800)	(800)	0
Council Tax Support Grant	(6,868)	(6,868)	0
Funding for Net Budget Requirement	(125,751)	(123,824)	(1,927)
%age change in Net Budget Requirement	1.6%		
Specific Grants	(4,911)	(4,558)	(353)
Witness and Victims Funding	(1,246)	(659)	(587)
Partnership Income/Fees and Charges	(2,737)	(2,664)	(73)
Total Funding	(134,644)	(131,705)	(2,940)
%age change in Total Funding	2.2%		

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 £350k more than 2017/18, this is predominantly as a result of the timing and level of payment for the Capital Financing Grant, which relates to debt taken out pre-1990. All of this debt will come to an end by 2021/22 which will result in some large variance in the level of grant over the next few years however all of these are factored into the financial plans.

- 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 2018/19. 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 2018-19 but would have to be taken into account in 2019-20.
- 4.1.5 Over the last 13 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 £2,737k of income that is factored into the 2018-19 budget for Partnership Income and Fees and Charges, is in line with 2017-18 and as has been seen throughout 2017/18 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, 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 2018/19 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 2019/20 and beyond
- 4.1.9 Beyond 2018-19 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 2018/19 the government also stated that **'If the police deliver clear and substantial progress against agreed milestones on productivity and efficiency in 2018, as well improve transparency about reserves, then the Government intends to maintain the protection of a broadly flat police grant in 2019/20 and repeat the same flexibility of the precept.'**
- 4.1.11 Given this, there is a clearer indication on the level of future grant levels than there has been in many of the last 8 years and therefore in theory the future grant forecasts should be less variable than in previous years.
- 4.1.12 The LTFP therefore assumes that the level of Government Grant remains at the same level in 2019/20 as it will be in 2018/19 and was in 2017/18. This is a realistic assumption given the correspondence from the Government.
- 4.1.13 Beyond 2019/20 the LTFP assumes that Government Grants will begin to increase in line with inflation of 2%. There is clearly a risk that this might not happen as by 2020/21 it will have been almost a decade since Government Grant funding for Policing last saw any increase.

4.1.14 The 2% increase in 2020/21 is worth £1.6-£1.7m therefore if this doesn't happen the current plans would need to be re-visited. This is clearly an area that will be kept under review as the LTFP is developed for future years.

4.1.15 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 15 years.

4.1.16 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 £373k over the last 15 years. The LTFP has assumed that this collection surplus will be £250k each year. As such this is a reasonable estimate given that the average is inflated by very higher surpluses experienced in the 4 years prior to 2018/19 and that in 2018/19 the surplus has returned to a more normal level of £327k.

4.1.17 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 15 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 prior to the current year. 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.

4.1.18 Future Precept Plans

The government have stated that the precept flexibility provided to PCC's in 2018/19 will be provided to them in 2019/20 subject to previously discussed need to deliver on efficiency, productivity and transparency.

4.1.19 The planning assumption within the LTFP is based on an assumption that the level of precept charged to each household will increase £12 next year before reverting to a limit of 1.99% per annum. This is however an annual decision for the PCC.

4.1.20 These are reasonable assumptions based on current information, with the forecast increases beyond 2019/20 likely to be on the prudent side given current policy.

4.1.21 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.

4.1.22 There are a number of key estimates within the 2018/19 budget and LTFP, these are set out below along with the potential risks where applicable:

4.1.23 Police Pay Awards and Levels of Police Officers

The LTFP assumes that Police Pay will increase by 2% in September 2018 and that the current non-consolidate bonus awarded to Police Officers for the period September 2017 to August 2018 will not be consolidated when the pay award is

made in September 2018. The LTFP then assumes a 2% increase each September thereafter.

- 4.1.24 There is a risk that it may not be possible for national negotiations to contain Police Officer pay within these limits, as has been the case in 2017/18 when Pay Awards to Police Officers were in excess of previously indicated Government caps. These increases were unfunded from the Government and therefore the additional costs had to be met by the PCC and Police Force.
- 4.1.25 While the assumption within the LTFP is in line with the 'Employers' side offer this is significantly below the 'Employees' side request.
- 4.1.26 The Employees side have put forward proposals to have the 1% non-consolidated payment from 2017/18 consolidated as at the 1st September 2018 and then for a further 3.4% increase thereafter.
- 4.1.27 To provide an indication of the potential pressure that could develop from pay awards that are beyond those factored into the financial plans then each 0.5% increase over the 2% budgeted within 2018/19 would cost around £175k during 2017/18 and £350k per annum thereafter.
- 4.1.28 Should the Employees side proposal be accepted then the impact would be a pressure of £840k in 2018/19 and a recurring pressure of £1,440k per annum thereafter.
- 4.1.29 As in 2017/18 both general inflation and wage inflation are increasing at levels above a 2% increase in pay. The Consumer Price Index level of inflation was 2.7% in January 2018, the Retail Price Index measure of inflation was 4.0% and UK wage inflation was measured as increasing by 2.5% per annum in January 2018.
- 4.1.30 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 1,236 FTE Police Officers to deliver against the Police and Crime Plan objectives. The last 2 financial years were 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.
- 4.1.31 Based on the plans in place there is no reason to expect that an underspend will develop in this area in 2018/19 or that the resources won't be available to the Police Force to deliver against the Police and Crime Plan.
- 4.1.32 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:
- 2018/19 - £52,474
 - 2019/20 - £53,017
 - 2020/21 - £53,672
 - 2021/22 - £54,660

4.1.33 It would be reasonable to assume that given 2% pay awards that average pay would increase by around £1,000 per annum. However the organisation is forecasting to recruit significantly over the next 4 years, in line with current retirement profiles, 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.

4.1.34 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.

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

4.1.36 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.

Employee Numbers (Average per year)	FTEs	FTEs	FTEs	FTEs	FTEs
PCSOs	148	147	147	147	147
Police Staff - Police Force	285	318	318	318	318
PCC/Corporate Staff	14	14	14	14	14

4.1.37 As at 31st January 2018 there were 143 FTE PCSOs employed by the Force and therefore the Force will start 2018/19 quite close to full establishment in this area and therefore significant underspends should not materialise in this area based on FTE's

4.1.38 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 2% 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 2% factored into Staff and PCSO budgets would cost the organisation around £35k in 2018/19 and £70k per annum thereafter.

4.1.39 Unlike Police Officer pay, the 2017/18 pay negotiations have not yet concluded which provides for an additional risk to the budget for 2018/19 and beyond. The 2018/19 budget assumes, for planning purposes, that a 2% pay award will be agreed for September 2017.

4.1.40 Inflation

The 2018/19 budget allows for specific allocations of inflation where necessary in line with either contractual arrangements or estimates however inflation in general is higher than the increases in funding that have been possible this year and if inflation does not begin to plateau or reduce then this could provide for additional pressures during 2018/19.

- 4.1.41 From an income perspective inflation has been applied on fees and receivables for 2018/19 onwards, subject to known variances. Specific grants have no inflation assumed unless notified by the payer, while any anticipated reductions have been accounted for.
- 4.1.42 Inflation has increased quite significantly over the last couple of years, CPI was 0.3% in January 2016 – now it is 2.7% and RPI was 1.3% in January 2016 – now it is 4.0% and therefore there has been a requirement to factor in higher levels of inflation into future years of the LTFP.
- 4.1.43 Savings Requirements
The plans and savings proposals included in the budget for 2018/19 and the LTFP in general seem robust.
- 4.1.44 To deliver against the 2018/19 budget the Force will need to deliver £250k of, as of yet, unidentified savings within the year. Beyond 2018/19 this increases to £0.3m across the remainder of the plan.
- 4.1.45 These are relatively small amounts based on the size of the overall budget and therefore shouldn't prove an issue and updates will be provided on the delivery of these savings over the course of the budget monitoring process in 2018/19.
- 4.1.46 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 2018/19 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.
- 4.1.47 The current LTFP is showing a balanced budget across the next 4 financial years based on current plans and assumptions however, as indicated within this report when discussing pay there are significant areas of the budget that may increase beyond the assumptions within the budget that neither the PCC nor Chief Constable have any real control over.
- 4.1.48 It is also vital to appreciate that the Government have been very clear in providing the additional Precept flexibility to PCC's that *'A number of you (PCC's) have raised the costs of the 2017 police officer pay settlement. Today's police funding settlement enables PCCs to increase funding by over a quarter of a billion pounds in 2018/19 and identifies opportunities for efficiencies, which should enable you to make appropriate provision for likely cost increases next year within your financial plans. This includes both the remaining costs of additional 1% non-consolidated element of the 2017 pay award and the likely costs of the 2018 pay award. It is for police leaders to make proposals in relation to the 2018 pay award, reflecting what is affordable and fair to officers and taxpayers, based on robust evidence about the state of the workforce.'* Therefore if pay awards are agreed at a level that is beyond the assumptions within this plan that they will have to be found from within the funding available and that no additional funds will be provided by Government to pay for these.

4.1.49 The organisation has a secure and stable financial platform from which to deliver against the Police and Crime Plan for both next year and beyond. This is a stronger position than the one reported a year ago however there continue to be a number of significant areas that will need to be closely monitored over the coming months and years.

4.1.50 Capital Expenditure and Financing

The capital programme to 2021/22 is based on spending just under £14m over the next 4 years.

4.1.51 In terms of the funding of this investment and expenditure, the £14m will be funded as follows:

- Government Grants -£2.1m (up from £2.0m a year ago)
- Capital Receipts - £9.6m (up from £6.5m a year ago)
- Contributions from Revenue - £7.1m (up from £6.3m a year ago)
- We will look to re-pay Borrowing of £4.3m

4.1.52 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 2018/19. This was addressed from 2014/15 onwards which put the financing of capital expenditure on a more sustainable footing.

4.1.53 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.

4.1.54 In terms of the robustness of these funding sources the Government Grant for Capital purposes seems to have reduced as far as it will and 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 changes are likely to be marginal.

4.1.55 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.

4.1.56 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.

4.1.57 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.

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

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 LTFP for 2018/19 to 2021/22 the level of General Fund is expected to reduce to £4,216k by 2019/20. By 2021/22 the General Fund would then equate to the equivalent of 3.0% of the overall funding expected to be available to the PCC in 2021/22 and 3.2% of the forecast Net Budget Requirement for that same year.

5.2.2 Both the amount and percentage are slightly lower than those projected last year and result from a more robust financial position than the one projected a year ago. These levels and percentages are as low as I would recommend that the organisation plans to have and it is therefore vital that should any pressures materialise either during 2018/19 and/or over the planning period that they are addressed within the current resources. There is no capacity within reserves to absorb any further costs without the reserves then being replaced.

5.2.3 In terms of the general reserve of the PCC, it is both adequate and robust for the current projected financial position over the next 4 years based on the current risks and the potential risks as referenced within this report.

5.2.4 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 £1.2m by 2021/22.

5.2.5 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.

5.2.6 The current plans seem to require much less investment in 2021/22 and 2022/23 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.

5.2.7 Further Earmarked Reserves

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

Useable Reserves

- 5.2.8 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 2017 the Audited Statement of Accounts for the PCC showed that the organisation had Total Useable Reserves of £14.4m and based on the current plans I expect this to reduce significantly to a balance of £5.8m by the end of 2019/20.
- 5.2.9 While £5.8m 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 2018/19 is sound and robust. There are however a number of areas of savings that will need to be delivered from a revenue perspective in 2018/19 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 2017/18 where the biggest risk will be in relation to the levels of pay awards agreed during the year, beyond this area small underspends might develop elsewhere 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 2018/19 provided that service restructuring is delivered and future growth, if any, is managed and funded from sustainable savings.
- 6.5 In 2019/20 and beyond there is less risk around future levels of funding than there has been for most of the last 7 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 strategy 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 2018/19 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 2018/19 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 2018/19 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

Reserves Strategy

As part of the 2018/19 financial settlement PCC's have been informed by the Government that "If the police deliver clear and substantial progress against agreed milestones on productivity and efficiency in 2018, as well improve transparency about reserves, then the Government intends to maintain the protection of a broadly flat police grant in 2019/20 and repeat the same flexibility of the precept."

The Government has gone on to say that "As part of our commitment to work with the police on these reforms, today the Government is taking steps to improve transparency around financial reserves. It is necessary for police to hold financial reserves, including for emergencies and major change costs. As at March 2017 police forces held usable resource reserves of over £1.6 billion, compared to £1.4 billion in 2011. This is public money and the public are entitled to high quality and easily accessible information about reserves."

As part of these steps to improve transparency:

- Each PCC should publish their reserves strategy on their website, either as part of their medium term financial plan or in a separate reserves strategy document. The reserves strategy should include details of current and future planned reserve levels, setting out a total amount of reserves and the amount of each specific reserve held for each year. The reserves strategy should cover resource and capital reserves and provide information for the period of the medium term financial plan (and at least two years ahead).
- Sufficient information should be provided to enable understanding of the purpose(s) for which each reserve is held and how holding each reserve supports the PCC's medium term financial plan.

The strategy should be set out in a way that is clear and understandable for members of the public, and should include:

- how the level of the general reserve has been set;
- justification for holding a general reserve larger than five percent of budget;
- details of the activities or items to be funded from each earmarked reserve, and how these support the PCC and Chief Constable's strategy to deliver a good quality service to the public.
- Where an earmarked reserve is intended to fund a number of projects or programmes (for example, a change or transformation reserve), details of each programme or project to be funded should be set out.

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 plan.
- 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).

Reserves Policy

The PCC has had a Reserves Policy in place throughout his time in office, which has been updated annually as part of the Budget Setting Process. The principles that underpin this area are as follows:

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's Chief Finance Officer. 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 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.

Why have these Reserves been established and what will they used for?

Insurance Reserve (General Contingency Reserve)

The PCC maintains an internal Insurance Fund that carries virtually all insurable risks with a limited amount of external cover for special risk incidents and to cover accumulated losses exceeding an agreed amount depending on risk. The fund receives income from the income and expenditure account to cover the cost of external insurance premiums and internal insurable risks.

The settlement of claims are not uniform and therefore the strain on the revenue fund in any one year can result in situations where services need to be resisted in year to fund claims that may have happened in previous years but for which a claim has only just been made.

This fund is therefore being established to manage these claims in a way that doesn't impact on services on an annual basis.

The annual contribution has been established based on a review of claims over the last 10 years.

Direct Revenue Funding of Capital (Funding for Planned Expenditure over LTFF)

This reserve is held to meet the forecast costs of capital schemes which will enable the capital needs of the organisation to be funded in a sustainable manner, without the need to increase borrowing beyond what is determined to be a prudent level and to also provide some contingency to fund unknown investments whether these be from local changes or national initiatives.

Injury Pension Reserve (General Contingency Reserve)

This reserve was to provide funding for the variable nature of future injury/medical retirements of Police Officers and the capital equivalent charges incurred. This reserve will have been fully used by the end of 2017/18 in line with the reason it was initially established.

Action Stations PFI Sinking Fund (Funding for Planned Expenditure over LTFF)

As with any building the upkeep and maintenance of the PFI buildings happen in an uneven manner dependent of the lifecycle of the maintenance needed. These variations in lifecycle give rise to variable amounts of charges across the life of the building. This fund will be used to manage the uneven changes to that charge across the remaining life of the contract so that significant costs are not incurred in any one year. The level of contribution and use of reserve are determined by the forecast payments over the life of the PFI contracts.

Incentivisation Grant

This reserve relates to Cleveland's share of seized cash provided by the Government and will be spent on eligible schemes in future years. The funding is ringfenced and variable in nature and the funding will be spent in line with the terms of the funding. The PCC has no control over the level of this reserve and it cannot be used to meet everyday expenditure.

Tactical Training Centre (General Contingency Reserve)

The Tactical Training Centre is run on a Collaborative basis between Cleveland and Durham and has reserves that total £162k to meet any variable costs/needs of the unit, these reserves are held by the PCC for Durham, PCC's share of these reserves total £81k and will be used as needed.

NERSOU (General Contingency Reserve)

The North East Regional Special Operations Unit (NERSO) is a collaboration between Northumbria, Durham and Cleveland Forces to address organised and serious crime. At the 31st March 2017 Northumbria on behalf of the unit held reserves of £691k, to meet any variable costs/needs of the unit, of which Cleveland's share is £153k. These reserves are reviewed annually as part of the Collaboration.

Job Evaluation Reserve (General Contingency Reserve)

This reserve has been set up in 2013/14 in order to cover any future costs from the Job Evaluation project which is still on-going.

Police Property Act Fund

The Police Property Act Fund comprises monies received by the PCC from property confiscated by order of court and then sold. The PCC administers the fund and considers applications from voluntary organisations and community groups within the Cleveland area. The main aim of the fund is to support local projects undertaken by voluntary/charitable organisations that benefit the communities of Cleveland, especially those which have a positive impact in reducing crime and disorder at a local level. Funding is allocated from this Fund on a quarterly basis in line with bids that meet the requirement of the fund.

Community Safety Fund (General Contingency Reserve)

The PCC has established the reserve to support local community safety initiatives over the period of his term in Office. £150k per annum has been set aside to support this initiative.

Road Safety Initiative Reserve (General Contingency Reserve)

The reserve has been created to hold funding to be spent on road safety initiatives as advised by the Cleveland Road Safety Partnership.

Collaboration Reserve (General Contingency Reserve)

The reserve has been created to provide to support the work in relation to collaboration activity with other Forces and partners

Revenue Grants Unapplied (General Contingency Reserve)

These grants are those which either have no specified conditions or the conditions have been met. They will be matched to relevant expenditure as incurred.