

Reserves Strategy

It is necessary for police to hold financial reserves, including for emergencies and major change costs and as part of the steps to improve transparency around reserves there is a requirement for PCC to publish a reserve strategy.

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.

Reserves Forecast

The following schedule sets out the forecast movements on reserves over the life of the current long term financial plan, it is important to recognise that whilst the schedule sets out the expected use of the current reserves circumstances will change and all reserves will be reviewed at least annually. It is also important to recognise that there will undoubtedly be a need to create new reserves, in future years, to deal with risks that are currently unknown; therefore while the current schedule shows that the overall level of risks will reduce significantly, the likelihood is that they will not reduce in overall financial terms as exactly planned and that while current reserves are spent new reserves are likely to be needed to manage future risks.

	Balance at 31 March 2018 £000	Tranfers In 2018/19 £000	Tranfers Out 2018/19 £000	Balance at 31 March 2019 £000	Tranfers In 2019/20 £000	Tranfers Out 2019/20 £000	Balance at 31 March 2020 £000	Tranfers In 2020/21 £000	Tranfers Out 2020/21 £000	Balance at 31 March 2021 £000	Tranfers In 2021/22 £000	Tranfers Out 2021/22 £000	Balance at 31 March 2022 £000
Funding for projects & programmes over the period of the current MTFP													
Direct Revenue Funding of Capital	(1,669)	(2,007)	2,030	(1,646)	(2,120)	3,766	(0)	(2,710)	1,604	(1,106)	(1,455)	2,561	(0)
Community Safety Initiatives Fund	(322)		150	(172)		150	(22)		22	0		0	0
PCC Change Reserve	(50)			(50)		50	0			0			0
Commissioning Reserves	(366)		28	(339)		260	(79)			(79)			(79)
Road Safety Initiatives Fund	(658)		150	(508)		150	(358)		150	(208)		30	(179)
Sub Total	(3,065)	(2,007)	2,358	(2,714)	(2,120)	4,376	(458)	(2,710)	1,776	(1,392)	(1,455)	2,591	(257)
Funding for projects & programmes beyond the current MTFP													
PFI Sinking Fund	(213)	(75)		(288)	(75)		(363)	(75)		(438)	(75)		(513)
Incentivisation Grant	(412)	(80)	80	(412)	(80)	80	(412)	(80)	80	(412)	(80)	80	(412)
Police Property Act Fund	(40)			(40)			(40)			(40)			(40)
Sub Total	(665)	(155)	80	(740)	(155)	80	(815)	(155)	80	(890)	(155)	80	(965)
General Contingency													
Legal/Insurance Fund	(500)	(633)		(1,133)	(75)		(1,208)	(75)		(1,283)	(75)		(1,358)
Injury Pension Reserve	(245)			(245)			(245)			(245)			(245)
Urly Nook TTC	(81)			(81)			(81)			(81)			(81)
NERSOU	(45)			(45)			(45)			(45)			(45)
Collaboration Reserve	(942)			(942)			(942)			(942)			(942)
Pay Reserve	(1,700)		700	(1,000)			(1,000)			(1,000)			(1,000)
Revenue Grants Unapplied	(137)		109	(28)		28	(0)			(0)			(0)
Sub Total	(3,649)	(633)	809	(3,473)	(75)	28	(3,520)	(75)	0	(3,595)	(75)	0	(3,670)
				0			0			0			0
Total Earmarked Reserves	(7,379)	(2,795)	3,247	(6,928)	(2,350)	4,484	(4,794)	(2,940)	1,856	(5,878)	(1,685)	2,671	(4,892)
General Reserves	(6,073)	(850)	950	(5,973)	0	950	(5,023)	0	0	(5,023)	0	0	(5,023)
Unapplied Capital Grants	(1,003)	(515)		(1,518)	(526)	1,879	(164)	(535)		(700)	(545)	263	(982)
Total Usable Reserves	(14,455)			(14,418)			(9,981)			(11,600)			(10,897)

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

Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan

Direct Revenue Funding of Capital

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.

Community Safety Fund

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.

PCC Change Reserve

The PCC has established this reserve meet any costs of a current change programme within the OPCC. £50k has been set aside for this area which is expected to be needed during 2019/20.

Commissioning Reserve

The PCC has been successful in obtaining additional grants to support various areas within the Police and Crime Plan. This reserve holds funds so that those areas that have been commissioned can be managed in line with commitments and that appropriate plans can be put in place if funding is not received in the future.

Road Safety Initiative Reserve

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

Funding for specific projects and programmes beyond the current planning period.

Action Stations PFI Sinking Fund

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.

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.

As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance).

Legal/Insurance 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.

Injury Pension Reserve

This reserve is to provide funding for the variable nature of future injury/medical retirements of Police Officers and the capital equivalent charges incurred. The reserve provides for approximately 3 retirements of this nature.

Tactical Training Centre

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

The North East Regional Special Operations Unit (NERSOU) is a collaboration between Northumbria, Durham and Cleveland Forces to address organised and serious crime. At the 31st March 2018 Northumbria on behalf of the unit held reserves of £201k, to meet any variable costs/needs of the unit, of which Cleveland's share is £45k. These reserves are review annual as part of the Collaboration.

Collaboration Reserve

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

Pay Reserve

Nearly 80% of the overall budget is spent on Pay and/or items linked to Pay Awards. There is currently much debate relating to the level of future pay settlements. This reserve therefore provides some capacity for pay settlements that are in excess of the 2% that is provided for in the financial plans. This reserve can then provide time for plans to put in place over the medium term if pay awards are higher than the budget so as to avoid having to make significant in year reactionary reductions. The budget provides the capacity to absorb a pay award that is 1% higher than the budget for 1 year while alternative savings/reductions are identified.

Revenue Grants Unapplied

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.