

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

20th February 2019

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 2019/20 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 £145,365k of funding forecast to be available to the PCC in 2019-20, to support expenditure, is expected from the following sources, and is shown in comparison to the 2018/19 budgeted figure of £134,644k:

	Actual	Actual	Movement
	2019/20	2018/19	Year on Year
Funding	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Government Grant	(85,253)	(83,500)	(1,753)
Council Tax Precept	(38,784)	(34,583)	(4,202)
Council Tax Freeze Grant	(800)	(800)	0
Council Tax Support Grant	(6,868)	(6,868)	0
Funding for Net Budget Requirement	(131,706)	(125,751)	(5,955)
%age change in Net Budget Requirement	4.7%		
Specific Grants	(5,880)	(4,911)	(969)
Witness and Victims Funding	(1,411)	(1,246)	(165)
Partnership Income/Fees and Charges	(2,893)	(2,737)	(157)
Total Core Funding	(141,890)	(134,644)	(7,246)
%age change in Total Core Funding	5.4%		
Special Grant	(3,475)	0	(3,475)
Total Overall Funding	(145,365)	(134,644)	(10,721)

- 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 £970k more than 2018/19, this is predominantly due to the receipt of the new Pensions Grant of £1,324k offset by level of payment for the Capital Financing Grant, which is £475k less than 2018/19, which relates to debt taken out pre-1990. All of this debt comes to an end by 2021/22 which will result in

some large variances 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 2019/20. 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 2019-20 but would have to be taken into account in 2020-21.
- 4.1.5 Over the last 14 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 £2,893k of income that is factored into the 2019-20 budget for Partnership Income and Fees and Charges, is in line with 2018-19 and as has been seen throughout 2018/19 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 Included outside of the Core Funding totals is the Special Grant that the PCC has been successful in bidding for to support the work being undertaken within the Historical Investigation Unit. The actual level of the Grant will be determined by the expenditure incurred in this area with the grant expected to cover 85% of the costs. While the level of the grant may vary this will be if the expenditure varies and therefore there should be no significant impact on the overall financial plans.
- 4.1.8 The total funding that the 2019/20 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.
- 4.1.9 Government Funding for 2020/21 and beyond
- 4.1.10 Beyond 2020-21 there is little information about future levels of government grant settlements. In announcing the 2019/20 final Police Settlement there was no further mention of future settlements other than to repeat "this is the last settlement before the next Spending Review, which will set long term police budgets and look at how resources are allocated fairly across police forces. The Home Office is grateful to the police for the good work they are doing to build the evidence base to support that work, and we will also want to see evidence that this year's investment is being well spent."
- 4.1.11 There are no plans to review the Police Allocation Formula until after the Spending Review. The reference to looking at "how resources are allocated fairly across police forces" is likely to refer to the ongoing work between the Home Office and the Police Sector to support the submission to the Spending Review. There are work streams investigating funding streams and funding models – i.e. regional/local arrangements but no plans yet to review the current police allocation formula.

- 4.1.12 At this stage the LTFP therefore assumes that the level of Government Grant remains at the same level in 2020/21 as it will be in 2019/20. This is a realistic assumption given the trends of the last 10 years or so and the switch towards local funding.
- 4.1.13 Beyond 2020/21 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 2021/22 it will have been a decade since Government Grant funding for Policing last saw any increase in real terms.
- 4.1.14 The 2% increase in 2021/22 is worth £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 16 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 £370k over the last 16 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 both 2018/19 and 2019/20 the surplus has returned to a more normal level of £327k and £349k respectively.
- 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 16 years has been 1.1% however this has, in a similar way to the collection surplus information, been inflated by significant growth in the 4 years between 2013/14 and 2016/17. 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
In line with the lack of guidance in relation to Government Funding there is also no formal indication in relation to what limits will be placed on precept increases in future years.
- 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 by £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 2020/21 likely to be on the prudent side given current policy.
- 4.1.21 The overall total income projections, when taking both Government Grant and Precept into account, are expected to be reasonable forecasts.

4.1.22 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.

4.1.23 There are a number of key estimates within the 2019/20 budget and LTFFP, these are set out below along with the potential risks where applicable:

4.1.24 Police Pay Awards and Levels of Police Officers

The LTFFP assumes that Police Pay will increase by 2% in September 2019 and then by 2% each September thereafter.

4.1.25 It was announced in September 2018 that Scottish police officers would receive an immediate 6.5% pay increase backdated to 1 September 2018 and which applies until 31 March 2021.

4.1.26 Given that Police Officers in England and Wales received a pay increase that, was in reality, worth less than 1% in September 2018 then there is likely to be some significant pressure for a better pay increase from September 2019.

4.1.27 There are a number of scenarios currently being modelled and all of these would cost more than the currently budgeted position of 2% increases per annum across the life of the LTFFP.

4.1.28 All of these scenarios would cost more in 2019/20 – between £0.6m and £0.9m and across a 3 year period would cost more by between £1.3m and £2.2m.

4.1.29 Should any of these scenarios materialise then savings/reductions would need to be made to meet these costs. There will be no additional funds from the government to meet these costs – the Government have been clear in the recent past that the additional precept flexibility that they have provided to PCC's would need to cover any pay awards

4.1.30 There is a risk that it may not be possible for national negotiations to contain Police Officer pay within the budgeted 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.

4.1.31 To mitigate some of this risk an Earmarked Reserve for Pay is maintained that should provide the capacity to absorb any increase that is higher than the budgeted amount during 2019/20, which would be provided to the Force time to develop plans to manage financially from 2020/21 and beyond.

4.1.32 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 2019/20 would cost around £200k during 2018/19 and £350k per annum thereafter.

4.1.33 The Force have a stable 'minimum' 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 1,230 -1,240 FTE Police Officers to deliver against the Police and Crime Plan objectives based on this minimum requirement.

4.1.34 Through the additional precept capacity and the expected savings from the return of the Sopra Steria services to the Force in 2020 there is capacity to increase the number of Police Officers within the Force through the investment of £1m into this area.

4.1.35 The ability to recruit more might however prove a challenge and the Force are working on this. If this recruitment can't take place then the £1m that is current sat within the PCC Service Improvement and Development Fund will not be released to the Force and an underspend will develop within the overall budget.

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.

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Employee Numbers (Average per year)	FTEs	FTEs	FTEs	FTEs	FTEs	FTEs
Police Officers	1,280	1,236	1,239	1,239	1,231	1,231
PCSOs	148	147	131	131	131	131
Police Staff - Police Force	285	309	426	426	395	395
OPCC Staff	11	11	14	14	14	14
Corporate/Commissioning Staff	9	11	12	10	10	10

4.1.37 As at 31st December 2018 there were 131 FTE PCSOs employed by the Force and therefore the Force will start 2018/19 close to the revised full establishment in this area and therefore significant underspends should not materialise in this area based on FTE's

4.1.38 In term of staff FTE however there were 319 FTEs employed at the end of December 2018, which is significantly lower than the budgeted establishment for 2019/20. This is an area that will need to be closely watched and recruitment progressed quickly otherwise both underspends and service delivery will be impacted.

4.1.39 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 £50k in 2019/20 and £90k per annum thereafter.

4.1.40 Inflation

The 2019/20 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 2019/20.

4.1.41 From an income perspective inflation has been applied on fees and receivables for 2019/20 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 Savings Requirements

The plans and savings proposals included in the budget for 2019/20 and the LTFP in general seem robust.

4.1.43 To deliver against the 2019/20 budget the Force will need to deliver £45k of, as of yet, unidentified savings within the year.

4.1.44 Clearly these are very small amounts based on the size of the overall budget and therefore shouldn't prove an issue in overall budgetary terms.

4.1.45 It is important to reflect that the estimated savings, of £1.5m to £2.0 per annum, from returning the services currently provided by Sopra Steria to the Force, from the 1st October 2020, are reflected in the LTFP on the assumption that the savings identified in making that decision are then delivered.

4.1.46 It will be important that these are closely monitored and managed to ensure they are delivered.

4.1.47 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 2019/20 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.

4.1.48 It is important to recognise that the ability to raise precept by more than planned, whilst helpful from financial perspective, provide very little time to plan. Accordingly there is a risk that an underspend developed during 2019/20 while the additional resources that the precept flexibility has enabled are recruited.

4.1.49 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.

4.1.50 It is also vital to appreciate that the Government have been very clear in the past when providing the additional Precept flexibility to PCC's that this will need to cover any increased in pay awards. 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.

4.1.51 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.

4.1.52 The plan provides for capacity to move beyond the 'minimum' resourcing requirements set out by the Force and some further capacity to move further towards the 'Required' resourcing requirement and it is therefore vital that this is delivered.

4.1.53 Capital Expenditure and Financing

The capital programme to 2022/23 is based on spending around £16.5m over the next 4 years.

4.1.54 In terms of the funding of this investment and expenditure, the £16.5m will be funded as follows:

- Government Grants - £2.2m (up from £2.1m a year ago)
- Capital Receipts - £11.8m (up from £9.6m a year ago)
- Contributions from Revenue - £7.8m (up from £7.1m a year ago)
- We will look to re-pay Borrowing of £9.2m (up from £4.3m a year ago)
- Borrowing - £1.2m

4.1.55 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 2019/20. This was addressed from 2014/15 onwards which put the financing of capital expenditure on a more sustainable footing.

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

4.1.57 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 £526k 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.

4.1.58 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.

4.1.59 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.

4.1.60 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.

4.1.61 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 2019/20 to 2022/23 the level of General Fund is expected to reduce to £5,024k by the end of 2019/20 and then remain at this level. The General Fund would then equate to the equivalent of 3.5% of the overall funding expected to be available to the PCC in 2019/20 and 3.8% 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 concern about the continued level of risks that seem to continue to materialise particularly in relation to litigation risks.

5.2.3 These levels and percentages are as low as I would recommend that the organisation plans to have, unless the risk environment significantly improves, and it is therefore vital that should any pressures materialise either during 2019/20 and/or over the planning period that they are addressed within the current resources, where a specific Earmarked Reserve does not exist. There is no capacity within reserves to absorb any further costs without the reserves then being replaced.

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 the next 4 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 £1.0m by 2022/23.

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 have a better understanding of the significant challenges of delivering against the Digital Strategy and how this links with the National Work.
- 5.2.8 There continues to be a risk around the visibility of all of the costs of the National IT programmes and how much these will cost Force to both implement and then maintain going forward.
- 5.2.9 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

- 5.2.10 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 to a balance of £10.9m by the end of 2021/22 although much will depend on how many of those risks that have been identified materialising.
- 5.2.11 While £10.9m may still seem like a significant amount of money I would not recommend that the PCC seeks to reduce this significantly below this level without having a much clearer idea of what it happening with Pay Award, that the litigation environment becomes clearer and that both the next Comprehensive Spending Review and the Funding Formula have been concluded.

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 2019/20 is sound and robust. There are limited unknown savings factored into the revenue plan to deliver this balanced budget.
- 6.2 From financial perspective the biggest risks are likely to be that underspends develop as it proves difficult to recruit either Police Officers and/or Staff quickly enough to deliver against the plans within the budget.
- 6.3 From a cost perspective the biggest risk will be in relation to the levels of pay awards agreed during the year.
- 6.4 It will therefore be vital to continue to closely monitor the financial position throughout 2019/20 to ensure that the finances support the delivery and achievement of the Police and Crime Plan objectives and that the longer term plan, especially in relation to the work to return the services currently provided by Sopra Steria are delivered.
- 6.5 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. The major challenge in this area will be the delivery of the Digital Strategy, how this links with both the National work and also how the Force ensures that this is Business lead piece of work and not an IT programme.

- 6.6 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 2019/20 provided that service restructuring is delivered and future growth, if any, is managed and funded from sustainable savings.
- 6.7 In 2020/21 and beyond there is no real clarity around future levels of funding and this combined with other risks that I have outlined in this report mean that I recommend that the PCC holds a general reserves closer to 4% of Total Funding, in contrast to last years' recommendation that a reduction to around 3% of the Total Funding Available to the PCC would be appropriate. 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 2019/20 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 2019/20 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 2019/20 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

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.