

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

27th February 2020

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 2020/21 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 £155,475k 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 2019/20 budgeted figure of £145,475k:

	Actual	Actual	Movement
	2020/21	2019/20	Year on Year
Funding	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Government Grant	(91,634)	(85,253)	(6,380)
Council Tax Precept	(40,845)	(38,784)	(2,060)
Council Tax Freeze Grant	(800)	(800)	0
Council Tax Support Grant	(6,868)	(6,868)	0
Funding for Net Budget Requirement	(140,146)	(131,706)	(8,441)
%age change in Net Budget Requirement	6.4%		
Specific Grants	(7,849)	(5,880)	(1,969)
Witness and Victims Funding	(664)	(1,411)	747
Partnership Income/Fees and Charges	(3,316)	(2,893)	(423)
Total Core Funding	(151,975)	(141,890)	(10,085)
%age change in Total Core Funding	7.1%	5.4%	
Special Grant	(3,500)	(3,475)	(25)
Total Overall Funding	(155,475)	(145,365)	(10,110)

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 £1,969k more than 2019/20, this is predominantly due to the expected receipt of the new Police Officer Uplift Grant of £2,015k. If it expected that this £2,015k will be payable quarterly in arrears and be linked to the increased levels of Police Officers required as part of the Governments policy to increase Police Officer numbers nationally by 6,000 by the end of March 2021.

4.1.4 As part of this national target Cleveland will need to deliver 72 additional Police Officers by the 31st March 2021.

- 4.1.5 Given the additional funding and focus provided to this area by the PCC in 2019/20 it is expected that Cleveland will deliver all of these additional Officers a year earlier than this target and will continue to be ahead of target throughout 2020/21.
- 4.1.6 There should be no risk therefore of the PCC not receiving the full level of this grant however until the 'terms and conditions' attached to this funding are provided by the government then there remains some small risk.
- 4.1.7 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 2020/21. 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 2020-21 but would have to be taken into account in 2021-22.
- 4.1.8 Over the last 15+ 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.
- 4.1.9 The £3,316k of income that is factored into the 2020-21 budget for Partnership Income and Fees and Charges, builds on the actual position seen in 2019-20 and although the budget has increase by £423k, the forecast income to be received in 2019-20 is £3.7m.
- 4.1.10 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.
- 4.1.11 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.
- 4.1.12 The total funding that the 2020/21 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.
- 4.1.13 Government Funding for 2021/22 and beyond
- 4.1.14 Beyond 2020-21 there is little information about future levels of government grant settlements. There is expected to be a spending review during 2020 that may provide further clarity in terms of overall funding levels for Policing however whether it also provides detailed settlement information for the next few years is uncertain.

4.1.15 Much of the future funding is expected to be driven by the requirements and needs to support and deliver the Uplift of Police Officers by 20,000 nationally by March 2023. The LTFP makes assumptions about what will be needed to deliver this which has resulted in the following forecast increases in Government Funding:

- 2021/22 – 3.5%
- 2022/23 – 3.7%
- 2023/24 – 2.5%

4.1.16 There is clearly a risk that this might not happen and the plans for the organisation will need consider a number of what if scenarios based on different funding scenarios.

4.1.17 Precept

Despite the difficult economic situation, and the changes to the levels of Council Tax Support given to individuals, the Councils have collectively managed to collect more Council tax than they had assumed for at least the last 15+ years.

4.1.18 The average collection surplus payable to the 'Police' in relation to the amounts that the 4 councils managed to collect in excess of their forecasts has been £360k over the last 15+ years. However in 2019/20 this has reduced to £170k, which is the lowest it has been since 2008/9 and might be an indication of the challenges in collecting overall levels of council tax across Cleveland. The LTFP recognises this and has assumed that this collection surplus will be £180k each year.

4.1.19 In addition to incorporating an annual collection surplus the precept plans also incorporate annual growth in the underlying tax base of 1.0% per annum. This is a conservative estimate based on forecast from the Local Councils. Average tax base growth over the last 7 years has been 1.87% although the longer term trend is much lower. The 1.0% growth per annum is however a reasonable assumption although could prove to be a prudent estimate if housebuilding continues to develop at its current pace.

4.1.20 Future Precept Plans

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 place on precept increases in future years.

4.1.21 The planning assumption within the LTFP is based on an assumption that the level of precept charged to each household will increase by 1.99% per annum. This is however an annual decision for the PCC.

4.1.22 These are reasonable assumptions based on current information, with the forecast increases likely to be on the prudent side given current policy.

4.1.23 The overall total income projections, when taking both Government Grant and Precept into account, are expected to be reasonable forecasts.

4.1.24 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.

4.1.25 There are a number of key estimates within the 2020/21 budget and LTFF, these are set out below along with the potential risks where applicable:

4.1.26 Police Pay Awards and Levels of Police Officers

The LTFF assumes that Police Pay will increase by 2.5% in September 2020 and then by 2.5% each September thereafter.

4.1.27 This is in line with the settlement in September 2019 and also in line with the Employers side offer and therefore is a reasonable planning assumption.

4.1.28 There is a risk that it may not be possible for national negotiations to contain Police Officer pay within the budgeted limits, as was been the case in 2019/20 when Pay Awards to Police Officers were in excess of the 2% that most Forces had budgeted for. These increases were unfunded from the Government and therefore the additional costs had to be met by the PCC and Police Force.

4.1.29 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 2020/21, which would be provide the Force time to develop plans to manage financially from 2021/22 and beyond.

4.1.30 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 2.5% budgeted within 2020/21 would cost around £220k during 2019/20 and £380k per annum thereafter.

4.1.31 Police Officers Numbers – the PCC has provided funding to accelerate the recruitment of Police Officers, beyond those expected and funded by the Government, in both 2019/20 and 2020/21.

4.1.32 The Force have responded with plans that will deliver the 72FTE Police Officers, required as part of Cleveland's allocation of the first 6,000 Uplift, by the end of 2019/20 – so a year earlier than required by the Government.

4.1.33 Plans are then in place to continue with this recruitment throughout 2020/21 – with a further 132 FTEs planned to be recruited during this year. This should provide an average of 1,390 FTE Police Officers throughout 2020/21 and over 1,400 by the end of the financial year.

4.1.34 Recruitment plans are in place to deliver not just this recruitment but also the recruitment into future years too.

4.1.35 Recruitment on the scale expected over the next 3 or 4 years, in addition to what has happened in 2019/20, provides a significant opportunity to not only change the culture of the Force but also to make significant improvements around both equality and diversity within the workplace, while at the same time delivering a much improved service to the public.

4.1.36 There are however many risks too. The ability to attract, train and retain the people with the right skills, outlook and drive to make a difference will be a challenge, especially given the unknowns of moving to a completely different training scheme during 2020/21.

4.1.37 The financial plans underpin these recruitments plans and therefore support what the Force is looking to achieve. What is not clear yet is how these increased resource will be 'deployed' and whether the demands and needs of Cleveland will be able to be met from these resources.

4.1.38 If more resources are required to meet demand the PCC and Force will have some significant decisions to make.

4.1.39 PCSO and Staff Pay Awards and FTE's

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

	Actual Budget				
	2019/20	2020/21	2021/22	2022/23	2023/24
Employee Numbers (Average per year)	FTEs	FTEs	FTEs	FTEs	FTEs
Police Officers	1,213	1,340	1,386	1,436	1,436
Special Grant Funded Police Officers	50	50	50		
PCSOs	131	115	131	131	131
Police Staff - Police Force	552	635	861	830	830
OPCC Staff	14	14	14	14	14
Corporate/Commissioning Staff	12	17	15	15	15

4.1.40 As at 31st January 2020 there were 103 FTE PCSOs employed by the Force and therefore the Force will start 2020/21 below both the revised establishment and the expected level of PCSOs. The financial plans however reflect the expected recruitment however the demand work to define the level of PCSOs in the future needs to be completed to ensure that the recruitment plans are in line with the Force needs and plans.

4.1.41 Police Staff - There continues to be both significant development and change within this area. With a projected Police Force Staff Establishment of 635 FTEs indicated for 2020/21 – this does not include the impact of the TUPE transfer of staff from Sopra Steria to the Force in October 2020. The major areas of note within Police Staff are as follows:

4.1.42 The investment into the Force Control Room (FCR), which was funded through the precept increase in 2019/20, has not yet been fully delivered, it has led to significant levels of Police Officer overtime and abstractions into this area in 2019/20 and it is vital that this is delivered in 2020/21.

4.1.43 As part of the work to address the significant concerns raised by HMICFRS in relation to the service delivered by the Force, especially in relation to those most vulnerable in the communities within Cleveland then the Force have indicated a need for 24 FTE staff posts to provide 'Resilience' in a number of areas. The areas are primarily focused on Domestic Abuse, Safeguarding, Major Incidents and Specialist Crime

- 4.1.44 Both the 2020/21 budget and longer term financial plan provides for all of these resources. The PCC should therefore expect to see significant progress and improvement in these areas and will want regular updates and scrutiny of the progress in this area.
- 4.1.45 Much of the focus of Operation Uplift has been on the recruitment of Police Officers and the targets set by the Government however there was also a realisation that additional Police Officers would generate additional work for staff across Policing and would require additional staff roles to enable delivery of the overall increases in Police Officer numbers.
- 4.1.46 The Force have identified the need for 64 FTE growth posts that result from Operation Uplift, these will provide the capacity for managing the additional work loads and also enable the new Officers to be recruited, trained, and provided with kit and equipment. Providing the initial assessment is in line with the reality then the Force has been provided with all of the funding to deliver Operation Uplift.
- 4.1.47 Given the importance of Operation Uplift, both locally and nationally, I would expect that the delivery of this will need regular oversight from the PCC as part of the scrutiny programme.
- 4.1.48 The final area of significant development, in relation to staffing, is that on the 1st October 2020 the final TUPE transfer of staff working for SopraSteria will occur. It is expected that around 220 FTE staff and over 30 contracts will transfer from SopraSteria and become the responsibility of the Force.
- 4.1.49 The scale of this investment should not be underestimated and the ability 'simply' to recruit the resources to meet the plans put forward from the Force will be a significant challenge in 2020/21.
- 4.1.50 On top of the plans to recruit 132 FTE Police Officers in 2020/21 and a need to recruit PCSOs too, there were only 491 FTE Police Staff employed by the Force at the end of December 2019 – this is 144 FTEs lower than the proposed 2020/21 Staff establishment of 635 FTEs.
- 4.1.51 While the financial plans expect the recruitment to be phased, and have factored in a 10% vacancy rate for 2020/21, the challenges to deliver this level of recruitment in the first place and then the knock-on impact across the Force will be a significant challenge and one that if it isn't successfully delivered will have a significant impact on the ability of the Force to deliver the vital improvements that are required and also will impact on the overall financial outturn of the Force as underspend are likely to develop.
- 4.1.52 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 2.5% 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 2.5% factored into Staff and PCSO budgets would cost the organisation around £80k in 2020/21 and £140k per annum thereafter.

4.1.53 Inflation

The 2020/21 budget allows for specific allocations of inflation where necessary in line with either contractual arrangements or estimates.

4.1.54 From an income perspective inflation has been applied on fees and receivables for 2020/21 onwards, subject to known variances. Specific grants have no inflation assumed unless notified by the payer, while any anticipated reductions have been accounted for.

4.1.55 Savings Requirements

The plans and savings proposals included in the budget for 2020/21 and the LTFP in general seem robust.

4.1.56 To deliver against the 2020/21 budget the Force will need to deliver £2.3m of savings that are included within the 2020/21 budget.

4.1.57 It is important to reflect that the estimated savings, of £1.5m in 2020/21, rising to £2.0 per annum thereafter, 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.

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

4.1.59 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 2020/21 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.

4.1.60 It is important to recognise that the ability to raise precept by more than planned and the better than expected government funding settlement, whilst helpful from a financial perspective, provides very little time to plan. Accordingly there is a risk that underspends develop during 2020/21 while the additional resources, certainly in relation to Police Staff, are recruited.

4.1.61 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.

4.1.62 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.

4.1.63 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.

4.1.64 The plan provides for significant investment in both Police Officers and Police Staff however it is vital that the demand work to support where these resources are deployed inform the future structures and ways of working for the Force and that they deliver not only in line with the public's needs but also in line with the significant challenges that have been set out by HMICFRS in the recent inspection.

4.1.65 Capital Expenditure and Financing

The capital programme to 2023/24 is based on spending around £21m over the next 4 years.

4.1.66 In terms of the funding of this investment and expenditure, the £21m will be funded as follows:

- Government Grants - £4.2m
- Contributions from Revenue - £14.3m
- Capital Receipts - £0.4m
- Reserves - £2.1m

4.1.67 In terms of the robustness of these funding sources the Core Government Grant for Capital purposes seems to have reduced as far as it will and only provides the PCC with £138k per annum, after it was reduced by 74% in 2020/21. 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.

4.1.68 There is an assumption that funding for investment in Capital Assets, such as buildings, IT, Fleet and Equipment, needed to truly deliver the Police Officer uplift programme will be provided.

4.1.69 The plan assumes that this will be £3m in 2021/22 and £0.6m in 2022/23. There are significant risks associated with these numbers and as a result the associated plans in relation to expenditure will not be developed until more information is provided as to whether this funding will actually be received.

4.1.70 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.

4.1.71 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 2020/21 to 2023/24 the level of General Fund is expected to reduce to £5,042k by the end of 2019/20 and then remain at this level. The General Fund would then equate to the equivalent of 3.2% of the overall funding expected to be available to the PCC in 2020/21 and 3.6% of the forecast Net Budget Requirement for that same year.

5.2.2 The overall level of General Fund is in line with forecast last year however the percentages are lower given that the overall level of funding available to the PCC is significantly higher than forecast a year ago.

5.2.3 These levels 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 2020/21 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 2019 the PCC held Capital Reserves that totalled £5.2m; this is expected to reduce to almost nil by 2023/24.

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 as well as the costs of the National Uplift programme however the base from which to develop the plans is well understood.

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.

Usable Reserves

- 5.2.10 These reserves are collectively known as 'Usable' 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, these have since risen to £17.6m, primarily as a result in delays in delivering some Capital schemes however based on the current plans I expect this to reduce to a balance of £8.5m by the end of 2023/24 although much will depend on how many of those risks that have been identified materialising.
- 5.2.11 While £8.5m 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 Awards, 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 2020/21 is sound and robust. There are limited risks around 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 2020/21 to ensure that the finances support the delivery and achievement of the Police and Crime Plan objectives.
- 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 a 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 2020/21 provided that service restructuring is delivered and future growth, if any, is managed and funded from sustainable savings.
- 6.7 In 2021/22 and beyond there is no real clarity around future levels of funding however it would appear that the direction of policy for the Government is about

investment into Policing. The cuts and funding reduction appear therefore to have ended which means that the level of risks in relation to significant changes in funding has also reduced. Other risks have been outlined in this report however I am happy to recommend that the PCC holds a general reserves closer to 3% of Total Funding, in contrast to last years' recommendation that around 4% 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 2020/21 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 2020/21 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 operational and service delivery position for the Force continues to be a significant challenge, as outlines by the HMICFRS inspection, the finances of the organisation continue to be robust. The estimates that the financial plans are based on are robust for 2020/21 and this is also the same for the remaining period covered by the LTFP. The challenge for the Force will be to continue to maximise this stable financial position to underpin significant improvements in service delivery.

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 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	Tranfers In 2022/23 £000	Tranfers Out 2022/23 £000	Balance at 31 March 2023 £000	Tranfers In 2023/24 £000	Tranfers Out 2023/24 £000	Balance at 31 March 2024 £000
Funding for projects & programmes over the period of the current MTFP																
Direct Revenue Funding of Capital	(3,659)	(2,359)	5,881	(137)	(3,365)	3,502	0	(3,860)	3,860	0	(4,045)	4,045	0	(3,030)	3,030	0
Community Safety Initiatives Fund	(241)		150	(91)		91	0		0	0		0	0		0	0
PCC Change Reserve	(100)		84	(16)			(16)			(16)			(16)			(16)
Digital Forensics	(245)		245	0			0			0			0			0
Airwaves Project	(166)		166	0			0			0			0			0
CP Change Reserve	(500)	(950)	245	(1,205)		900	(305)		305	0			0			0
Commissioning Reserves	(569)		279	(291)		291	0			0			0			0
Road Safety Initiatives Fund	(658)		0	(658)		150	(508)		150	(358)		150	(208)		150	(58)
Sub Total	(6,137)	(3,309)	7,324	(2,122)	(3,365)	4,934	(553)	(3,860)	4,315	(98)	(4,045)	4,195	52	(3,030)	3,180	202
Funding for projects & programmes beyond the current MTFP																
PFI Sinking Fund	(288)	(75)		(363)	(75)	25	(413)	(75)	325	(163)	(75)		(238)	(75)		(313)
Incentivisation Grant	(512)	(80)	80	(512)	(80)	80	(512)	(80)	80	(512)	(80)	80	(512)	(80)	80	(512)
Police Property Act Fund	(63)			(63)			(63)			(63)			(63)			(63)
Sub Total	(863)	(155)	80	(938)	(155)	105	(988)	(155)	405	(738)	(155)	80	(813)	(155)	80	(888)
General Contingency																
Legal/Insurance Fund	(431)	(75)		(506)			(506)			(506)			(506)			(506)
Injury Pension Reserve	(245)			(245)			(245)			(245)			(245)			(245)
Urly Nook TTC	(81)			(81)			(81)			(81)			(81)			(81)
NERSOU	(146)			(146)			(146)			(146)			(146)			(146)
Collaboration Reserve	(1,036)			(1,036)		90	(946)		90	(856)		90	(766)		90	(676)
Pay Reserve	(1,000)			(1,000)			(1,000)			(1,000)			(1,000)			(1,000)
Revenue Grants Unapplied	(137)		28	(109)			(109)			(109)			(109)			(109)
Sub Total	(3,076)	(75)	28	(3,123)	0	90	(3,033)	0	90	(2,943)	0	90	(2,853)	0	90	(2,763)
	0			0			0			0			0			0
Total Earmarked Reserves	(10,077)	(3,539)	7,432	(6,183)	(3,520)	5,129	(4,574)	(4,015)	4,810	(3,779)	(4,200)	4,365	(3,614)	(3,185)	3,350	(3,449)
General Reserves	(5,992)		950	(5,042)		0	(5,042)									
Unapplied Capital Grants	(1,517)	(526)		(2,043)	(138)	1,947	(234)	(140)		(374)	(140)		(514)	(140)	653	(0)
Total Usable Reserves	(17,586)			(13,268)			(9,850)			(9,195)			(9,170)			(8,492)
Capital Receipts Reserve				0	(3,109)	3,109	0	(2,988)	1,782	(1,206)	(3,109)	2,901	(1,414)	0	1,397	(17)

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. Most of this is expected to be spent during 2019/20.

Digital Forensics Reserve

The reserve has been created to support changes required to upgrade the digital forensic services with the Force in line with the approved business case.

Airwaves Project

This reserve was created in 2018/2019 to support the required investment in Airwave to maintain current capability whilst the National replacement solution is developed / delivered.

CP Change Reserve

The reserve has been created to support change within the Force, which will include the transition of the SopraSteria Contract into the Force, the Service Improvement Plans required as part of the work identified as part of the HMICFRS inspection and overall change capacity to manage a period of significant change within the Force.

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.