

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

24th February 2021

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 2021/22 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 £162,125k of funding forecast to be available to the PCC in 2021-22, to support expenditure, is expected from the following sources, and is shown in comparison to the 2020/21 budgeted figure of £155,475k:

	Actual 2021/22	Actual 2020/21	Movement Year on Year
Funding	£000s	£000s	£000s
Government Grant	(97,410)	(91,634)	(5,776)
Council Tax Precept	(40,947)	(40,845)	(102)
Council Tax Freeze Grant	(800)	(800)	0
Council Tax Support Grant	(8,263)	(6,868)	1,395
Funding for Net Budget Requirement	(147,420)	(140,146)	(4,484)
%age change in Net Budget Requirement	5.2%	6.4%	
Specific Grants	(7,037)	(7,849)	812
Witness and Victims Funding	(993)	(664)	(330)
Partnership Income/Fees and Charges	(3,175)	(3,316)	141
Total Core Funding	(158,625)	(151,975)	(3,860)
%age change in Total Core Funding	4.4%	7.1%	
Special Grant	(3,500)	(3,500)	0
Total Overall Funding	(162,125)	(155,475)	(3,860)

- 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 £812k less than 2020/21, this is predominantly due to less of the funding for the Police Officer Uplift scheme being allocated via a Specific Grant than in 2020/21. The Grant has reduced by £826k but this is as a result of the funding being added to Core Funding. It is expected that the £1,099k grant expected

in 2021/22 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 a further 6,000 by the end of March 2022.

- 4.1.4 As part of this national target Cleveland will need to deliver 70 more additional Police Officers by the 31st March 2022, taking the total increase to 142.
- 4.1.5 Given the additional funding and focus provided to this area by the PCC over the last couple of years it is expected that Cleveland will deliver all of these additional Officers before 2021/22 has even begun and will continue to be ahead of target throughout the year.
- 4.1.6 There should be no risk therefore of the PCC not receiving the full level of this grant.
- 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.
- 4.1.8 This won't change during 2021/22. However as has been seen during 2020/21 the financial impact of the on-going pandemic does ultimately have an impact in the ability of people to pay their council tax, it has increased the number of people eligible for discounts and therefore there is a risk that the future projections on Council Tax are once again impacted as they have been during 2020/21.
- 4.1.9 Any shortfall due to lower than expected collection rates, more people being eligible for discounts or from reductions in the number of properties within Cleveland would not impact on the finances for 2021-22 but would have to be taken into account in 2022-23.
- 4.1.10 Up until this this year there had been no instances, over the last 15+ years, where Council Tax receipts over the 4 councils collectively have been less than forecast.
- 4.1.11 This is an area that will need to be kept under close review as 2021/22 progresses to pick up any impact against the forecasts within the financial plans.
- 4.1.12 The £3,175k of income that is factored into the 2021-22 budget for Partnership Income and Fees and Charges, reflects some of the challenges seen during 2020/21 in terms of lower forecasts for Policing of sporting event, lower interest rates and lower levels of overall inflation.
- 4.1.13 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.
- 4.1.14 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.

- 4.1.15 The total funding that the 2021/22 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.
- 4.1.16 Government Funding for 2022/23 and beyond
- 4.1.17 Beyond 2021-22 there is little information about future levels of government grant settlements. There is expected to be a spending review during 2021 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.
- 4.1.18 Given the expected financial challenges that are likely to result from the costs incurred during the pandemic then the assumptions within the revised LTFP is that Core Government Grant will be frozen for the next 2 years.
- 4.1.19 The plan does however assume that the Police Uplift Programme will continue to be fully funded to deliver the 20,000 National Uplift.
- 4.1.20 Precept
Given the difficult economic situation, and the changes to the levels of Council Tax Support given to individuals, then there is more uncertainty about future levels of Council Tax receipts than there has been in much of the last 15 or so years.
- 4.1.21 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.
- 4.1.22 In 2019/20 this reduced to £170k, which was the lowest it had been since 2008/9.
- 4.1.23 However in 2020/21 the impact of the pandemic resulted in a deficit on the collection funds across Cleveland, the impact on Policing was a deficit of £1,325k.
- 4.1.24 While most of this £1,325k related to 2020/21 and has been classed as exceptional it is also important to recognise that there was also a deficit on all of the Collection Funds across the 4 Councils in Cleveland that was not 'Covid' specific and resulted from wider challenges that already existed.
- 4.1.25 The impact of the 2020/21 exceptional deficits are factored into the financial plans across the next 3 years in line with the legislation that requires this to happen, however there is a potential that more financial challenges may become evident in 2021/22.
- 4.1.26 The plans assumes that life will return to something more 'normal' during 2021/22 and therefore at this stage assumes that a collection surplus will be generated going forward of £160k each year.
- 4.1.27 In addition to incorporating an annual collection surplus the precept plans also incorporate annual growth in the underlying tax base. Over the 7 years prior to this year the Tax Base growth had averaged 1.87% however this stopped in 2020/21. With the Tax Base for 2021/22 forecast to be almost the same as 2020/21.

4.1.28 The plan assumes again that 2021/22 will be more normal than 2020/21 and that some recovery in the economy will materialise that will lead to increases in the overall Tax Base. The plans assumes increases of the following:

- 2021/22 - 1.5%
- 2022/23 - 1.25%
- 2023/24 – 1.25%
- 2024/25 – 1.0%

4.1.29 While these are lower than the average over the previous 7 years they are higher than the long term growth rate, which is just over 1%, and higher than previously forecast in the first 3 years of the plan.

4.1.30 These are reasonable estimates over the 4 year period of the plan although there is likely to be some element of variation from year to year.

4.1.31 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.

4.1.32 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.

4.1.33 These are reasonable assumptions based on current information, with the forecast increases likely to be on the prudent side given current policy which has provided flexibility to precept to increase Precept by more than 1.99% for each of the last 4 years.

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

4.1.35 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.

4.1.36 There are a number of key estimates within the 2021/22 budget and LTFP, these are set out below along with the potential risks where applicable:

4.1.37 Police Pay Awards and Levels of Police Officers

The LTFP assumes that Police Pay will increase by 0% in September 2021, then by 1% in September 2022, 1.5% in September 2023 and the 2% each September thereafter.

4.1.38 The pay freeze included in 2021 is in line with the indications given by the Government in relation to public sector pay and therefore is a reasonable planning assumption.

- 4.1.39 There is a risk however that it may not be possible for national negotiations to contain Police Officer pay within the budgeted limits. This was 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.
- 4.1.40 To mitigate some of this risk an Earmarked Reserve for Pay is maintained that should provide some capacity to absorb any increase that is higher than the budgeted amount during 2021/22. This would then provide the Force time to develop plans to manage financially from 2022/23 and beyond.
- 4.1.41 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 1% increase over the 0% budgeted within 2021/22 would cost around £470k during 2021/22 and £800k per annum thereafter.
- 4.1.42 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, 2020/21 and now 2021/22.
- 4.1.43 The Force have responded with plans that will deliver the 142FTE Police Officers, required as part of Cleveland’s allocation of the first 12,000 Uplift, by the end of 2020/21 – so a year earlier than required by the Government.
- 4.1.44 Plans are then in place to continue with this recruitment throughout 2021/22 – with a further 134 FTEs planned to be recruited during this year. This should provide an average of 1,453 FTE Police Officers throughout 2021/22.
- 4.1.45 Recruitment plans are in place to deliver not just this recruitment but also the recruitment into future years too.
- 4.1.46 Recruitment on the scale expected since 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.
- 4.1.47 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. A number of these challenges have been identified by both the Force and the HMICFRS.
- 4.1.48 The financial plans underpin these recruitment plans which are also now aligned to the demand work that the Force has undertaken. This should therefore provide the Chief Constable with the resources needed, over the medium term of the plan, to meet the current levels of demand faced by the Force.
- 4.1.49 This should therefore underpin the Road to Improvement plans of the Force and should also enable the continuation of the performance improvements that have started to show over the last year or so.

4.1.50 PCSO and Staff Pay Awards and FTE's

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

Employee Numbers (Average per year)	FTEs	FTEs	FTEs	FTEs	FTEs
Police Officers	1,340	1,403	1,449	1,474	1,474
Special Grant Funded Police Officers	50	50	25		
PCSOs	116	106	106	106	106
Police Staff - Police Force	635	880	849	849	849
OPCC Staff	14	13	13	13	13
Corporate/Commissioning Staff	17	16	15	15	15

4.1.51 The Force have completed their demand work which indicated that they needed 106 FTE PCSOs to deliver against their model. The financial plans provide for this level of resources on a recurring basis.

4.1.52 As at 31st January 2021 there were 96 FTE PCSOs employed by the Force and therefore the Force will start 2021/22 around 8.5% below the revised establishment and the expected level of PCSOs. This is likely to have an impact on service delivery if these posts are filled quickly while at the same time generating some small underspends against the budget set.

4.1.53 Police Staff - There continues to be both significant development and change within this area which is referred to within the Budget reports.

4.1.54 However from a financial perspective, in terms of the robustness of the budget, the area to consider and reflect on is that the budget for 2021/22 is based on 880 FTEs however there were only 754 FTE Police Staff employed by the Force at the end of January 2021 – this is 126 FTEs lower than the proposed 2021/22 Staff establishment.

4.1.55 The Force forecast that they will start 2021/22 with 787 FTE Staff (so an increase of 33 in the final 2 months of the financial year). This would still leave 93 vacancies at the start of April.

4.1.56 While the financial plans expect the recruitment to be phased, and have factored in a 5% vacancy rate for 2021/22 (which equates to 44 FTEs), it is likely that underspends will develop in this area.

4.1.57 It would not be unreasonable to expect the under spend on staff pay, in April alone, to be £150k. This is an area that will need to be closely managed.

4.1.58 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 a pay freeze in September 2020 and then lower than previously expected increases each year thereafter. 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 1% increase in pay beyond the 0% factored into Staff and PCSO

budgets would cost the organisation around £210k in 2021/22 and £350k per annum thereafter.

4.1.59 Inflation

The 2021/22 budget allows for specific allocations of inflation where necessary in line with either contractual arrangements or estimates.

4.1.60 From an income perspective inflation has been applied on fees and receivables for 2021/22 onwards, subject to known variances. Specific grants have no inflation assumed unless notified by the payer, while any anticipated reductions have been accounted for.

4.1.61 Savings Requirements

The plans and savings proposals included in the budget for 2021/22 and the LTFP in general seem robust.

4.1.62 To deliver against the 2021/22 budget the Force will need to deliver £667k of savings that are currently unidentified. This appears an achievable target and I would expect that plans will be highlighted early in 2021/22 to deliver these.

4.1.63 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 2021/22 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.

4.1.64 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.

4.1.65 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 increases 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.

4.1.66 It is also important to recognise that no specific funding and budgets have been set aside for an additional costs of Covid. This should be seen in the context of the £750k of additional costs that the Force are forecast to incur in 2020/21, while these have been ultimately funded by additional Government funding there is no guarantee that this will continue in 2021/22

4.1.67 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 couple of years ago however there continue to be a number of significant areas that will need to be closely monitored over the coming months and years.

4.1.68 The plan provides for significant investment in both Police Officers and Police Staff however it is vital that continue to be informed by the demand that the Force has recently undertaken to ensure that these resources are deployed in line with the public's needs and also in line with the significant challenges that have been set out by HMICFRS inspection.

4.1.69 Capital Expenditure and Financing

The capital programme to 2024/25 is based on spending around £22m over the next 4 years.

4.1.70 In terms of the funding of this investment and expenditure, the £22m will be funded as follows:

- Government Grants - £0.55m
- Contributions from Revenue - £10.7m
- Capital Receipts - £6.7m
- Borrowing - £0.7m
- Earmarked Capital Reserves - £3.6m

4.1.71 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.

4.1.72 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.

4.1.73 The Capital Receipts are the final payments for the land on the Ladgate Lane site and therefore will proceed in line with the contract – it is not expected that there will be any issues with this.

4.1.74 The PCC has the capacity to borrow if deemed to support Capital investment and therefore a small amount is factored into the plan to funding investment in the Estate during 2021/22.

4.1.75 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 2021/22 to 2024/25 the level of General Fund is expected to stay at £5,042k, which was the level in reduced to in 2019/20, throughout this plan. The General Fund would then equate to the equivalent of 3.1% of the overall funding expected to be available to the PCC in 2021/22 and 3.4% 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.

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 2021/22 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 2020 the PCC held Capital Reserves that totalled £4.1m; this is expected to reduce to almost nil by 2024/25.

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 the 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 Usable Reserves of £14.4m, these have since risen to £16.4m, 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 £9.7m by the end of 2024/25

although much will depend on how many of those risks that have been identified materialising.

5.2.11 While £9.7m may still seem like a significant amount of money I would not recommend that the PCC seeks to reduce this significantly below this level without having a much clearer idea of what is 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 2021/22 is sound and robust. There are limited risks around savings factored into the revenue plan to deliver this balanced budget.

6.2 The biggest risks from underspend happening are likely to be that it proves difficult to recruit 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, closely followed by continue costs due to Covid and from Major Incidents.

6.4 It will therefore be vital to continue to closely monitor the financial position throughout 2021/22 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 2021/22 provided that service restructuring is delivered and future growth, if any, is managed and funded from sustainable savings.

6.7 In 2022/23 and beyond there is no real clarity around future levels of funding and while it would appear that the direction of policy for the Government is about investment into Policing the finances of the country have changed significantly over the last 12 months and this may change the landscape once again.

6.8 In line with last year I am happy to recommend that the PCC holds a general reserves of around 3% of the Total Funding Available to the PCC. This is reflected in the reserves strategy that is attached at Appendix A.

7. Implications

Finance

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

Risk

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

8. Conclusion

- 8.1 The PCC's budget setting process has been designed to ensure that estimates brought forward for approval are sound and robust. This report confirms that approach.
- 8.2 Similarly, the PCC's policy is to ensure that it has sufficient levels of reserves and balances to provide for known, anticipated and unforeseen costs and liabilities. I am satisfied that the proposals emerging from the 2021/22 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 2021/22 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 outlined 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 2021/22 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 2020 £000	Transfers In 2020/21 £000	Transfers Out 2020/21 £000	Balance at 31 March 2021 £000	Transfers In 2021/22 £000	Transfers Out 2021/22 £000	Balance at 31 March 2022 £000	Transfers In 2022/23 £000	Transfers Out 2022/23 £000	Balance at 31 March 2023 £000	Transfers In 2023/24 £000	Transfers Out 2023/24 £000	Balance at 31 March 2024 £000	Transfers In 2024/25 £000	Transfers Out 2024/25 £000	Balance at 31 March 2025 £000
Funding for projects & programmes over the period of the current MTFP																
Direct Revenue Funding of Capital	(2,053)	(3,547)	4,997	(603)	(3,585)	4,188	0	(3,185)	3,185	0	(1,985)	1,985	0	(1,985)	1,985	0
Community Safety Initiatives Fund	(114)		91	(23)		23	0		0	0		0	0		0	0
PCC Change Reserve	(16)			(16)			(16)			(16)			(16)			(16)
Digital Forensics	(245)			(245)			(245)			(245)			(245)			(245)
Airwaves Project	(166)			(166)			(166)			(166)			(166)			(166)
CP Change Reserve	(1,155)		900	(255)		255	0			0			0			0
Commissioning Reserves	(314)		200	(114)		114	0			0			0			0
Road Safety Initiatives Fund	(658)		150	(508)			(508)			(508)			(508)			(508)
Sub Total	(4,719)	(3,547)	6,338	(1,928)	(3,585)	4,580	(933)	(3,185)	3,185	(933)	(1,985)	1,985	(933)	(1,985)	1,985	(933)
Funding for projects & programmes beyond the current MTFP																
PFI Sinking Fund	(363)	(75)	25	(413)	(75)	325	(163)	(75)	325	(238)	(75)		(313)	(75)		(388)
Incentivisation Grant	(530)	(80)	80	(530)	(80)	240	(370)	(80)	240	(210)	(80)	240	(50)	(80)	80	(50)
Police Property Act Fund	(124)			(124)			(124)			(124)			(124)			(124)
Sub Total	(1,017)	(155)	105	(1,067)	(155)	565	(657)	(155)	240	(572)	(155)	240	(487)	(155)	80	(562)
General Contingency																
Legal/Insurance Fund	(506)			(506)			(506)			(506)			(506)			(506)
Injury Pension Reserve	(162)			(162)			(162)			(162)			(162)			(162)
Urray Nook TTC	(81)			(81)			(81)			(81)			(81)			(81)
NERSOU	(160)			(160)			(160)			(160)			(160)			(160)
Collaboration Reserve	(1,001)		90	(911)		90	(821)		90	(731)		90	(641)			(641)
Pay Reserve	(1,000)			(1,000)			(1,000)			(1,000)			(1,000)			(1,000)
Major Incident Reserve	(543)			(543)			(543)			(543)			(543)			(543)
Revenue Grants Unapplied	(100)			(100)			(100)			(100)			(100)			(100)
Sub Total	(3,553)	0	90	(3,463)	0	90	(3,373)	0	90	(3,283)	0	90	(3,193)	0	0	(3,193)
Total Earmarked Reserves	(9,289)	(3,702)	6,533	(6,458)	(3,740)	5,235	(4,963)	(3,340)	3,515	(4,788)	(2,140)	2,315	(4,613)	(2,140)	2,065	(4,688)
General Reserves	(5,042)	0	0	(5,042)	0	0	(5,042)	0	0	(5,042)	0	0	(5,042)	0	0	(5,042)
Unapplied Capital Grants	(2,043)	(176)	2,219	0	(138)	138	0	(138)	138	0	(138)	138	0	(138)	138	0
Total Usable Reserves	(16,374)			(11,500)			(10,005)			(9,830)			(9,655)			(9,730)
Capital Receipts Reserve	0	(3,109)	0	(3,109)	(3,188)	2,267	(4,030)	(3,109)	1,747	(5,392)	0	2,580	(2,812)	0	2,756	(56)

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 was spent during 2019/20 and the remaining balance will be reviewed as part of the 2020/21 year end process.

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 2020 Northumbria on behalf of the unit held reserves, to meet any variable costs/needs of the unit, of which Cleveland's share is £160k. These reserves are reviewed annually 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 budgeted amounts 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 around 1% higher than the budget for 1 year while alternative savings/reductions are identified.

Major Incident Reserve

One of the most challenging aspects of financial planning is providing for costs relating to Major Incidents, there are times when events occur within Policing that are significantly in excess of those that were expected. This reserve provide some capacity to absorb additional costs for major incidents that otherwise would result in reductions, at short notice, from elsewhere.

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.