

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

24th February 2022

**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 2022/23 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 £169,355k of funding forecast to be available to the PCC in 2022-23, to support expenditure, is expected from the following sources, and is shown in comparison to the 2021/22 budgeted figure of £162,125k:

	Actual	Actual	Movement
	2022/23	2021/22	Year on Year
Funding	£000s	£000s	£000s
Government Grant	(102,820)	(97,410)	(5,411)
Council Tax Precept	(43,401)	(40,947)	(2,454)
Council Tax Freeze Grant	(800)	(800)	(0)
Council Tax Support Grant	(6,868)	(8,263)	1,395
Funding for Net Budget Requirement	(153,890)	(147,420)	(6,470)
%age change in Net Budget Requirement	4.4%		
Specific Grants	(7,407)	(7,037)	(370)
Witness and Victims Funding	(1,165)	(993)	(171)
Partnership Income/Fees and Charges	(4,094)	(3,175)	(919)
Total Core Funding	(166,555)	(158,625)	(7,930)
%age change in Total Core Funding	5.0%	5.4%	
Special Grant	(2,800)	(3,500)	700
Total Overall Funding	(169,355)	(162,125)	(7,230)

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 Cyber Crime Grant, and therefore this could be less than assumed.

4.1.3 The Specific Grants budget is £370k more than 2021/22, this is predominantly due to more funding for the Police Officer Uplift scheme being allocated via a Specific Grant than in 2021/22. The Grant has increased by £420k. It is expected that the £1,619k grant expected in 2022/23 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 8,000 by the end of March 2023.

4.1.4 As part of this national target Cleveland will need to deliver 96 more additional Police Officers by the 31st March 2023, taking the total increase to 239.

4.1.5 Given the additional funding and focus provided to this area by the PCC over the last few years it is expected that Cleveland will deliver all these additional Officers required before the end of 2022/23. It was previously expected that the Force would deliver a year earlier than required by the Government however the number of leaves

within the Force, for non-retirement reasons, has been significant during 2021/22 and will need to be monitored and understood during 2022/23.

- 4.1.6 There should however be no real risk of the PCC not receiving the full level of this grant however the PCC is advised to seek regular updates on this area as the number of leavers on non-retirement grounds has been significant during 2021/22 and could have an impact on reaching the required target to receive the full 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 2022/23. However as was seen during 2020/21 the financial impact of the pandemic did have an impact on the ability of people to pay their council tax, it 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 were during 2020/21 for events that occur during 2022/23.
- 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 2022-23 but would have to be taken into account in 2023-24.
- 4.1.10 Up until 2020/21 there had been no instances, over the previous 15+ years, where Council Tax receipts over the 4 councils collectively had been less than forecast. It is hopeful that this was a one-off event as receipts returned to a more normal level in 2021/22 with an in-year surplus reported across the 4 council areas of Cleveland.
- 4.1.11 The £4,094k of income that is factored into the 2022/23 budget for Partnership Income and Fees and Charges is £919k higher than 2021/22 and reflects the changing mechanism for the funding of Special Branch from a National perspective.
- 4.1.12 The funding was 'top-sliced' for the Core Government Grants and it is expected that the Force will receive funding for those resources that they provide to this area of work via invoices to the national lead.
- 4.1.13 This area includes a number of areas including secondment income, special services income, partnership income for funded posts 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 now cover 75% 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 2022/23 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 2023/24 and beyond
- 4.1.17 The Government have indicated that policing would receive an extra £100m in 2023/24 and then £150m extra in 2024/25.
- 4.1.18 A £100m increase equates to an increase of only 1.2% in 2023/24. Whereas an increase of £150m equates to an increase of only 1.7% in 2024/25. The financial plans reflect this information and in that respect the forecasts are robust.
- 4.1.19 Neither of these increases will be sufficient to keep pace with either pay or non-pay inflation and therefore it is hopeful that the actual settlements are higher than this however plans will need to be developed to address the financial challenges that this will bring for the organisation from 2024/25 onwards.
- 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 15 years up to 2020/21.
- 4.1.22 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.
- 4.1.23 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.
- 4.1.24 The impact of the 2020/21 exceptional deficits are factored into the financial plans in line with the legislation that requires this to happen.
- 4.1.25 In terms of non-covid related surplus/deficits on the collection fund then there was a return to more normality during 2021/22 with an overall surplus of £190k being reported, with no councils reporting a deficit.
- 4.1.26 The plan assumes that this more 'normal' pattern will continue across the rest of the financial plan and therefore at this stage assumes that a collection surplus will be generated going forward of £160k-£190k per 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 2020/21 the Tax Base growth had averaged 1.87% however this stopped in 2020/21. With the Tax Base for 2021/22 almost the same as 2020/21.
- 4.1.28 A more normal level of tax base growth is forecast for 2022/23 at 1.29% across the whole of Cleveland – this is however the lowest since 2010/11 (when we exclude

2021/22). This lower growth has been impacted by changes to Council Tax Support Schemes implemented across Cleveland, with the one implemented in Stockton forecast to reduce the overall income to Policing by £125k per year.

4.1.29 The plan assumes again that the 2021/22 position was an anomaly and that Tax Base increases will be at 'normal' levels going forward. This is certainly the projections we are getting from the Councils. The plans assume increases of the following:

- 2022/23 - 1.3%
- 2023/24 – 1.1%
- 2024/25 – 1.1%
- 2025/26 – 1.0%

4.1.30 While these are lower than the average over the 7 years prior to 2021/22 they are in line with the long-term growth rate, which is just over 1%.

4.1.31 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.

4.1.32 Future Precept Plans

The Government has provided multi-year guidance on future year precept increases for the first time for Policing. This is that PCCs will have the capacity to increase their Band D precept by a maximum of £10 per year for each of the 3 years from 2022/23 to 2024/25.

4.1.33 The planning assumption within the LTFP is therefore based on an assumption that the level of precept charged to each household will increase by £10 per annum. This is however an annual decision for the PCC.

4.1.34 As such these are reasonable assumptions.

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

4.1.36 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.

4.1.37 There are several key estimates within the 2022/23 budget and LTFP, these are set out below along with the potential risks where applicable:

4.1.38 Police Pay Awards and Levels of Police Officers

The LTFP assumes that Police Pay will increase by 3.5% in September 2022, then by 2.5% in September 2022, and then 2% each September thereafter.

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 2022/23. This would then provide the Force time to develop plans to manage financially from 2023/24 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 3.5% budgeted within 2022/23 would cost around £490k during 2022/23 and £840k 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 each of the last 3 years.

4.1.43 The Force have responded with plans that expect to deliver 1,462 FTE Officers by the end of 2022/23. This is 27 higher than the recurring Police Officer Uplift Target once the Historical Investigation Unit (HIU) resources are removed from the analysis.

4.1.44 Taking account of the resources needed for the HIU and the wider Force need the Force has set a budget based on delivering (on average) 1,472 FTE Police Officers during 2022/23. The starting point for 2022/23 would suggest that this should be achievable.

4.1.45 To deliver the required level of Police Officers will still need the Force to recruit around 100 Police Officers during 2022/23. The Force have a plan in place to deliver these numbers however it will need to be closely managed, monitored and flexed during the year to increase recruitment levels to fill higher than expected leavers.

4.1.46 Recruitment on the scale undertaken since 2019/20 (which will have seen over 500 Police Officers recruited over a 4 year period) has provided 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 This will continue to be a key area for delivery within the Force and therefore a key area for scrutiny from the PCC.

4.1.49 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				
	2021/22	2022/23	2023/24	2024/25	2025/26
<u>Employee Numbers (Average per year)</u>	FTEs	FTEs	FTEs	FTEs	FTEs
Police Officers	1,403	1,442	1,467	1,467	1,467
Non-Recurring Police Officer Posts	50	30	15	0	0
PCSOs	106	106	106	106	106
Police Staff - Police Force	880	937	931	900	900

4.1.50 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.

4.1.51 As at 31st January 2022 there were 102 FTE PCSOs employed by the Force and therefore the Force will start 2022/23 around 3.8% below the revised establishment and the expected level of PCSOs. This is likely to have an impact on service delivery if these posts aren't filled quickly while at the same time generating some small underspends against the budget set.

4.1.52 This is a similar position to 2021/22 when the Force have been under establishment for most of the year.

4.1.53 Police Staff - There continues to be both significant development and change within this area. With a projected Police Force Staff Establishment of 937 FTEs indicated for 2022/23. This is 57 FTEs (6.5%) higher than 2021/22.

4.1.54 Since 2019/20, once the impact of the TUPE transfer of the Force Control Room staff and wider outsourced staff are removed, there has been growth of 150 FTE staff posts within the Force's Staff Establishment. This equates to an increase of 19% over 3 years.

4.1.55 Despite this significant level of growth both the FMS work and Serious Violence work identified the need for almost another 150 FTE roles to meet current and future demand.

4.1.56 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 2022/23 is based on 937 FTEs however there were only 763 FTE Police Staff employed by the Force at the end of January 2022 – this is 174 FTEs lower than the proposed 2022/23 Staff establishment.

- 4.1.57 The Force forecast that they will start 2022/23 with 789 FTE Staff (so an increase of 26 in the final 2 months of the financial year). This would still leave 148 vacancies at the start of April.
- 4.1.58 The financial plans expect the recruitment to be phased, and have factored in a 10% vacancy rate for 2022/23 across most areas (which equates to 88 FTEs), this still equates to 60 vacancies above the budgeted rate (assuming 26 new starters in the final 2 months of 2021/22). As such it is very likely that underspends will once again develop in this area in 2022/23.
- 4.1.59 It would not be unreasonable to expect the under spend on staff pay, in April alone, to be £150k-£200k. This is an area that will need to be closely managed.
- 4.1.60 Aside from the financial implications, the challenges to deliver this level of recruitment, as has been evident during 2021/22, 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 continue to have a significant impact on the ability of the Force to deliver the vital improvements that are required.
- 4.1.61 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 3.5% increase in September 2022 and then lower 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 3.5% factored into Staff and PCSO budgets would cost the organisation around £220k in 2022/23 and £380k per annum thereafter.
- 4.1.62 Inflation
The 2022/23 budget allows for specific allocations of inflation where necessary in line with either contractual arrangements or estimates.
- 4.1.63 From an income perspective inflation has been applied on fees and receivables for 2022/23 onwards, subject to known variances. Specific grants have no inflation assumed unless notified by the payer, while any anticipated reductions have been accounted for.
- 4.1.64 Savings Requirements
The plans and savings proposals included in the budget for 2021/22 and the LTFP in general seem robust.
- 4.1.65 To deliver against the 2022/23 budget the Force will need to deliver £382k of savings that are currently unidentified. This appears an achievable target and I would expect that plans will be highlighted early in 2022/23 to deliver these.
- 4.1.66 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 2022/23 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.

- 4.1.67 The current LTFP is however only showing a balanced budget across the first 2 financial years based on current plans and assumptions. It is therefore vital that the Force begin to develop efficiency and savings plans to address these gaps now so that they can be delivered in a planned way, that align to the Police and Crime Plan while also taking in account the risks involved in any changes.
- 4.1.68 It is also important to recognise that 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, which will add further to the pressures and imbalance within the financial plans – this is especially the case with Pay Awards.
- 4.1.69 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.
- 4.1.70 In many ways the financial plans for 2022/23 are slightly better than expected, and forecast, which means that the Force will be able to recruit more Police Officers and staff in 2022/23 than it had planned a year ago.
- 4.1.71 Thereafter however the financial plans of the organisation get much worse than expected. The indications that Government Funding will only increase nationally for Policing by £100m in 2022/23 and £150m in 2023/24 will be a significant challenge in Cleveland and will require significant levels of savings and reductions if these materialise.
- 4.1.72 These proposed future Government Grant settlements has had a significant impact on what had previously been a secure and stable financial platform from which to deliver against the Police and Crime Plan.
- 4.1.73 As a result, there will need to be a significant focus on making cashable efficiencies over the next 4 years and this is something that the PCC will want to ensure that he is fully sighted on.

4.1.74 Capital Expenditure and Financing

The capital programme to 2025/26 is based on spending around £20.5m over the next 4 years.

- 4.1.75 In terms of the funding of this investment and expenditure, the £20.5m will be funded as follows:

- Contributions from Revenue - £10.5m
- Capital Receipts - £3.1m
- Borrowing - £2.3m
- Earmarked Capital Reserves - £4.6m

4.1.76 The contributions from revenue are factored into the revenue budget and given that the revenue budget is unbalanced for the final 2 years then these contributions are at risk if the wider savings needed within the organisation are not delivered.

4.1.77 The Capital Receipt is 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.

4.1.78 The PCC has the capacity to borrow if deemed to support Capital investment and therefore borrowing totalling £2.3m across the 4 years is factored into the plan to fund investment in the Estate.

4.1.79 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. 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 and reduced to £5,042k by 2019/20. Based on the LTFP for 2022/23 to 2025/26 the level of General Fund is expected to stay at £5,042k, throughout this plan. The General Fund would then equate to the equivalent of 3.0% of the overall funding expected to be available to the PCC in 2022/23 and 3.3% 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 2022/23 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 2021 the PCC held Capital Reserves that totalled £5.4m; this is expected to reduce to almost nil by 2026/27.

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 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 2021 the Audited Statement of Accounts for the PCC showed that the organisation had Total Usable Reserves of £16.4m, which is about £2m lower than a year earlier.

5.2.11 Based on the current plans I expect this to reduce to a balance of £9.4m by the end of 2025/26 although much will depend on how many of those risks that have been identified materialising.

5.2.12 While £9.4m 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, that there are robust savings plans in place to address the budget deficit from 2024/25 onwards and that the Funding Formula review has 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 2022/23 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 linked to higher levels of inflation within the wider economy and these feeding through into costs increases.
- 6.4 It will therefore be vital to continue to closely monitor the financial position throughout 2022/23 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 schemes. 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 led 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 2022/23. Beyond this it will be vital that that service restructuring is delivered, and future growth curtailed so that sustainable savings are delivered to balance the budget from 2024/25 onwards.
- 6.7 In line with last year I am happy to recommend that the PCC holds a general reserve 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 2022/23 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 2022/23 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.
- 8.5 The challenge for the Force is that the robust and stable financial position that they have enjoyed for a number of years now and was available to underpin the significant improvements in service delivery that were required, has become more challenging.

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 reserve's 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 this 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 which is 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 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	Transfers In 2025/26 £000	Transfers Out 2025/26 £000	Balance at 31 March 2026 £000
Funding for projects & programmes over the period of the current MTFP																
Direct Revenue Funding of Capital	(881)	(4,630)	4,770	(741)	(4,800)	5,535	(6)	(1,170)	1,176	0	(2,485)	2,485	0	(2,375)	2,375	0
Community Safety Initiatives Fund	(24)		24	0			0		0	0			0			0
COVID reserve	(300)		300	0			0			0			0			0
PCC Change Reserve	(129)			(129)			(129)			(129)			(129)			(129)
Digital Forensics	(245)		245	0			0			0			0			0
Airwaves Project	(422)		166	(256)		166	(90)			(90)			(90)			(90)
CP Change Reserve	(832)	(500)		(1,332)		340	(992)		650	(342)		300	(42)			(42)
Commissioning Reserves	(259)		144	(114)			(114)			(114)			(114)			(114)
Road Safety Initiatives Fund	(537)		380	(157)		25	(132)			(132)			(132)			(132)
Sub Total	(3,627)	(5,130)	6,029	(2,728)	(4,800)	6,066	(1,462)	(1,170)	1,826	(806)	(2,485)	2,785	(506)	(2,375)	2,375	(506)
Funding for projects & programmes beyond the current MTFP																
PFI Sinking Fund	(413)	(75)	325	(163)	(75)		(238)	(75)	30	(283)	(75)	115	(243)	(75)	115	(203)
Incentivisation Grant	(677)	(80)	120	(637)	(80)		(717)	(80)		(797)	(80)		(877)	(80)		(957)
Police Property Act Fund	(160)			(160)			(160)			(160)			(160)			(160)
Sub Total	(1,250)	(155)	445	(960)	(155)	0	(1,115)	(155)	30	(1,240)	(155)	115	(1,280)	(155)	115	(1,320)
General Contingency																
Legal/Insurance Fund	(506)	(124)		(630)			(630)			(630)			(630)			(630)
Injury Pension Reserve	(162)	(700)		(862)			(862)			(862)			(862)			(862)
Urly Nook TTC	(81)			(81)			(81)			(81)			(81)			(81)
NERSOU	(160)			(160)			(160)			(160)			(160)			(160)
Collaboration Reserve	(118)		90	(28)			(28)			(28)			(28)			(28)
Pay Reserve	(1,000)			(1,000)			(1,000)		1,000	(0)			(0)			(0)
Major Incident Reserve	(1,000)		165	(835)			(835)			(835)			(835)			(835)
Revenue Grants Unapplied	(100)		100	(0)			(0)			(0)			(0)			(0)
Sub Total	(3,127)	(824)	355	(3,596)	0	0	(3,596)	0	1,000	(2,596)	0	0	(2,596)	0	0	(2,596)
Total Earmarked Reserves	(8,005)	(6,109)	6,829	(7,284)	(4,955)	6,066	(6,173)	(1,325)	2,856	(4,642)	(2,640)	2,900	(4,382)	(2,530)	2,490	(4,422)
General Reserves	(5,042)	0	0	(5,042)	0	0	(5,042)	0	0	(5,042)	0	0	(5,042)	(4)	(4)	(5,046)
Unapplied Capital Grants	(1,399)	(138)	1,537	(0)	0	0	(0)	0	0	(0)	0	0	(0)	0	0	(0)
Total Usable Reserves	(14,446)	0	0	(12,326)	0	0	(11,215)	0	0	(9,684)	0	0	(9,424)	0	0	(9,468)
Capital Receipts Reserve	(3,139)	(2,988)	1,421	(4,706)	(3,109)	0	(7,815)	0	1,778	(6,037)	0	2,364	(3,673)	0	2,875	(798)

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

This reserve will have been fully utilised by the end of 2021/22.

Covid Reserve

This reserve was established during 2020/21 from additional Government Funding/underspends to support the on-going costs of the pandemic during 2021/22. This fund has been used during 2021/22.

PCC Change Reserve

The PCC has established this reserve to meet any costs of a change within the OPCC. Most of this was spent during 2019/20 and the remaining balance will be reviewed as part of the 2021/22-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. This will be transferred into this Capital Programme at the end of 2021/22 to meet the Capital costs of investment in this area in 2022/23.

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. The fund will be spent in line with the national progress of this project.

CP Change Reserve

The reserve has been created to support change within the Force, which previously included 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. Funding for investment in the Force Crime Management Unit will be added to this reserve in 2021/22 and then utilised across the LTFP period in line with additional resources into this area.

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 investment in ANPR cameras will be funded from this reserve in 2022/23 with the funds transferred to the capital programme at the end of 2021/22

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 will increase by £700k in 2021/22 as a result of very low levels of medical/injury pensions occurring in 2021/22. This is likely to lead to more medical/injury pensions in future years and therefore the reserve has been increased to provide for approximately 10 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 2021 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. It is planned to release this reserve in 2023/24 to help balance the budget in that year.

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 provides 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.