

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

**21<sup>st</sup> February 2024**

**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 2024/25 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 £196,650k of funding forecast to be available to the PCC in 2024-25, to support expenditure, is expected from the following sources, and is shown in comparison to the 2023/24 budgeted figure of £177,775k:

	Actual	Actual	Movement
	2024/25	2023/24	Year on Year
<b>Funding</b>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Government Grant	(109,345)	(103,179)	(6,166)
Council Tax Precept	(51,284)	(46,379)	(4,904)
Council Tax Freeze Grant	(800)	(800)	0
Council Tax Support Grant	(6,868)	(6,868)	0
<b>Funding for Net Budget Requirement</b>	<b>(168,297)</b>	<b>(157,226)</b>	<b>(11,071)</b>
%age change in Net Budget Requirement	7.0%		
Specific Grants	(19,489)	(10,982)	(8,507)
Witness and Victims Funding	(1,560)	(1,595)	35
Partnership Income/Fees and Charges	(5,475)	(4,847)	(627)
<b>Total Core Funding</b>	<b>(194,820)</b>	<b>(174,650)</b>	<b>(20,170)</b>
%age change in Total Core Funding	11.5%		
Special Grant	(1,830)	(3,125)	1,295
<b>Total Overall Funding</b>	<b>(196,650)</b>	<b>(177,775)</b>	<b>(18,875)</b>

- 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 Specific Grants

4.1.4 The Specific Grants budget is £8,507k more than 2023/24, this is predominantly due to the following:

- Higher Police Officer Pensions Grant - £2,983k
- Additional Police Uplift Grant - £3,479k
- Immediate Justice Grant - £1,000k
- ASB Hotspot Grant – £1,000k
- Safer Streets Funding - £125k

4.1.5 With the exception of the Police Officer Uplift Grant all of the above funding is directly linked to expenditure and therefore if the expenditure does not occur then the grant can't be claimed. Therefore, while all this funding might not be received this will be as a result of not incurring the expenditure and therefore while disappointing would be cost neutral to the organisation

4.1.6 The Police Officer Uplift Grant is different as this is linked to Police Officer numbers at the end of Sept-24 and the end of Mar-25. The Force will need to have at least 1,500 Police Officers at each of these dates for the PCC to receive the full £6,777k Grant.

4.1.7 The first £1,680k of this Grant is linked directly to the Uplift+ allocation of 35 additional officers (over the core 1,465 Uplift Target) that has been bid for and allocated to the Force. This funding will be reduced by £48k per officer if it was missed.

4.1.8 If all the above was missed, and the Force went beneath their Uplift Target of 1,465, then for every officer below a force's maintenance headcount (1,465 for Cleveland) will result in the ringfence share reducing by £80,000 if missed at both data points (£40k per officer at each data point) down to a threshold of 1.5% below the total maintenance headcount, or 30 officers - whichever is greater.

4.1.9 For Cleveland therefore this is a maximum of 30 Officers, and therefore a maximum of £2,400k.

4.1.10 In total therefore there is a maximum of £4,080k at risk if the number of Officers was to be below 1,435 at September-24 and March-25.

4.1.11 Given the additional funding and focus provided to this area by the PCC over the last few years it is expected that Cleveland will maintain all of these additional Officers and have plans in place to be above the Uplift Targets as required so that none of the grant is put at risk.

4.1.12 **It is recommended however that regular updates are provided to the PCC so that on-going assurance can be received.**

#### 4.1.13 Council Tax

4.1.14 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.

- 4.1.15 This won't change during 2024/25. 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 2024/25, such as higher levels of unemployment, people unable to pay due to higher levels of costs elsewhere.
- 4.1.16 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 2024-25 but would have to be taken into account in 2025-26.
- 4.1.17 Other than 2020/21 (impact of COVID) there have been no instances, over the previous 20 years, where Council Tax receipts over the 4 councils collectively had been less than forecast, despite many financial challenges taking place during this time and therefore this isn't a significant area of risk for the PCC.
- 4.1.18 Partnership Income, Fees and Charges
- 4.1.19 The £5,475k of income that is factored into the 2024/25 budget for Partnership Income and Fees and Charges is £627k higher than 2023/24 and predominantly reflects:
- Higher Interest Rates and higher cash balances leading to higher interest receivable - £670k
- 4.1.20 **The total funding that the 2024/25 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.**
- 4.1.21 It is more likely that income received during 2024/25 is higher than the budget than lower as there is generally new funding streams, such as the bid for additional Uplift Funding, that become available during the year and income from variable items such as Mutual Aid that will happen.
- 4.1.22 Government Funding for 2025/26 and beyond
- 4.1.23 2024/25 is the final year of the current Spending Review period and therefore there is very little formal guidance for future plans.
- 4.1.24 The current plan has therefore assumed that Government Funding will continue to increase by CPI and that this will be 2%.
- 4.1.25 The lack of any real indication of future funding levels is a significant risk to the future financial position of the organisation, the assumptions are however reasonable.
- 4.1.26 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.

- 4.1.27 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 £255k over the 20 years up to 2023/24. This even takes into account the significant deficit of £1,325k reported as part of Covid in 2020/21
- 4.1.28 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.
- 4.1.29 The collection fund position reported in 2023/24, and payable in 2024/25, is also very unusual – with an over Surplus of £1,869k reported. This has resulted from 2 councils reviewing their Bad Debt provision and declaring significant collection fund surplus' relating to historic assumptions.
- 4.1.30 The higher level of surpluses reported by Middlesbrough and Stockton should not occur again in the near future and the forecasts for this area assume they do not.
- 4.1.31 The plan reflects that a collection surplus will be generated going forward of between £200k and £300k which is line with the average for the last 20 years
- 4.1.32 In addition to incorporating an annual collection surplus the precept plans also incorporate annual growth in the underlying tax base. Over the last 10 years the Tax Base growth had averaged 1.57%, this even included the 'Covid' year where the tax base did not increase at all.
- 4.1.33 Over the last 3 years (since the 'covid' year) the overall tax base in Cleveland has increased by an average of 1.39%
- 4.1.34 The plan assumes that the tax base will grow by 1.3% per year going forward, which is the lowest level of increase seen across the last 10 years, excluding covid, and therefore is a reasonable and prudent assumption of growth going forward.
- 4.1.35 These are therefore reasonable estimates over the 4-year period of the plan although there is likely to be some element of variation from year to year.
- 4.1.36 Future Precept Plans  
There is currently no guidance on future limits on increases in Precept for 2025/26 and beyond. Over the last 6 years PCCs have been provided with a financial limit of precept increases, as opposed to a percentage increase.
- 4.1.37 These limits have been as follows:
- 2018/19 - £12
  - 2019/20 - £24
  - 2020/21 - £10
  - 2021/22 - £15
  - 2022/23 - £10
  - 2023/24 - £15
  - 2024/25 - £13

- 4.1.38 The planning assumption within the LTFP is based on an assumption that the level of precept charged for a Band D property will increase by £12 per annum. This is however an annual decision for the PCC.
- 4.1.39 This assumption is broadly in line with the average limit provided over the last 5 years of £12.60 and as such these are reasonable assumptions.
- 4.1.40 The overall total income projections, when taking both Government Grant and Precept into account, are expected to be reasonable forecasts.

#### 4.1.41 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.

4.1.42 There are several key estimates within the 2024/25 budget and LTFP, these are set out below along with the potential risks where applicable:

#### 4.1.43 Police Pay Awards and Levels of Police Officers

The LTFP assumes that Police Pay will increase by 2.5% in September 2024 and then by 2% each September thereafter.

4.1.44 There is a risk however that it may not be possible for national negotiations to contain Police Officer pay within the budgeted limits. This is made more likely given that it is expected that both the APCC and NPCC are supportive of 'an above inflation funded increase in Police Pay'

4.1.45 In both 2022/23 and 2023/24, Pay Awards were more than the levels that Forces has budgeted for. These increases were however funded by the Government through additional in year funding.

4.1.46 This plan assumes that should an increase above 2.5% be awarded that it is also funded by Government in line with the approach of the last 2 years.

4.1.47 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 2024/25. This would then provide the Force time to develop plans to manage financially from 2025/26 and beyond.

4.1.48 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 2.5% budgeted within 2023/24 would cost around £580k during 2024/25 and £1,000k per annum thereafter.

4.1.49 Police Officers Numbers – the PCC has provided further funding to continue the recruitment of Police Officers, beyond those expected and funded by the Government.

4.1.50 The Force have responded with plans that expect to deliver around 1,546 Police Officers by the end of 2023/24. This would be around 20 higher than the current Uplift Target, after taking account the successful bids for 61 additional officers for 2023/24.

4.1.51 Taking account of the resources needed for the Historical Investigation Unit and the wider Force need the Force has set a budget based on delivering 1,557 FTE Police Officers by the end of 2024/25. The starting point for 2024/25 would suggest that this should be achievable.

4.1.52 This will continue to be a key area for delivery within the Force and therefore a key area for scrutiny from the PCC.

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				
	2023/24	2024/25	2025/26	2026/27	2027/28
<b>Employee Numbers</b>	FTEs	FTEs	FTEs	FTEs	FTEs
Police Officers	1,459	1,507	1,507	1,507	1,507
Funded Police Officer Roles	26	26	26	26	26
Non-Recurring Police Officer Posts	28	24	0	0	0
PCSOs	106	106	106	106	106
Police Staff - Police Force	864	852	800	796	796

- 4.1.53 Several years ago, the Force's demand work 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.
- 4.1.54 As at 31<sup>st</sup> December 2023 there were only 90 FTE PCSOs employed by the Force and a forecast that there will be only 89 at the start of 2024/25, which is around 16% below the 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 underspends against the budget set.
- 4.1.55 This is a similar position to the last 3 years when the Force have been under establishment for most of the period.
- 4.1.56 Police Staff - There continues to be both significant development and change within this area. With a projected Police Force Staff Establishment of 977 FTEs indicated for 2024/25. This is 18 FTEs higher than 2023/24.
- 4.1.57 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 almost 190 FTE staff posts within the Force's Staff Establishment. This equates to an increase of 24% over 5 years.
- 4.1.58 Despite this significant level of growth the FMS work and the Operation Sustain work identified the need for even more staff to meet current and future demand.
- 4.1.59 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 2024/25 while based on 977 FTEs, includes an assumption that around 124 of these will be vacant through the year.
- 4.1.60 The Force can therefore only afford to have 852 FTE staff and yet are forecasting to have 878 FTE staff in post at the start of 2024/25
- 4.1.61 **In terms of controllable expenditure this is the area of biggest risk within the financial plans and an area that the Force will need to address quickly as overspend will start to develop as soon as the financial year starts.**
- 4.1.62 It is very unlikely that the Force will ever be able to fully afford a full staff establishment of 977 FTEs and therefore this needs to be recognised and reflected in the plans going forward.



- 4.1.63 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 2.5% increase in September 2024 and then lower increases each year thereafter.
- 4.1.64 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.
- 4.1.65 Each 1% increase in pay beyond the 2.5% factored into Staff and PCSO budgets would cost the organisation around £250k in 2024/25 and £430k per annum thereafter.
- 4.1.66 Inflation  
Almost £1.7m (5.3%) has been added to the non-pay Force budgets for 2024/25. Despite this, the non-pay budget for 2024/25 is still only £370k (1.1%) higher than the forecast spend in 2023/24.
- 4.1.67 Overall levels of inflation seem to have peaked and are now falling – this fall is expected to continue as the year progresses and current year prices are compared against prices during 2023 that had already increased significantly by inflation.
- 4.1.68 Prices for Fuel are lower than they have been, and indications are that Utility costs will reduce as 2024/25 progresses. Much will then depend on pay settlements as to how quickly, or otherwise, inflation is reduced.
- 4.1.69 Even with the significant increase in non-pay budget over the last 2 years for inflation this will still need to be an area that is closely watched and managed throughout 2024/25.
- 4.1.70 As with pay, there is some capacity to use reserves should high levels of inflation continue to persist however this will only be in the short term and further savings/reductions would need to be found if the current budgets are not sufficient.
- 4.1.71 From an income perspective inflation has been applied on fees and receivables for 2024/25 onwards, subject to known variances. Specific grants have no inflation assumed unless notified by the payer, while any anticipated reductions have been accounted for.
- 4.1.72 Savings Requirements  
The plans and savings proposals included in the budget for 2024/25 and the LTFP in general seem robust.
- 4.1.73 To deliver against the 2023/24 budget the Force will need to deliver £163k of savings that are currently unidentified. This appears an achievable target and I would expect that plans will be highlighted early in 2024/25 to deliver these.
- 4.1.74 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 2024/25 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.

4.1.75 The current LTFP is projected to be balanced budget across the next 4 financial years based on current plans and assumptions. It is however vital that the Force develop efficiency and savings plans to provide scope and capacity to manage any increases in both costs and demand, while also allowing the Force to operate within an affordable staffing establishment.

4.1.76 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 may add further pressures to the financial plans – this is especially the case with Pay Awards.

4.1.77 The revenue financial plans for 2024/25 are better than expected, and forecast a year ago, which means that the Force will be able to recruit more Police Officers in 2024/25 than it had planned a year ago, while the previous imbalance in the financial plan has also been addressed.

#### 4.1.78 Capital Expenditure and Financing

The capital programme to 2027/28 is based on spending around £15m over the next 4 years.

4.1.79 In terms of the funding of this investment and expenditure, the £15m will be funded as follows:

- Contributions from Revenue - £4.6m
- New Capital Receipts - £0.7m
- Borrowing - £1.4m
- Capital Receipts already received - £8.3m

4.1.80 The contributions from revenue are factored into the revenue budget and given that the revenue budget is balanced for the full 4 years then these contributions should be deliverable.

4.1.81 The new Capital Receipts are from sales of vehicles that are to be replaced – while the values might vary this would not have a significant impact.

4.1.82 The PCC has the capacity to borrow if deemed to support Capital investment, while £1.4m is factored into the plans, this could be revisited if needed.

4.1.83 Clearly there is no risk to the Capital Receipts already received.

4.1.84 The biggest risk with the Capital Programme is if the future forecast plans of the Force are too low. Actual Capital spend for 2022/23, plus forecast spend for 2023/24 and 2024/25 total £18.7m, however the 3 years that follow this forecast a need of only £9.9m.

4.1.85 It is very unlikely that higher levels of capital spend could be affordable without additional borrowing especially given how tight the revenue budget is.

4.1.86 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

The General Fund has stood at £5,042k since 2019/20. Based on the LTFP for 2024/25 to 2027/28 the level of General Fund is expected to increase by £2,130k as a result of the additional income and therefore underspend being forecast in 2023/24. This increase in General Fund will then be used to support the financial plans over the final 3 years of this planning period. The General Fund will return to £5,042k in 2027/28. The General Fund would then equate to 4.3% of the forecast Net Budget Requirement for 2024/25 and then reduce to around 3% by 2027/28.

5.2.2 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.

### 5.2.3 Capital Reserves and Capital Receipts

At the 31<sup>st</sup> March 2023 the PCC held Capital Reserves that totalled £11.7m; this is expected to decrease to £8.3m at the end of 2023/24, providing that the 2023/24 Capital Programme is fully delivered These Capital reserves are however expected to reduce to nil by 2027/28.

5.2.4 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 as there is currently no capacity to fund anything further from within the resources available.

### 5.2.5 Further Earmarked Reserves

The PCC has additional earmarked reserves that are detailed within Appendix A along with the projected movements over the LTFP period.

5.2.6 These additional Earmarked Reserves are expected to total £7.2m at the start of 2024/25.

5.2.7 Based on the current plans I expect total reserves to reduce from £22.7m at the start of 2024/25 to £20.4m in 2025/26 and then just £8.7m by the end of this current plan.

5.2.8 While £8.7m may still seem like a significant amount of money this is less than 5% of the amount that the organisation spends in a year.

5.2.9 Whether this is a sustainable level of reserves will need to be considered over the next 3/4 years, however with the current level over £20m there are a number of years to consider this further.

## **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 2024/25 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 PCSOs quickly enough to deliver against the plans within the budget.
- 6.3 In addition to this a successful application for additional Uplift funding would provide additional income that is not factored into the current budget.
- 6.4 From a cost perspective the biggest risk will be in relation to the levels of pay awards agreed during the year, closely followed by continued costs linked to higher levels of inflation within the wider economy and these feeding through into costs increases.
- 6.5 It will therefore be vital to continue to closely monitor the financial position throughout 2024/25 to ensure that the finances support the delivery and achievement of the Police and Crime Plan objectives.
- 6.6 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.
- 6.7 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 2024/25.
- 6.8 I am happy to recommend that the PCC holds a general reserve of around 3% of the Net Budget Requirement 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 2024/25 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 2024/25 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 The improving operational and service delivery position of the Force has improved and stabilised over the last year, as outlined by Force being removed from 'Special Measures', this continues to be underpinned by the finances of the organisation that remain robust. The estimates that the financial plans are based on are robust for 2024/25 and this is also the same for the remaining period covered by the LTFP.

8.5 The challenge for the Force is to maintain the momentum and capitalise on the robust and stable financial position that they have enjoyed for a number of years now to further improve 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 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 Net Budget Requirement 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 reserve's 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 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	Transfers In 2026/27 £000	Transfers Out 2026/27 £000	Balance at 31 March 2027 £000	Transfers In 2027/28 £000	Transfers Out 2027/28 £000	Balance at 31 March 2028 £000
<b>Funding for projects &amp; programmes over the period of the current MTFP</b>																
Direct Revenue Funding of Capital	(2,436)	(4,535)	6,971	0	(1,880)	1,880	0	(800)	800	0	(800)	800	0	(1,155)	1,155	0
PCC Change Reserve	(129)			(129)			(129)			(129)			(129)			(129)
Airwaves Project	(294)			(294)			(294)			(294)			(294)			(294)
CP Change Reserve	(992)	(470)	160	(1,302)		66	(1,236)		430	(806)		285	(521)		150	(371)
EDI Reserve	(50)			(50)		50	0			0			0			0
Wide Area Network Reserve	(724)		240	(484)		484	0			0			0			0
Recruitment Reserve	(502)		222	(280)			(280)			(280)			(280)			(280)
Commissioning Reserves	(259)		35	(224)		35	(189)		35	(154)		35	(119)		35	(84)
Road Safety Initiatives Fund	(132)			(132)			(132)			(132)			(132)			(132)
<b>Sub Total</b>	<b>(5,516)</b>	<b>(5,005)</b>	<b>7,628</b>	<b>(2,893)</b>	<b>(1,880)</b>	<b>2,515</b>	<b>(2,258)</b>	<b>(800)</b>	<b>1,265</b>	<b>(1,793)</b>	<b>(800)</b>	<b>1,120</b>	<b>(1,473)</b>	<b>(1,155)</b>	<b>1,340</b>	<b>(1,288)</b>
<b>Funding for projects &amp; programmes beyond the current MTFP</b>																
PFI Sinking Fund	(413)	(75)	30	(458)	(75)		(533)	(75)	115	(493)	(75)	530	(38)	(75)		(113)
Incentivisation Grant	(552)		49	(503)		97	(406)		49	(358)			(358)			(358)
Police Property Act Fund	(101)			(101)			(101)			(101)			(101)			(101)
<b>Sub Total</b>	<b>(1,066)</b>	<b>(75)</b>	<b>79</b>	<b>(1,062)</b>	<b>(75)</b>	<b>97</b>	<b>(1,040)</b>	<b>(75)</b>	<b>164</b>	<b>(952)</b>	<b>(75)</b>	<b>530</b>	<b>(497)</b>	<b>(75)</b>	<b>0</b>	<b>(572)</b>
<b>General Contingency</b>																
Legal/Insurance Fund	(23)			(23)			(23)			(23)			(23)			(23)
Injury Pension Reserve	(1,267)	191	162	(914)		115	(799)		96	(703)		160	(543)		160	(383)
Uray Nook TTC	(81)			(81)			(81)			(81)			(81)			(81)
NERSOU	(213)			(213)			(213)			(213)			(213)			(213)
Collaboration Reserve	(28)		28	0			0			0			0			0
Pay, Price and Grant Reserve	(1,674)		600	(1,074)	(600)		(1,674)		175	(1,499)		705	(794)		180	(614)
Major Incident Reserve	(907)			(907)		300	(607)		150	(457)			(457)			(457)
<b>Sub Total</b>	<b>(4,192)</b>	<b>191</b>	<b>790</b>	<b>(3,212)</b>	<b>(600)</b>	<b>415</b>	<b>(3,396)</b>	<b>0</b>	<b>421</b>	<b>(2,975)</b>	<b>0</b>	<b>865</b>	<b>(2,110)</b>	<b>0</b>	<b>340</b>	<b>(1,770)</b>
<b>Total Earmarked Reserves</b>	<b>(10,774)</b>	<b>(4,889)</b>	<b>8,497</b>	<b>(7,167)</b>	<b>(2,555)</b>	<b>3,027</b>	<b>(6,695)</b>	<b>(875)</b>	<b>1,850</b>	<b>(5,720)</b>	<b>(875)</b>	<b>2,515</b>	<b>(4,080)</b>	<b>(1,230)</b>	<b>1,680</b>	<b>(3,630)</b>
<b>General Reserves</b>	<b>(5,042)</b>	<b>(2,130)</b>		<b>(7,172)</b>		<b>0</b>	<b>(7,172)</b>		<b>1,100</b>	<b>(6,072)</b>		<b>675</b>	<b>(5,397)</b>		<b>355</b>	<b>(5,042)</b>
<b>Total Usable Reserves</b>	<b>(15,816)</b>			<b>(14,339)</b>			<b>(13,867)</b>			<b>(11,792)</b>			<b>(9,477)</b>			<b>(8,672)</b>
<b>Capital Receipts Reserve</b>	<b>(9,293)</b>	<b>(140)</b>	<b>1,106</b>	<b>(8,327)</b>	<b>(150)</b>	<b>1,907</b>	<b>(6,570)</b>	<b>(175)</b>	<b>2,718</b>	<b>(4,027)</b>	<b>(180)</b>	<b>2,210</b>	<b>(1,997)</b>	<b>(185)</b>	<b>2,180</b>	<b>(2)</b>
<b>Total Reserves</b>	<b>(25,110)</b>			<b>(22,666)</b>			<b>(20,437)</b>			<b>(15,820)</b>			<b>(11,475)</b>			<b>(8,675)</b>



## **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.

#### **PCC Change Reserve**

The PCC has established this reserve to meet any costs of a change within the OPCC.

#### **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.

#### **EDI Reserve**

The reserve has been created to support the Force equality, diversity and inclusion activity. This is expected to be released in 2024/25 as the costs have been budget for permanently.

#### **WAN Earmarked Reserve**

The reserve has been created to hold funding to be spent on the development WAN capability across the force. This will be released in 2024/25 as the costs are now included within the overall revenue budget.

#### **Recruitment Reserve**

The reserve has been created to support setup costs associated with proposed new routes of entry into the organisation both Police & Staff.

#### **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 regular 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.

#### **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 31<sup>st</sup> March 2022 Northumbria on behalf of the unit held reserves, to meet any variable costs/needs of the unit, of which Cleveland's share is £213k. 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. The remaining funds from this reserve have now been released.

**Pay and Price Reserve**

There is currently much uncertainty 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.

In addition to this the current level of general price inflation is also a risk for the organisation. As such this reserve will increase in the short term to support this risk with an expectation that funding will be released in future if not needed.

**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.