

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

18th February 2026

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.
- 1.2 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 2026/27 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.

4.3 Available Funding

The £212,575k of funding forecast to be available to the PCC in 2026-27, to support expenditure, is expected from the following sources, and is shown in comparison to the 2025/26 budgeted figure of £202,770k:

	Actual	Actual	Movement
	2026/27	2025/26	Year on Year
Funding	£000s	£000s	£000s
Government Grant	(122,076)	(113,410)	(8,666)
Council Tax Precept	(56,823)	(53,244)	(3,579)
Other Core Grants	(14,120)	(14,124)	4
Funding for Net Budget Requirement	(193,019)	(180,778)	(12,241)
%age change in Net Budget Requirement	6.8%		
Specific Grants	(10,487)	(15,308)	4,821
Witness and Victims Funding	(1,540)	(1,510)	(30)
Partnership Income/Fees and Charges	(4,924)	(5,174)	250
Total Core Funding	(209,970)	(202,770)	(7,200)
%age change in Total Core Funding	3.6%		
Special Grant	(2,605)	0	(2,605)
Total Overall Funding	(212,575)	(202,770)	(9,805)

- 4.4 The Government Grant, Other Core Grants, Specific Grants and Witness and Victims Funding are based predominantly on national settlement figures and therefore the risks to these sources of funding are minimal. There are several 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.

4.5 Specific Grants

4.6 The Specific Grants budget is £4,821k less than 2025/26, this is predominantly due to the following:

- Removal of Police Officer Maintenance Grants - £6,727k
- End of the Urlay Nook PFI Scheme and therefore Grant - £941k

Offset by increases in the following areas:

- Neighbourhood Policing Grant - £1,988k
- Violence Reduction Programme - £200k

And new Grants awarded for 2026/27

- Knife Crime Concentration Fund - £481k
- DRIVE - £401k

4.7 Almost £5.7m of the £10.5m of budgeted specific grants are directly linked to expenditure – meaning that if you do not spend the money in line with the Grant then the funding will not be received. It should also mean that there is limited financial risk with these in terms of the overall finances of the organisation as the expenditure should directly match with income and vice-versa.

4.8 The exception to the above is the Neighbourhood Policing Grant. It is not yet clear whether this will be directly linked to the number of Police Officers/PCSO within Neighbourhoods at specific points in the year, or whether it will be based on actual expenditure made as well as delivery of a certain level of increased resources into Neighbourhood Policing.

4.9 It is expected that there will be elements of this grant at risk for non-delivery. The only direction that we have at this point is that 'Your initial share of the expected national growth of 1,750 in Year 2 of the Programme is **21**. Final force-level targets will be communicated in due course'

4.10 This will therefore need to be closely managed to ensure a shortfall does not materialise as this Grant for this area is £4,387k

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

4.12 Special Grant

4.13 The PCC has submitted a request for the continuation of Special Grant funding to further the work of the Historical Investigation Unit. The overall request set out a cost of just over £4.0m for 2026/27, with a request for full funding.

4.14 A decision on this funding has not yet been received, although in 2025/26 funding of up to £2.682m was awarded, based on 65% of the forecast costs.

4.15 The budget assumes that as a minimum 65% of the costs are continued to be funded.

4.16 If this work is not funded and/or funded at a lower rate than the £2.6m assumed within the 2026/27 budget a significant pressure is likely and quick action will need to be taken to align the work and resources in this area to an affordable level.

4.17 Council Tax

- 4.18 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.
- 4.19 This won't change during 2026/27. 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 2026-27 but would have to be taken into account in 2027-28.
- 4.20 Other than 2020/21 (impact of COVID) there have been no instances, over the previous 23 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.
- 4.21 Partnership Income, Fees and Charges
- 4.22 The £4,924k of income that is factored into the 2026/27 budget for Partnership Income and Fees and Charges covers 26 different incomes streams with increases and decreases across most of these lines reflecting inflation, new developments and new information.
- 4.23 Overall, the income across these 26 income streams is budgeted to be £250k lower than 2025/26.
- 4.24 It is more likely that income received during 2026/27 across these 26 lines is higher than the budget than lower as there is generally new funding streams that become available during the year and income from variable items such as Mutual Aid that will happen.
- 4.25 The total funding that the 2026/27 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. With the only significant area of risk within the Income budgets relating to whether the Special Grant continues at the level assumed within the financial plans.**
- 4.26 Government Funding for 2026/27 and beyond
- 4.27 On 11 June 2025, the Chancellor of the Exchequer, Rachel Reeves MP, announced the outcome of the Spending Review 2025 (SR2025). The Spending Review sets out revenue funding allocations for each Government department over the next three years (2026-27 to 2028-29) with an additional fourth year for capital allocations. The Spending Review is the first multi-year Spending Review since 2021, and the first to happen outside of a pandemic since 2015.
- 4.28 According to the Spending Review, police spending power will increase by an average of 2.3% per year (2023-24 to 2028-29), in real terms, over the SR period. This funding will be used to support frontline policing levels and help restore public confidence. This reflects the Government's Plan for Change commitment to put an additional 13,000 police officers, PCSOs, and special constables into neighbourhood policing roles over the course of this parliament.
- 4.29 The funding allocations set out within the Spending Review for Policing were as follows:
- 2026/27 - £19.6bn

- 2027/28 - £20.3bn
- 2028/29 - £20.8bn

- 4.30 The above figures include the funding that is generated from local precept as well as funding from Government.
- 4.31 If the assumption nationally is that Council Tax bases continue to increase by 0.9% per year, and a precept increase limit of £15 per year is set for a Band D property then Government Funding is forecast to increase by the following:
- 2027/28 – 2.4%
 - 2028/29 – 1.0%
- 4.32 The current plan assumes the above scenarios for planning purposes.
- 4.33 The lack of a 3-year settlement and clarity in relation to Government Funding despite a 3-year Comprehensive Spending Review creates risks around future levels of funding.
- 4.34 As was apparent with the funding settlement for 2026/27 not all areas of the country received the same level of overall increase in their funding. This is likely to be the case in the future years, although it is hoped that the revised forecasts allow for this.
- 4.35 The risk beyond this is that there is no clarity about the future delivery and funding of the Government's commitment to 13,000 additional resources in Neighbourhood Policing, whether there will be additional funding and whether without additional funding it will be possible operationally to reallocated additional resources into Neighbourhoods.
- 4.36 Precept
- 4.37 The average collection surplus payable to the 'Police' in relation to the amounts that the 4 councils have managed to collect in excess of their forecasts has been £464k over the 14 years up to 2025/26. This even takes into account the significant deficit of £1,325k reported as part of Covid in 2020/21
- 4.38 The collection fund position reported in 2025/26, and payable in 2026/27 is a surplus of £624k which is a higher-than-average position, resulting from Middlesbrough Council continuing to work through their Bad Debt provision, and releasing a significant amount of this over the last 3 years.
- 4.39 The plan reflects that a collection surplus will be generated going forward of between £440k and £505k which is broadly in line with the average for the last 14 years.
- 4.40 In addition to incorporating an annual collection surplus the precept plans also incorporate annual growth in the underlying tax base. Over the last 13 years the Tax Base growth had averaged just over 1.6%, this even included the 'Covid' year where the tax base did not increase at all.
- 4.41 Over the last 5 years (since the 'covid' year) the overall tax base in Cleveland has increased by an average of 1.59%

4.42 The plan assumes that the tax base will grow by 1.4% per year going forward, which is a reasonable and prudent assumption of growth going forward based on both the last 14 years information, plus the known push to increase housebuilding across the country.

4.43 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.

4.44 Future Precept Plans

There is currently no guidance on future limits on increases in Precept for 2027/28 and beyond. Over the last 9 years PCCs have been provided with a financial limit of precept increases, as opposed to a percentage increase.

4.45 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
- 2025/26 - £14
- 2026/27 - £15

4.46 The planning assumption within the LTFP assumes that the level of precept charged for a Band D property will increase by £15 per annum. This is however an annual decision for the PCC.

4.47 This assumption is broadly in line with the average limit provided over the last 9 years of £14.22 and as such these are reasonable assumptions. Especially given that if the increase per year stays at the same level in monetary terms, then in percentage terms the increase is getting small each year.

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

5 Expenditure Plans

5.1 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 consider the financial and operational uncertainty that exists.

- 5.2 There are several key estimates within the 2026/27 budget and LTFP, these are set out below along with the potential risks where applicable:
- 5.3 Police Pay Awards and Levels of Police Officers
The LTFP assumes that Police Pay will increase by 3% in September 2026 and then by 2.5% in September 2027 and then 2% each September thereafter.
- 5.4 There is a risk however that it may not be possible for national negotiations to contain Police Officer pay within the budgeted limits.
- 5.5 In the last 4 years, Pay Awards were more than the levels that Forces had budgeted for. These increases were however funded by the Government through additional in year funding.
- 5.6 This plan assumes that should an increase above 3% be awarded that it is also funded by Government in line with the approach of the last 4 years.
- 5.7 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 2026/27. This could then provide the Force time to develop plans to manage financially from 2027/28 and beyond.
- 5.8 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% budgeted within 2026/27 would cost around £640k during 2026/27 and £1,100k per annum thereafter.
- 5.9 The Earmarked Reserve for pay is forecast to be £690k at the start of 2026/27 and therefore provides enough funding for a scenario where the Police Officer pay award is 1% higher than budget for 2026/27 only.
- 5.10 Police Officers Numbers – now that all overall numbers of Police Officers are not dictated by Specific funding and grants then there is significantly greater financial flexibility around the number of Police Officers required to be 'employed' within the Force.
- 5.11 Other than ensuring sufficient Police Officers are allocated to Neighbourhood Policing in line with the Neighbourhood Policing Grant there are no financial risks to the PCC should the number of Police Officers within the Force reduce.
- 5.12 The financial plan assumes that the Force will work to an Establishment of 1,524 FTE Police Officers and have a 1.2% vacancy factor, which means the Force can afford to have 1,506 FTE on average throughout 2026/27. The Force current forecast that they will start 2026/27 with 1,531 FTEs and therefore this will need to be carefully managed to ensure an overspend does not occur.
- 5.13 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	Proposed Budget			
	2025/26	2026/27	2027/28	2028/29	2029/30
Employee Numbers	FTEs	FTEs	FTEs	FTEs	FTEs
Police Officers	1,521	1,510	1,510	1,510	1,510
Funded Police Officer Roles	13	14	14	14	14
PCSOs	102	102	102	102	102
Police Staff - Police Force (before vacancies)	948	967	967	967	946

- 5.14 As part of the Neighbourhood Policing Guarantee Baseline work the Force are working from a baseline of 65 FTE PCSOs, with a requirement to add 31 additional PCSOs during 2025/26. The Force are forecasting to have 99 FTE PCSOs at the end of 2025/26 and therefore are well placed to meet this requirement.
- 5.15 The Force should also be in a good position from a budgeting perspective on PCSOs for 2026/27 given the budget for PCSO's is 102 FTEs with an allowance for a 2.5% vacancy factor.
- 5.16 Police Staff - There continues to be both significant development and change within this area. With a projected Police Force Staff Establishment of 967 FTEs indicated for 2026/27.
- 5.17 This is higher than the previous year due to the TUPE transfer of Custody Staff into the Force as well as the completion to the Force restructuring their Police Staff establishment.
- 5.18 The Police Staff budget assumes that there will be on average 7% vacancies during 2026/27, which equates to around 68 FTE roles, meaning the Force can afford around 899 FTE roles.
- 5.19 The projection from the Force is that they will start the financial year with 886 FTE Police Staff and therefore this area should be manageable within budget providing it is tightly controlled.
- 5.20 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% increase in September 2026 and then lower increases each year thereafter.
- 5.21 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.
- 5.22 Each 1% increase in pay beyond the 3% factored into Staff and PCSO budgets would cost the organisation around £295k in 2026/27 and £505k per annum thereafter.
- 5.23 Non-Pay Budgets and Inflation
- 5.24 After allowing for the re-allocation of the non-pay Contract cost for Custody to pay then just over £2.35m (7%) has been added to the non-pay Force budgets for 2026/27.

- 5.25 While this seems very large, £415k relates to non-pay spend on the Historical Investigation Unit, £600k relates to money set aside for insurance claims and premiums, and £170k relates to Police Officer medical/injury retirement costs.
- 5.26 Setting aside the above 3 amounts results in an inflationary increase of 3.5% which is broadly in line with inflation, and therefore the budgetary assumptions are realistic.
- 5.27 While inflation has reduced from the significantly high levels of the last couple of years this is still an area that will need to be closely managed to stay within budget.
- 5.28 While in previous years there was some capacity to use reserves should high levels of inflation materialise this is no longer this case and therefore further savings/reductions would need to be found if the current budgets are not sufficient.
- 5.29 From an income perspective inflation has been applied on fees and receivables for 2026/27 onwards, subject to known variances. Specific grants have no inflation assumed unless notified by the payer, while any anticipated reductions have been accounted for.
- 5.30 Savings Requirements
- 5.31 The plans and savings proposals totalling around £3.7m included in the budget for 2026/27 are well defined and set out. There is also an in-year savings target of £0.6m remaining. This equates to around 0.3% of the budget that the Force has and therefore while challenging should be possible to deliver.
- 5.32 It will require close monitoring as part of in-year budget monitoring though.
- 5.33 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 2026/27 will balance providing the savings plans are delivered. There are some risks from these savings plans but the financial estimates are robust. The risks are as outlined within this report.
- 5.34 The current LTFP is projected to be balanced budget across the next 4 financial years based on current plans and assumptions and the delivery of a small amount of in-year savings.
- 5.35 It is however vital that the Force further develop the efficiency, and savings plans they outlined to the PCC in terms of Robotic Process Automation and the use of AI 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.
- 5.36 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.
- 5.37 Capital Expenditure and Financing
The capital programme to 2029/30 is based on spending around £22.3m over the next 5 years.
- 5.38 In terms of the funding of this investment and expenditure, the £22.3m will be funded as follows:

- Contributions from Revenue - £11.7m
 - New Capital Receipts - £0.5m
 - Borrowing - £6.9m
 - Capital Reserves - £3.2m
- 5.39 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 provided the assumptions within the revenue budget are realistic and can be worked within.
- 5.40 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.
- 5.41 The PCC has the capacity to borrow if deemed necessary to support Capital investment, while £6.9m is factored into the plans, this could be revisited if needed.
- 5.42 There is no risk to the Capital Reserves that are already in place.
- 5.43 The biggest risk with the Capital Programme is if the future forecast plans of the Force are too low. Actual Capital spend for 2024/25, plus forecast spend for 2025/26 and 2026/27 total £18.2m, however the 3 years that follow this forecast a need of only £12.4m.
- 5.44 It is very unlikely that higher levels of capital spend could be affordable without additional borrowing especially given how tight the revenue budget is.
- 5.45 Capital Reserves is discussed further in section 6 of this report.

6 Adequacy of Financial Provisions, Reserves and Balances

- 6.1 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.

6.2 **Reserves & Provisions**

6.3 The PCC maintains several reserves with the main ones discussed below.

6.4 General Fund

6.5 The General Fund had been £5,042k from 2019/20 to 2022/23, however it was increased by £730k during 2023/24 to £5,772k and has remained at that level since.

6.6 There is now a need to add additional funding to the General Fund to ensure that it remains at 3% of the forecast Net Budget Requirement for 2026/27 and beyond, in line with the Reserves Strategy.

6.7 £20k has been added to the reserve in 2026/27, however more will need to be added in future years to stay within the current reserves policy.

6.8 As a result of the challenging financial settlement, plans to borrow more and the overall reductions in reserves, the level of General Reserves will need to be closely monitored. 3% of Net Budget Requirement is at the bottom end of the level that I would recommend for the organisation now whereas previously it was deemed to be sufficient.

6.9 Capital Reserves and Capital Receipts

At the 31st March 2025 the PCC held Capital Reserves that totalled £7.9m; this is expected to decrease to £3.8m at the end of 2025/26, providing that the 2025/26 Capital Programme is fully delivered. These Capital reserves are however expected to reduce to almost nil by 2029/30.

6.10 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.

6.11 Further Earmarked Reserves

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

6.12 These additional Earmarked Reserves are expected to total £7.5m at the start of 2026/27.

6.13 Based on the current plans I expect total reserves to reduce from £19.7m at the start of 2025/26 to £17m in 2026/27 and then just £12.5m by March 2027.

6.14 While £12.5m may still seem like a significant amount of money this is less than 6% of the amount that the organisation spends in a year.

6.15 Whether this is a sustainable level of reserves will need to be considered over the next 2 years.

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 2026/27 is sound and robust. There are some limited risks around savings factored into the revenue plan to deliver this balanced budget.
- 6.2 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.
- 6.3 It will therefore be vital to continue to closely monitor the financial position throughout 2026/27 to ensure that the finances support the delivery and achievement of the Police and Crime Plan objectives.
- 6.4 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.
- 6.5 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 2026/27.
- 6.6 I am content that the PCC holds a general reserve of around 3% of the Net Budget Requirement available to the PCC however it is now considered to be lower than ideal given the challenging settlement and the likelihood that future years will be even more challenging. 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 2026/27 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 2026/27 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 couple of years, as outlined by Force being removed from 'Special Measures', this was underpinned by the finances of the organisation that remained robust throughout this period.

8.5 While the estimates within the financial plans for 2026/27 are robust the position has undoubtedly become more challenging from a financial perspective given that the PCC received the worst funding settlement in the country and a below inflation increase in funding overall.

8.6 The challenge for the Force is to maintain the momentum given the slightly less robust and stable financial position that they now have.

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 2025 £000	Tranfers In 2025/26 £000	Tranfers between Reserves £000	Tranfers Out 2025/26 £000	Balance at 31 March 2026 £000	Tranfers In 2026/27 £000	Tranfers between Reserves £000	Tranfers Out 2026/27 £000	Balance at 31 March 2027 £000	Tranfers In 2027/28 £000	Tranfers Out 2027/28 £000	Balance at 31 March 2028 £000	Tranfers In 2028/29 £000	Tranfers Out 2028/29 £000	Balance at 31 March 2029 £000	Tranfers In 2029/30 £000	Tranfers Out 2029/30 £000	Balance at 31 March 2030 £000	Tranfers In 2030/31 £000	Tranfers Out 2030/31 £000	Balance at 31 March 2031 £000
Funding for projects & programmes over the period of the current MTFP																					
Direct Revenue Funding of Capital	(5,919)	0	2,396		(3,523)	(1,160)		4,361	(322)	(1,805)	1,984	(143)	(1,870)	1,272	(741)	(3,120)	3,751	(110)	(3,700)	3,184	(626)
PCC Change Reserve	(129)				(129)				(129)			(129)			(129)			(129)			(129)
Airwaves Project	(248)				(248)				(248)			(248)			(248)			(248)			(248)
Change Reserve	(1,000)				(1,000)		225	265	(510)			(510)			(510)			(510)	(490)		(1,000)
Recruitment Reserve	(251)				(251)				(251)			(251)			(251)			(251)			(251)
Commissioning Reserves	(0)	(185)			(185)			85	(100)			(100)			(100)			(100)			(100)
Road Safety Initiatives Fund	(111)		54		(57)				(57)			(57)			(57)			(57)			(57)
Sub Total	(7,657)	(185)	2,450	0	(5,391)	(1,160)	225	4,711	(1,616)	(1,805)	1,984	(1,437)	(1,870)	1,272	(2,035)	(3,120)	3,751	(1,404)	(4,190)	3,184	(2,410)
Funding for projects & programmes beyond the current MTFP																					
PFI Sinking Fund	(673)	(75)		130	(618)			600	(18)	(150)	15	(153)	(75)	120	(108)	(75)	140	(43)	(170)		(213)
Incentivisation Grant	(858)	150		48	(660)				(660)			(660)			(660)			(660)			(660)
Police Property Act Fund	(199)				(199)				(199)			(199)			(199)			(199)			(199)
Sub Total	(1,730)	75	0	178	(1,477)	0	0	600	(877)	(150)	15	(1,012)	(75)	120	(967)	(75)	140	(902)	(170)	0	(1,072)
General Contingency																					
Insurance Fund	(0)	(150)	(2,450)	150	(2,450)		(225)	(350)	(3,025)			(3,025)	(225)		(3,250)	(265)		(3,515)			(3,515)
Injury Pension Reserve	(446)	85		75	(286)			75	(211)			(211)			(211)			(211)			(211)
Urley Nook TTC	(81)				(81)				(81)			(81)			(81)			(81)			(81)
NEROCU	(192)				(192)				(192)			(192)			(192)			(192)			(192)
Pay, Price and Grant Reserve	(1,620)	89		430	(1,101)			410	(691)	(410)		(1,101)			(1,101)			(1,101)			(1,101)
Major Incident Reserve	(150)			150	0			0	0			0			0			0			0
Sub Total	(2,488)	24	0	805	(4,109)	0	0	135	(4,199)	(410)	0	(4,609)	(225)	0	(4,834)	(265)	0	(5,099)	0	0	(5,099)
Total Earmarked Reserves	(11,875)	(86)		983	(10,977)	(1,160)		5,446	(6,692)	(2,365)	1,999	(7,058)	(2,170)	1,392	(7,836)	(3,460)	3,891	(7,405)	(4,360)	3,184	(8,581)
General Reserves	(5,772)			0	(5,772)			(20)	(5,792)		0	(5,792)		0	(5,792)		(95)	(5,887)		0	(5,887)
Total Usable Reserves	(17,647)				(16,749)				(12,484)			(12,850)			(13,628)			(13,292)			(14,468)
Capital Receipts Reserve	(2,032)	(340)		2,078	(294)	(105)		399	(0)	(105)	105	(0)									
Total Reserves	(19,679)				(17,043)				(12,484)			(12,850)			(13,628)			(13,292)			(14,468)
Movement	3,995				2,635				4,560			(366)			(778)			336			(1,176)

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.

Change Reserve

The reserve has been created to support change within the organisation.

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.

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 overall level of the reserve and the annual contributions into the reserve have been assessed through a recent actuarial review of the fund.

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.

NEROCU

The North East Regional Organised Crime Unit (NEROCU) is a collaboration between Northumbria, Durham and Cleveland Forces to address organised and serious crime. At the 31st March 2025 Northumbria on behalf of the unit held reserves, to meet any variable costs/needs of the unit, of which Cleveland's share is £192k. These reserves are reviewed annually as part of the Collaboration.

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 provided some capacity to absorb additional costs for major incidents that otherwise would result in reductions, at short notice, from elsewhere. Unfortunately this reserve has now been used and will need to be built back up in future years to further meet this risk.