

1 November 2012

Wiltshire Police Authority

Medium Term Financial Strategy (MTFS) – 2013-14 to 2015-16

Executive Summary

1. The 3 year MTFS has been produced in a climate of reduced funding. Central grant cuts and limited council tax increases are expected in this period. This will put significant pressures on the policing of Wiltshire.
2. In producing the MTFS, statements made by Government in the 2010 Comprehensive Spending Review (CSR 2010) have been used to forecast funding for the first 2 years. For the 3rd year calculations have been based on a 2.5% grant reduction. Based on this information central funding reduces by 1.6%, 2.0% and 2.5% in the 3 years of the MTFS.
3. During the next 3 years the Policing and Crime Commissioner (PCC) will have to make difficult decisions on the level of council tax increase. The MTFS identifies the savings required to balance budgets under 3 different scenarios: no increase in Council Tax, a 2.5% or a 3.9% increase.
4. Expenditure plans have been estimated based on assumptions surrounding pay awards, inflation and limited growth. When compared to the different estimated income levels the following savings are required in each year to balance the budget;

	No Council Tax Increase	2.5% Council Tax Increase	3.9% Council Tax Increase
2013-14	£3.533m	£2.521m	£1.954m
2014-15	£3.584m	£2.535m	£1.926m
2015-16	£3.945m	£2.872m	£2.225m
Total	£11.062m	£7.928m	£6.105m

5. Assuming a 2.5% Council Tax increase the cumulative savings requirement is £7.928m (£16.542m if the savings required and delivered in 2011-12 and 2012-13 are included).
6. An agreement to a strategy of 2.5% Council Tax increases would enable the Force to continue with the Vision plan until the end of the CSR period. The table below shows the planned Vision savings against the estimated shortfalls under a 2.5% increase;

	Shortfall with a 2.5% CT Increase	Planned Vision Savings	Variance
2013-14	£2.521m	£2.801m	£0.280m
2014-15	£2.535m	£2.033m	-£0.502m
Total	£5.056m	£4.834m	£0.222m

7. An increase of 2.5% would result in a Band D Council Tax of £161.71, £3.94 p.a. more than the current precept. Even if all other South West Forces agreed not to increase their council tax we would still have the 2nd lowest Council Tax in the region.
8. An analysis of the budget shows that 79% or £89m of the gross revenue budget, is spent on staffing. To obtain savings changes to staffing levels will be necessary. The figure of 1,062 Police Officer at the end of March 2015 still remains valid. If the 2.5% reduction in 2015-16 is correct it is likely that this number will have to fall. As we are currently below the 1,062 level and Police Officers are constantly leaving the Force it is recommended that a recruitment strategy of 2 in-takes per year be agreed to ensure a constant flow of new staff to the organisation, this is expected to be affordable during the period of the MTFS. 1 in-take per year for Police Community Support Officers is recommended.
9. To produce the necessary savings a corporate approach is required. The Vision change programme is providing this with £7.8m delivered to the end of September 2012. The Vision team continues to identify principles, targets and methodology to enable the Force to be reshaped and provide quality services with reduced funds.
10. The MTFS includes an updated Capital Plan. Estimated resources are adequate to fund current needs and allow a small amount for future funding. The plan does not identify a need to borrow during the MTFS period.
11. Reserves have been considered and are seen as a key instrument in managing risks. A level of general reserves between 2% and 3% is seen as essential to manage both large incident risks and year on year revenue variations. The budget variances in recent years have enabled the Authority to increase its general reserves to £8.939m. This gives confidence surrounding one off costs and reduces the risk surrounding savings targets.
12. The MTFS is based on assumptions which may or may not be realised but are currently considered as reasonable. Its purpose is to give to management a financial framework to plan its strategic direction over the next 3 years.

The Financial Environment

13. The MTFS for 2013/14 to 2015/16 has been produced against a backdrop of reducing funds. The first 2 years of the strategy use information provided within the 2010 Comprehensive Review (CSR 2010). The 3rd year of the strategy (2015-16) assumes that central funding will continue to reduce. However there is much less certainty of whether this will be the case and what the reduction will be.
14. The MTFS attempts to give an overall picture of Wiltshire Police's finances. Management should consider this when making decisions on Policing operations and structures in the short to medium term.

Central Public Finances

15. In May 2010 the Chancellor of the Exchequer outlined an urgent need for public sector cuts to reduce the £156 billion national deficit. This led to CSR 2010 which outlined significant reduced budget allocations for departments.

16. On 13 December 2010 outline funding for the Police Service was announced. Depending on assumptions on inflation this outlined a real terms cut in central funding to the police of 20% to 25%. Specific calculations surrounding Wiltshire Police identify the following (these figures are included within the MTFs):

Year	Real Terms Reduction	Inflation	Cash Reduction
2013-14	2.7%	1.1%	1.6%
2014-15	3.5%	1.5%	2.0%
2015-16	4.4%	1.9%	2.5%
Sub Total	10.6%		6.1%
2011-12	3.9%	2.1%	1.8%
2012-13	8.8%	2.1%	6.7%
Total	23.3%		14.6%

17. Owing to government capping of public sector pay increases the inflation impact has been reduced in recent years. This results in the 'real terms' reduction not being as severe as initially reported.
18. It should be noted that the figures announced for 2013-14 and 2014-15 are for the Police Service as a whole and do not go down to the detail for each Authority. Therefore the actual grants for those years are likely to be different from those estimated in this document. The 2015-16 figures are based on pure estimates as these will be dependent on the CSR announcement expected next year.

Council Tax

19. In 2011-12 and 2012-13 Wiltshire Police Authority decided not to increase the Council Tax levy. This was in line with the Government request. In return the Authority received a grant equivalent of a 2.5% increase in Council Tax (for Wiltshire Police £0.991m) for 2011-12 and a grant equivalent of a 3% increase for 2012-13. The grant notices confirm that only 2011-12 will be paid for the full CSR 2010 period. The removal of the one off grant in 2012-13 reduces the Authority's base funding and does increase the funding gap in 2013-14.
20. In 2012 the Secretary of State, under The Localism Bill, introduced new regulations surrounding Council Tax. If a major precepting body (which includes the Police) proposes to raise taxes above a limit agreed by government then they will have to hold a referendum to obtain approval from local voters and the local voters may veto the rise. This means that major precepting bodies will need to convince local voters, rather than central government of the case for excessive rises in council taxes. For 2012-13 the Secretary of State suggested that an increase of more than 4% would be considered excessive and be subject to a referendum. Taking this into consideration the MTFs has been produced using three different council tax levels:
- 0% - No increase
 - 2.5%
 - 3.9% - the maximum before a referendum is required

21. The Council Tax receipt is dependent on the council tax base (the number of dwellings paying the tax). The Localism Bill also gave councils more freedom surrounding what council tax benefits could be given. In return for this freedom the funding of benefits was changed. From 2013-14 the centrally funded council tax benefit has been removed reducing the council tax base and in turn all precepting bodies income. In return each precepting body will receive grant income.

22. The Government have publically announced that the grant will only cover 90% of the centrally funded benefit payment. Therefore there is a risk of funding loss. Both Wiltshire Council (WC) and Swindon Borough Council (SBC) are planning to introduce schemes to negate the reduction in benefit. However there is a risk that it will not fully fund the reduction in grant. This may lead to a reduction in council tax receipt for all precepting bodies. In recognition of this a 10% shortfall has been allowed in the MTFS. Whilst this change occurs from 1 April 2013 details remain at draft stage so there is a risk that the implications could be different from those included in this MTFS.

23. The table below shows the change in tax base over the last 3 years.

	Total Dwellings	% Increase
2010-11	248,750	0.65%
2011-12	251,138	0.96%
2012-13	254,156	1.20%

24. Initial information provided by SBC suggests an increase of 1.7%; no information has been received from WC. For the MTFS the estimate should be cautious but reasonable. Based on this a 1% increase has been included in each of the 3 years. This figure will reduce with the introduction of the Localisation Bill. However, as detailed in paragraph 22, only a minor financial impact is expected.

25. In order to estimate total funding, assumptions also have to be made on the collection fund surplus/deficit. Historically surpluses have been achieved. In 2012-13 a combined £488,000 surplus was declared by SBC and WC (£263,000 in 2011-12). Discussions with the councils suggest that a surplus will continue (due to collection rates). SBC are suggesting that the surplus in 2013-14 may be as high as £275,000. However this early estimate may be affected by the Localisation bill (paragraph 22). As collection rates may fall when those currently receiving council tax benefits are asked to pay more. Taking these factors into account the MTFS assumes a high surplus in 2013-14 reducing by 50% in future years. The table below summarises the assumptions made in the MTFS.

	Additional Dwellings	Est total Dwellings	% Increase	Collection Fund Surplus
2013-14	2,542	256,698	1.0%	£300,000
2014-15	2,567	259,265	1.0%	£150,000
2015-16	2,593	261,858	1.0%	£150,000

Inflation

26. The retail price index excluding mortgage payments (RPIX) shows inflation reducing from 3.5% to 2.9% in August 2012. Based on this the MTFS allows for a 2.5% increase in all non-pay costs.

27. In November 2011 the Chancellor of the Exchequer announced that public sector pay increases would be capped at 1% for 2013-14 and 2014-15. The MTFS allows for this low level of increase and assumes a 2% increase in 2015-16.
28. At August 2012 the bank base rate remained at the historical low of 0.5%. This has implications on investment income that all police authorities receive. In addition there is perceived to be an increased risk in investing in institutions offering high interest rates after the Icelandic Bank crisis. All these factors mean that investment income is expected to remain low in the short term.

Policing Priorities and National Issues

29. Wiltshire Police's strategic priorities are set based on the Strategic Threat and Risk Assessment (STRA). The current three priorities for 2012-13 are shown below:
- Tackling Violent Crime in Public and Private Places
 - Integrated Management of those causing the most Harm and the most Vulnerable
 - Antisocial behaviour
30. Performance Indicators are set to monitor performance in each of these areas with a RAG scorecard reported monthly to senior management. Delivery will be significantly influenced by the National Strategic Policing Requirement. The Force and the new Policing and Crime Commissioner (PCC) will need to be careful in balancing local and national priorities; this balance will be further tested in today's difficult financial climate.
31. Based on the ever changing environment the MTFS allows £250,000 in all future years for unidentified cost increases surrounding delivering improved police services.
32. The introduction of the PCC will impact finances. The initial cost of the new office is expected to be cost neutral with increased salary costs being financed by the removal of allowance costs currently paid to members.
33. The PCC will also receive a number of grants (community safety, youth offending, etc.) which are currently paid to other public bodies. For the MTFS it is assumed that these grants will not have a financial impact on the overall finances. There is a risk that the PCC may wish to direct general funds used for policing to other partners. If this is the case it will be necessary to reduce current costs. With significant savings already required to balance the budget this will be difficult.

Financial Health

34. It is good financial management to have a suite of health indicators which provide guidelines on the organisations financial standing. Since 2007 a set of indicators has been in place; these are reported under Appendix A.
35. A report on progress against Health Indicators will be presented to PCC and the Force's management on an annual basis

Income Forecasts

36. The 2012-13 budget relies on the following income to finance activity (this is higher than the published budget of £103.064m due to the addition of the 1st year Council Tax freeze grant and the NPT grant);

Central Funding (inflatable)	Police Grant	£37.689m	
	Council Tax freeze Grant	£0.990m	
	NPT Grant	£2.821m	
	DCLG Funding	£24.790m	£66.290m
Local Funding	Precept – Council Tax	£40.098m	
	Council Tax Surplus	£0.488m	£40.586m
MTFS Funding		£106.876m	£106.876m

37. In line with the comments made within the 'Financial Environment' section the MTFS includes Central Funding reducing by variable figures of 1.6%, 2.0% and 2.5% in each of the 3 years.

38. In the last 2 yrs the Authority has agreed not to increase Council Tax. The current council tax level of £157.77 is the 17th lowest in the country. In 2012-13 19 Authorities chose not to increase the council tax. The remaining 23 agreed increases in the region of 1.09% to 5%. The table below compares the Authority's Band D council tax against others in the South West. It also shows the impact of a 2.5% or 3.9% increase in council tax in 2013-14.

Authority	2012-13 Band D Council Tax	Wiltshire with 2.5% increase	Wiltshire with 3.9% increase
Gloucestershire	£199.69		
Dorset	£180.00		
Avon & Somerset	£168.03		
Devon & Cornwall	£159.73		
Wiltshire	£157.77	£161.71	£163.92

Additional cost per Band D Household with a 2.5% increase	£3.94 p.a.
Additional cost per Band D Household with a 3.9% increase	£6.15 p.a.

39. It should be noted that the financial benefit of council tax increases in future years is dependent on previous decisions made on the council tax. For instance if Wiltshire's Band D were the same as Avon and Somerset (the mid force) we would receive £42.706m, £2.608m more than the £40.098m actually received. So roughly a £10 increase in Council Tax is worth £2.6m in funding to Wiltshire Police.

40. Council tax is 38% of the Authority's funding; therefore to fund an expenditure increase of 1% (£1.069m) requires a 2.6% increase in council tax. This is known as the 'gearing effect' and is the main reason why historically (excluding 2011-12 and 2012-13) council tax increases have been above inflation. .

41. The assumptions made on occupied housing are reported earlier in the MTFS, this will increase the tax base. If there were to be a 'double dip' in the economy with recession

returning; there is a risk that non-payment of council tax will occur, leading to a council tax deficit.

42. The total income over the next 3 years based on the 3 levels of Council Tax increase is shown below. These shows that even with a 2.5% council tax increase it would only keep total cash income stable. In a climate of inflation and cost increases this will lead to a requirement for significant savings, as illustrated in paragraph 63.

No Increase	2013-14	2014-15	2015-16
Central Funding	£65.246m	£63.935m	£62.337m
Local Funding	£40.799m	£41.054m	£41.463m
Total Funding	£106.045m	£104.989m	£103.800m
Total reduction/inc.	-0.8%	-1.0%	-1.1%

2.5% Increase	2013-14	2014-15	2015-16
Central Funding	£65.246m	£63.935m	£62.337m
Local Funding	£41.812m	£43.125m	£44.640m
Total Funding	£107.058m	£107.060	£106.977m
Total reduction/inc.	+0.2%	+0.0%	-0.1%

3.9% Increase	2013-14	2014-15	2015-16
Central Funding	£65.246m	£63.935m	£62.337m
Local Funding	£42.379m	£44.307m	£46.488m
Total Funding	£107.625m	£108.242	£108.825m
Total reduction/inc.	+0.7%	+0.6%	+0.5%

43. The MTFs, with a 2.5% increase, shows the amount of funding provided centrally for policing Wiltshire dropping from 62% (2011-12) to 58% of total budget by 2014-15.

44. It is necessary to consider the impact of different scenarios. The impact on the 2013-14 finances is shown below;

Scenario	Impact on 2013-14 MTFs Figures
The Central funding cash cut is 2.6% rather than 1.6%	Funding reduces by £0.680m
The Central funding cash cut is 0.6% rather than 1.6%	Funding increases by £0.680m

45. The Authority can choose to implement higher Council Tax increases. However as outlined in paragraph 20 these are likely to be limited by the Government introducing referenda where it is deemed that excessive increases are proposed. Assuming that the 'excessive' limit remains at 4% it is suggested that the Authority could precept at 3.9% before a referendum would be necessary. The funding impact of each strategy is shown below;

	2013-14	2014-15	2015-16
Increased Funding with a 2.5% precept vs. 0% inc.	£1.013m	£2.071m	£3.177m
Increased Funding with a 3.9% precept vs. 0% inc.	£1.580m	£3.253m	£5.025m
Increased Funding with a 3.9% precept vs. 2.5% inc.	£0.567m	£1.182m	£1.848m

46. The Authority also benefit from specific grants. In 2013-14 the Neighbourhood grant will be mainstreamed resulting in a considerably reduced level of specific grants with only PFI and Security Grants remaining.
47. PFI grants of £2.472m are currently received by the Authority to assist the funding of the Swindon Facility and the Helicopter. These grants are voted through to cover the financing of a long term asset. The helicopter grant will stop in December 2013. At this stage the National Air Support Unit is expected to be in place. The MTFS assumes that Wiltshire Police will not enter into the national unit until January 2015. This will result in a short period of increased cost when the grant is no longer received but the current level of costs are still being incurred. No change is expected surrounding the Swindon grant.
48. The Security Grant for 2013-14 has been reviewed by the Home Office. In line with national reduced funding levels the Force has been informed that a £0.199m reduction in grant will occur. This reduction in income has been included within the MTFS.

Expenditure

49. The Authority's expenditure plan and the impact with each council tax scenario are illustrated in Appendices B(i) to B(iii). The plan allows for inflation in line with the information identified under the 'Financial Environment'. In addition to that it considers unavoidable costs resulting from natural progression on spinal points for all staff and the impact of Bank Holidays.
50. Funds have also been set aside for the Carbon Commitment. The 2012-13 budget includes £63,000 for this tax. On-going work is taking place to raise the profile of energy usage as it is expected that the charge per tonne of carbon emitted will increase in future years. In light of this a £25,000 increase in cost has been included in each year of the MTFS.
51. No growth is expected in future years. However £0.250m has been allowed for unavoidable cost pressures.
52. The plan does allow for some cost reductions related to the Winsor Reviews. Initial work undertaken on the proposals identifies savings in 2013-14 of £1.025m rising to £1.465m in 2014-15. The recommendations included within Winsor 2 are currently being considered by the Police Arbitration Tribunal. It is expected that the majority of the review will be accepted with some minor adjustments. Based on this 75% of the forecast saving has been included within the MTFS.

Staffing

53. The current budget (revised for grants) of £106.876m is spent in the following manner.

	£m	
Staff and Employee Costs	89.284	79%
Premises	6.504	6%
Transport	2.581	2%
ICT	4.772	4%
Surgeons and Forensics	2.090	2%

Other Costs	6.251	5%
Capital Financing	0.750	1%
Police Authority	0.958	1%
Gross Cost	113.190	100%
Income	-6.314	
Net Cost	106.876	

54. With 79% of the gross budget allocated to staffing costs the need to focus on the area of pay is essential in considering how the future funding gaps can be bridged.
55. The 2010 Vision Plan identified that a reduction in police officers was necessary to deliver the savings targets. The plan identified 1,062 fte as the sustainable number. At the end of August 2012 the Force employed 1,057 fte officers.
56. Whilst further savings are required and some of these savings may come from a reduced number of police officers it is important to agree a recruitment strategy. Each year over 40 police officers leave the force (retirements and resignations), therefore to agree to a strategy of 2 in-takes per year seems appropriate. Each in-take can be flexed to between 15 and 20 with transfers in used as a way of topping up numbers when necessary.
57. Members may consider that there is a risk that we will end up with more officers than we can afford. Whilst there is a small risk of this occurring, the continuing outflow of retirements mitigates the possibility of a large overspend. Any small overspends in year can be managed by use of reserves.
58. A regular in-flow of new recruits is seen as a positive way of managing officer numbers. The switching on and off of recruitment has left us in the past with gaps in officers which have taken over 18 months to close. A large influx of probationers at one time also results in training and mentoring problems.
59. The current budget allows for 137 standard Police Community Support Officers (PCSOs) and 4 income funded PCSOs (schools). PCSO levels at the end of August 2012 were 153. In the last 12 months we have continued to recruit additional PCSO's to ensure the full amount of grant can be claimed. With reductions in leavers this has led to the force being over establishment. It is proposed not to have any further intakes in the next 6 months and then have a strategy of one intake per year. This is expected to result in actual numbers being very close to the budgeted establishment.
60. Police Staff numbers continue to vary depending on leavers and the Vision Plan. With recruitment being adhoc no specific strategy is proposed or required.

Funding Shortfalls

61. The Expenditure Plan in Appendix B reports costs in excess of estimated income. The shortfalls over the 3 years are summarised in the tables below;

No Increase	2013-14	2014-15	2015-16	Total
Estimated Expenditure	£109.579m	£108.573m	£107.745m	
Estimated Funding	£106.045m	£104.989m	£103.800m	
Estimated Shortfall	£3.533m	£3.584m	£3.945m	£11.062m

2.5% Increase	2013-14	2014-15	2015-16	Total
Estimated Expenditure	£109.579m	£109.595m	£109.849m	
Estimated Funding	£107.058m	£107.060m	£106.977m	
Estimated Shortfall	£2.521m	£2.535m	£2.872m	£7.928m

3.9% Increase	2013-14	2014-15	2015-16	Total
Estimated Expenditure	£109.579m	£110.168m	£111.050m	
Estimated Funding	£107.625m	£108.242m	£108.825m	
Estimated Shortfall	£1.954m	£1.926m	£2.225m	£6.105m

Efficiency Strategy

62. Appendix C shows the current position on the savings delivered under the Vision Wiltshire Programme. The table below summarises the position and the savings required during the CSR 2010 period;

	Savings Delivered	Savings Outstanding/Planned	Total Savings
2011-12	£4.186m		£4.186m
2012-13	£3.622m	£0.806m	£4.428m
2013-14		£2.801m	£2.801m
2014-15		£2.033m	£2.033m
Total	£7.808m	£5.640m	£13.448m

63. Assuming a 2.5% precept increase strategy the plan to save £2.801m in 2013-14 will finance the predicted shortfall of £2.521m. In 2014-15 there is a £0.502m shortfall in the savings plan when compared against the latest forecast (£2.033m vs. £2.535m). In general the current Vision savings plan roughly cover the estimated savings required – therefore it is suggested that the Vision plan remains valid.

64. This MTF5 considers 2015-16 and forecasts a savings requirement of £2.872m in that year (assuming a 2.5% precept increase strategy). No detailed plans currently exist on how this will be funded although the direction of travel is set out in various Police Authority papers. The general theme is a more cross-cutting collaborative and transformational redesign of policing services

65. The HMIC Value for Money Profiles will be used as signposts to identify areas of high spend against similar forces. Where our ratios are higher than the average we will look for opportunities to reduce our costs in line with the best performers.

66. Owing to the scale of change it is critical that the PCC and Senior Management own and understand the new model. It is unlikely that these savings can be made without some reductions in service. However these need to be managed so as to reduce the impact on the public.

Capital

67. The Capital Plan is funded from capital balances brought forward, annual grant, capital receipts and revenue contributions to capital. The opportunity to borrow funds under

the Prudential Code does exist. However to date this has not been necessary and this remains the case for the period of this MTFs.

68. If in the future the Authority does decide to enter into borrowing, the revenue consequences of paying back the borrowing along with any associated interest should not be overlooked.
69. The base budget for 2012-13 allows the Authority to supplement the capital programme with a £0.750m contribution from revenue.
70. Appendix D shows the Capital Plan for the next 3 years. This is the plan approved at Corporate Management Board in September 2012. This plan shows capital grant of £1.047m in each financial year, this is in line with information provided by the Home Office in February 2012.
71. Based on this level of funding and the approved capital expenditure programme the plan identifies cumulative balances at the end of each year as below;

	2013-14	2014-15	2015-16
Balance available	£1.262m	£0.313m	£0.547m

72. It is expected that these funds will be needed to finance future development. However there is also an expectation that part of the current estate will become surplus to requirements as we follow our co-location strategy with council partners. This will result in estate available for sale and also a lower demand to build our own estate. To illustrate this, when complete, the movement of our current Chippenham operations into the council's premises at Monkton Park will free up £2.2m of allocated capital funds and provide a capital receipt.
73. Each year the Authority undertakes a number of planned maintenance programmes to increase the life of assets. This can be upgrading assets such as lifts or undertaking substantial works. It is proposed to fund substantial programmes (above £0.040m) via capital, programmes. Below this value will be funded by revenue. The plan allows £0.100m per year for these substantial programmes from 2012-13.
74. The replacement ICT programme is mainly based on the ICT strategy produced in 2012. Work continues in looking at regional and national opportunities. By sharing hosting and buying national products it is expected that both capital and revenue costs can be reduced.
75. The Fleet strategy is based on the new Policing Model. This has enabled a reduction in response vehicles. The strategy also includes the use of framework vehicles to reduce cost. This is now in place for our high volume vehicles. Further work on the remainder of the fleet remains on-going with the South West Police Procurement Department leading. This should reduce cost and lead to more standardisation across the region.
76. The Financial Health Indicators expect that across the plan the funding for replacement and maintenance programmes will be funded by annual grants and revenue contributions. The plan identifies that for the period 2013-14 to 2015-16 the income from grant and revenue will be £5.391m compared to estimated replacement costs of

£5.455m, a difference of £0.064m. This means that currently the indicator is 1% away from being met.

Risks and Reserves

77. The assessment of risks that could have implications for the Authority's financial position over the period of the plan is an essential element of the budget process. This is used to inform decisions about levels of reserves.

78. When setting budgets and future plans it is essential to ensure that they are both affordable and sustainable.

79. The risks may be categorised in three ways:

- Local small level risks, where they would be accommodated within devolved budgets
- Significant risks which can be covered by insurance cover
- Larger risks which, if they occurred, would need to be funded from reserves in the knowledge that they would have a significant impact upon the next year's budget setting process.

80. With Policing being an emergency service there is always the risk that one incident could result in costs of £1m or more. The Home Office do provide some cover for large incidents agreeing to provide special grant for cost over 1% of budget. This does alleviate some of the need for the Force to hold a high level of reserves.

81. To cover large scale risks the Authority's stated position is to hold a minimum general reserve of 2% of budget (£2.1m). Appendix E shows that as at 31 March 2011 the general reserve stood at £8.939m, 8% of budget. With Audit advice suggesting that a 3% level is reasonable, there are now excess funds available to cover one off costs, boost capital reserves (which have reduced in recent years) or cover any slippage in the delivery of savings over the MTFs period. This also provides cover for the Winsor review if that programme further slips and any negative outcomes from the Localisation bill (as detailed in paragraphs 22 and 25).

82. The Authority holds earmarked reserves for specific risks e.g. Insurance. The level of reserves and the proposed changes in 2012-13 are shown in Appendix E. In March 2011 the Restructuring Reserve was introduced to fund one off costs surrounding the production of a new Policing Model for Wiltshire. These costs may surround system costs, pump priming and redundancies. The setting aside of funds to finance these one off costs is good practice.

83. The Financial Health Indicators allow members to monitor reserve levels, ensuring they are neither too high nor too low. Annually the appropriateness of reserves is considered by the Police Authority Treasurer. His judgement is based on an assessment of the strategic, financial and operational risks facing the Authority.

Conclusion

84. The MTFs is a living document. It changes as information is received concerning costs, funding and service delivery requirements. The MTFs will be reviewed annually and is the cornerstone of the budget planning cycle.

Financial Health Indicators

Area	Indicator
Revenue	
The budget should be built on a solid base for future years limiting the use of one off funds to finance areas of continual cost.	The budget should not be funded via one off funds in excess of a 1% increase in precept
The budget and spend should be managed efficiently limiting the possibility of over or under spends	The over or underspend should not be more than 1% of budget.
The need to incur cost and the manner in which cost is occurred should be constantly reviewed. There is an expectation that efficiency savings are required to fund investment/balance the budget.	Efficiency savings of at least 3.1% of the budget should be achieved.
Reserves	
The general reserve should be sufficient to finance large scale problems which may be encountered by the Force.	The general reserve should be at least 2% of budget
The other revenue reserves held by the Authority should be at a reasonable level and should not be excessive.	The other revenue reserves should not exceed 3% of budget.
Capital	
The capital maintenance and replacement programme is an annual requirement and as such should be aligned with the funding available from grants and revenue contributions.	The revenue contribution from capital and annual capital grant should finance the maintenance programme in the capital plan period.
Capital plans should be realistic, achievable and timely. Development and Improvement projects must be backed by a business case with accurate timescales for expenditure.	Capital slippage should not exceed 25% of the capital budget.
The financing of capital should reflect the type of asset being purchased, i.e. long term assets can be financed by long term borrowing, short term assets are funded by annual funding or reserves.	Borrowing is only used for long term assets