



RESERVES AND PROVISIONS POLICY (updated Jan 2018)

Purpose

1. This policy sets out how the Police and Crime Commissioner (PCC), in association with the Chief Constable (CC), will determine and review the level of usable and unusable Reserves and Provisions.
2. The PCC is required to maintain adequate financial reserves to meet the needs of the organisation. The PCC's Chief Financial Officer (here on known as the Treasurer) has a legal duty to local taxpayers and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds.
3. The optimisation of reserves is an important part of medium term planning. Reserves are a potential source of funding for pump priming initiatives and also can cover the consequences of risks which may materialise. The Treasurer has to take account of the strategic, operational and financial risks facing Wiltshire Police in assessing the adequacy of reserves when setting the budget.
4. Reserves may either be earmarked for particular purposes or held as a general sum as a matter of prudence to cover unforeseen expenditure. Reserves are defined by CIPFA as:

“Amounts set aside for purposes falling outside the definition of provisions should be considered as reserves, and transfers to and from them should be distinguished from service expenditure disclosed in the Statement of Accounts. Expenditure should not be charged direct to any reserve. For each reserve established, the purpose, usage and the basis of transactions should be clearly identified. Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cash flow management.”
5. This policy will take into account the latest guidance and regulation on the use and management of reserves and balances. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom known as 'The Code', states that, for each reserve established, the purpose, nature and basis of transactions should be identified. The policy will also take into account comments from central government surrounding improving transparency surrounding reserves.
6. CIPFA's Prudential Code requires Chief Financial Officers in PCC's to have full regard to affordability when making recommendations about the local authority's future capital programme. The requirement for three year revenue forecasts across local authorities, coupled with three year grant settlements ensures there is a focus on the levels and application of local balances and reserves.

Managing Reserves – Principles

7. Reserves held are either usable or unusable.
8. When reviewing their medium term financial plans and preparing their annual budgets PCC's should consider the establishment and maintenance of the General Reserve, this assists in providing;
 - ❖ a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
 - ❖ a contingency to cushion the impact of unexpected events or emergencies;
9. Other reserves classified as 'usable' exist for specific 'earmarked' purposes.
10. Unusable reserves may also be held. These arise out of the interaction of legislation and proper accounting practice. These 'unusable' reserves are not resource-backed and cannot be used for any other purpose.
11. Transfers to and from reserves will be made in accordance with financial regulations.
12. The Treasurer will comment on the adequacy and use of Reserves as part of the annual budget setting process.

Types of Reserves

13. In addition to the PCC's **General Reserve** and the Chief Constable's **Operational Reserve** Wiltshire Police will hold usable reserves for the following purposes:
 - **Risk** - reserves held to provide a level of cover for unexpected or one off events or emergencies or predictable liabilities or costs.
 - **Change Programmes** - reserves held to fund investments in programmes in line with the Police and Crime Plan. This will include the Capital Development Reserve which is critical in the funding of the on-going capital plan
 - **Investment** - reserves held to fund future time limited capital or revenue expenditure requirements in line with the Police and Crime Plan
 - **Partnership** - specific reserves held for partnership purposes which may include funding provided by partners to help achieve a specific purpose
14. Unusable reserves, which are not resource-backed and cannot be used for any other purpose, are described below:
 - **Asset Adjustment** - reserves to account for the losses or gains on assets through revaluation or timing differences

- **Pensions** - carries the future liability for post employment benefits in accordance with statutory provisions.
- **Statutory adjustments** - reserves to adjust between costs recognised in the general fund balance and statutory arrangements.

15. For each reserve there should be a clear protocol setting out the reason for/purpose of the reserve. When establishing reserves PCC's need to ensure that they are complying with the CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom known as 'The Code' and in particular the need to distinguish between reserves and provisions. Annex A identifies the reason for each reserve, how the level of the reserve has been set and whether there is a contractual obligation. Annex B shows the current level of funding set aside for each reserve and the plan for use over 3 years.

Building Reserves

16. The General Reserve will change each year with the transfer of year end surpluses or deficits to this reserve. This reserve will be set in line with the Treasurers view which will take into account issues such as the current and future financial climate. The Treasurers current view is that the target for this reserve should equate to 2.5% of the budget. It is expected that variations in year will be dealt with by a transfer to or from an investment reserve. This transfer will be recommended at year end as part of the closure of accounts process and will need to be approved by the PCC.

17. Earmarked reserves and other specific reserves will be established or removed on a 'needs basis', in line with planned or anticipated requirements set out in the Police and Crime Plan, Medium Term Financial Strategy and Financial Regulations.

18. The current financial landscape demands that significant savings need to be made in order to deliver a sustainable budget. It is prudent to have reserve levels to provide a buffer or a safeguard during uncertain times. It is also important to maintain sufficient reserves to provide additional capacity for discretionary use to smooth the introduction of savings. For redundancy and other small change costs the Restructuring Reserve will be used by the Chief Constable.

19. In line with the PCC's Police and Crime Plan a Community Safety Innovation Reserve has been introduced. Use of this fund will be determined by the PCC with decisions documented at the internal Corporate Management Board.

Quantifying the Reserves Requirement

20. The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

21. This means that the minimum prudent level of reserves is a matter of judgement rather than prescription. Neither CIPFA nor statute sets a minimum level of reserves. In determining the level and type of reserves, the PCC has to take into account relevant local circumstances and the advice of the CC and CC's Chief

Financial Officer to make a reasoned judgement on the appropriate level of its reserves.

22. The Treasurer, with input from the CC's Chief Financial Officer, will adopt a risk based approach in determining the appropriate level of reserves and balances in order to support strategic priorities over the short, medium and long term and the need to maintain financial sustainability.
23. The Local Government Act 2003 requires the Treasurer to report on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides as part of the annual budget setting process.
24. For the purposes of this Policy, it is the responsibility of the Treasurer, to advise the PCC on the type and level of Reserves to be held.
25. The Treasurer should consider most if not all of the factors shown in the table below when determining the level of Reserves as part of budget setting.

Budget assumptions	Financial standing and Management
The outlook for inflation and interest rates.	The overall financial standing of Wiltshire Police (level of borrowing, debt, etc.)
The availability of other funds to deal with major contingencies and the adequacy of provisions.	Wiltshire Police's track record in budget and financial management including the robustness of its medium-term plans
Estimates of the level and timing of capital receipts.	Wiltshire Police's capacity to manage in-year or temporary budget pressures.
The potential range of costs of demand-led services.	The strength of the financial information and reporting arrangements.
Planned efficiency savings/ productivity gains.	Wiltshire Police's end of year procedures in relation to budget under/overspends.
The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments.	The adequacy of Wiltshire Police's insurance arrangements to cover major unforeseen risks.

26. The proposed use of reserves and balances to deliver a sustainable budget will form part of the budget process.

Application of Reserves

27. Use of the General Reserve is limited to the following purposes:
 - ❖ to protect Wiltshire Police from financial risks and
 - ❖ provide a working balance to help cushion the impact of uneven cash flows e.g. Precepts;
 - ❖ planned non-recurrent funding to ensure a balanced budget is set, with the expectation that a plan will be produced to resolve the deficit and build the reserve up to its recommended level.

28. **Earmarked Reserves** should be available to meet or support a range of specific requirements, including:

- ❖ capital or asset purchases
- ❖ major change management initiatives
- ❖ fixed term projects and other one-off spend
- ❖ exceptional operational expenditure
- ❖ 'Spend to save' and 'pump priming' initiatives
- ❖ managing cross-financial year flexibility

Monitoring and reporting Reserves

29. The forecast level and usage of reserves will be formally approved by the PCC, as part of the Financial Strategy, advised by the Chief Financial Officers and Chief Constable.

30. The proposed use of reserves and balances to deliver a sustainable budget must be included as part of the budget process to the PCC.

31. Unusable reserves are managed as part of accounting policies, specified in the Statement of Accounts which is approved by the PCC.

32. The PCC is the owner of all reserves. All reserves will sit on the PCC's Balance Sheet.

Provisions

33. A provision is recognised in the accounts when a liability has been identified that is of uncertain timing or amount which is to be settled by the transfer of economic benefits.

34. Accounting arrangements for provisions are included in IAS 37 – Provisions, Contingent liabilities and Contingent assets. Further guidance is included in IPAS 19 - Provisions, Contingent liabilities and Contingent assets.

35. A provision should be created when there is a present obligation (legal or constructive) as a result of a past event. Or it is probable that a transfer of economic benefits will be required to settle an obligation and a reliable estimate can be made of the amount of the obligation. Unless these conditions are met, no provision shall be recognised.

36. Provisions may be required for some civil and motor claims. There is a need to split the claims between a provision on the balance sheet for the cost of claims received and outstanding; and funds held in the reserve to cover claims incurred but not received or quantified. Costs surrounding claims that have been reported and assessed will be carried as a financial provision whilst incidents where no claim has yet been made, would be covered by the insurance reserve. The level of the provision will be determined annually at year end with assistance from solicitors on the valuation of claims.

Wiltshire Police Reserves

Usable Reserves

Reserve	Justification	Funding level	Obligations
General and Operational Reserve			
General Reserve	Funding set aside to cover the major risks involved with running a £100m Policing business	Based on 2.5% of Budget Requ.	None
Chief Constables Operational Reserve	In line with the financial code of practice CC should have a contingency available for operational activities without the need for additional approvals	1.0% of Budget Requirement	None
Budget Risk			
Insurance Reserve	Provides cover for a one-off increase in claims in the knowledge that significant excess levels exist with current insurances	Maintained at £0.400m in line with current claims history	No actuary funding so covers risk space
Seized Asset Reserve (Incentivisation)	The budget requires £160,000 of income per year to finance financial investigators undertaking this work. This reserve 'smooths' out variances across years on returns.	Excess returns above budget, to a maximum of 1 yrs budget	None, covers budget risk in dynamic area
Ill Health Reserve	For each Ill Health retirement agreed a payment of approximately £70,000 has to be made to the Home Office. The annual budget allows for 3 per year, this reserve 'smooths' out variances across yrs	Depends on HR data on planned retirements at year end	None, covers budget risk in dynamic area (£70k+ per individual)
Contribution to Revenue Budget	Funding set aside to finance short term revenue funding issues	£1.393m target for 31 March 2018	Requ.to balance the 18-19 budget
2017 Bonus Pay Award	Funding set aside for the part year impact of the 1% bonus awarded in the Sept 17 pay award	Calculated one off cost to include officers and staff	Yes
Officer Intake Strategy	Finances to allow for short term excess officer numbers or variances in the vacancy factor.	£0.500m target for 31 March 2018	2017 plans will see higher no. of officers than funding will allow for in the short term

Change Programmes			
Capital Development Reserve	Funding set aside to assist in the funding of capital to reduce the organisations need to borrow.	£7.328m forecast at March 2018	No contracts are signed at this date on estates but finances are allocated to fund capital plan
Restructuring Reserve	This funds one off costs such as redundancy and minor office changes required to restructure the business to meet reduced funding levels.	£0.050m forecast at March 2018	None, covers risk in changing environment
Budget Smoothing Reserve	Funds any unplanned shortfalls in savings resulting from timing issues in delivering savings	£0.200m forecast at March 2018	No contracts exist but with savings of over £1m requ this is a necessity.
Held Property Project	This will fund a 3yr project to consolidate, review and where appropriate dispose of held property across the Force	£0.100m forecast at March 2018	Yes, Funds lease and temporary contracts
Estates Transformation Reserve	Work has been requested from property advisors to help maximise returns from estates changes	£0.050m forecast at March 2018	Yes
Investment			
Community Safety Innovation Reserve	In line with the PCC's Policing and Crime Plan this reserve enables the PCC to allocate finances to 'pump prime' initiatives in line with priorities	£0.100m forecast at March 2018	Formal agreements in place
Specials Intake Strategy	This reserve is intended to finance a plan to increase the number of Specials assisting the force to 500 with a specific recruitment and training strategy.	£0.408m forecast at March 2018	Some of the funding is allocated for contracts
Diversity Reserve	Funding set aside to finance projects which will lead to a more diverse workforce and benefits that provides.	£0.020m forecast at March 2018	No
Single view of the Customer Reserve	Funds remaining from a joint project with Public Sector partners to improve joined up working	£0.020m forecast at March 2018	Yes
Predictive Analytics Reserve	Funds remaining from a project to improve technology to assist in the fight against crime	£0.030m forecast at March 2018	Yes
Deployability Reserve	A reserve created to reduce the volume of staff	£0.050m forecast at March 2018	No

	unavailable for front line deployability		
Regional Projects Reserve	In line with Government guidelines Wiltshire have worked with other Forces on collaboration projects to increase efficiency and effectiveness. This fund finances reviews and start up costs	£0.313m forecast at March 2018	Part of the finances are contracted
ICT Project Reserve	To finance efficiency and effectiveness projects (future trfr to Capital Dev Reserve)	£0.955m forecast at March 2018	No
Uniform Reserve	Funding set aside to replace the entire Body Armour provision during 2016-17.	£0.100m forecast at March 2018	No
Partnership Reserves			
MAPPA Reserve	This receives funds from the partners in the Multi Agency Public Protection arena and is spent in line with Board decisions.	£0.042m forecast at March 2018	Any spend needs partnership agreement
Switch Reserve	This receives funds from partners and is spent on the Integrated Offender Management programme	£0.035m forecast at March 2018	Any spend needs partnership agreement
Local Resilience Forum	This receives funds from the partners in the Local Resilience Forum and is spent in line with Board decisions.	£0.011m forecast at March 2018	Any spend needs partnership agreement
Provisions			
Insurance	The estimated cost of finalising claims currently being progressed by the Police		Assessed as part of the year end process

Wiltshire Police - Forecast Reserve Levels

26/01/2018

Annex B

All Figures in £000's

Cat	Type	BFWD	In yr	Yr End	In yr	Yr End	In yr	Yr End
		31/03/2017	Tfr	31/03/2018	Tfr	31/03/2019	Tfr	31/03/2020
BR	Insurance Reserve	400		400		400		400
BR	Pension Ill Hlth	540	-540	0		0		0
BR	Incentivisation	202	-50	152	-60	92	-50	42
BR	Cont to Revenue Budget	1,439	-46	1,393	-1,393	0		0
BR	2017 Bonus Pay Award	0	279	279	-279	0		0
BR	Officer Intake Strategy Reserve	500		500	-300	200	-200	0
CP	Held Property Project	254	-154	100	-100	0		0
CP	Estates Transformation Reserve	50	0	50	-50	0		0
CP	Budget Smoothing Reserve	200		200	-100	100	-100	0
CP	Restructuring	200	-150	50	-50	0	0	0
CP	Capital Development Reserve	9,864	-2,536	7,328	-6,135	1,193	-1,193	0
CP	Capital Receipts Reserve	478	-478	0		0		0
I	Community Safety Innovation Res.	260	-160	100	-100	0	0	0
I	Regional Projects	518	-205	313	-200	113	-113	0
I	Specials Recruitment	808	-400	408	-408	0		0
I	Corporate Communications	64	-64	0		0		0
I	Diversity	120	-100	20	-20	0		0
I	Deployability	100	-50	50	-50	0		0
I	Single View of Customer	83	-63	20	-20	0		0
I	Predictive Analytics	69	-39	30	-30	0		0
I	Uniform	210	-110	100	-100	0		0
I	ICT Projects Reserve	0	955	955	-500	455	-455	0
I	Training Reserve	50	-50	0		0		0
P	MAPPA	42		42		42		42
P	LRF Reserve	11		11		11		11
P	Switch IOM	35		35		35		35
GR	Chief Const Operational Res (1%)	1,056	44	1,100		1,100		1,100
GR	General Res (2.5% of budget)	2,641	108	2,749		2,749		2,749
	Grand Total	20,194	-3,809	16,385	-9,895	6,490	-2,111	4,379

