

Introduction

1. This report provides information on the estimated level of reserves, balances and provisions currently held and explains how some of these will be applied over the next four years to help support the revenue budget and capital programme.

NATIONAL GUIDANCE

2. In July 2014, CIPFA issued updated guidance on the establishment and maintenance of local authority reserves and balances, setting out the key factors that should be taken in account locally in making an assessment of the appropriate level of reserves and balances to be held.

GENERAL REVENUE BALANCES

Background

3. In order to assess the adequacy of unallocated general reserves (otherwise known as general balances) when setting the budget the PCC, on the advice of the two chief finance officers, should take account of the strategic, operational and financial risks facing the authority. This assessment of risk should include external risks, such as flooding, as well as internal risks, for example the ability to deliver planned efficiency savings.
4. Table 1 examines how Thames Valley Police (TVP) currently complies with the 7 key CIPFA principles to assess the adequacy of reserves.

Table 1: Compliance with the 7 key principles

Budget assumptions	Current situation in Thames Valley
The treatment of inflation and interest rates	<p>TVP makes full and appropriate provision for pay and price rises.</p> <p>An informed assessment is made of interest rate movements.</p> <p>All individual expenditure and income heads in the revenue budget are prepared and published at estimated outturn prices.</p>
Estimates of the level and timing of capital receipts	<p>TVP makes a prudent assumption of future capital receipts.</p>
The treatment of demand led pressures	<p>The Force is required to operate and manage within its annual budget allocation.</p> <p>The Chief Constable retains 2 central reserves to help finance large scale or corporate operations or issues. These are the 'Major Operations Reserve' and the 'Tasking Fund Reserve'.</p> <p>The Force was able to fund the additional costs arising from the August 2011 disorder from within budget.</p> <p>The Force has already identified £36m of cash savings which will be removed from the budget over the next four years (2016/17 to 2019/20).</p>

	<p>This is over and above the £72m of cash savings that have been removed from the base budget in the last five years (i.e. 2011/12 to 2015/16). This cumulative level of budget reduction (at least £108m) will inevitably mean that operational budgets will now come under even greater pressure and/or risk of overspending in future years.</p> <p>Some government grants (e.g. DSP) are announced annually in advance and are cash limited. Any new policing pressures arising during the year will have to be funded from TVP's own resources.</p> <p>TVP has created a number of earmarked revenue reserves to help finance specific, ad-hoc, expenditure commitments. Appropriations are made to and from these reserves on an annual basis, as required.</p> <p>Finally, general balances are used as a last resort to manage and fund demand-led spending pressures.</p>
<p>The treatment of planned efficiency savings/productivity gains</p>	<p>The Force has consistently achieved its annual efficiency target.</p> <p>All indications are that the £12.8m of planned productivity strategy savings removed from the budget in 2015/16 will be fully achieved.</p> <p>As explained above, over £72m of cash savings has already been taken out of the base budget with a further £36m required over the next four years.</p>
<p>The financial risks inherent in any significant new funding partnerships, collaboration, major outsourcing arrangements or major capital developments</p>	<p>The financial consequences of partnership collaboration working, outsourcing arrangements or capital investment are reported to the PCC as part of the medium term planning process. Where relevant, any additional costs are incorporated in the annual revenue budget and/or capital programme.</p> <p>There is clearly a risk that local authority partners will continue to withdraw funding as their own budgets are squeezed, or that the continued financial viability of private sector commercial partners will be exposed to risk in the face of an economic recession.</p>
<p>The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions</p>	<p>TVP has created a number of earmarked revenue reserves and provisions to meet specific expenditure items. These are referred to in more detail below.</p> <p>TVP maintains an insurance provision; the adequacy of which is determined annually by a firm of qualified insurance actuaries.</p> <p>The access criteria for special grants state that PCCs may be required to fund up to 1% of their net budget requirement themselves before</p>

	Government considers grant aid. This applies on an annual basis.
The general financial climate to which the authority is subject.	<p>Austerity will continue until at least 2020 although police grant allocations are better than previously expected. Based on current forecasts TVP will require cash savings of at least £36m over the next four years simply to balance the budget and address the new demands placed on the service. The draft revenue budget now contains a proposal to redeploy police officers in 2016/17 and later years and also to invest in priority and innovative service areas</p> <p>Interest rates are expected to continue at their current level (0.5%) until at least June 2016, thus suppressing investment income returns.</p> <p>The 4 year medium term financial plan reflects our local 'best estimate' of future inflation rates and increases in government grants and contributions.</p>

5. The current policy is to maintain general balances around a guideline level of 3% of annual net revenue expenditure budget, with an absolute minimum level of 2.5%.
6. The current and forecast level of general balances is set out in Table 2 below.

Table 2: Predicted level of general balances

	£m	% of 2016/17 Draft Budget
Balance as at 1 April 2015	17.617	4.56%
Forecast revenue surplus 2015/16	0.039	
Transferred to CTC reserve	- 0.026	
Planning and asset management fees	- 0.139	
Late notification of council tax information for 2015/16	-0.065	
Additional bank holidays	- 0.570	
Offset under-recovery of interest receipts	- 0.450	
Forecast balance as at 31 March 2016	16.406	4.25%
Planning and asset management fees	- 0.139	
Forecast balance as at 31 March 2017	16.267	4.21%
Planning and asset management fees	- 0.139	
Additional bank holidays	- 0.190	
Forecast balance as at 31 March 2018	15.938	4.12%
Forecast balance as at 31 March 2019	15.938	4.12%
Forecast balance as at 31 March 2020	15.938	4.12%

Commentary of the Table

7. The current forecast level of general balances at 31 March 2016 is £16.406m which equates to 4.25% of the draft net revenue budget in 2016/17. However, after funding a small number of one-off budget initiatives over the next four years the estimated level of general balances at 31st March 2020 falls to £15.938m, which equates to 4.12% of the draft net revenue budget in 2016/17. This is above the guideline level of 3%.
8. Overall this represents an adequate level of reserves over the four year planning period to provide sufficient financial contingency cover whilst the Force continues to implement the significant level of service changes and associated budget cuts required to balance the budget over the next 4 years. It must be borne in mind that the successful implementation and delivery of these service and budget plans may, in turn, be affected by external decisions and events outside of our direct control that could impact on our local planned savings and/or spending commitments, e.g. level of future grant allocations and/or referendum limits for council tax increases.
9. There are also a significant number of budget risks, as set out below, which may require a drawdown on reserves during 2016/17.

Risk and Sensitivity Analysis

10. Attached at Appendix 1 is the Risk and Sensitivity Analysis for General Balances for 2016/17. This provides the PCC with more accurate, timely and risk based information on the type of issues that may have significant potential implications for the level of general reserves held, both now and in the near future.
11. The Appendix has been produced in accordance with the Force Risk Model and scores the likelihood of each risk occurring, and the impact that it would have on the level of general balances currently held, on a scale of 1-5 (with 5 being 'high risk' / 'high impact', respectively). The two scores are then multiplied to provide an aggregate risk score. The risks in the Appendix are ranked in order, with high risk, high impact issues being shown at the top of the list.
12. The three biggest risks are firstly, that due to factors outside its direct control (e.g. police officers not leaving or retiring as quickly as planned) there is an overspend on the police pay budget during 2016/17. Secondly, that the Force is unable to deliver, in full, the £15.6m of planned cash savings to be removed from the base budget during 2016/17 and thirdly, the additional costs of one-off operational incidents or in-year emergencies cannot be contained within budget or be fully grant funded by Government

EARMARKED REVENUE RESERVES

13. The predicted position at 31 March 2016 for each earmarked revenue reserve - which has a specific purpose and particular timescale for its expenditure - is shown in Table 3 below.
14. The predicted annual movement in each reserve over the next 4 years is shown in Appendix 2. This shows that by the end of 2019/20 the overall level of earmarked reserves will be £21.5m, including £2.7m in the Conditional Funding Reserve which is not available to help with general operational policing.

Table 3: Earmarked reserves

Reserve	Balance at 1 April 2015 £m	Predicted Movement in year £m	Forecast Balance 31.3.16 £m	Purpose of Reserve
Risk management reserve	0.461	- 0.000	0.461	To help 'pump prime' future risk management or carbon reduction initiatives.
Transport reserve	0.273	0.186	0.459	TVP share of the Chiltern Transport Consortium (CTC) reserves
Improvement and Performance reserve	23.755	- 1.037	24.718	Used to help fund one-off initiatives such as capital investment and property maintenance
Insurance	1.832	0.000	1.832	Funds held in case insurance provision proves inadequate to meet known liabilities
SEROCU	0.273	0.200	0.473	Provision held on behalf of the hosted regional organised crime unit to support infrastructure investment and risk management against in year grant cuts.
Sub-total	28.594	- 0.651	27.493	
Conditional Funding reserve	5.214	- 0.500	4.714	The Force is actively engaged in a number of projects which are funded by government grants, contributions from partner bodies and other agencies. Income received can only be spent on the specified purpose.
Total	33.808	- 1.151	32.657	

Commentary on Table 3

15. The **Chiltern Transport Consortium** Board has agreed to limit its reserves to 3% of the devolved recharge for each force.. For Thames Valley Police this equates to around £0.165m. Any surplus above this level should be transferred to general balances unless it is held in the CTC reserve for a specific purpose such as Telematics
16. The **Improvement & Performance** Reserve is being be used to fund essential one-off expenditure items which will improve performance or deliver efficiency savings. The PCC has already agreed that £4.8m will be applied over the next 3 years to support the ICT strategy. Based on currently planning assumptions and funding requests this reserve will reduce from £25.755m as at 1st April 2015 to £16.2m by 31st March 2020.
17. The **Insurance Reserve** is being held as a contingency against future increases in premiums and/or increases in the value of assessed insurance liabilities (see paragraphs 21-23 below).
18. The **SEROCU reserve** is held on behalf of the regional organised crime unit and is for future development and investment in regional infrastructure in support of the unit, as well as being held to also support potential in year shortfalls in central grant allocations.
19. The **Conditional Funding Reserve** is likely to reduce in value by around £0.5m per annum with effect from 2015/16 as the LAA reward funds and Safer Roads Initiative monies are applied.

PROVISIONS

20. The CIPFA Statement of Recommended Practice is prescriptive about when provisions are required (and when they are not permitted). Basically, a provision must be established for any material liabilities of uncertain timings or amount, to be settled by the transfer of economic benefits. In accordance with this statutory guidance the Thames Valley Police has established the following provision.

Insurance

21. A revenue provision exists for meeting ongoing claims under a self-insurance scheme. The insurance provision was last valued by Arthur J Gallagher in December 2015. Their provisional assessment of total liabilities on the insurance fund as at 31st March 2016 is £6.420m, which is slightly higher than their assessment last year (£6.129m) due to an increase in value of potential EL/PL claims.
22. As part of the close down process for 2015/16 officers will monitor and compare the actual fund size with the assessed liability. Any shortfall at year-end can be met from the earmarked insurance reserve which currently amounts to £1.832m (see Table 3 above).

CAPITAL BALANCES

23. In addition to the earmarked revenue reserves and insurance provision referred to above, we also maintain three capital reserves. These are used to help finance the 4 year capital programme.

Capital grants unapplied

24. Each year we receive an allocation of capital grant from the Home Office to help finance our capital investment plans. Unlike some other grants, which can only be used for a specific purpose or have to be spent within a particular timeframe, this grant is very flexible in that it can be applied to fund our general capital programme and can be carried forward, without penalty, until it is required to finance capital expenditure.
25. The fund balance as at 1st April 2015 was £11.9m. Based on current planning assumptions, as set out in the Medium Term Capital Plan, there should be sufficient capital resources to fund planned capital expenditure. However, the exact timing of capital expenditure and capital receipts over the 4 year period is very difficult to predict with 100% accuracy so Appendix 2 shows our current best estimate. This shows negative figures for capital grant in 2016/17 and 2017/18 but in practice this is very unlikely to happen.
26. Based on current planning assumptions capital grants and reserves will be fully utilised by the end of 2019/20.
27. Future capital investment beyond 2019/20 will largely be dependent on additional capital receipts and/or whether the PCC decides to borrow to fund new building projects.

Capital receipts

28. There are three main sources of capital receipt in Thames Valley.
 - Sale of police houses
 - Sale of operational police properties to deliver the Asset Management Plan
 - Income from the sale of police vehicles is used to fund their replacements
29. The latest schedule of planned disposals and their estimated value is attached as Appendix 3.
30. To avoid having to pay 51% of all interest earned on the investment of capital receipts to the Government - as part of the loan charges grant calculation - capital receipts are applied to finance the capital programme as soon as they are received.

CONCLUSIONS

31. Current policy is to maintain revenue general balances close to an operational guideline level of 3.0% of the net annual revenue budget, with an absolute minimum level of 2.5%. The latest estimate of general balances at 31st March 2016 is £16.406m which equates to 4.2% of the draft revenue budget in 2016/17. As explained in paragraphs 5 to 9 above there are a small number of planned uses for this money in coming years. Based on current planning assumptions the level of general balances should stay above the 3% guideline level through to 2019/20. This is an acceptable and appropriate position to be in as we continue the prolonged period of fiscal tightening and do not know, at this stage, the exact level of government grant support that we will receive in future years (i.e. beyond 2016/17).
32. Appendix 1 shows that there are a number of significant risks that may impact on the level of general balances currently held. There are three risks with a score of 8:
- due to factors outside its direct control (e.g. police officers not leaving or retiring as quickly as planned, there is an overspend on the police pay budget during 2016/17 that the PCC has been asked to fund through the use of balances , the planned
 - the Force is unable to deliver, in full, the £15.6m of planned cash savings to be removed from the base budget during 2016/17
 - the additional costs of one-off operational incidents or in-year emergencies cannot be contained within budget or be fully grant funded by Government
33. We have created a number of earmarked revenue reserves and an insurance provision to help fund specific initiatives or meet areas of future spending. In the main these are being applied over the next 3-4 years to finance one-off revenue and capital investment initiatives. Based on current planning assumptions, earmarked reserves will reduce from £33.8m on 31st March 2015 to £21.5m at 31 March 2020, including £2.7m in the Conditional Funding Reserve which is not available to fund general police expenditure. The application of these reserves will clearly be reviewed on an annual basis in light of current budgetary pressures and demands.
34. Based on current planning assumptions the 'Capital Grants Unapplied' reserve will be largely utilised by the end of 2019/20.

Background Papers

CIPFA LAAP Bulletin 99 – July 2014 “Local authority reserves and balances”

Appendix 2

Risk and Sensitivity Assessment for General Balances in 2016/17

	RISK DESCRIPTION	RISK ASSESSMENT			SENSITIVITY
		Likelihood	Impact	Total	
1	That, due to factors outside its direct control (e.g. police officers not leaving or retiring as quickly as planned, there is an overspend on the police pay budget during 2016/17	2	4	8	The police pay and overtime budgets are forecast to be overspent by £0.9m in 2015/16 proving that these two critical budgets are becoming increasingly more difficult to manage than in previous financial years due to due downsizing of the police officer establishment. A 1% variation on the police officer budget amounts to £2.02m. A 1% variation on the police overtime budget amounts to £0.06m
2	The Force is unable to deliver, in full, the £15.6 of planned cash savings to be removed from the base budget during 2016/17	2	4	8	The residual risk is that we won't deliver the full £20.1m, e.g. a couple of £m shortfall or slippage
3	The additional costs of one-off operational incidents or in-year emergencies cannot be contained within budget or be fully grant funded by Government	2	4	8	Home Office access criteria for special grants imply that the PCC will have to fund up to 1% of his net revenue budget (i.e. circa £3.8m) of these one-off costs from his own resources on an annual basis. Mitigating 2015/16 reserve levels held are approx: <ul style="list-style-type: none"> ➤ Major Operations Reserve £0.5m ➤ Tasking & Coordinating £0.6m
4	The Force fails to contain expenditure within agreed annual budget limits	2	3	6	Continued monitoring and scrutiny arrangements and medium term financial planning.

5	The one-off cost of delivering ongoing savings, e.g. redundancy costs, termination of contracts, etc. cannot be contained within existing budgetary provisions	2	2	4	The PCC maintains the Improvement & Performance Reserve which can be used to help fund one-off costs such as redundancies, property and ICT adaptations. However, to date these costs have been contained within the annual revenue budget.
---	--	---	---	---	---

Risk Impact' Scoring Table

APPENDIX 2A'

Factor	Score	Political	Economic	Social	Technology	Environmental	Legal	Other Organisational
Guidance on criteria		Ability to respond to HMIC / Audit Commission/ Police Authority & Home Office performance requirements, including Partnership Objectives and potential damage to reputation if not met	Level of funding and Resources	Human Rights – diversity and the damage to reputation if requirements not met / adhered to.	Examples are: all communications equipment, IT infrastructure, hardware & software. Plus any forensic capability that uses technology	Breach of legislation & / or damage to environment through contamination or pollution with potential for legal action against TVP	Health & Safety legislation and regulations. Plus personal safety and all other relevant legislation.	Ref protective marking guide 2007 relating to Public Order; safety; law enforcement & infrastructure etc
Very Low	1	Failure to meet individual operational target	Up to £100.000	Minor contravention of internal policies.	Minor ICT project delay	Insignificant impact on the environment – no breach of legislation	Local incident – local review no legal or regulatory breaches	Protect Data Loss / compromise /misuse resulting in ltd impact on personal human rights or operational activity
Low	2	Failure to meet a series of operational targets – adverse publicity	Between £100.000 and £500.000	Increasing numbers in minor contravention of internal procedures.	Short term loss of non critical ICT	Minor impact on the environment with no lasting effects – no breach of legislation	Minor incident – review protocols No adverse publicity	Restricted Data loss/compromise/ misuse resulting in limited impact to personal human rights or operational activity
Medium	3	Failure to meet a critical target – impact on an individual performance indicator - adverse internal audit report prompting timed improvement / action plan.	Between £500.00 and £1 million	Medium impact incident. Appears in local media	Longer term loss of non critical ICT	Minor impact on the environment with some short term effects – potential breach of legislation	HSE involved in significant incident. Civil litigation receiving adverse publicity and financial cost to the Force.	Confidential Data loss /compromise/misuse causing embarrassment & loss of trust in the force & an adverse impact on personal rights or operational activity
High	4	Failure to meet a series of critical targets – impact on a number of performance indicators – adverse external audit report prompting immediate action. Highlighted in the local media.	Between £1 million and £10 million	High impact incident. Appears in national media once	Prevention of access to intelligence placing prosecutions at risk including front line officers/staff.	Serious impact on environment with immediate and medium to long term effects – breach of legislation / local media attention	Temporary HSE intervention due to major incident. Force is prosecuted and fines. Intervention by Police Authority	Secret Data loss/compromise/ misuse resulting in serious reputational damage to the force & a severe impact to personal human rights (threat to life) or operational activity
Very High	5	Failure to meet a majority of local and national performance indicators – possibility of intervention / special measures. Picked up in the national media	Greater than £10 million	High impact incident(s) or high no of officers / staff taken to court under Human Rights / Diversity legislation. Appears in national media consistently	Damage to critical systems including loss of 999 service	Significant long-term impact on environment – breach of legislation leading to prosecution & reputation damage	Potential Corporate manslaughter charge. HSE close with adverse report Home office intervention. Taken to court by European Commission.	Top Secret Data loss/compromise /misuse resulting in sustained reputational damage to the force, impact upon national security & a serious breach of personal human rights (widespread threat to life) or operational activity

'Likelihood' Scoring Table

Risk Likelihood	Score	Probability or Likelihood of Occurrence within the next 12 months
Highly Unlikely	1	Virtually impossible to occur (0 to 5% chance of occurrence)
Unlikely	2	Very unlikely to occur (6 to 20% chance of occurrence)
Possible	3	More likely not to occur (21 to 50% chance of occurrence)
Likely	4	More likely to occur than not (51% to 80% chance of occurrence)
Highly Likely	5	Assume almost certain to occur (81% to 100% chance of occurrence)

Appendix 2

Summary of revenue and capital balances

	Balance 31.3.15 £m	Forecast Balance 31.3.16 £m	Forecast Balance 31.3.17 £m	Forecast Balance 31.3.18 £m	Forecast Balance 31.3.19 £m	Forecast Balance 31.3.20 £m
GENERAL REVENUE BALANCES	17.617	16.406	16.267	15.938	15.938	15.938
% of draft 2015/16 Net Revenue Budget	4.6%	4.2%	4.2%	4.1%	4.1%	4.1%
EARMARKED REVENUE RESERVES						
Risk management reserve	0.461	0.461	0.193	0.093	0.000	0.000
Transport reserve	0.273	0.459	0.325	0.325	0.325	0.325
Improvement and performance reserve	25.755	24.718	23.187	19.487	17.403	16.168
Insurance fund	1.832	1.832	1.832	1.832	1.832	1.832
SEROCU	0.273	0.473	0.473	0.473	0.473	0.473
Sub-total						
Conditional Funding reserve	5.214	4.714	4.214	3.714	3.214	2.714
Total Earmarked Revenue reserves	33.808	32.657	30.224	25.924	23.247	21.512
TOTAL REVENUE RESERVES	51.425	49.063	46.491	41.862	39.185	37.450
CAPITAL RESERVES						
Capital grant	12.081	4.242	- 3.592	- 3.489	0.787	0.002
3rd party capital contributions	0.092					
Section 106 monies	0.060	0.060	0.060	0.060	0.060	0.060
Total Capital Reserves	12.233	4.302	- 3.532	- 3.429	0.847	0.062
Insurance provision	6.129	6.420	6.420	6.420	6.420	6.420
TOTAL CASH RESERVES	69.787	59.785	49.379	44.853	46.452	43.932

Forecast Capital Receipts

	<u>Asset Management Plan £m</u>	<u>Housing £m</u>	<u>Equity loan repayments £m</u>	<u>Vehicles £m</u>	<u>Total £m</u>
<u>2016/17</u>	<u>12.740</u>	<u>2.025</u>	<u>0.200</u>	<u>0.450</u>	<u>15.415</u>
<u>2017/18</u>	<u>9.425</u>	<u>0.920</u>	<u>0.200</u>	<u>0.450</u>	<u>10.995</u>
<u>2018/19</u>	<u>12.100</u>	<u>1.530</u>	<u>0.200</u>	<u>0.450</u>	<u>14.280</u>
<u>2019/20</u>	<u>1.000</u>	<u>1.480</u>	<u>0.200</u>	<u>0.450</u>	<u>3.130</u>
<u>Total</u>	<u>35.265</u>	<u>5.955</u>	<u>0.800</u>	<u>1.800</u>	<u>43.820</u>

-

-APPENDIX 3**Forecast Capital Receipts**

	Asset Management Plan £m	Housing £m	Equity loan repayments £m	Vehicles £m	Total £m
2016/17	12.740	2.025	0.200	0.450	15.415
2017/18	9.425	0.920	0.200	0.450	10.995
2018/19	12.100	1.530	0.200	0.450	14.280
2019/20	1.000	1.480	0.200	0.450	3.130
Total	35.265	5.955	0.800	1.800	43.820