APPENDIX 1

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POLICE & CRIME COMMISSIONER

Proposed Council Tax and Revenue & Capital Budgets 2017/18

1. Summary of Proposed Council Tax and Revenue & Capital Budgets 2017/18.

- A proposed revenue budget of £262.543m for policing and crime reduction that includes;
- Provision for increases in pay and prices of £6.8m; and budget pressures of £2.3m;
- A reduction in revenue costs of £1.2m to support capital investment;
- Budget savings of £12.2m in 2017/18;
- Capital investment in buildings, vehicles and new technology of £13.2m;
- The use of £1.5m from the Commissioner's reserves to support the revenue budget and provide headroom to manage savings going forward;
- Agree an increase of £5 on the council tax precept in 2017/18 to raise an additional £2.570m income.

Considerations

2. In preparing the Revenue and Capital Budgets for 2017/18 the Commissioner has considered the following issues:

- The key principles underlying the 4 year MTFS 2017/18 to 2020/21;
- The provisional Police Grant settlement for 2017/18;
- The likely revenue and capital outturn for 2016/17;
- The budget pressures in 2017/18;
- Delivery of the Police and Crime Plan;
- Budget savings;
- The options for the council tax precept;
- Reserves
- Risk assessment; and
- The Prudential Code for Capital Finance in Local Authorities.

Financial Strategy

3. The 2017/18 budget is part of the four year Medium Term Financial Strategy.

4. The overall financial strategy seeks to deliver the Commissioner's Police and Crime Plan, support 'Proud to Protect', the mission, vision and values of Northumbria Police and meet the requirements of the National Strategic Policing Requirement.

5. It sets out the service developments, response to changes in crime and demand and how it will work in partnership with other agencies to maximise effectiveness.

6. Underpinning the 2017/18 budget and MTFS is the comprehensive workforce strategy that includes recruitment, training and development of officers and police staff whilst continuing to manage planned change through the prudent use of reserves.

Police Finance Settlement

7. The provisional police grant settlement was published on 15 December 2016 for consultation. The final figures will be published in February 2017 and are not expected to differ.

8. The key headlines from the settlement are:

- 1 year only;
- All forces core grant cut by 1.4%;
- Total funding protected in flat cash terms, when compared to 2015/16, providing that PCCs maximise their ability to increase the precept as provided for within the referendum principles;

Revenue

9. Police Grant - The one year provisional settlement announcement stated that no force will receive a cut to their ‘spending power’ which is determined as the total of grant and precept added together. However, government grant has been cut by £3.0m (1.4%) and the Home Office has made an assumption that this cut will be offset by an increase to the precept of £5 to generate an additional £1.9m of additional council tax income.

10. Budget Pressures - including pay and price increases total £9.1m in 2017/18.

11. Budget Savings - Plans to make £12.2m savings from:

- Continued rationalisation of the operational estate, including maximising collaborative opportunities;
- Comprehensive workforce plan which manages reductions whilst aligning resources with changing demand;
- Non pay savings through centralised budget management;
- Savings through procurement particularly within ICT and Estates;
- Maximising income generation wherever possible, notwithstanding such opportunities being limited within the Police world.

12. Council Tax Precept - The Governments excessiveness rules for 2017/18 mean that the ten lowest precepting PCCs including Northumbria have the flexibility to increase their precept by up to £5. All other PCC’s will be capped at less than 2%. No government grants are available in 2017/18 to freeze council tax. The £5 increase is an essential income source for the 2017/18 budget and MTFS.

13. Reserves - The prudent use of reserves along with further precept income are essential components to balance the 2017/18 budget.

Capital

14. Capital expenditure of £13.192 million to be financed by a combination of government grants, capital receipts and prudential borrowing.

Funding Formula

15. The Home Office failed to implement its proposed new funding formula for 2016/17 after a fundamental error was found in the data it was using for its calculations. The 2017/18 settlement allocation method is therefore unchanged against the approach over previous years and the last CSR period, with all forces receiving a flat rate reduction of 1.4% against the 2016/17 grant.

16. During 2016 the Government re-launched its review of the Police funding formula. If the Home Office decide to implement a new formula it is expected that it will be introduced from 2018/19. We await the outcome of this and will ensure that we engage to get the best outcome for Northumbria from 2018/19 onwards. Any changes to the formula will need to be considered in future strategies.

Capital Programme 2016/17

17. The Commissioner has an approved revised capital budget for 2016/17 of £13.282m. The third quarter capital monitoring report outlined a revised capital estimate of £9.628m as at 31 December 2016. The reduction in the revised estimate for the year mainly reflects changes in the phasing and timing of capital schemes which will roll forward into 2017/18.

Capital Programme 2017/18

18. The following table sets out a summary of the capital programme for 2017/18:

2017/18 Capital Programme	£,000
Major and Minor Building Schemes	2,504
Information Technology	7,884
Vehicles and Equipment	2,804
Total	**13,192**

19. Key areas to note in the proposed programme are:

- **Major and Minor Building Schemes** – Estates refurbishment programme based on operational requirements, transition and relocation costs associated with the estates rationalisation programme and co-location with partner agencies.

- **Information Technology -** the force have a number of Improvement Schemes to deliver change and efficiency through transformation which includes significant investment in IT systems across several policing areas. This includes initial costs of implementing the National Emergency Services Network (ESN) within Northumbria and the NPICCS replacement. Includes system upgrades and infrastructure changes.

- **Vehicles and Equipment** – the purchase of force vehicles under the Fleet replacement programme and equipment up-grade / refresh.

Revenue Budget 2016/17

20. The Commissioner's net revenue budget for 2016/17 is £266.840m. The Quarter 3 revenue monitoring report shows a projected budget surplus of £1.188m as at 31 December 2016.

2016/17 Revenue Monitoring - Quarter 3 Position			
	Approved Budget 2016/17	Projected Outturn 2016/17	Variance 2016/17
Group Position	**£m**	**£m**	**£m**
Chief Constable	256.080	256.080	0
Police and Crime Commissioner	2.262	2.212	(0.05)
Capital Financing	8.498	7.360	(1.14)
Net Expenditure	**266.840**	**265.652**	**(1.188)**
Central Government Grant	(225.666)	(225.666)	0
Council Tax Precept	(35.482)	(35.482)	0
Central Grant and Precept Total	**(261.148)**	**(261.148)**	**0**
Appropriations (to) / from reserves	**5.692**	**4.504**	**(1.188)**

21. Both the Chief Constable and Police and Crime Commissioner's revenue budgets are in line with the approved budget for 2016/17.

22. Capital financing savings on interest costs have been realised in-year mainly as a result of the base rate reduction in August 2016, following the Brexit vote. In addition, principal repayment of capital is less than the original estimate due to an under-spend against the capital programme in 2015/16.

23. The estimated budget surplus will allow the Commissioner to draw less than was planned from reserves in 2016/17.

2016/17 General Reserve - Quarter 3 Position			
	Approved 2016/17	Revised 2016/17	Variance 2016/17
Group Position	**£m**	**£m**	**£m**
Opening Balance (01/04/16)	15.1	15.4	0.3
Planned Use of Reserve	(5.7)	(4.5)	1.2
Forecast Closing Balance (31/03/17)	**9.4**	**10.9**	**1.5**

Revenue Budget 2017/18

24. For the financial year 2017/18, the proposed total net revenue budget, before the use of reserves is £262.543m.

25. The proposed budget includes £6.8m in relation to pay and price increases including the 1% pay award for officers and staff; an increase in relation to Employer Pension contributions as a result of the triennial revaluation of the Local Government Pension Scheme; the Insurance Tax increase and other inflation costs associated with rates, rents, utilities and force contracts.

26. Budget pressures of £2.3m have also been incorporated which include the cost of the new Apprenticeship Levy from April 2017, ICT revenue costs associated with capital schemes and other pressures.

Budget Savings

27. Force budget savings in 2017/18 of £12.2m have been identified including £4.1m of non-pay savings and £8.1m relating to workforce changes.

Budget Summary – 2017/18

28. A summary of the proposed 2017/18 Revenue Budget is set out below:

2017/18 Revenue Budget				
Revenue Budget	**Original Estimate 2016/17**	**Revised Estimate 2016/17**	**Projected Outturn 2016/17**	**Original Estimate 2017/18**
	£m	**£m**	**£m**	**£m**
Chief Constable	256.080	256.080	256.080	252.943
Police and Crime Commissioner	2.262	2.262	2.212	2.262
Capital Financing	8.498	8.498	7.360	7.338
Net Revenue Expenditure	**266.840**	**266.840**	**265.652**	**262.543**

29. The budget for the Chief Constable provides for all the day to day operational policing. The budget for the Police and Crime Commissioner primarily includes the OPCC running costs and the Commissioner's Fund. The Capital Financing budget comprises the revenue provision for repayment of borrowing, interest costs and investment income.

Council Tax Options

30. The Localism Act 2011 introduced a power for the Secretary of State for Communities and Local Government to issue principles that define what should be considered excessive Council Tax, including proposed limits. From 2013 onwards, any PCC that wishes to raise its council tax above the limits that apply to them will have to hold a referendum.

31. The excessiveness limit for 2017/18 remains at 2% in line with 2016/17 which means that the precept can be increased to a maximum of 1.99% without the requirement to hold a referendum. The additional flexibility offered in 2016/17 to the lower quartile (10 lowest precepting PCCs) also remains in place for 2017/18. The 10 PCCs in the lower quartile can increase

the precept by up to £5 p/year per Band D household. This option is available to Northumbria as it has the lowest precept of all forces in England and Wales.

32. The 2017/18 settlement assumes that PCCs in England increase their precept to the maximum referendum limit in 2017/18 and that tax base growth is 0.5% across England and Wales. The Home Office stated that for Northumbria this would generate additional precept income of £1.9m.

33. During 2016/17 the council tax base in the Northumbria force area increased by an average 1.90% to 381,547 (Band D equivalent). This is 1.40 percentage points higher than the Home Office assumption of 0.5% growth and will raise a further £0.670m.

34. The proposal is to increase the Band D precept by £5 p/year to raise an additional £2.570m over 2017/18.

35. The anticipated receipts of £37.518m from the precept are included in the MTFS that sets out the main assumptions and provides further detail to demonstrate that this decision provides affordability over the medium term.

36. In addition all six billing authorities will pay a collection fund surplus in 2017/18 which will deliver a total of £0.872m.

Reserves

37. The Commissioner’s reserves policy is set out in the MTFS and is subject to regular review.

38. A full analysis of the Commissioner’s revenue reserves and their planned use in 2017/18 taking into account the proposals outlined is set out below.

Revenue Reserves	Estimated at 31 March 2017 £m	Planned use of Reserves 2017/18 £m	Estimated at 31 March 2017 £m
Earmarked Reserves			
Insurance Reserve	3.0	0.0	3.0
Workforce Development Reserve	1.3	0.0	1.3
External Funding Reserve	0.1	0.0	0.1
Total Earmarked Reserves	**4.4**	**0.0**	**4.4**
General Reserves	**10.9**	**(1.5)**	**9.4**
Total Reserves	**15.3**	**(1.5)**	**13.8**

39. The MTFS sets out the Commissioner’s reserves strategy which is to maintain the general reserve at a minimum of 2%. As at 31 March 2018 the balance is estimated to be £9.4m which equates to 3.6%.

Adequacy of Reserves and Robustness of Budget Estimates

40. The Local Government Act 2003 requires the Joint Chief Finance Officer to undertake an assessment of the robustness of the budget estimates and the adequacy of reserves.

41. The budget and MTFS allows the Commissioner to consider the prudent use of reserves in the context of the future spending pressures and risks arising from potential changes to the funding formula without having a detrimental effect on policing.

42. In assessing the robustness of the budget, the Joint Chief Finance Officer has considered the following issues:

- The general financial standing of the Police and Crime Commissioner;
- The underlying budget assumptions, including an assessment of the estimates for pay and price increases;
- A risk assessment of expenditure and income estimates;
- The future budget pressures identified in the MTFS;
- The adequacy of the budget monitoring and financial reporting arrangements;
- The adequacy of the Commissioner’s governance arrangements and internal control system;
- The adequacy of general reserves to cover any potential financial risks faced by the Commissioner;
- The impact of funding cuts and the uncertainty around the levels of grant support beyond 2017/18.

43. At 31 March 2017, the Commissioner’s General Reserve is estimated at £10.9m (4.1% of revenue expenditure), in addition to other reserves which are earmarked for specific purposes. The Commissioner’s reserves policy will result in a General Reserve of £9.3m (3.6% of revenue expenditure) by the end of 2020/21. In estimating the level of reserves the Joint Chief Finance Officer has taken account of known commitments and the financial risks faced by the Commissioner which could impact on the level of reserves over the MTFS period.

44. The Joint Chief Finance Officer confirms that, after taking account of these issues, the revenue and capital estimates contained in this report are considered robust and that the level of reserves proposed in the review set out earlier is considered adequate to cover the financial risks faced by the Commissioner in 2017/18.

Council Tax Requirement

45. The Localism Act requires the Commissioner to set a Council Tax Requirement. The calculation of the Council Tax Requirement, based on the proposed revenue budget and contribution from reserves is set out below:

			£m
Total Revenue Expenditure			262.543
Less	Appropriations from Reserves		1.529
Budget Requirement			261.014
Less			
	Police Grant	108.588	
	Ex-DCLG Grant	105.868	
	Localised Council Tax Support Grant	6.867	
	Council Tax Freeze Grant 11/12	0.912	
	Council Tax Freeze Grant 14/15	0.389	
			222.624
	Balance to be raised locally		38.390
	Less estimated net surplus on collection funds		0.872
	Council Tax Requirement		**37.518**

46. The proportion of collection funds' net surplus due to Northumbria Police from its constituent billing authorities is £0.872m for 2017/18 (£0.535m in 2016/17).

47. The notified Council Tax base figure is 381,547 which is an increase of 7,097 over the previous year (1.90%).

The Prudential Code for Capital Finance in Local Authorities

48. The CIPFA Prudential Code is a professional code of practice to support local authorities in taking decisions relating to capital investment in fixed assets. Local authorities, including Police and Crime Commissioners and Fire Authorities, are required to have regard to the Code under Part 1 of the Local Government Act 2003. The basic principle of the system is that local authorities will be free to invest so long as their capital spending plans are affordable, sustainable and prudent.

49. In order to demonstrate that they have fulfilled the objectives of the Code, authorities must produce a range of key Prudential Indicators. The Code does not suggest indicative limits or ratios for these indicators, which are designed to support and record local decision making, and are not intended to be used for comparative purposes.

50. These key indicators can be split into two broad categories, affordability indicators and prudence indicators. Affordability indicators concentrate upon the level of capital investment over the period 2017/18 to 2020/21. Prudential indicators concentrate on the level and composition of external debt, and are therefore very closely linked to the Commissioner's Treasury Management Strategy.

51. The Commissioner’s proposed Prudential Indicators are shown at Appendix A to this report.

Minimum Revenue Provision

52. Regulations came into effect from March 2008 with regard to preparing an Annual MRP Statement. MRP is the amount that needs to be set aside to reflect the depreciation of capital assets. There are no proposed changes to the method used to calculate MRP and the Annual MRP statement for 2017/18 is attached at Appendix B.

Financial Considerations

53. Financial implications are considered throughout the report.

Risk Management

54. Associated risks have been considered and recorded as appropriate and are set out in Appendix C

Recommendations (Proposed)

1. The Commissioner is requested to:

    I. Approve the capital programme and authorise the Joint Chief Finance Officer (Treasurer) to undertake the appropriate financing;
    II. Approve the revenue budget;
    III. Agree the review of the reserves policy; and
    IV. Note the recommendations of the Joint Chief Finance Officer (Treasurer) in respect of the robustness of the budget and the adequacy of reserves.

2. Note the Council Tax Base of 381,547 for the year 2017/18 as notified by the billing authorities within Tyne and Wear and Northumberland (item T in the formula in Section 42B of the Local Government Finance Act 1992, as amended).

3. Approve the following amounts for the year 2017/18 in accordance with Sections 42A, 42B and 45 to 47 of the Local Government Finance Act 1992, as amended:-

(a)	£274.628m	being the aggregate of the amounts which the Police and Crime Commissioner estimates for the items set out in Section 42A (2) (a) to (d) of the Act;
(b)	£237.110m	being the aggregate of the amounts which the Police and Crime Commissioner estimates for the items set out in Section 42A (3) (a) to (b) adjusted for the item set out in S42A (10) of the Act;
(c)	£37.518m	being the amount by which the aggregate at (a) above exceeds the aggregate at (b) above, calculated by the Police and Crime Commissioner in accordance with Section 42A (4) of the Act, as it's Council Tax Requirement for the year (item R in the formula is Section 42B of the Act);
(d)	£98.33	being the amount at (c) above (item R) divided by the amount noted in Recommendation 2 above (item T), calculated by the Police and Crime Commissioner in accordance with Section 42B (1) of the Act, as the basic amount of it's Council Tax for the year;

(e) Valuation bands

A	£65.55	being the amounts given by multiplying the amount of (d) above by the number which, in the proportion set out in Section 5 (1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated by the Police and Crime Commissioner in accordance with Section 47 (1) of the Act, as the amounts to be taken into account for the year in respect of the categories of dwelling listed in different valuation bands.
B	£76.48	
C	£87.40	
D	£98.33	
E	£120.18	
F	£142.03	
G	£163.88	
H	£196.66	

4 Resolve that under Section 52ZB of the Local Government Finance Act, the Commissioner's relevant basic amount of Council Tax for 2017/18 is not excessive in accordance with the principles determined under Section 52ZC (1) of the Act for 2017/18.

5 Resolve that in accordance with Section 40 of the Local Government Finance Act 1992, as amended, the billing authorities within the area of this authority be issued with precepts in the amount of £37,517,507 for the financial year beginning 1 April 2017, the amount of the retrospective precepts to be issued to each billing authority's area in accordance with the Sections 42A, 42B and 45 to 48 of the 1992 Act, as amended.

6 Approve the Prudential Indicators as outlined in Appendix A to this report.

7 Accept the recommendation of the Joint Chief Finance Officer (Treasurer) for the method of calculating MRP for 2017/18 as set out in the Annual MRP statement at Appendix B to this report.

APPENDIX A

Prudential Indicators

In line with the requirements of the CIPFA Prudential Code for Capital Finance, the various indicators that inform whether capital investment plans are affordable, prudent and sustainable, are set out below.

Authorised Limit for External Debt

There are two limits on external debt: the 'Operational Boundary' and the 'Authorised Limit'. Both are consistent with the current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices.

Authorised Limit – this represents a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

Operational Boundary – this is the limit beyond which external debt is not normally expected to exceed. In most cases this would be a similar figure to the Capital Financing Requirement (CFR), but may be lower or higher depending on the levels of actual debt.

The key difference between the two limits is that the Authorised Limit cannot be breached without prior approval of the PCC. It therefore includes more headroom to take account of eventualities such as delays in generating capital receipts, forward borrowing to take advantage of attractive interest rates, use of borrowing in place of operational leasing, "invest to save" projects, occasional short term borrowing to cover temporary revenue cash flow shortfalls, as well as an assessment of risks involved in managing cash flows. The Operational Boundary is a more realistic indicator of the likely position.

Authorised Limit For External Debt				
	2017/18 £000	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**
Borrowing	170,000	175,000	170,000	165,000
Other Long Term Liabilities	0	0	0	0
Total	**170,000**	**175,000**	**170,000**	**165,000**

Operational Boundary For External Debt				
	2017/18 £000	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**
Borrowing	145,000	150,000	145,000	140,000
Other Long Term Liabilities	0	0	0	0
Total	**145,000**	**150,000**	**145,000**	**140,000**

The latest forecast for external debt indicates that it will be within both the authorised borrowing limit and the operational boundary set to 2020/21. The maturity structure of debt is within the indicators set.

Upper Limit on Fixed and Variable Interest Rates Exposures

The setting of upper and lower limits on fixed and variable interest rate exposure has the effect of creating ranges within which a Commissioner will limit its exposure to both fixed and variable interest rate movements. It provides a single point of control over the overall interest obligations on a net basis. Indicators are set by considering as many borrowing and investment scenarios as possible, providing a framework that the Commissioner can work within.

Upper limits on variable interest rate exposure – this identifies a maximum limit for variable interest rates based upon the debt position net of investments.

Upper limits on fixed interest rate exposure – this is similar to the previous indicator and covers a maximum limit on fixed interest rates.

Upper Limit On Fixed And Variable Interest Rates Exposure				
	2017/18 £000	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**
Fixed rate:				
Upper	129,465	110,885	105,969	97,969
Lower	(13,561)	(24,719)	(29,128)	(28,628)
Variable rate:				
Upper	9,446	6,689	6,097	5,597
Lower	(20,000)	(20,000)	(20,000)	(20,000)

Upper and Lower Limits for the Maturity Structure Of Borrowing

The upper and lower limits for the maturity structure of borrowing are calculated to provide a framework within which the Commissioner can manage the maturity of new and existing borrowing to ensure that debt repayments are affordable in coming years.

Maturity structure of borrowing – these gross limits are set to reduce the Commissioner's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Upper And Lower Limits For The Maturity Structure Of Borrowing		
	Upper Limit	**Lower Limit**
Under 12 months	70%	0%
12 months and within 24 months	60%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	65%	0%
10 years and above	80%	0%

Upper Limit on Amounts Invested Beyond 364 Days

The purpose of the upper limit on amounts invested beyond 364 days is for the Commissioner to contain the exposure to the possibility of loss that might arise as a result of having to seek early repayment or redemption of principal sums invested.

Upper Limit On Amounts Invested Beyond 364 Days				
	2017/18 £000	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**
Investments	15,000	15,000	15,000	15,000

Gross Debt and Capital Financing Requirement (CFR)

Gross Debt and CFR	**2017/18 £,000**	**2018/19 £,000**	**2019/20 £,000**	**2020/21 £,000**
Forecast Borrowing as at 31 March	101,885	104,969	100,969	97,969
Capital Financing Requirement as at 31 March	102,244	106,520	103,064	100,179
Amount of borrowing (over) / under CFR	359	1,551	2,095	2,210

Forecast borrowing is within the CFR estimates for 2017/18 to 2020/21.

Affordability

The impact of the capital programme on the revenue budget is shown in the table below**.**

	2017/18 Estimate	**2018/19** Estimate	**2019/20** Estimate	**2020/21** Estimate
Revenue Budget	£262.5m	£260.6m	£258.5m	£259.5m
Capital Expenditure	£13.192m	£22.436m	£8.244m	£5.621m
Capital Financing Requirement	£102.244m	£106.520m	£103.064m	£100.179m
Interest Cost	£3.128m	£2.942m	£2.909m	£2.892m
Ratio of financing costs to net revenue stream	1.19%	1.13%	1.13%	1.11%
Cost per Band D Council Tax property	£8.20	£7.67	£7.55	£7.47

APPENDIX B

Police and Crime Commissioner for Northumbria Minimum Revenue Provision (MRP) Statement 2017/18

The MRP charge for 2017/18 for capital expenditure incurred before 1st April 2008 (prior to the new regulations) or which has subsequently been financed by supported borrowing will be based on the previous regulatory method of Capital Financing Requirement at 4% of the opening balance less prescribed adjustments.

For all unsupported borrowing, exercised under the Prudential Code, the MRP Policy is based on the Asset Life Method. The minimum revenue provision will be at equal annual instalments over the life of the asset. The first charge will not be made until the year after the asset becomes operational.

The estates rationalisation programme will see the sale of some £30.7m of assets over the period of the MTFS. The receipts will be used to finance capital expenditure and reduce the overall capital financing requirement.

APPENDIX C

NORTHUMBRIA POLICE AND CRIME COMMISSIONER FINANCIAL RISK ANALYSIS

General Balances

The risk is that the General Reserve balance is not sufficient. This is mitigated by:

- The General Reserve will be kept at a minimum of 2% of revenue expenditure;
- The projected balance on the General Reserve at the 1 April 2017 of £10.9m is 4.1% of the revenue expenditure budget; and
- Strong financial controls have resulted in a consistent trend of the revenue outturn being delivered within budget in recent years.

Pay Increases

The risk is that pay increases may exceed the levels provided for within the budget. Estimates for future pay awards have been fully included.

Price Increases

The risk is that price increases may exceed the levels provided for within the budget. This is mitigated by applying inflation on an individual basis to provide for contractual commitments and premises related expenditure. All other inflation will be managed within existing budgets reflecting the current economic climate. The risk that prices may rise is mitigated by budget monitoring arrangements and the Force's current approach to efficiency in challenging and managing spend pressures.

Capital Financing

The risk is that Capital Financing Charges will be greater than budgeted. This is mitigated by:

Revenue implications are considered as part of the capital planning process and taken in to account in the MTFS; and

The principal repayment in respect of debt is the MRP, calculated on an asset by asset basis as part of the capital planning process. Any change in interest rates will not have an effect as 100% of debt is at fixed rates and any refinancing of existing debt will only take place if it will lead to a long term saving in interest charges.

Financial Planning

The risk is that a major liability or commitment is currently known but has not been taken into account in the Police and Crime Commissioner’s financial planning. This is mitigated by:

The Medium Term Financial Strategy includes an assessment of spending pressures, to be assessed for inclusion in the Commissioner’s budget, identified by the Chief Constable by reference amongst other sources to the Local Policing Plan; and

In addition, regular liaison by senior officers of the Force and the Commissioner’s Office help to strengthen and coordinate the financial planning of the Commissioner.

Savings

Budget savings of £12.2m have been included in the revenue budget for 2017/18. The risk is that the budget savings will not be delivered. This is mitigated by:

- The strong record of delivering the budget within targets;
- The Chief Constable's Change Programme to deliver the budget savings over the next three years
- Adequacy of the General Reserve and the overall reserves policy.

Loss of Deposit

The risk is that funds deposited by the Commissioner are lost due to the collapse of the financial institution with whom the deposit is placed. The risk is limited by the controls in the Treasury Management Strategy which focuses on control of deposits rather than returns. The potential impact is limited by the strategy of a diverse portfolio with top rated institutions which are either part nationalised or have credit guarantees.

Interest Rates on Deposits

The risk is that interest rates will be lower than expected and prudent assumptions on likely interest rates for 2017/18 have been incorporated into the budget.

Budgetary Control

The risk is that the budget will overspend. This is mitigated by:

Monthly budget monitoring in place;
Quarterly monitoring reports to the Commissioner;

Council Tax

The risk following the localisation of council tax support is that collection rates could be affected which would impact on billing authorities' collection fund balances and any surpluses payable to the Commissioner. To mitigate this risk, local billing authorities have factored in prudent collection rates.

Capital Programme Implications

The risk is that the capital programme may be understated, funding will not be available as planned or that over spending may occur. This is mitigated by:

Regular review of Estates Strategy and the decision to focus on key priority schemes only; together with quarterly updates of progress will provide assurance in the accuracy of forecasts;
Quarterly capital monitoring reports to the Commissioner

Risk Management

The risk is that all risks have not been identified when the budget has been set and that major financial consequences may result. This is mitigated by:
Risk management arrangements;
Comprehensive self and external insurance arrangements in place;
Adequacy of the insurance reserve; and
Adequacy of the general balances and the overall reserves policy.