

POLICE AND CRIME COMMISSIONER FOR NORTHUMBRIA

Title and Reference – PCC.134.2015

Approval of the Medium Term Financial Strategy 2015/16 to 2017/18.

Summary

The Medium Term Financial Strategy (MTFS) sets out the key financial issues facing the Police and Crime Commissioner over the period 2015/16 to 2017/18, and provides options for delivering a sustainable budget and capital programme over the medium term.

It also sets out how the Commissioner can provide the Chief Constable with the resources to deliver the priorities in the Police and Crime Plan within a challenging financial climate.

The MTFS sets out the financial context for the Commissioner's revenue budget and capital programme and precepting decisions.

Recommendation

It is recommended that the Commissioner agrees the principles set out in the MTFS and approves the MTFS for 2015/16 to 2016/17.

Northumbria Police and Crime Commissioner

I hereby approve the recommendation above.

Signature



Date 24.02.15



VERA BAIRD^{QC}
POLICE & CRIME COMMISSIONER

Police & Crime Commissioner for Northumbria

MEDIUM TERM FINANCIAL STRATEGY 2015/16 – 2017/18

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Police & Crime Commissioner for Northumbria
Medium Term Financial Strategy 2015/16 – 2017/18

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1. Purpose of the Medium Term Financial Strategy

- 1.1 This is the Medium Term Financial Strategy (MTFS) of the Police and Crime Commissioner for Northumbria (the Commissioner). It covers a period of three years but will be reviewed annually to reflect the dynamic nature of both policing and changes in funding. It describes the financial direction of the organisation and outlines financial pressures.
- 1.2 The MTFS provides options for delivering a sustainable budget and capital programme over the medium term. It also sets out how the Commissioner can provide the Chief Constable with the resources to deliver the priorities in the Police & Crime Plan within a challenging financial climate.
- 1.3 The MTFS sets the financial context for the Commissioner's revenue budget and capital programme and precepting decisions.
- 1.4 The overall financial strategy will be to ensure that the Commissioner's resources are directed toward achieving the Police & Crime Plan.

2. Benefits of the Strategy

2.1 The MTFS assists in:

- Supporting delivery of the Police & Crime Plan;
- Improving financial planning and the financial management of the Commissioner's resources, both revenue and capital;
- Maximising the use of resources available to the Commissioner and Chief Constable, both internal and external;
- Ensuring that the Commissioner and Chief Constable provide value for money and continue to deliver efficiency gains;
- Allowing the development of longer term budgets and strategic thinking;
- Reviewing the Commissioner's policy on the use of reserves, ensuring the position continues to be sustainable and there are sufficient resources over the medium term;
- Responding to external pressures, including changes to the police funding formula and funding reductions; and
- Developing a sustainable budget over the medium term.

3. Principles of the Strategy

- 3.1 The key principles underlying the Commissioner's MTFS 2015/16 – 2017/18 are:-
 - (i) Overall expenditure of the Commissioner will be contained within original estimates each year;
 - (ii) The Commissioner will seek to maintain a General Reserve of a minimum of 2% of the net revenue budget to cover any major unforeseen expenditure or loss of funding but will review on a regular basis the opportunity cost of maintaining reserves at this level against

the benefits of alternative approaches. A flexible approach will be adopted appropriate to circumstances.

- (iii) The Commissioner will maintain earmarked reserves for specific purposes only when appropriate and which are consistent with achieving objectives;
- (iv) The Commissioner will continue to prioritise the achievement of value for money and efficiency in establishing the framework for policing within Northumbria and in commissioning and procurement decisions.
- (v) The Chief Finance Officer and Chief Constable will prepare a rolling programme of three year budget forecasts to inform the Commissioner's budget and precepting decisions.
- (vi) The Commissioner, supported by the Chief Finance Officer and Chief Constable, will continue to contribute to national reviews of police funding and lobby on a national basis for the fair and equitable funding of Northumbria Police.

4. Reviewing the Strategy

4.1 The Commissioner's MTFS review for 2015/16 to 2017/18 has been carried out under the following key themes:

- The financial context in which the Commissioner operates
- The Commissioner's current financial position;
- The future budget pressures and funding cuts which the Commissioner will face over the period of the strategy;
- Budget savings;
- The Commissioner's capital programme; and
- Reserves policy.

5. Financial Context

Spending Reviews

5.1 On 26th June 2013 in the spending review announcement, the Home Office confirmed cash reductions to the Government Grant for Police Services equating to 3.3% in 2014/15 and 3.2% in 2015/16.

5.2 There was a further reduction in central grant funding in 2014/15. Allocations to Forces were subject to additional cuts as a result of top slicing for both new and existing initiatives (Innovation Fund, Independent Police Complaints Commission, College of Policing, HMIC Inspection Programme and the Capital City Grant). The net impact for Northumbria was a cash reduction of 4.8% in 2014/15 which equates to £11.5m.

5.3 The Provisional Police Grant Report for 2015/16 was set out by the Home Office on 17th December 2014. It marked the start of a consultation period

ahead of the Final Police Grant Report being laid out in February 2015. The consultation period runs until 5pm 23rd January 2015. This strategy is therefore produced on the basis of the Provisional Settlement only.

- 5.4 The Settlement is for 1 year only; whilst the cuts set out in the CSR 2010 were not desirable, clarity over a four year funding period provided greater detail on which to base the MTFS. A 1 year settlement means that years 2 and 3 are based on judgement and estimates of likelihood and risk.
- 5.5 The headline reduction to Police Forces was 3.5% as opposed to the 3.2% previously set out (para 5.1 refers)
- 5.6 However, due to the maintenance of funding for national initiatives (Counter Terrorism) and the protection of funding streams previously top slices, and new previously announced top slicing, the effective cash reduction to the Police and Crime Commissioner is 5.1%.
- 5.7 Whilst some of the top slicing is a continuation of previous years, there is new top-slicing for 2015/16 which was completely unannounced and unexpected as set out below;
 - Major Programmes £40m
 - Police Special Grant £15m
- 5.8 Over and above all the existing reductions in the previous MTFS, the impact of this years settlement adds a further reduction to Central Grant of £4.4m per annum.
- 5.9 There is no change to the damping mechanism which ensures that all forces face the same % reduction in the Grant.
- 5.10 Northumbria will continue to receive a Capital Grant which remains indicative at present, of £3m. The final allocation remains subject to further Home Office consideration of further top-slicing for national initiatives.
- 5.11 Counter Terrorism funding nationally is a “protected” area and whilst the majority of this funding is used for national service delivery, a small allocation does go to individual forces. Confirmation of 2015/16 allocations is not anticipated until February 2015 however it is estimated to be unchanged from 2014/15.
- 5.12 National work remains on-going with regard to the review of the Funding Formula however there has been to date no formal update on emerging findings or likely impact on individual police bodies. This MTFS therefore has been developed on the basis of the current funding arrangements and damping mechanisms continuing. Any changes to formula or damping arrangements may need to be considered in future strategies.

Council Tax

5.13 Since 2007/08, council tax increases nationally have been constrained by the Government's capping and excessive council tax principles. Nationally the proportion of funding from formula grant and specific Home Office grants has reduced, and the proportion from council tax has increased. However Northumbria's council tax is by far the lowest of policing bodies in the country; in 2014/15 remained at £86.61 per annum for Band D properties. The average Band D of English police bodies (excluding London) in 2014/15 was £171.8¹. Income from council tax accounts for Northumbria equates to only 12% of funding. The schedule below sets out the level of Band D council tax over the last 3 years

Year	Band D Council Tax
2014/15	86.61
2013/14	86.61
2012/13	83.68

- 5.14 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 council that wishes to raise its Council Tax above the limits that apply to them will have to hold a referendum.
- 5.15 The principles that were set out for 2014/15 considered council tax to be excessive if it was 2%, or more than 2% greater than its adjusted relevant basic amount for 2013/14. The 2015/16 principles are in line with 2014/15; any increase must be 1p less than 2% of Band D per annum.
- 5.16 The MTFS includes the following additional specific grants relating to previous years precept decisions, and the relevant tax base of the Northumbria Force area:
- Home Office Legacy Council Tax Grant of £0.912m
 - Provisional council tax bases for Local Authorities in the Northumbria area for 2015/16 reflect an increase in the tax base of approximately 5,449 which will result in an additional £0.47m.
 - In addition, the Local Authorities in the Northumbria area have also advised of surpluses on collected funds, which equate to £0.282 m for 2015/16 which is fully reflected in the MTFS.
 - DCLG grant allocation of £6.867m
- 5.17 In the context of this being a one year settlement and that referendum limits are also announced for the year in question only, there is no certainty of

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/335851/Council_Tax_Levels_set_by_Local_Authorities__Revised__August_2014.pdf

approach for the duration of this MTFS. For our planning purposes, the MTFS is based on an annual increase in precept of 1.99%.

Police Innovation Fund

- 5.18 This pre-existing funding stream is to be increased by a further £70m in 2015/16 to continue to promote innovation, collaboration and improved efficiency.
- 5.19 In 2014/15 the Police and Crime Commissioner was successful in a further bid to the Home Office Innovation Fund securing £0.253m for Domestic Abuse Perpetrator Interventions.

6. Current 2014/15 Financial Position

- 6.1 The Commissioner's net revenue budget for 2014/15 after the use of reserves is £276.92m. The Quarter 3 revenue monitoring report shows a projected budget surplus of £1.50m as at 31 December 2014.
- 6.2 The main reasons for the variance were savings on pay and pensions some arising from the timing recruitment of new officers, savings on other non-pay spend and additional income over and above that known about at the start of the financial year.
- 6.3 The budget surplus allows the Commissioner to make a contribution to General Fund reserves to support the MTFS.
- 6.4 The Commissioner has an approved revised capital budget for 2014/15 of £13.21m. The third quarter capital monitoring report outlined a revised capital estimate of £14.82m as at 31 December 2014. The increase in the revised estimate for the year reflects some projects carried forward from 2013/14 and brought forward from 2015/16.

7. Medium Term Budget Pressures

- 7.1 When calculating the 2015/16 MTFS budget projections consideration has been given to a number of budget pressures including (i) reductions in grant funding, (ii) pay and price increases, (iii) revenue implications on the capital programme and (iv) pensions and pension reform.

Reductions in Grant Funding

- 7.2 The financial settlement announced on 18th December 2014 gave additional advice on changes to Home Office funding with effect from 2015/16 whereby Police Funding would be top sliced to directly support a range of national policing initiatives. The impact of this change to Northumbria is an actual cut of 5.1%; this reflects an additional £4.4m grant reduction than previously estimated in the 2014/15 MTFS.

7.3 For years 2 and 3 of this Strategy, as discussed previously there is no specific advice regarding future grant changes. For the purpose of this MTFS, it has been assumed that:

- All areas centrally protected and areas top-sliced for 2015/16 will continue to be protected.
- There will be no additional top-slicing with effect from 2016/17 onwards
- These assumptions change the forecast of grant reduction in 2016/17 and 2017/18 to 4% from 3.2% in the previous MTFS.

Pay and price inflation

7.4 The Office of Budgetary Responsibility Economic and Fiscal Outlook Report December 2014 has forecast CPI inflation to reach a low of 0.9 per cent in the first quarter of 2015 and not to return to the 2 per cent inflation target until late 2017.

7.5 The indicative budget forecasts for 2015/16 reflect a positive approach to managing the impact of inflation on budgets wherever possible, in that there have been no automatic budget increases for inflationary pressures other than inflation provision has been provided to meet energy, business rates and rent increases. In addition, estimates for future pay awards have been included.

Revenue implications of the capital programme

7.6 A revised three year capital programme has been produced, details of which are included in Section 9. The implications of this programme are fully reflected in the MTFS.

Pensions and Pension Reform

7.7 A new Police Officer Pension Scheme is to be introduced from April 2015, which will replace the 1987 and 2006 schemes. The key changes for individuals are a fundamental movement from a final salary scheme to a career average (CARE) scheme. For the employer, the introduction of the new scheme has been factored into the latest actuarial reduction of the national scheme which suggests there is the potential for a reduction in employer contribution; however the treatment is still to be definitively quantified.

7.8 The Tyne and Wear Local Government Pension Scheme (LGPS) is subject to triennial review from 2014/15. The 0.6% increase in the superannuation rate of 2014/15, equating to approximately £0.24 m per annum, is included in the MTFS projections.

7.9 The current two-tier system of a basic state pension and an earnings-related additional state pension will be replaced with a single flat-rate state pension, referred to as the single-tier pension. The changes will mean increased

national insurance contributions for contracted out employees and higher contributions for employers.

- 7.10 For the purpose of this MTFs, the impact arising from the actuarial review of the Police Officer Pension Scheme and the future change in National Insurance contributions have been estimated to potentially be cost neutral.

8. Medium Term Savings Proposals

- 8.1 Agreed budget savings in 2015/16 of £15.2m have been factored in to the MTFs. The previous MTFs set out a new approach to meet the on-going financial challenges faced by the Commissioner and Chief Constable, based around:

- Rationalisation of Estates and new operating model of 3 Area Commands
- A reduction in police officers through natural wastage, with a programme of recruitment to protect the frontline;
- A reduction in police staff through natural wastage and targeted Voluntary Redundancy Scheme (VRS).
- ICT transformation
- Scrutiny of non pay costs throughout the Force
- Identifying opportunities for collaboration and / or strategic partnerships

- 8.2 Delivery of the above is being progressed through the Force Programme of Change with work being well developed in all areas. Underpinning this change was a restatement that there was no change to core Neighbourhood Policing principles.

- 8.3 This MTFs therefore continues to reflect the on-going financial implications of the Programme of Change, reflecting the continuous delivery of savings throughout the next three years.

- 8.4 However, the 2014 Settlement has placed an additional cut to funding for local policing, being a 5.1% cash reduction for 2015/16 with a revised estimate of 4% grant reductions in future years. This position has required there to be a further reassessment of how savings/change can be delivered to remain within funding available, whether from Government funding or from the continued prudent use of the reserves available to the Commissioner.

- 8.5 Notwithstanding the continued use of reserves, new savings proposals have been developed and are included in the MTFs. It is inevitable given that more than 85% of our cost base is workforce, that there will need to be further workforce changes.

- 8.6 The Strategy maintains the planned change for 2015/16 being small workforce reductions through natural wastage, delivery of savings from non-pay changes including the estate and ensuring that we will maximise our income streams albeit they are restricted in scope and scale.

- 8.7 2015/16 will also be underpinned by some additional use of the General Reserve to ensure that the wider structural change that is likely to be required from 2016/17 is properly considered prior to implementation. Alongside, the strands of the new 3 Command model, with hubbed resources and the greater and better use of technology will ensure that further changes towards the end of the MTFs minimises the impact on communities and victims.
- 8.8 Work to deliver future change will therefore include the following:
- Wider departmental reviews
 - Review of shift patterns
 - Reviews of specific functional areas including Communications and Custody
- 8.9 The final details of change and workforce change specifically in 2016/17 and beyond will remain under consideration throughout 2015/16 for future years delivery. However for context, this work is aiming to deliver in excess of £14m reductions per annum and in Police Officer terms that equates to 280 officers.
- 8.10 In addition to the Force led savings, the Commissioner has scrutinised the OPCC budget and also intends to save £1.0m in 2015/16 based on a further review of office costs and new ways of working with partners.

9. Capital Estimates and Financing

- 9.1 The following table summarises the 3 year capital programme:

	2015/16 £m	2016/17 £m	2017/18 £m
High Priority Proposals			
Major Building Schemes	1.34	0.00	0.00
Minor Building Schemes	2.38	0.78	0.35
ICT	5.07	1.56	2.58
Vehicles/Equipment	3.00	2.29	2.71
Total	11.79	4.63	5.64

- 9.2 Key areas to note in the proposed programme are:
- Major Building schemes – In 2015/16 this allocation will provide the final strands of the major project to relocate functions from the former HQ site at Ponteland. Beyond 2015/16 there are no further major schemes in the Programme.
 - Minor Building Schemes – The allocation for minor building schemes will primarily facilitate the on-going work to migrate the force to a new estate model, a change in approach highlighted in the previous MTFs. In addition to set-up costs of new community bases, there will also be further work to finalise the planned upgrade of custody suites.

- Computer and Communications – This allocation will continue to support all IT requirements for the Force but also continue to support the changing nature of policing through the Street to Strategic (S2S) project whereby Officers will be provided with hand-held equipment to conduct business through technology and be able to spend more time in communities.
 - Vehicles and Equipment – Primarily the replacement of vehicles in the Force fleet but also to refresh some specialist operational equipment.
- 9.3 The provisional finance settlement 2015/16 set out the provisional allocation of central government capital grant to Northumbria for 2015/16 of £3.007m. Grant allocations beyond this period are not known so for 2016/17 and 2017/18 they have been assumed to continue at the same level as 2015/16.
- 9.4 The capital financing approach remains to maximise the use of Capital Receipts to support the Capital Programme, but also to maximise overall benefit in underpinning the Revenue budget.
- 9.5 Through this MTFS it is proposed that all capital spending will be financed directly from capital receipts, with no prudential borrowing. This will be reviewed on an annual basis to take account of actual receipts and the timing of these receipts.
- 9.7 In addition, any additional receipts received beyond those required to fund the Capital Programme will be used to help fund the revenue costs of prudential borrowing in previous years.
- 9.8 The detail behind this approach has been subject to external consultation with Treasury Management Advisers and will also be set out in the Treasury Management Strategy which will be subject to scrutiny by the Joint Independent Audit Committee.

10. Reserves

Background information on Reserves

- 10.1 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 preparing budgets.
- 10.2 In establishing reserves, the Commissioner must comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Chief Finance Officer is required as part of the budget setting process to provide a statement on the adequacy of reserves.
- 10.3 CIPFA guidance on Reserves and Balances (LAAP Bulletin No 77 November 2008) and the requirements of the Code suggests twice yearly reviews of reserves. By doing this, the visibility of reserves are increased and

consideration of their use is placed at the forefront of the decision making process. Reserves are cash backed balances, held on the balance sheet until they are spent or released for other purposes. As such, they can only be spent once, and are not part of the base budget.

10.4 The Commissioner's balance sheet reserves are summarised as follows:

- General Reserves – a contingency for unexpected events or emergencies and a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
- Earmarked Reserves – to meet known or predicted liabilities, for example workforce management, insurance and capital development reserves,

10.5 CIPFA guidance issued in June 2003 confirms that relevant bodies should make their own judgements on such matters, taking into account relevant local circumstances and an assessment of risk and the advice of the Chief Finance Officer.

Reserves

10.6 The Commissioner must retain adequate reserves so that unexpected budget pressures can be met without adverse impact on the achievement of key objectives and council tax payers. The Commissioner's policy for reserves and balances is based on a thorough understanding of the organisation's needs and risks. Part of this process is to give a clear explanation of the existing and proposed use of reserves and this is addressed in the paragraphs below.

General Reserve

10.7 The expected General Reserve at 1 April 2015 is £21.8m. This meets one of the key MTFS principles to seek to maintain the general reserve at a minimum of 2% of the revenue budget. Over the financial years 2015/16 to 2017/18 there is an expected use of general reserves of £14m; this will be used to support the budget and contribute to meeting the funding gap and will result in closing general reserves at March 2018 estimated at £8.0m.

Earmarked Reserves

Insurance Reserve

10.8 The Insurance Reserve is maintained for potential liabilities and costs which fall onto the Commissioner where no external insurance cover is arranged by or available to the Commissioner. Potential liabilities include storm damage, business interruption and claims that would fall within the Commissioner's policy excess limits. The level of this reserve is £3m and it is not anticipated that this will change over the period of the MTFS.

Capital Development Reserve

- 10.9 The Capital Development Reserve is used to fund the revenue implications of prudential borrowing to support the delivery of the capital programme. The reserve is anticipated to be fully utilised during 2015/16 as a result of existing commitments.

External Funding Reserve

- 10.10 The External Funding Reserve was created in 2012/13 from unspent non-conditional revenue grant income which is to be used for specific purposes in future years. The reserve is expected to be fully used in 2014/15, however it is also anticipated that at 31 March 2015 there will again be non conditional revenue grant income to be carried forward therefore there will be an external funding reserve on an annual basis. The reserve value for 2014/15 was £0.291m and for planning purposes this level has been retained for the MTF5 period.

Workforce Management Reserve

- 10.11 The Workforce Management Reserve was set up to assist workforce changes and has an estimated balance of £1.3m as at 31 March 2015. As part of the changes discussed in section 8, the changes to the Police staff workforce may be supported by a targeted VR scheme which will be funded through this reserve. The balance of £1.3m is planned to be fully used by 31 March 2018.
- 10.12 The table overleaf shows the strategy for use of reserves over the next 3 years.

	At 31 March 2015 £m	At 31 March 2016 £m	At 31 March 2017 £m	At 31 March 2018 £m
Earmarked Reserves				
Insurance Reserve	3.0	3.0	3.0	3.0
Workforce Development Reserve	1.3	0.7	0.0	0.0
Capital Development Reserve	0.2	0.0	0.0	0.0
External Funding Reserve	0.3	0.3	0.3	0.3
Total Earmarked Reserves	4.8	4.0	3.3	3.3
General Reserves	21.8	12.8	11.7	8.0
Total Reserves	26.6	16.8	15.0	11.3

11. Indicative Budget Forecasts 2015/16 to 2017/18

11.1 All the budget pressures, budget savings, funding assumptions and proposed use of reserves outlined earlier in this Strategy are summarised below, to show an overall position for the Group representing the combined budget forecasts for OPCC and CC. Having considered the savings proposals and the availability of reserves to support the medium term, consideration has been given to the precepting proposals for 2015/16. The MTFs is set on a precept increase of 1.99% built into the funding from 2015/16 going forward.

The group position is set out below:

Group Budget forecast

	2015/16 £m	2016/17 £m	2017/18 £m
Base budget (before reserves)	276.9	269.0	257.3
Budget pressures			
Pay and price increases	4.4	3.5	4.7
Budget pressures / loss of specific grants	1.7	0.1	0.00
Revenue impact of capital strategy	0.7	0.0	0.00
Revenue impact of Capital financing	1.5	-0.5	-0.2
Proposed budget savings	-16.2	-14.8	-9.5
Total Budget	269.0	257.3	252.3
Projected total grant income	218.7	210.0	201.6
Council tax support grant	6.9	6.9	6.9
Legacy council tax grant	0.9	0.9	0.9
Council Tax Freeze grant	0.4	0.4	0.4
Council Tax increase 1.99%	0.6	1.3	2.0
Council Tax income	32.0	32.3	32.7
Surplus on Council Tax fund	0.3	0.0	0.0
Total Income	259.8	251.8	244.5
Funding Gap before reserves	9.2	5.5	7.9
Planned use of reserves:			
General Reserve	9.0	1.1	3.7
Capital Development Reserve	0.2	0.0	0.0
Capital Receipts	0.0	4.4	4.2
Funding gap after use of reserves	0.00	0.00	0.00

11.2 The Group forecast budget set out above shows how after the planned use of reserves there is no funding gap for the period of the MTFs, which meets the key principle of the Commissioner's Strategy that overall expenditure will be delivered within a sustainable budget over the medium term.

Commissioning Victims Services and Restorative Justice

11.3 In addition to the Police budget set out above, the Ministry of Justice has provided indicative funding allocations to the Police and Crime Commissioner for Victims Services. The 2015/16 funding allocation in total is £1.53m, which will be fully offset by expenditure.

11.4 Through the Ministry of Justice, the Commissioner has responsibility for service delivery as set out within the Victims Services Commissioning Framework. To support this responsibility, the Commissioner will receive £1.53m in 2015/16 to both directly support victims and also to commission services to provide independent support covering both care and response aspects of victims support.

11.5 For the purposes of the MTFs, it is considered that the full annual funding available for 2015/16 will be expended on victims services and therefore there is medium/longer term impact on the funding for Northumbria Police as set out in the strategy.

11.6 The detailed proposals for spend for 2015/16 remain under consideration and also do not impact on the summarized spend proposals as set out in this strategy.

12. Risk Assessment

12.1 The MTFs contains the most up to date information at the time of drafting but the Commissioner's financial position is dynamic. A comprehensive financial risk assessment is undertaken for the revenue and capital budget setting process to ensure all risks and uncertainties affecting the Commissioner's financial position are identified. The Commissioner faces a number of significant financial pressures that could affect the position over the medium term. An assessment of the likelihood and impact of each risk and the management controls in place are shown in the following table:

Risk	Likelihood	Impact	Risk Management
General Reserve not sufficient to cover future unexpected costs	Possible	High	Reserve strategy to maintain balance at a minimum of 2% of budget.
Pay awards and price inflation being higher than anticipated	Possible	Medium	Budget based on best information available and set at a prudent level.

Risk	Likelihood	Impact	Risk Management
Capital financing charges will be higher than forecast	Unlikely	Low	Revenue implications are considered as part of capital planning and any changes to variable rate will have minimum impact as 100% of debt is at fixed rates.
Interest rates on deposits lower than anticipated	Unlikely	Low	Prudential assumptions on likely interest rates are incorporated into the MTFS and regular review, monitoring and reporting of interest takes place.
Capital programme is understated and funding not available to deliver plans	Unlikely	Low	Capital monitoring updates are taken to the Commissioner quarterly to provide assurance in the accuracy of forecast and monthly monitoring undertaken by the Chief Finance Officer and Chief Constable. Prudential borrowing gives flexibility in financing the capital programme.
Failure to deliver planned savings	Possible	High	Quarterly revenue monitoring updates to the Commissioner and monthly monitoring undertaken by the Chief Finance Officer and Chief Constable; maintenance of the General Reserve balance at 2% of budget.
Further reductions in funding including unfavourable review of funding formula	Possible	High	Balance on General Reserve maintained at minimum of 2%; forward planning; regular monitoring.
Future council tax rises limited by excessiveness principles determined by the Government	Likely	Low	Balance on General Reserve maintained at minimum of 2%; forward planning.
Reduction in council tax collection following the introduction of the localised council tax support scheme	Unlikely	Low	Balance on General Reserve maintained at minimum of 2%; forward planning; regular monitoring.

Risk	Likelihood	Impact	Risk Management
Not all risk have been identified	Unlikely	Medium	Comprehensive insurance arrangements are in place alongside robust risk management arrangements; balance on General Reserve maintained at a minimum of 2% of budget.

13. Conclusion

- 13.1 The settlement 2014 has further increased the cuts to Central Grants, requiring further savings to be delivered during this MTFS.
- 13.2 The approach set out in this MTFS will deliver a balanced budget. It sets out how all three years will be financed and general reserves will be maintained at an estimated £8.0m which equates to 3.1% of the revenue budget; this is greater than the minimum set out in the reserve strategy. The management of this position is achieved through on-going reviews of Force and OPCC budgets, however given the cost base is so heavily workforce driven, it is inevitable that there will be further workforce reductions throughout the MTFS period.
- 13.3 The MTFS does indicate that a sustainable financial position can be achieved over the period 2014/15 to 2016/17 and the Commissioner is fully committed to taking the necessary decisions to achieve this outcome.