APPENDIX 1

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POLICE & CRIME COMMISSIONER

Proposed Council Tax and Revenue & Capital Budgets 2018/19

1. Summary of Proposed Council Tax and Revenue & Capital Budgets 2018/19:
    - A proposed revenue budget of £266.245m for policing and crime reduction that includes.
    - Provision for increases in pay and prices of £7.5m; and budget pressures of £2.9m.
    - A net increase in revenue costs of £0.1m to support capital investment.
    - Budget savings of £6.7m in 2017/18.
    - Capital investment in buildings, vehicles and new technology of £15.177m.
    - Agree an increase of £12 on the Council Tax Precept in 2017/18 to raise an additional £5.204m income.

Considerations

2. In preparing the Revenue and Capital Budgets for 2018/19 the Commissioner has considered the following issues:
    - The key principles underlying the 4 year MTFS 2018/19 to 2021/22.
    - The provisional Police Grant settlement for 2018/19.
    - The likely revenue and capital outturn for 2017/18.
    - The budget pressures in 2018/19.
    - Delivery of the Police and Crime Plan.
    - Budget savings.
    - The options for the Council Tax Precept.
    - Reserves.
    - Risk assessment.
    - The Prudential Code for Capital Finance in Local Authorities.

Financial Strategy

3. The 2018/19 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 2018/19 budget and MTFS is a 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 19 December 2017 for consultation. The final figures will be published in February 2018 and are not expected to differ.

8. The key headlines from the settlement are:

   - Flat cash settlement for Police Formula Grant – the 2018/19 grant from central government will be maintained in flat cash terms against 2017/18.
   - Council Tax Referendum Limits - ALL Police and Crime Commissioners have been granted the flexibility to increase the precept by £12 per Band D property.
   - The Government has calculated that each PCC who uses this flexibility will be able to increase their direct resource funding by at least 1.6%, which maintains total funding (central grant plus Council Tax Precept) in real terms.
   - Legacy grants relating to Council Tax and freeze grants retained and payable but there will be no new Council Tax freeze grant offered for 2018/19.
   - Police capital grant maintained in flat cash terms.

Revenue

9. **Police Grant** - The one year provisional settlement announcement confirmed that government grants would be maintained in flat cash terms against the level received in 2017/18. This is a real terms cut to police funding from central government.

10. **Budget Pressures** - including pay and price increases total £10.5m in 2018/19.

11. **Budget Savings** - Plans to make £6.7m savings from:

    - Continued rationalisation of the operational estate, including maximising collaborative opportunities.
    - A workforce plan which continues to manage reductions whilst aligning resources with changing demand.
    - Non pay savings through centralised budget management.
    - Maximising income generation wherever possible, notwithstanding such opportunities being limited within the Police world.

12. **Council Tax Precept** - The Governments excessiveness rules for 2018/19 mean that all Police and Crime Commissioners have the flexibility to increase their precept by up to £12. The government has calculated that each PCC who uses this flexibility will be able to increase their direct resource funding by at least 1.6%, which maintains funding in real terms. No government Council Tax Freeze grants are available in 2018/19. The £12 increase is an essential income source for the 2018/19 budget and MTFS.

13. **Reserves** - the general reserve will be reduced to £8.1m in 2018/19 as a result of the planned transfer of £1.0m to the workforce management reserve. This level represents 3% of the net revenue budget which is above the Commissioners approved minimum reserves level of 2%. The proposed revenue budget for 2018/19 is within the total funding available for the year and therefore no further use of reserves are planned.

Capital

14. Capital expenditure of £15.177m 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. During 2016 the Government re-launched its review of the Police funding formula which continued into 2017.

16. In the 2018/19 settlement announcement on 19 December 2017 the Minister for Policing and the Fire Service expressed gratitude for the work of the Core Grant Distribution Review team. The Minister further clarified that, in the context of changing demand and in order to prioritise funding certainty for 2018/19, the formula review will now be revisited at the next Spending Review. Therefore there is no change anticipated to the formula used to distribute core grant funding in 2018/19 or 2019/20.

Capital Programme 2017/18

17. The Commissioner has an approved revised capital budget for 2017/18 of £13.370m. The third quarter capital monitoring report outlined a revised capital estimate of £10.128m as at 31 December 2017. 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 2018/19.

Capital Programme 2018/19

18. The following table sets out a summary of the capital programme for 2018/19:

2018/19 Capital Programme	£000
Major and Minor Building Schemes	2,806
Information Technology	8,041
Vehicles and Equipment	4,330
Total	**15,177**

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 considerable investment in IT systems across a number of policing areas. The estimates include a significant level of investment in the implementation of the National Emergency Services Network (ESN) within Northumbria, the Operational Platform Implementation Project, Network Refresh, system upgrades and infrastructure changes.

- **Vehicles and Equipment** - a rolling programme of vehicle replacement and material programmes for upgrading equipment including body-worn video.

Revenue Budget 2017/18

20. The Commissioner's net revenue budget for 2017/18 is £262.543m. The Quarter 3 revenue monitoring report shows a projected budget deficit of £1.179m as at 31 December 2017.

2017/18 Revenue Monitoring - Quarter 3 Position			
Group Position	**Approved Budget 2017/18 £m**	**Projected Outturn 2017/18 £m**	**Variance 2017/18 £m**
Chief Constable	252.943	254.408	1.465
Police and Crime Commissioner	2.262	2.116	(0.146)
Capital Financing	7.338	7.198	(0.140)
Net Expenditure	**262.543**	**263.722**	**1.179**
Central Government Grant	(222.624)	(222.624)	0.000
Council Tax Precept	(38.390)	(38.390)	0.000
Central Grant and Precept Total	**(261.014)**	**(261.014)**	**0.000**
Appropriations (to) / from reserves	**1.529**	**2.708**	**1.179**

21. The overall Group forecast represents an overspend of £1.179m. This overspend is primarily due to costs incurred in relation to the Northumbria response to the increased counter terrorism threat level in 2017, and pay settlements being in excess of the budgeted 1.0%.

22. Capital financing savings on interest costs have been achieved in-year mainly due to a reduction in planned capital spend and continued beneficial market rates.

23. The estimated budget deficit will result in an additional transfer from the Commissioner's general reserve in 2017/18:

2017/18 General Reserve - Quarter 3 Position			
Group Position	**Approved 2017/18 £m**	**Revised 2017/18 £m**	**Variance 2017/18 £m**
Opening Balance (01/04/17)	11.8	11.8	0.0
Planned Use of Reserve	(1.5)	(2.7)	(1.2)
Forecast Closing Balance (31/03/18)	**10.3**	**9.1**	**(1.2)**

Revenue Budget 2018/19

24. For the financial year 2018/19, the proposed total net revenue budget is £266.245m.

25. The proposed budget includes £7.5m in relation to pay and price increases including an estimated 2% pay award for officers and staff; provision for police officer pay progression under regulations, increased insurance costs, known contract increases and other inflation costs associated with rates, rents, utilities and force contracts.

26. Budget pressures of £2.9m have also been incorporated which include ICT revenue costs associated with capital schemes, known operational budget pressures, investment in workforce training, and other pressures.

Budget Savings

27. Force budget savings in 2018/19 of £6.7m have been identified including £2.9m of non-pay savings and £3.8m relating to workforce change.

Budget Summary - 2018/19

28. A summary of the proposed 2018/19 Revenue Budget is set out below:

2018/19 Revenue Budget				
Revenue Budget	**Original Estimate 2017/18 £m**	**Revised Estimate 2017/18 £m**	**Projected Outturn 2017/18 £m**	**Original Estimate 2018/19 £m**
Chief Constable	252.943	252.943	254.408	256.801
Police and Crime Commissioner	2.262	2.262	2.116	2.061
Capital Financing	7.338	7.338	7.198	7.383
Net Revenue Expenditure	**262.543**	**262.543**	**263.722**	**266.245**

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 2018/19 is £12 per Band D property. The Government has calculated that each PCC who uses this flexibility will be able to increase their direct resource funding by at least 1.6%, which maintains total funding (central grant plus Council Tax Precept) in real terms.

32. The 2018/19 police grant settlement assumes that PCCs in England increase their precept to the maximum referendum limit in 2018/19 and that tax base growth is 1.34% across England and Wales. The Home Office stated that for Northumbria this would generate additional precept income of £5.1m.

33. During 2017/18 the Council Tax base in the Northumbria force area increased by an average 1.49% to 387,220 (Band D equivalent).

34. The proposal is to increase the Band D precept by £12 p/year to raise an additional £5.204m over 2018/19.

35. The anticipated receipts of £42.722m 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 2018/19 which will deliver a total of £0.899m.

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 2018/19 taking into account the proposals outlined is set out below.

Revenue Reserves	Estimated at 31 March 2018 £m	Planned Transfer to Reserves 2018/19 £m	Planned use of Reserves 2018/19 £m	Estimated at 31 March 2019 £m
Earmarked Reserves				
Insurance Reserve	3.0	0.0	0.0	3.0
Workforce Development Reserve	0.3	1.0	(0.7)	0.6
External Funding Reserve	0.1	0.0	(0.1)	0.0
Total Earmarked Reserves	**3.4**	**1.0**	**(0.8)**	**3.6**
General Reserves	**9.1**	**(1.0)**	**0.0**	**8.1**
Total Reserves	**12.5**	**0.0**	**(0.8)**	**11.7**

39. The MTFS sets out the Commissioner's reserves strategy which is to maintain the general reserve at a minimum of 2% of the net revenue budget for the year. As at 31 March 2019 the balance is estimated to be £8.1m which equates to 3.0%.

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 2018/19.

43. At 31 March 2018, the Commissioner's General Reserve is estimated at £9.1m (3.5% 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 £8.2m (3.0% of revenue expenditure) by the end of 2021/22. 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 2018/19.

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	£m
Total Revenue Expenditure		**266.245**
Less: Appropriations from Reserves		**0.000**
Budget Requirement		**266.245**
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		**43.621**
Less: Estimated net surplus on collection funds		**0.899**
Council Tax Requirement		**42.722**

46. The proportion of collection funds' net surplus due to Northumbria Police from its constituent billing authorities is £0.899m for 2018/19 (£0.872m in 2017/18).

47. The notified Council Tax base figure is 387,220 which is an increase of 5,673 over the previous year (1.49%).

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 2018/19 to 2021/22. 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 Annex 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 2018/19 is attached at Annex 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 Annex C

Recommendations (Proposed)

55. 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.

    IV. Note the recommendations of the Joint Chief Finance Officer (Treasurer) in respect of the robustness of the budget and the adequacy of reserves.

56. Note the Council Tax Base of 387,220 for the year 2018/19 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).

57. Approve the following amounts for the year 2018/19 in accordance with Sections 42A, 42B and 45 to 47 of the Local Government Finance Act 1992, as amended:

(a) £279.028m — 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) £236.306m — 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) £42.722m — 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) £110.33 — 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	£73.55
B	£85.81
C	£98.07
D	£110.33
E	£134.85
F	£159.37
G	£183.88
H	£220.66

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.

58. Resolve that under Section 52ZB of the Local Government Finance Act, the Commissioner's relevant basic amount of Council Tax for 2018/19 is not excessive in accordance with the principles determined under Section 52ZC (1) of the Act for 2018/19.

59. 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 £42,721,994 for the financial year beginning 1 April 2018, 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.

60. Approve the Prudential Indicators as outlined in Annex A to this report.

61. Accept the recommendation of the Joint Chief Finance Officer (Treasurer) for the method of calculating MRP for 2018/19 as set out in the Annual MRP statement at Annex B to this report.

ANNEX 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

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Borrowing	170,000	180,000	180,000	180,000
Other Long Term Liabilities	0	0	0	0
Total	**170,000**	**180,000**	**180,000**	**180,000**

Operational Boundary for External Debt

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Borrowing	145,000	155,000	155,000	155,000
Other Long Term Liabilities	0	0	0	0
Total	**145,000**	**155,000**	**155,000**	**155,000**

The latest forecast for external debt indicates that it will be within both the authorised borrowing limit and the operational boundary set to 2021/22. The maturity structure of debt is within the indicators set.

Upper Limit on Fixed and Variable Interest Rates Exposures

Following a statement issued by the CIPFA Treasury and Capital Management Panel, providing clarification on the changes applied by CIPFA to treasury management indicators for 2018/19, the interest rate exposure indicators are no longer required. The Police and Crime Commissioner's Treasury Management Strategy will be required to state how interest rate exposure is managed and monitored. CIPFA anticipate that from 2018/19 each local authority / Police and Crime Commissioner will 'use their own methods to quantify interest rate exposure'.

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

Following the changes in guidance issued by CIPFA the maturity structure of borrowing is required to cover variable as well as fixed rate debt. The maturity structure of borrowing set out below applies to all borrowing by the Police and Crime Commissioner, both fixed and variable.

	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	90%	0%

Upper Limit on Principal Amounts Invested Beyond 365 Days

The purpose of the upper limit on principal amounts invested beyond 365 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 Principal Amounts Invested Beyond 365 Days

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Investments	15,000	15,000	15,000	15,000

Gross Debt and Capital Financing Requirement (CFR)

In order to ensure that over the medium term debt will only be for a capital purpose, the Police and Crime Commissioner should ensure that debt does not, except in the short term, exceed the total of capital financing in the previous year plus the estimates of any additional capital financing requirement for the current and next two financial years.

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with external debt.

This is a key indicator of prudence. Where the gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy.

Gross Debt and CFR	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Forecast Borrowing as at 31 March	94,446	104,139	102,869	105,970
Capital Financing Requirement as at 31 March	103,189	112,207	110,300	114,395
Amount of borrowing (over) / under CFR	8,743	8,068	7,431	8,425

Forecast borrowing is within the CFR estimates for 2018/19 to 2021/22.

Affordability

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

Affordability	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Revenue Budget	266,425	270,400	273,000	275,400
Capital Expenditure	15,177	22,434	10,991	12,223
Capital Financing Requirement as at 31 March	103,189	112,207	110,300	114,395
Interest Cost	3,020	3,453	3,442	3,498
Minimum Revenue Provision	4,555	5,280	6,264	6,152
Revenue Financing Costs	7,575	8,733	9,706	9,650
Ratio of financing cost to revenue stream %	2.84%	3.23%	3.56%	3.50%

Police and Crime Commissioner for Northumbria Minimum Revenue Provision (MRP) Statement 2018/19

The MRP charge for 2018/19 for capital expenditure incurred before 01 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 a minimum of 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 £21.4m of assets over the period of the MTFS. The receipts will be used to finance capital expenditure and reduce the overall capital financing requirement.

ANNEX 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 2018 of £9.1m is 3.5% of the revenue expenditure budget.
- The projected balance on the General Reserve at the 1 April 2019 of £8.1m is 3.0% of the revenue expenditure budget.
- 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.
- Advice is taken from the Commissioner's external treasury management advisers Link Asset Services (LAS) in relation to revenue estimates for borrowing and investment interest.
- 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.
- 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 £6.9m have been included in the revenue budget for 2018/19. The risk is that the budget savings will not be delivered. This is mitigated by:

- The strong record of delivering the budget within targets.
- Robust monitoring process for budget management throughout the year.
- 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 2018/19 have been incorporated into the budget. Advice has been taken from the Commissioner's external treasury management advisers Link Asset Services (LAS) on appropriate budget rates for borrowing and investment interest.

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.
- Adequacy of the general balances and the overall reserves policy.