

JOINT INDEPENDENT AUDIT COMMITTEE
29 NOVEMBER 2013

| SUBJECT | | FINANCIAL RISK |
|--|--|----------------|
| REPORT BY | CHIEF FINANCE OFFICER & FORCE CHIEF FINANCE OFFICER | |
| CONTACT OFFICER | JULIE FLINT, CHIEF FINANCE OFFICER, TEL: 01522 947222 TONY TOMLINSON, FORCE CHIEF FINANCE OFFICER TEL: 01522 558179 | |
| SUMMARY AND PURPOSE OF REPORT | | |
| To present an assessment of current Financial Risks and the Reserve Policy adopted by the PCC. | | |
| RECOMMENDATION | That the Assessment of Financial Risk and Reserves Policy are considered and noted. | |

A. SUPPORTING INFORMATION

- Attached at Appendix A to this report is an assessment of Financial Risks including a Probability and Impact score. This table includes the consequences for the organisation of the risk together with any mitigation which has been employed for the individual risk. Risk 1 represents one of the highest risks held on the PCC and Force Risk Registers.
- PCCs should establish a policy for reserves as part of their medium term financial plan. The requirement for reserves should be based on an assessment of the key financial risks.
- The current policy is that reserves should be around the mid-point of the assessed range of financial risks which is £8.185m.
- The actual reserves available at 31 March 2013 to meet these risks are:

| | |
|-------------------------|----------------|
| Major incidents reserve | £1.850m |
| Insurance reserve | £0.750m |
| General reserve | £5.629m |
| Total | £8.229m |
- General reserves represent some 5% of the annual budget. This is also at the average for English policing bodies.

6. The risk assessment is updated below. The risks are based on increased costs or reduced income compared to the approved budget. They are potential calls on the general reserve. It is assumed that the earmarked reserves for major incidents and insurance remain available.
7. This suggests that £7.9m would cover most eventualities in most years. It could therefore be considered the maximum amount required in the general reserve.
8. The minimum requirement would be 50% of the £7.9m i.e around £3.9m. Budgets have been underspent in recent years but, as budgets become increasingly tighter, there is an increased probability of an overspending. It is also prudent to maintain a reserve to meet potential costs of disasters or emergencies. Some costs have to be met directly even in the rare cases where government aid is available.
9. The middle of this range (£7.9m - £3.9m) is £5.9m. The current level of the general reserve is near to the middle of this range.
10. The Chief Finance Officer must advise the PCC on the adequacy of reserves as part of the budget approval process. The target level or target range for the general reserve will also be considered as part of the PCC's longer term financial strategy.

| AREA | COMMENTS | POTENTIAL CALL ON GENERAL RESERVE £M |
|-----------------------------|---|---|
| Budget overspending | Resulting from provision from pay awards or price increases being higher than assumed, income from fees and charges being less than assumed, planned savings not being delivered fully, or poor budget management. Potential call on reserve is based on a 2% overspending. | 2.250 |
| Partnerships | PCSO Funding provided by LCC; 50% of Funds provided for transition period | 0.750 |
| Major emergency or disaster | Central government may provide grant support for eligible expenditure. PCCs are expected to meet part of the costs from their own reserves. The potential call is based on emergency costs of £5m which are eligible for grant support. | 0.950 |
| Major incidents | It is assumed that costs will be contained within the annual major incidents budget (£0.490m) and the earmarked reserve (£1.850m). | - |
| Insurance | It is assumed that excess costs will be met from the annual budget and the earmarked reserve (of £0.750m). | - |
| Treasury management | The potential maximum loss due to the default of a single counterparty is £4m. The PCC has a very low risk approach to selecting counterparties. | 4.000 |
| Total | | 7.950 |

B. FINANCIAL CONSIDERATIONS

These are included within the Report.

C. LEGAL AND HUMAN RIGHTS CONSIDERATIONS

None Specific.

D. PERSONNEL, EQUAL OPPORTUNITIES AND DIVERSITY ISSUES (including any impact or issues relating to Children and Young People.)

None Specific

E. REVIEW ARRANGEMENTS

The issue will be considered as part of the preparation for the 2014/15 Budget an Medium Term Financial Plan.

F. RISK MANAGEMENT

Risks associated with the issue have been recorded in the appropriate Registers.

G. PUBLIC ACCESS TO INFORMATION

Information in this report along with any supporting material is subject to the Freedom of Information Act 2000 and other legislation.