



To: Business Coordination Board

From: Acting Chief Finance Officer, Office of the Police and Crime Commissioner

Date: 16 January 2018

MEDIUM TERM FINANCIAL STRATEGY 2018/19 TO 2021/22

1. Introduction

- 1.1 This report provides the Board with the Medium Term Financial Strategy (MTFS) for the period 2018/19 to 2021/22. It provides updates to the MTFS since the draft MTFS was discussed at BCB on 17 November 2017.
- 1.2 Since the draft MTFS was approved the Home Secretary has issued the draft financial settlement for 2018/19. This has enabled the funding element of the MTFS to be finalised. The MTFS now sets out:
 - The financial strategy for the period 2018/19 to 2021/22
 - The detailed revenue budget for 2018/19 and projected budgets for the financial years 2019/20 to 2021/22.
 - The capital programme 2018/19 to 2021/22.
- 1.3 The report also sets out the final Council Tax recommendation for the Board to approve and recommend to the Police and Crime Panel for their comments, prior to setting the Council Tax precept.
- 1.4 The development of the MTFS is a collaborative exercise between the finance teams of the OPCC and the Constabulary but also including the wider management teams, to discuss the impact of the Police and Crime Plan on the MTFS and the impact of known and unknown demand pressures.

2. Recommendation

2.1 The Board is asked to approve:

- The MTFS 2018/19 to 2021/22
- Approve the 2018/19 Budget
- Approve the 2018/19 Capital Programme
- Approve the increase the policing element of council tax by £11.97 this will increase the policing element of Band D council tax from £186.75p in 2017/18 to £198.72 per annum, an increase of £1 per month.

3. Medium Term Financial Strategy

3.1 The draft MTFS for the period 2018/19 to 2021/22 is attached at **Appendix A**. The MTFS is the key financial planning document of the Commissioner and sets out the overall strategy in which the budget will operate over the coming four years. The MTFS represents the financial plan required to deliver the objectives and outcomes of the Commissioner as set out in the Police and Crime Plan. The Medium Term Financial Plan (MTFP), the numbers, flows from this document and forms the budget for 2018/19 and the precept for the Commissioner.

3.2 The Police and Crime Plan has four pillars to its delivery, Offenders, Victims, Community and Transformation with a number of objectives under these pillars. The fundamentals of the Police and Crime Plan is underpinned by the delivery of a transformation programme that will enable the Commissioner and the Constabulary to better manage the demands on the service whilst improving the quality of service for victims and the wider community.

3.3 The Police and Crime Plan is delivered through the Force Delivery Plan, which sets out the Constabulary's aims and objectives over the same period and detailed action plans under each of the four pillars.

3.4 The new budget and MTFS for the period 2018/19 to 2021/22 will ensure the continual delivery of these objectives and the Commissioners and Chief Constables transformation programme.

4. MTFS 2018/19 to 2021/22

4.1 The draft MTFS 2018/19 to 2021/22 can be seen in **Appendix 1**. This document sets out the factors that have influenced the strategy covers:

- The Police and Crime Plan
- Police Funding
- Workforce
- Demand
- Collaboration

- Inflation and Savings
- Commissioning and Grants Strategy
- Risks
- Capital Strategy
- Robustness of Estimates and Reserves

4.2 In each of the sections listed in 4.1 the MTFS sets out the impact these have on the development of the MTFS and how they impact the budget build process or the risks that may be associated with these. For example, inflation, the MTFS sets out the current parameters for inflation but will also set out the risks associated with this should inflation increase above what is allowed for.

4.3 The MTFS then allows for the development of the Medium Term Financial Plan (MTFP) which is the financial aspect of the strategy. This is **Annex 1** of the MTFS.

5. MTFP 2017/18 to 2020/21

5.1 **Table 1** below shows the Net Budget Requirement (NBR) for 2017/18 and the estimated figures (to date) for the financial years 2018/19 through to 2021/22.

Table 1 – Budget 2017/18 and Estimated Budget 2018/19 to 2021/22

Heading	Budget 2017/18	Estimated Budget 2018/19	Estimated Budget 2019/20	Estimated Budget 2020/21	Estimated Budget 2021/22
	£'000	£'000	£'000	£'000	£'000
Constabulary	126,336	132,322	140,219	144,576	149,113
OPCC	1,114	1,220	1,250	1,299	1,349
Grants & Corporate Costs	2,322	2,387	2,323	2,323	2,323
Capital Financing	1,187	1,188	1,190	1,487	1,821
TOTAL	130,960	137,117	144,982	149,684	154,606
% Change		4.7%	5.7%	3.2%	3.3%

5.2 The assumptions that are built into the figures in Table 1 are:

- Pay inflation – 2% through all four future years
- Cost of increments – 0.5%
- Pensions inflation – 2% in 2020/21 and 2021/22 (first 2 years is built into pressures)
- General inflation – 3%
- Fuel inflation – 4%

- 5.3 The major change in the MTFS since the draft was presented to the Board in November 2017 has been the draft financial settlement issued by the Home Secretary on 19th December 2017. The funding implications of the settlement are discussed in section 6 below but as a result of additional funding Council Tax income to be raised in 2018/19 the commissioner has decided to utilise the additional amounts over and above the 2% increase in Council Tax originally planned to fund the recruitment of additional police officers to help to manage the increasing demand on the Constabulary. After allowing for the additional costs required to support frontline officers (additional equipment, vehicles, ICT, additional HR support for recruitment and supervisory officers) the additional budget raised will allow for 55 officers to be recruited throughout 2018/19.
- 5.4 The Home Secretary has also indicated that she is minded to repeat the 2018/19 financial settlement in 2019/20, provided continued progress on productivity and efficiency occurs and, therefore, the Commissioner will be examining whether to repeat this additional recruitment in 2019/20.

6. Funding

- 6.1 The Commissioners budget is funded from two main sources, Government Grant (60%) and Council Tax (39%). On 19th December 2017 the Home Secretary issued the draft financial settlement for 2018/19. This set out the following:
- A cash standstill Police grant of £78.411m
 - Allowing Police and Crime Commissioners to increase the Police element of the Council Tax Band D equivalent by up to £12 per annum, before having to seek approval via a referendum
 - Capital Grant of £506k
- 6.2 The Home Secretary also stated, "If the police deliver clear and substantial progress against the agreed milestones on productivity and efficiency in 2018, then the Government intends to maintain the protection of a broadly flat police grant in 2019/20 and repeat the same flexibility of the precept, i.e. allowing PCCs to increase their Band D precept by a further up to £12 in 2019/20."
- 6.3 Despite the cash standstill position of the Police Grant settlement there is still a funding gap over the MTFS period of £9.323m.

Council Tax

- 6.4 As a result of the draft financial settlement the Commissioner is proposing to increase the Police element of the Council Tax (Band D equivalent) by £11.97 to £198.72 in 2018/19. Through the rest of the MTFS period the assumption is that the £12 increase will occur in 2019/20 with a 2% increase in the subsequent two years.
- 6.5 The Police precept is set by taking the Band D Council Tax amount and multiplying it by the Council Tax Base. All billing authorities across Cambridgeshire have provided their estimated Council Tax Base for 2018/19. This gives a council tax base of

279,882. The MTFs is also assuming an increase across the whole period in the Council Tax base, reflecting both the current growth in population and housing across Cambridgeshire plus the Combined Authority Mayor's ambition to further increase house building. This is reflected in an overall growth over the period of 22,000 properties.

7. Savings and Efficiencies

- 7.1 As discussed in section 6.3 there is a funding gap of £9m over the period. It is important that the Commissioner has plans in place to meet this budget gap over the course of the MTFs, however, it is recognised that over a four year period these plans will not be definitive and there may be gaps in the latter years. For the first year of the MTFs, though, it is a legislative requirement that the budget is balanced, though this can come from reserves.
- 7.2 Throughout the budget planning process for 2018/19 and beyond savings and service efficiencies have been identified. **Table 2** shows the current saving plans across different parts of the business along with the current RAG status.

Table 2: Current Savings Plans RAG status and Values

Heading	Estimated Budget 2018/19	Estimated Budget 2019/20	Estimated Budget 2020/21	Estimated Budget 2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Local Policing Review					
Green	2,104	1,078	1,742	200	5,124
Procurement (inc 7F)					
Red	0	0	800	800	1,600
Amber	0	800	0	0	800
Other Local Policing					
Red	0	0	200	0	200
Amber	0	200	0	0	200
Green	417	0	0	0	417
Estates Strategy					
Red				800	800
Amber	0	300	0	0	300
Collaboration					
Red	0	358	1,987	21	2,366
Amber	0	350	0	0	350
Green	2,045	0	0	0	2,045
TOTAL					
Red	0	358	2,987	1,621	4,966

Amber	0	1,650	0	0	1,650
Green	4,566	1,078	1,742	200	6,738
Overall Total Savings	4,566	3,086	4,729	1,821	13,354
Budget (Gap)/ surplus - 2018/19 to be met from Budget Assistance Reserve	(1,801)	(2,401)	47	314	

7.4 **Table 2** shows that there are plans in place to meet the funding gap, with a potential surplus of £314k in 2021/22. However as approximately a third of these savings are currently holding a red status, primarily due to them being 3-4 years from fruition, it is important that the sustained effort on driving out efficiencies across all aspects of the budget is continued.

8. Reserves

8.1 The General Reserve, which is a statutory contingency reserve to fund unplanned and emergency expenditure, for example a major operational investigation, stood at £7.197m (5.5% of the NBR 2017/18). In 2017/18 there will be a call of £0.263m on the general reserve as a result of the police pay award above the 1% budgeted for, bringing the balance down to £6.934m (5.05% of 2018/19 estimated NBR). A general reserve of 5% of the Net Budget Requirement is considered prudent. This means that as the NBR increases each year a contribution to the General Reserve is required. The estimated position of the General Reserve over each year of the MTFS is shown in **Table 3** below.

Table 3: General Reserve Balance 2018/19 to 2021/22

Heading	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000
Opening Balance	6,934	6,934	7,240	7,497
Transfer (Out)/ In	0	306	257	224
Closing Balance	6,934	7,240	7,497	7,721

8.2 The Budget Assistance Reserve, which is intended to be used to even out fluctuations within the MTFS period and is use to bring the General Reserve up to the 5% level, will have the following movements, based on the projected outturn position for 2017/18 and the budget gap figures in table 2 above.

Table 4: Projected Budget Assistance Reserve

Heading	Budget 2017/18	Estimated Budget 2018/19	Estimated Budget 2019/20	Estimated Budget 2020/21	Estimated Budget 2021/22
	£'000	£'000	£'000	£'000	£'000
Opening Balance	8,414	2,766	965	(1,472)	(1,682)
Transfer (Out)/ In	(5,648)	(1,801)	(2,437)	(210)	90
Closing Balance	2,766	965	(1,472)	(1,682)	(1,592)

8.3 Currently the Budget Assistance Reserve is due to go into a negative position in 2019/20. This cannot happen, and even though the overall position of reserves is positive (see table 5 below) the continued pressure on reducing expenditure, and identifying efficiencies and savings has to continue in order to rectify the reserves position.

8.4 The commissioner is also required to clearly set out how he intends to use all reserves over the MTFS period. **Table 5** sets out the estimated balances of the reserves over the period of the MTFS.

Table 5: Estimated Reserves Position 2018/19 to 2021/22

	Balance 31 March 2018	Balance 31 March 2019	Balance 31 March 2020	Balance 31 March 2021	Balance 31 March 2022
Usable Reserves					
Drug Forfeiture (Operational) Reserve	78	78	78	78	78
Budget Assistance Reserve	2,766	965	(1,472)	(1,682)	(1,592)
Road Casualty Reduction & Support Fund (*)	1,348	1,348	1,348	1,348	1,348
Collaboration & Commissioning Reserve	270	270	-	-	-
ICT Development Reserve	161	-	-	-	-
Estate Development Reserve	3,439	5,439	-	-	-
Contingency Reserves					
Insurance Reserve	996	996	996	996	996
Ill-Health Retirement Reserve	398	398	398	398	398
Capital Reserves					
Capital Reserve	1,875	845	-	-	-
Capital Receipts Reserve	1,888	-	-	-	-
Total Earmarked Reserves	13,219	10,339	1,348	1,138	1,228
General Reserve	6,934	6,934	7,240	7,803	8,027
Total Usable Reserves	20,153	17,273	8,588	8,635	8,949

(*) This reserve will be utilised over the MTFS period but it is not yet known what the spend profile will be.

9. Capital

9.1 The proposed capital programme for 2018/19 to 2021/22 is in **Annex 2** of the MTFS and is summarised below in **Table 6**, along with the proposed funding sources.

Heading	Estimated Budget 2018/19	Estimated Budget 2019/20	Estimated Budget 2020/21	Estimated Budget 2021/22
	£'000	£'000	£'000	£'000
Estates Programme	4,000	10,500	5,000	500
Fleet Programme	1,700	1,700	1,700	1,700
ICT Enabling Programme	1,304	500	2,200	200
Operational Programme	445	400	400	400
TOTAL	7,449	13,100	9,300	2,800
Financing				
Capital Grants	720	506	506	506
Vehicle Receipts	150	150	150	150
Capital Receipts	1,888	0	0	0
Reserves	1,191	845	0	0
Borrowing	3,500	11,599	8,644	2,144
TOTAL	7,449	13,100	9,300	2,800

9.2 The most significant project within the proposed capital programme is the Southern Policing Hub.

9.3 From 2020/21, the primary source of capital financing will be borrowing as capital reserves and receipts will have been fully utilised by this point and it is anticipated that the current low level of capital grants received from central government will continue. This will have ongoing revenue consequences due to the need to budget for interest and minimum revenue provision payments.

10. Robustness of Estimates

10.1 Under Section 25 of the Local Government Act 2003, the Commissioner's Chief Financial Officer (CFO) is required to report on the robustness of the estimates made for the purposes of the budget calculations.

10.2 Work on the 2018/19 budget gap started early in 2017/18, as the Constabulary identified savings during the financial year which contribute towards balancing the budgets for the next financial year. This is the established practice, which ensures that the savings and efficiencies are achievable and the Constabulary continually strives to ensure effective and efficient policing.

- 10.3 A sound financial strategy is the key enabler to the achievement of the pledges in the Plan, the objectives of the operational policing strategy and the protection of front-line policing. One of the best ways to keep people safe and maintain police resources and people's confidence in the police is to place an emphasis on long-term financial and strategic management as a whole. The Commissioner and Constabulary never look at expenditure numbers in isolation.
- 10.4 Analysing and setting the Commissioner's and Constabulary's budgets is an iterative and ongoing process. Initial drafts of the following year's budget are prepared throughout the current year. The budget setting process continues in earnest in September. The known factors including contractual commitments, cost pressures and savings identified during the current financial year, alongside assumptions relating to central government funding. These factors set the financial landscape for the coming year. The Constabulary's Budget Managers are tasked with reviewing their budgets and recommending savings. This work is undertaken in close co-operation with the Constabulary's Finance Team.
- 10.5 The Commissioner's CFO and Constabulary Director of Finance and Resources meet regularly from July to consider the draft budget and MTFP, challenging assumptions and analysing savings in order to improve a realistic and sustainable financial plan that enables the Constabulary to bring the operational policing strategy to fruition.

11. Consultation

- 11.1 The Commissioner's Council Tax increase proposals are currently out to public consultation, which started on January 5 2018 and will close on January 29 2018. An update on the current position of the consultation will be given at the meeting.

12. Recommendation

- 12.1 The Board is asked to approve:
- The MTFs 2018/19 to 2021/22
 - Approve the 2018/19 Budget
 - Approve the 2018/19 Capital Programme
 - Approve the increase the policing element of council tax by £11.97; this will increase the policing element of Band D council tax from £186.75p in 2017/18 to £198.72 per annum, an increase of £1 per month.

APPENDIX 1 – MEDIUM TERM FINANCIAL STRATEGY 2018/19 to 2021/22