

**CAMBRIDGESHIRE POLICE AND CRIME
COMMISSIONER**

**MEDIUM TERM FINANCIAL PLAN
2014/15 TO 2017/18**

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1. Introduction

1.1 The Medium Term Financial Plan (MTFP) is Cambridgeshire's Police and Crime Commissioner's key financial planning document.

1.2 The MTFP identifies:-

- the revenue budget requirement for the next financial year and the forecasts for the following three years,
- how the budget requirement is financed,
- how difficult budget settlements in the next few years will be addressed whilst still protecting the number of officers, especially neighbourhood policing, and
- future funding changes and risks.

1.3 The MTFP identifies the challenges and opportunities for the Police and Crime Commissioner (PCC) in seeking to achieve a balance between:-

- frontline service delivery and achievement of the key Police and Crime Plan objectives over the next four years
- accommodating known increases in costs within the current economic climate

This must be achieved against a background of:

- government grant reducing over the life of the MTFP

and:

- public expectations around the affordability of Council Tax increases

2. Cambridgeshire's Police and Crime Plan

2.1 The Police and Crime Plan sets out the Commissioner's objectives for reducing crime and disorder in Cambridgeshire, how policing resources will be allocated and agreements for funding and reporting on the work. Due regard must be given to the Strategic Policing Requirement issued by the Home Secretary. Personal pledges are contained throughout the plan which the Commissioner included in direct response to what members of the public has told him is important to them.

2.2 Cambridgeshire Police and Crime Plan objectives are to:

1. Maintain local police performance
2. Deliver policing within the available budget
3. Continue to tackle crime and disorder
4. Keeping people safe
5. Maintaining the resilience of protective services

- 2.3 The Police and Crime Plan also has regard to crime and disorder reduction priorities set by partners, and the strategic direction of the criminal justice system. The Commissioner must consult the Chief Constable in preparing any changes to the plan before it is sent to the Police and Crime Panel for consideration of any additional recommendations.

3. Revenue Funding (Income from which spending is financed)

- 3.1 Police and crime spending, the Net Budget Requirement (NBR) is financed from two main sources, government grant (Police Grant) and council tax. The NBR includes specific government grants and locally generated income.

Police Grant

- 3.2 2014/15 will be the fourth year of the 4 year Spending Review 2010 (SR10). When published in October 2010 it set out reductions in public spending which for policing amounted to real terms reductions in grant funding of 20% over the four year period, with -6%, -7% -4% and -3% respectively being quoted for each of the four years.
- 3.3 The total grant reduction was estimated at £17m for the 4 year period.
- 3.4 The Plan attached at Appendix 1 has been put together by the Office of the Police and Crime Commissioner (OPCC) in consultation with the Chief Constable.
- 3.5 Indicative proposals received for 2014/15 demonstrate that grant will reduce by 3.3%, this forecast is slightly more pessimistic than the original proposal, with 2015/16 indicative figures giving a further 3.2% decrease. Assumptions have been made, taking account of government communications, that grant will continue to be reduced for 2016/17 and 2017/18 but by a smaller amount than in previous years.
- 3.6 Cambridgeshire Police has always believed it is disadvantaged by the current funding mechanism and has pressed for a fairer share of the funding 'cake' which recognises local population growth and diversity. The organisation loses approximately £2m year on year to the funding floor. This is a mechanism devised by government which equalises out the funding formula across the police service so that no one Force loses or gains too much as a result of applying the formula. So some Forces will gain more as a result of the equalisation process and some, like Cambridgeshire, will lose. This has been going on now for nearly 10 years and the government has said that it will look again at how fair this process is.
- 3.7 The Provisional Grant Settlement 2014/15 is expected towards the middle of December and final figures in mid-January. Appendix A will be updated to reflect any change in grant figures as a result of these announcements in January.

Specific Grants

3.8 The Commissioner receives a number of other ring fenced grants. These Specific grants have strict controls in place and it must be demonstrated that the money has been used for the correct purpose as outlined below:-

- The Police and Social Responsibility Act 2011 gave Commissioners the powers to make crime and disorder reduction grants, Cambridgeshire received £928k for distribution in 2013/14. For 2014/15 the crime and disorder grants will be rolled into the main police grant and therefore the Commissioner will be free to decide on the use and the totality of these grants going forward.
- The Policing Minister has recently announced that Commissioners will receive funding to commission services for victims. £300k will be received during 2013/14 with a further £421k due to be received in 2014/15. This funding is provided to enable PCCs to:
 - i) build the capacity and capability of potential providers of services for victims (including potential providers of restorative justice services) from the Voluntary Community and Social Enterprise (VCSE) sector;
 - ii) commission restorative justice services if capacity and capability are sufficient in relation to these services;
 - iii) prepare for local commissioning.

Charging for Services

3.9 Powers exist to charge for external use of police services on a break-even basis. The application of charges can be problematic due to the nature of some events, such as football matches, which can have an impact in the wider community. If all costs were applied, an event could become unviable, disadvantaging especially smaller community-based events. The Commissioner has an approved Charging Policy, updated yearly to reflect changes, which is compliant with the guidance and consistent with the National Guidelines on Charging for Police Services.

- The Tour de France has a stage that will start in Cambridgeshire in summer 2014. It is looking likely that we may not be able to charge for our additional policing requirement as a result of this event but talks are continuing to understand what recompense maybe available for the policing of this event.

Council Tax

3.10 As part of Spending Review 2010 (SR10) the Government offered Police Authorities a council tax freeze grant equivalent to a 2.5% increase in council tax for 2011/12. This was accepted by the Cambridgeshire Police Authority and the grant was payable for 4 years ceasing at the end of 2014/15. The grant for 2011/12 has now been extended to cover 2015/16 in the indicative figures received from Government. As this freeze grant does not form part of the base budget this will mean a widening of the funding gap for 2016/17 onwards when the grant ceases.

3.11 The Government has announced further council tax freeze grants, year on year, including 2014/15. Acceptance of further freeze grants widens the budget gap even further and therefore, thus far, the decision of both the Police Authority and subsequently the Commissioner has been to increase council tax at under inflation increases rather than accept the freeze grants.

Had the Commissioner accepted the freeze grant this would not only lead to a funding gap for this year, but also an even steeper 'cliff edge' end to funding in 2015/16. Such a dramatic decrease in budget would either have a profound impact on policing performance in Cambridgeshire or require a far greater increase in council tax to compensate for the loss. The increase in council tax goes into our base budget and therefore helps the Commissioner fulfil his pledge of protecting the number of officers.

3.12 The OPCC has prepared this plan with a 1.96% council tax increase in planning assumptions for 2014/15, with 2% being included for years 2015 to 2018. This would see the policing element of a 2014/15 Band D council tax costing £181.42, an increase of less than 7 pence per week. The Commissioner wants to ensure he has listened to what people have told him, balancing their expectations of police visibility with affordability of tax increases.

3.13 Under the Localism Act 2011, the Government sets a limit (the excessive amount) on council tax increases. For policing it is set by the Communities Secretary in discussion with the Home Secretary. The limit was set at 2% for police authorities for 2013/14. It is hoped that details of the limit will be published at the same time as the Provisional Local Government Finance Settlement (including Police) in December 2013.

3.14 If the Commissioner wishes to champion a council tax increase in excess of the prescribed limit a referendum would have to be held and the costs of the referendum picked up by the Commissioner's budget. In contrast, if the Commissioner wished to champion no increase in council tax for 2014/15, this would increase the budget gap by £900k annually. This would, however, equate to the loss of 23 police constables which the Commissioner deems unacceptable.

Localisation of Council Tax Benefits - New Scheme 2013

- 3.15 The Government moved to nationally reduce the cost of council tax benefit in 2013. In simple terms, council tax benefit has been replaced by council tax reductions which have had the effect of reducing the council tax base which in turn reduces the council tax we receive in precept. A specific Government Grant was paid in 2013 to bridge the gap for precepting bodies and this will continue to be received going forward.
- 3.16 The Council Tax Base is a calculation of the number of properties on which council tax can be levied (adjusted for discounts and other factors). For the reasons set out above the tax base reduced in 2013/14 and the reduction has been maintained albeit that it will go up by the number of new houses occupied during the year. Revised forecasts for the council tax base include a 1.5% increase for anticipated housing development. Final figures will be available from district councils in January.
- 3.17 The Commissioner's proposed precept (and budget) must be presented to the Police and Crime Panel (PCP) by 5th February 2014. Legislation allows for the proposed precept to be vetoed by the Panel. In the event that this is the case a revised proposal would have to be prepared.

4. Revenue Budget Planning

Budget Strategy

- 4.1 Underpinning the decision making process is a prudent and robust approach to the stewardship and management of financial resources by both the Commissioner and the Chief Constable. This is reflected in the service and financial planning process, and in the management of borrowings, investments and reserves.
- 4.2 The Commissioner has in place governance procedures to ensure full and robust scrutiny of the Chief Constable's finances. Financial Regulations and Force Finance Instructions set out the frame work for financial decision making.

Key Features of the Budget Process

- 4.3 One of the key functions of the MTFP is to develop a series of financial projections to determine the achievability and sustainability of the Police and Crime Plan which is required to deliver the priorities as set out in Section 2 above. The financial projections are based around the forecast requirements for revenue expenditure, both directly and arising from capital investment.

4.4 The process for determining the forward levels of net revenue expenditure for each financial year covered by the MTFP and working with budget holders is to:-

- Use the current financial year as a base position and inflate, as appropriate, to take account of pay and price changes and full year costs of previous year growth items
- Add any prior year on-going costs previously funded from reserves
- Add known unavoidable spending and contract pressures
- Add in-year implications of implementing corporate objective priorities (and full year costs thereafter)
- Add revenue implications of new capital investment.
- Review and set fees/charges to reflect a policy of maximising income
- Factor in the implications for the loss of grant funding in real terms over the life of the plan
- Factor in the implications of the government's advice on council tax levels

4.5 The budget build process for the Chief Constable is considered and discussed at

- Force Executive Meetings
- Financial Planning Days
- Change Management Board which oversees the capital programme
- Joint reviews by heads of service and finance team
- Peer challenge at Force Executive Board

and is scrutinised and challenged by the Commissioner at

- Finance Sub Group
- Business Co-ordination Board

4.6 The procedure for evaluating revenue and capital service pressure bids that arise either at budget time or in year due to changes in focus from the Home Office is based on an assessment which takes into account the following key factors.

- Clear identification of the links to the Constabulary's aims and objectives to which the bid relates;
- A measure of a scheme's benefits in the form of outcome targets;
- Consideration of the financial impact of the expenditure i.e. one year funding or recurring financial consequences over a three year period;
- Consideration of implications for other service areas.

Spending Pressures Affecting 2014/15

- 4.7 Police Grant – reduction expected over the next 4 years of up to 9.5% with 3.3% being expected for 2014/15.
- 4.8 Home Office top slicing of the Police Grant – for proposed development of the Independent Police Complaints Commissioner and the innovation fund. At the present time the amount of reduction is still being determined by the Home Office and will be announced in the Provisional Settlement.
- 4.9 Implementation of Winsor 2 recommendations on police pay are approximately £800k additional expenditure over the next couple of years. It should be noted that not all recommendations have been implemented by the Home Office.
- 4.10 Employers' Contributions to Pensions (Staff) – An increase in the cost of employer contributions for police staff pensions of 1% per annum, has been built into the plan over the next 3 years to take account of the actuarial valuation of the Fund expected December 2013.

Additional Future Pressures

- 4.11 National Insurance Contributions – The effect of the Government's "Ending of Contracted Out National Insurance" will place £1.5m to £2m additional cost onto our employers national insurance contributions from 2016/17 onwards. This is a significant contributory factor to balancing the budget in future years.

Delivering a Balanced Budget for 2014/15

- 4.12 The MTFP 2014/15 identifies further budget gaps totalling £12.3m over the next four years, shown in Table One on the next page:-

Table One

	Forecast 2014/15 £'000	Forecast 2015/16 £'000	Forecast 2016/17 £'000	Forecast 2017/18 £'000
NRE	131,535	134,814	139,671	143,086
FINANCING	131,535	130,632	130,098	130,737
GAP	0	-4,182	-9,573	-12,349
		-4,182	-5,392	-2,775

- 4.13 Reductions of £3.7m have been identified to produce the balanced the budget for 2014/15.

- Collaboration – Joint Protective Services have delivered a 5% 2013/14 base reduction saving of £809k.
- Police Staff are part of a continual drive for efficiency and effectiveness and have seen numbers reduce over the 2013/14 financial year.
- A freeze on recruitment of PCSOs, while a review of their functions is undertaken has seen the numbers decline due to natural wastage. In agreement with the OPCC a decision has been reached to enable the planning of budgets for 2014/15 and the Chief Constable will not seek to make any additional changes to the 150 PCSO establishment as at November 2013.
- Procurement of supplies and services continue to be scrutinised and savings produced.

We are therefore confident that a balanced budget for 2014/15 is achievable although it has been a challenging process

4.14 Work to balance the budget for the period 2015 to 2018 is focused on:

- a) New collaboration initiatives with Hertfordshire and Bedfordshire and consideration of other potential 'blue light' partners
- b) Programme Metis – this is the technology transformation programme which will improve the flow of information within the force and across organisations, enabling officers to spend more time out in their communities.

4.15 Over the last 3 years budget savings have been achieved in advance of the year-end and these have been transferred to the Reserves either to be used for specific purposes or as we continue to need to find savings going forward to assist with future budget gaps.

The Policing Front-Line

4.16 An additional 10 constables were budgeted and recruited for in 2013/14 and this number is being maintained into 2014/15 and is now built into the base budget. Transforming the way the service, delivered through our IT transformation programme Metis, will enable us in future years to help maintain the service to the public as budgets reduce by allowing more operational hours to be spent out on the street and not sitting in police stations completing mandatory paperwork.

Joint Protective Services - Bedfordshire, Cambridgeshire and Hertfordshire

- 4.17 Joint Protective Services comprises departments such as Major Crime, Firearms, Road Policing and Dogs. 13% or (£16,932k) of Cambridgeshire's total budget is spent on JPS. JPS was first established in 2012 with Major Crime being one of the first services collaborated and includes Dogs, Roads Policing Firearms and Scientific support services.

Other Collaborative Initiatives

- 4.18 Other collaborative initiatives include the National Police Air Service, custody arrangements at King Lynn Pic and Eastern Region Serious and Organised Unit. These account for 2% of Cambridgeshire's budget (£2,348k).

OPCC Budget

- 4.19 The work of the OPCC is changing, both as a result of the stage 2 transfer and the significant scrutiny and oversight implications of the large collaboration projects being undertaken to deliver the savings required over the next few years.

The Commissioner reduced his 2013/14 budget from the one inherited from the Police Authority. For 2014/14 the stage 2 transfer order has resulted in £300k of budget being moved from the Constabulary to the OPCC to take account of posts remaining under the direction and control of the Commissioner. Additional budget requirements as a result of the large remit total £53k.

5. Capital Strategy and Budgeting

- 5.1 Capital investment proposals are appraised in a structured and consistent manner so as to ascertain whether the plans are affordable, prudent and sustainable and that they contribute to the delivery of the Police and Crime Plan priorities.
- 5.2 There are limited resources available to finance capital spending. They include:-
- Capital Grants – from the Home Office
 - Capital Receipts – from the sale of land or property,
 - Capital Reserves – when supported by cash in the medium term cash flow forecast
 - RCCO – revenue contribution to capital outlay
 - Borrowing – only for significant long term assets, approved by the Commissioner and in accordance with the Prudential Code for Capital Finance.

- 5.3 The Commissioner, since his arrival in November 2012, has stated his desire to see no more public sector borrowing within the organisation. This aim is currently being achieved by a re-financing of the balance sheet to reduce the amount of minimum revenue provision we have to set aside for the borrowing requirement and the inclusion of RCCO in the MTFP. The capital programme plan currently contains no requirement to borrow for any future schemes.
- 5.4 The Capital Programme Plan is updated on an annual rolling review basis and a draft of the 2014/18 Programme will be presented to the Commissioner alongside the MTFP.

6. Reserves

- 6.1 The Commissioner holds a general reserve, primarily as a contingency for the cost of major police operations. This reserve currently totals £9.2m or 7%. As an operational contingency it is prudent to hold at least 6% of the total budget as a general reserve.
- 6.2 There are also a number of earmarked reserves, primarily to deal with insurance, collaboration and capital expenditure.
- 6.3 As the Commissioner has committed to not increasing our borrowing requirement any reserves that are spent must be supported through the cash-flow report to ensure we have the cash at bank to make the purchase. At present we have a running cash flow of £5m and therefore any spend above this level would result in the need to increase borrowing.
- 6.4 Reserves can only be spent once, so should be used to finance one-off spending (e.g. capital schemes) or to finance revenue spending pending savings coming on stream.

7. Conclusion

- 7.1 The Commissioner has worked with the Chief Constable to consider how to make the finances for Cambridgeshire policing sustainable in the future. This has been made particularly hard since the announcement of indicative grant figures for 2014 and 2015 which are significantly worse than originally expected. The over-riding objective is to protect the front-line service to the public and this is being achieved with constable numbers being maintained for 2014/15.

MTFP 2014/18 Draft Proposal

Appendix 1

	Budget* 2013/14 £'000	Proposed Budget 2014/15 £'000	Forecast Budget 2015/16 £'000	Forecast Budget 2016/17 £'000	Forecast Budget 2017/18 £'000
Local Policing Expenditure					
Police Officer Pay	41,950	42,059	42,900	44,917	46,264
Police Officer Overtime	1,880	1,880	1,880	1,880	1,880
Police Pensions	8,867	8,808	9,022	9,241	9,466
Police Staff	5,637	5,429	5,538	5,786	5,960
PCSO Pay & Allowances	5,762	4,876	4,973	5,200	5,356
Total Local Policing Expenditure	64,096	63,052	64,313	67,025	68,926
Operational Support Expenditure					
Police Officer Pay	4,963	4,694	4,788	5,004	5,155
Police Pensions	3,234	3,411	3,494	3,579	3,666
Police Staff	18,491	17,606	18,207	19,030	19,601
Training	650	700	700	700	700
Other Employee Expenses	35	41	41	41	41
Premises Costs	3,840	3,944	4,141	4,348	4,566
Transport Costs	2,427	1,711	1,797	1,886	1,981
Supplies & Services	12,436	11,850	13,097	12,771	13,018
Third Party Payments	959	822	839	856	873
Total Business Support Expenditure	47,035	44,779	47,103	48,215	49,599
Collaboration Expenditure					
BCH Collaboration	16,411	16,894	17,232	17,854	18,389
ERSOU	962	962	981	1,017	1,047
Helicopter	470	480	490	504	514
Kings Lynn PIC	688	906	924	952	971
Total Collaboration Expenditure	18,531	19,242	19,627	20,327	20,922
OPCC					
Staffing	466	857	875	897	924
Non-Staffing	400	361	369	376	384
Total OPCC Expenditure	866	1,219	1,243	1,273	1,308
Community Safety / Crime Reduction Grants (OPCC)	928	1,346	1,378	1,378	1,378
Victim and Restorative justice Grant	300	421	0	0	0
Capital Financing Costs					
Revenue Contribution to Capital	1,140	2,484	1,737	2,040	1,540
Interest	491	475	475	475	475
MRP	1,038	893	893	893	893
Total Capital Financing Costs	2,669	3,852	3,105	3,408	2,908
GROSS REVENUE EXPENDITURE	134,425	133,911	136,769	141,626	145,041
Total Income	-1,762	-2,376	-1,955	-1,955	-1,955
NET REVENUE EXPENDITURE	132,663	131,535	134,814	139,671	143,086
Contributions +To /- From Reserves	-155	0	0	0	0
NET BUDGET REQUIREMENT (NBR)	132,508	131,535	134,814	139,671	143,086
Budget -Decrease / +Increase Year on Year		-0.7%	2.5%	3.6%	2.4%
FINANCED BY:					
Formula Grant	81,139	78,461	75,950	74,811	73,689
Precept	45,544	47,133	48,778	50,480	52,241
Council Tax Freeze Grant	1,173	1,134	1,098	0	0
Council Tax Support Grant	4,807	4,807	4,807	4,807	4,807
Collection Fund - Deficit / +Surplus	-155	0	0	0	0
TOTAL FINANCING	132,508	131,535	130,632	130,098	130,737
		-0.7%	-0.7%	-0.4%	0.5%
BUDGET GAP	0	0	-4,182	-9,573	-12,349
			-4,182	-5,392	-2,775
Band D Council Tax £	£177.93	£181.42	£184.97	£188.60	£192.30
KEY ASSUMPTIONS INCLUDED IN THE FORECASTS ABOVE					
Council Tax base increases actual	1.10%				
Council Tax base increases estimated		1.50%	1.50%	1.50%	1.50%
Council Tax	1.96%	1.96%	1.96%	1.96%	1.96%
Tax base	255,963	259,803	263,700	267,655	271,670
Grant increase / Decrease (-)	-1.95%	-3.30%	-3.20%	-1.50%	-1.50%
Police officer pay rise (w.e.f 01/09)	1.00%	1.00%	1.00%	1.58%	2.00%
Police staff pay rise (w.e.f. 01/9)	1.00%	1.00%	1.00%	1.58%	2.00%
Increment increase	0.70%	0.70%	1.00%	1.00%	1.00%
General Inflation	2.50%	2.00%	2.00%	2.00%	2.00%
Fuel & Energy Inflation	4.00%	5.00%	5.00%	5.00%	5.00%

* Recast figures to show services to be collaborated i.e. custody, in Operational Support and not Local Policing

Draft