



To: Business Coordination Board

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

Date: 09 November 2017

MEDIUM TERM FINANCIAL STRATEGY 2019/20 TO 2021/22

1. Introduction

- 1.1 This report provides the Board with the draft Medium Term Financial Strategy (MTFS) for the period 2018/19 to 2021/22. It discusses the risks and issues currently impacting the MTFS and provides draft figures for the MTFS period, highlighting the pressures and savings options currently being considered.
- 1.2 Currently the funding settlement for Police for 2018/19 and beyond is unknown, with the first indications of this expected in the Chancellor of the Exchequers Budget Statement on 22 November 2017. Until more information is known this report discusses potential funding scenarios in order to give the Board an idea of the funding parameters the Commissioner will be operating in over the coming few years.
- 1.3 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 note and comment on the draft MTFS in particular:
 - Funding
 - Saving plans
 - Pressures

3. Medium Term Financial Strategy

- 3.1 The draft MTFS for the period 2018/19 to 2021/22. 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, will flow from this document and eventually forms the budget for 2018/19 and the precept for the Commissioner which will be set on 31 January 2018. The MTFS is a work in progress and will further develop over the coming three months as greater certainty regarding funding, savings and pressures come to light.
- 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, and will cover:
- 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 This is the first draft of the MTFS and some areas will not be concluded until there is more certainty around the budget setting process, for example workforce planning or require the process to be concluded first, the S151 Officers statement on the robustness of the estimates and reserves position.

- 4.3 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 will set out the current parameters for inflation but will also set out the risks associated with this should inflation increase above what is allowed for.
- 4.4 The MTFS then allows for the development of the Medium Term Financial Plan (MTFP) which is the financial aspect of the strategy.

5. Draft 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	132,130	135,430	139,682	144,078
OPCC	1,114	1,135	1,163	1,208	1,256
Grants	2,322	2,322	2,322	2,322	2,322
Capital Financing	1,187	1,237	1,517	1,962	1,956
TOTAL	130,960	136,824	140,431	145,174	149,612
% Change		4.5%	2.6%	3.4%	3.1%

- 5.2 The assumptions that are built into the figures in Table 1 are being reviewed, refined and challenged but are based on the following assumptions:

- 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%
- Pressures – 2018/19 - £996.7k, 2019/20 - £778.1k, 2020/21 - £778.1k, 2021/22 - £758.1k

- 5.3 The major change in the above assumptions from last year is the increase of pay inflation from 1% to 2%. The 2017 pay award for officers was 1% basic plus a 1%

one-off 'bonus' payment, which was unfunded by the Home Office, therefore, coming from the general reserve. The same package has also been agreed by the unions for police staff and is subject to final approval.

6. Funding

- 6.1 The Commissioners budget is funded from two main sources, Government Grant (60%) and Council Tax (39%).

Government Grant

- 6.2 The current MTF5 is built on the assumption of further cuts in the Police Grant received from the Home Office, in line with the overall budget strategy of the Government, before the June 2017 General Election. The working assumption for Cambridgeshire was that this settlement would result on a 1.28% cut year on year, reducing the grant received, as shown in **Table 2** below. The impact on the funding gap, if such a cut materialises is also shown.

Table 2: Police Grant scenario 1 – 1.28% year on year reduction

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
Police Grant	78,411	77,408	76,417	75,439	74,473
Funding Gap		5,076	7,579	11,066	14,086
%		3.71%	5.4%	7.62%	9.41%

- 6.3 Since the General Election in June, the Government have indicated there may be a relaxation of the current fiscal agenda, with the chancellor potentially 'loosening the purse strings'. Evidence of this is the relaxation of the 1% public sector pay constraint in some sectors (including police) but it is yet to be seen if any changes in grant allocations will follow this. Probably the best Cambridgeshire can hope for is a cash freeze position over the MTF5 period and the impact of this scenario is shown in **Table 3** below.

Table 3: Police Grant scenario 2 – Police grant cash freeze

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
Police Grant	78,411	78,411	78,411	78,411	78,411
Funding Gap		4,072	5,584	8,093	10,148
% NBR		2.98%	3.98%	5.57%	6.78%

- 6.4 It is currently estimated that the budget gap, over the life of the MTFS will be between £10.148m and £14.086m depending on the funding settlement from Government.

Council Tax

- 6.5 Under current legislation Police and Crime Commissioners can increase the Council Tax precept up to a maximum of 2% annually without having to get approval from a local referendum. The draft MTFS is built on the assumption of the maximum pre-referendum increase to Council Tax and will see a band D equivalent property increase council tax from £186.75 to £202.07 in 2021/22.
- 6.6 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 off 22,000 properties, however, it is important to note that the billing authorities will be undertaking their own growth estimates and this will feed into the Commissioner's funding assumptions.

7. Savings

- 7.1 As discussed in section 6.4 it is currently assumed that there will be a funding gap of between £10m and £14m over the period, with an estimated gap in 2018/19 of between £4m and £5m in 2018/19.
- 7.2 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.

- 7.3 The saving plans of the current MTFs and new proposals are currently being worked through but **Table 4** shows the current saving plans across different parts of the business along with the current RAG status.

Table 4: 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					
Red	40	800	800	800	2,440
Amber	600	200	0	400	1,200
Green	1,100	1,500	500	0	3,100
Estates Strategy					
Red	0	0	0	600	600
Amber	544	559	0	0	1,103
Green	0	0	0	00	0
Collaboration					
Red	325	1,055	21	0	1,401
Amber	380	0	0	0	380
Green	0	0	0	0	0
TOTAL					
Red	365	1,855	62	1,400	3,682
Amber	1,524	759	759	400	3,442
Green	1,100	1,500	500	0	3,100
Overall Total Savings	2,989	4,114	1,321	1,800	10,224
Budget (Gap)/ surplus after savings (grant freeze scenario)	(1,083)	1,519	(2,658)	76	

- 7.4 **Table 4** shows that there are plans in place to meet the funding gap, if the police funding is at a cash freeze position, but with a £4m gap if a funding is cut. However, of the £10.224m saving proposals, £3.682m currently has a red status and only £3.1m is green.

- 7.5 If the plans summarised above all delivered a contribution from reserves will be required in years 1 and 3, but by year 4 the budget will have been balanced without further calls on reserves.

8. Reserves

- 8.1 The General Reserve stood at £7.197m (5.5% of the NBR 2017/18). In 2017/18 there will be a call of approximately £0.75m on the general reserve of the police pay award above the 1% budgeted for, bringing the balance down to £6,447m (4.71% of 2018/19 estimated NBR).
- 8.2 The Budget Assistance Reserve, which is intended to be used to even out fluctuations within the MTFs period will have the following movements, based on the projected outturn position for 2017/18 and the budget gap figures in table 4 above.

Table 5: 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	6,565	5,482	7,001	4,343
Transfer (Out)/ In	(1,849)	(1,083)	1,519	(2,658)	76
Closing Balance	6,565	5,482	7,001	4,343	4,419

9. Capital

- 9.1 The proposed capital programme for the MTFs period is currently being review and bids submitted by departments wishing capital funding. A detailed capital programme will be brought to the January BCB for approval as part of the final approval of the 2018/19 Budget, MTFs 2018/19 to 2021/22 and the precept recommendation for the Police and Crime Panel.
- 9.2 Currently the funding available for the capital programme is highly restricted with funding primarily being government grants, with a small amount of capital receipts available. Borrowing is always available, within the prudential borrowing guidelines, but, with the current estimated funding gap in revenue, this is being restricted.
- 9.3 The exception to this is the Southern Policing Hub project, which currently has an estimated cost of £18m in the capital programme. Reserves have been set aside to part-fund this major project but borrowing will need to be undertaken to fully fund it. The revenue implications of these are contained within the MTFs, though these are currently being reviewed and further detailed updates will be given in future reports.

10. Next Steps

- 10.1 The detailed work on the MTFS and 2018/19 budget are continuing to take place. The OPCC will continue to provide a challenge and support approach to the Constabulary primarily through the Finance Sub Group. In addition the Chief Constable is holding a number of Star Chamber meetings for his management team, to which the Commissioner is invited.
- 10.2 The Governments budget speech is on November 22, when further indications of the Governments approach, post-election, to the public service funding will be gained. The draft funding settlement from the Home Office is expected in early to mid-December.
- 10.3 Further updates will be brought to BCB in December and the final budget and precept recommendation report will come to the January 2018 BCB meeting.

11. Recommendation

- 11.1 The Board is asked to note and comment on the draft MTFS in particular:
 - Funding
 - Saving plans
 - Pressures

APPENDIX 1 – DRAFT MEDIUM TERM FINANCIAL STRATEGY 2018/19 to 2019/20