

## **MEDIUM TERM FINANCIAL STRATEGY 2018-2021**

### **INTRODUCTION**

1. The Commissioner is required to set an annual budget and precept, taking into account Government funding, precept regulations and organisational demands. The Financial Management Code of Practice also states that the Commissioner, in consultation with the Chief Constable, should identify and agree a Medium Term Financial Strategy (MTFS), which includes funding and as far as possible, broad spending projections for revenue and capital expenditure. The annual budget forms the first year of the Strategy. The maintenance of the MTFS is important in promoting good financial planning and delivery of value for money.
2. This Strategy comprises two elements, the three year financial scenario and the plan to deliver policing services within the scenario. The financial assumptions include Government funding levels; the cost of current service levels; the impact of pay and price inflation and known commitments and demands. The delivery plan is underpinned by the output from the Priority Based Budgeting (PBB) process which looks at resource allocation within the assumed funding levels that delivers the Commissioner's Police & Crime Plan; meets the Strategic Policing Requirement; manages risk and threat assessments; and responds to the local needs of the Cheshire public.

### **BACKGROUND**

3. Since 2010 Cheshire Constabulary, alongside most public sector providers, has been required to make significant savings. In the past seven years, the Constabulary has made huge savings – over £60 million. Analysis by the Police and Crime Commissioners Treasurers' Society shows policing in Cheshire has suffered a cash cut of 23% since 2010 and a real terms cut of 37%.
4. During his term of office, the Commissioner's focus has been on ensuring the maintenance and improvement of front line policing services, delivering even safer communities for the whole of Cheshire and reflecting the priorities of the public. Investment decisions have focussed on improving efficiency and thereby releasing cashable savings while at the same time preserving or even enhancing service delivery. Innovation and collaboration have been at the forefront of planning, for example the Blue Light Collaboration programme involving the sharing of staffing and premises with Cheshire Fire & Rescue Service.
5. The use of technology and maximising the use of resources is a key element within the planning process. For example, officers and staff working directly with the public are now using mobile data devices which enable them to work more efficiently and effectively within their local communities without the need to return to their station.

## FINANCIAL SCENARIO

6. Policing in the UK has been subject to flat-cash funding from 2015-2018. This means Government funding has not increased in line with inflation and in fact, has reduced each year, with Commissioners having the option to make up the shortfall by raising council tax. As a result every increase in demand, pay award and price inflation has had to be paid for through savings and cuts to existing budgets. Previous plans and forecasts were based on a 1% pay award in line with the public sector pay cap. Recent pay negotiations for police officers agreed a 2% pay award with police staff still outstanding but likely to receive a similar award.
7. On the 19 December 2017, the Minister of State for Policing and the Fire Service wrote to all Commissioners stating that there would be no increase in Government grant provided to police forces for 2018/19. This means that once again increased costs arising from pay awards, price inflation, commitments and increased demand are not reflected in Government funding. The Minister did state that Commissioners could increase their council tax precept levels in 2018/19 and in 2019/20 by £12 without needing to call a local referendum. Maintaining current funding levels in real terms can therefore only be achieved if an additional tax burden is placed on Cheshire residents and business owners.
8. In addition to the freeze in Government revenue grant funding, the level of capital grant funding provided by the Government to police forces is continuing to reduce. Secondly in Cheshire internal capital reserves have reduced significantly. This means that additional borrowing is required to fund essential capital expenditure such as replacing equipment and vehicles, as well as investing in future improvements to the service. This puts further pressure on the revenue budget.
9. Based on the above provisional settlement and additional flexibility in relation to council tax precepts, the MTFs has been updated to reflect the same level of grant and the additional precept funding available for both 2018/19 and 2019/20 although there are risks to the 2019/20 grant as this is subject to each force achieving as yet unknown efficiencies and targets required by the Home Office.
10. Inflation is currently running at 3% which is above the Bank of England's target rate of 2%. While many of the items which are causing this increase do not impact in a material sense on the force (such as air travel), there is a likely impact on interest rates going forward which will impact on the revenue budget. Where borrowing is forecast, appropriate interest rates have been built into the assumptions. It is also likely that the pressure to increase the pay of our officers and staff will remain whilst they are dealing with this higher rate of inflation, putting further financial pressures on the costs of maintaining the policing service across Cheshire.
11. Based on the above and other known data, the financial assumptions underpinning this Strategy are set out below:

- Government funding – based on provisional settlement of the same grant amount for 2018/19 and 2019/20 with a 1.5% reduction in 2020/21. The grant amount remains unchanged for 2018-2020, this represents a reduction in real terms as there is no funding for pay and price inflation and commitments
- Current formula for allocating Government Funding will be replaced but with transitional arrangements (timing unknown, but is likely to be during the next Parliament)
- Specific Grants – assumes continuation at current levels
- Council tax – under new capping arrangements, the MTFS at this stage, incorporates the option of an increase of £1 per month in 2018/19 and 2019/20 as per the flexibility specifically highlighted to Commissioners by the Government in the December 2017 Provisional Settlement announcement; and falling to £0.78 per month in 2020/21 – while this is shown in the MTFS as an option, it is for the Commissioner to decide the actual increase each year as part of the budget setting process
- Pay inflation – 2% per annum throughout the MTFS period
- Price inflation – in line with the Office of National Statistics
- Reserves – are utilised to support ‘invest to save’ and transitional costs
- Borrowing – additional borrowing is required to meet the planned capital programme. Interest payable based on forecast interest rates per the Treasury Management Advisors.

12. Using the above assumptions, the following table shows the projected budget gap based on current service levels, a total of £16.3m over the next three years prior to identifying any savings. The savings are likely to increase as commitments and unavoidable demands become clearer in later years. In order to maintain current service levels savings and/or additional council tax is required.

Table 1: MTFS	2018/19 £000	2019/20 £000	2020/21 £000
Gross Expenditure Budget	194,527	199,911	204,426
Commitments & Unavoidable Demand	3,378	927	1,189
Inflation	3,793	3,591	3,702
<b>Gross Expenditure Budget</b>	<b>201,698</b>	<b>204,429</b>	<b>209,317</b>
Income and Specific Grants	(30,310)	(30,310)	(30,310)
<b>Net Budget</b>	<b>171,388</b>	<b>174,119</b>	<b>179,007</b>
<u>Funded by:</u>			
Government Police Grant & Formula Funding	(104,762)	(104,762)	(103,191)
Council Tax (see note below)	(60,147)	(64,832)	(69,947)
<b>Net Budget Requirement</b>	<b>(164,909)</b>	<b>(169,594)</b>	<b>(173,138)</b>
Use of Pensions Reserve	(600)	0	0
<b>Total Funding</b>	<b>(165,509)</b>	<b>(169,594)</b>	<b>(173,138)</b>
<b>Budget Shortfall</b>	<b>5,879</b>	<b>4,525</b>	<b>5,869</b>

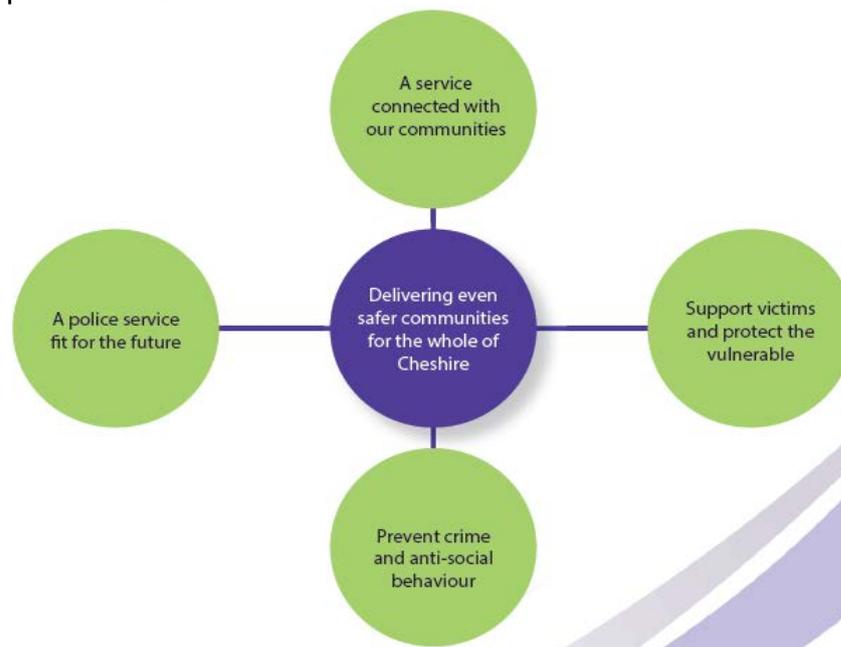
Note: These figures show the budget shortfall before any increase in precept and for 2019-21 show the assumed council tax based on the precept being increased in the previous year by the full amount available without a local referendum and includes estimates of council taxbase increases.

## RISKS

13. While there are always risks associated with financial assumptions, these assumptions are reviewed, benchmarked against other forces and presented to the Commissioner for approval on a quarterly basis throughout the year. When any material change takes place the MTFS is updated and approved by the Commissioner.
14. The fundamental risk to this scenario relates to the Government funding levels. The 2019/20 forecast grant is subject to as yet unstated terms and conditions, and a reduction in funding is currently expected for 2020/21. The Commissioner may use his ability to raise the council tax precept if this is necessary to maintain frontline policing and meet increasing demands. However, the additional flexibility for increasing council tax is currently for two years only; should this flexibility be removed, the final year of the MTFS may require additional savings to be found. Public opinion will also affect decisions on future increases in the precept.
15. The other key risk to the MTFS is the Emergency Services Network (ESN) - a national project to replace the current Emergency Services radios for critical communications (known as 'airwave' radios). The North West region is due to be the first to go-live with an original date of September 2017, recently adjusted to late 2020 at the earliest. Clearly, there are already significant delays to the transition and this carries some material financial risks including the existing radio solution being extended beyond 31 December 2019 at a significant cost to the Home Office, which may be passed onto the police (via top slicing of the police funding allocation). Every effort is being taken to mitigate this risk at a national and local level and the MTFS will be updated as and when more information is available regarding the new timescales and costs.
16. Collaboration and working with partners form a key part of policing. The level of funding received from partners depends upon their funding pressures and priorities, and any changes to such funding will have an impact on the budget proposals and savings. The current MTFS forecast assumes continued partner funding in line with existing agreements. The regional Assistant Chief Constable has been tasked with reviewing regional collaborations with an expectation that savings will be made. As data becomes available the MTFS will be updated accordingly. We will continue to explore innovative ways of working with public and voluntary sector partners especially within the county footprint.
17. Reserves are held to support future investments, to manage risk and enable savings to be delivered. The level of reserves held are detailed later in the report and show a reduction in overall levels with a potential risk to future years.

## POLICE AND CRIME PLAN 2016-21

18. In the Police and Crime Plan, the Commissioner states his vision for policing in Cheshire. The plan sets out a vision for the next four years in which Cheshire will have a Constabulary focused on community policing and putting victims first. The legacy will be a police service fit for the future which is connected with, based within and accessible to local communities – real neighbourhood policing. After consulting the public, the Commissioner set out the main priorities as follows:



19. The Commissioner has set out that the approach to commissioning will focus on victims of crime with the aim of ensuring that appropriate services are in place for those unfortunate enough to become victims of crime, in order to help them to cope with their ordeal and recover as best they can. Furthermore services will be commissioned focused on key local community safety priorities, whilst also making funding available to support local community organisations deliver better sustainable outcomes for local residents.

## STRATEGIC POLICING REQUIREMENT

20. Whilst many threats can be tackled by individual police forces within their own force areas, national threats such as terrorism, civil emergencies, serious and organised crime, public order, and a national cyber security incident require a coordinated or aggregated response in which resources are brought together from a number of police forces. Forces often need to work collaboratively, and with other partners, national agencies or national arrangements to ensure such threats are tackled effectively. The Strategic Policing Requirement (SPR) is the outcome of the Home Secretary's statutory duty to set out what are, in their view, the national threats at the time of writing and the appropriate national policing capabilities required to counter those threats.
21. The implementation of the SPR is the responsibility of the Chief Constable and the Commissioner. In reviewing the MTFs and the proposed efficiency savings and investments, the Acting Chief Constable is satisfied that this will

enable her to meet the requirements of the SPR; protect the public of Cheshire and achieve the priorities of the Police & Crime Plan.

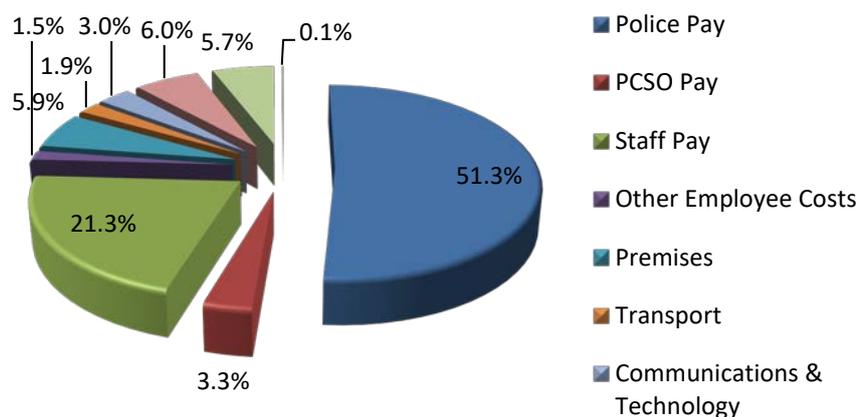
22. Inherent within the considerations for maintaining the SPR, are a number of considerations that need to be kept under close review. Local policing that delivers a visible presence in the heart of the community by engaging with residents to reflect their needs remains a fundamental part of policing. Whilst recognising the funding pressures referred to throughout this report, work will continue to maintain and enhance this local service. In particular, the impact of new technology arising from the up-coming introduction of SAAB SAFE control room software, use of mobile data devices and a community based PCSO model will improve the way in which the Constabulary works ensuring that local policing remains a key priority for the Commissioner and the Acting Chief Constable.
23. Further, the need to maintain resilience within the organisation and via our collaborative partners to deal with Serious and Organised Crime cannot be underestimated. Similarly, the terror threat and emerging intelligence need to be considered in planning both day to day policing and prevention, and local events. The Acting Chief Constable will keep this area under review in the light of both national threat levels and the local/regional/national intelligence picture, and the SPR will be kept under review as necessary over the coming years, alongside opportunities for greater workforce mix to maximise resilience and efficiency.
24. New and emerging crime types, in particular crimes containing a cyber element are on the rise. The Constabulary need to be trained and ready to identify and deal with new threats as they arise.
25. Vulnerable victims need a high level of attention and support to ensure safety and wellbeing, and this tends to require a proportionately higher resource level. Increasingly, vulnerable, repeat victims and those suffering from mental health illnesses form a growing proportion of the Constabulary's business. Working closely with partners to protect and support these victims is key, and this is again a growth area of demand that the planning for SPR needs to consider.
26. Finally, the need for investment in technology continues apace. The national Emergency Services Network, covered earlier in the report, is due to help reduce costs for the various IT and media devices now available within policing, but in the event of further delays in its introduction the Constabulary will need to invest to keep up with new technology on a recurring basis. Mobile tablets, telephones, body worn cameras and vehicle borne cameras and dashcams are all actively under consideration to increase not only efficiency but also legitimacy of police activity. The fast developing nature of new technology means that the investment has a relatively short life span and higher replacement costs due to frequency of new developments. This has been built into the projections below, and whilst another financial pressure, it is vital for the maintenance of a modern police service, achieving efficiencies and meeting the expectations of the public.

## COMMITMENTS & UNAVOIDABLE DEMAND

27. Although funding continues to reduce, there are still changes in both operational and business demands and obligations which require additional funding. These increase the requirement to find savings from within the existing budgets above those required due to funding changes.
28. An actuarial valuation is undertaken every three years on the Local Government Pension Scheme. This sets out the forecast assets and liabilities of the scheme and sets the employer's contribution rates. The last valuation (March 2016) required year on year increases in the contribution rate.
29. Bluelight collaboration includes the linking of the corporate services for police and fire within Cheshire, with Fire staff transferring into the Constabulary to form a joint service supporting both Cheshire Constabulary and Cheshire Fire and Rescue Service. The investments cover the areas currently identified in line with the future plans discussed later in the report.
30. In addition to the above, there is also hidden growth and demands due to national ESN delays e.g. forcing the purchase of unbudgeted items such as handheld devices for officers and body worn video to improve police legitimacy. These could have been avoided if ESN was delivered on time.
31. The level of Government funding for capital investment has considerably reduced under austerity with £647k provided for 2018/19. This does not cover the costs of the annual replacement cycle for vehicles, IT and equipment, let alone providing for any additional investment.
32. To fund the proposed capital programme and allow for 'invest to save' schemes to be funded, given that reserves are now fully utilised, there is a need to borrow. Borrowing comes with two costs, the interest on the debt and the setting aside an appropriate amount each year to enable the loan to be repaid known as minimum revenue provision or MRP.
33. The increase in borrowing costs will have to be funded from further savings within the revenue budget and have been included in the Commitments shown above the Budget Gap figures quoted in Table 1.

## CONTEXT

34. As a police service, the majority of spend (75.9%) relates to pay for officers, PCSOs and staff. The following chart shows how the full budgeted spend is allocated.



## FUTURE PLANS

35. Based on the above assumptions, from 2018 the MTFs will enable the Police and Crime Plan to be delivered along with meeting the operational demands and new emerging police risks such as cyber-crime and child sexual abuse.
36. In line with the Police and Crime Plan, the MTFs allows the Constabulary to:
  - Meet the operational demands and new emerging police risks such as cyber-crime and child sexual abuse
  - Protect and continue to invest in Neighbourhood Policing to better connect with communities; providing fully funded PCSOs to each community
  - Enhance the roles of Specials and volunteers, as well as maintaining the youth programme
  - Retain and invest in specialist investigation capabilities to tackle organised crime and the investigation of sexual crimes that have such an impact on victims
  - Maintain the current investment in safeguarding and public protection to support the most vulnerable in our communities
  - Continue to invest in the workforce, developing skills to ensure the Constabulary is able to meet the operational challenges as well as making it fit for the future
37. There is a continuing need to find savings due to Government funding not reflecting pay awards, inflationary pressures and increased demands.
38. Technology plays a vital role in modern policing. Investments over the last few years has provided tablet technology to front-line officers and staff allowing agile working, increased deployment within the community and the ability to complete tasks at point of contact. The amount of data used with this technology has been less than forecast allowing savings to be made. Another major investment is the introduction of Saab SAFE, our new Command and Control system, which will offer a fully integrated solution for information sharing, decision support, workflow, resource management and voice and data communications – all in one common interface. It will transform the way teams across the Constabulary complete their day to day work. This project will be completed in 2018/19. All associated IT contracts have been reviewed and savings made where appropriate.
39. Within the Police & Crime Plan enhancing effective local community policing is a core theme, providing assurance and confidence to the public. The public's priority for the Chief Constable is to deliver a visible police service with officers, PCSOs and specialist staff engaged, based in and connected with local people and local communities, more of the time. In support of the key theme, a review of all police buildings has been undertaken and an Estates Strategy approved with the aim of providing an appropriate estate that not only delivers this key priority but also represents value for money. Savings will be made by sharing bases and locations with Cheshire Fire & Rescue Service and other local partners, and utilising community facilities.

40. Collaborative working with regional and national partners has been in place for a number of years offering access to specialist policing services that are not viable at force level and shared support services that offer value for money.
41. Every year all non-pay budgets are scrutinised through the Priority Based Budgeting (PBB) process to ensure value for money. Changes to contracts, demands such as the increase in cyber-crime and child sexual abuse, and changes to the way of working facilitate non-pay savings while protecting service delivery and front-line officers and staff. Savings from non-pay budgets are a priority in order to protect jobs wherever possible.
42. While the above indicates the current areas where savings have been achieved, there is an on-going need to make further savings over the next few years. To facilitate these savings a number of plans, reviews and the on-going PBB process as indicated below will be undertaken.

Plans, Reviews and PBB	2018/19	2019/20	2020/21
All non-pay expenditure – PBB review	✓	✓	✓
Staff suggestions – Method/Volume changes	✓	✓	✓
Dept. of Criminal Justice – thematic review	✓		
Intelligence – thematic review	✓		
Bluelight – thematic review		✓	
Corporate Services – thematic review		✓	
Public Contact – thematic review	✓	✓	
Forensics – thematic review		✓	
Force Control Centre – thematic review		✓	✓

43. In addition to the above timetable, there are existing reviews already underway which will provide efficiencies and savings. These will be included in the budget setting process for the relevant financial year.
44. However, given the level of savings required as stated in the budget gap above, should there be a shortfall from the above plans and reviews or the precept not increased in line with maximum flexibilities, workforce numbers and mix will have to be reviewed.

## CAPITAL PROGRAMME

45. In addition to the revenue budgets, a programme of capital investment is envisaged over the MTFs period. There are three categories of capital expenditure, Prior Years Schemes which represents continued spend on capital investments approved in previous years; Annual Replacement Schemes which maintain the current Estate, Technology and Vehicles; and proposed New Schemes which will be subject to specific approval through the relevant year's budget setting programme. This indicative programme links to the 'invest to save' projects such as utilising new technology which will provide efficiencies both in terms of savings and improved service provision.

46. Funding for these comes from the Government's general and specific capital grants, reserves held by the Commissioner, contributions and borrowing. There is an assumption that the Government will continue with the capital grant provision within the MTFs period, but this is not a certainty. If the grant is withdrawn, further borrowing will be required. Details of the proposed programmes (not including the impact of 2017/18 outturn) and their associated funding are shown in the following two tables.

Indicative Capital Programme	2018/19 £000	2019/20 £000	2020/21 £000
Prior Years	5,163	496	353
Annual Replacement Schemes:			
Estates Essential Maintenance	0	600	600
Technology Refresh	1,025	1,429	1,185
Fleet Vehicles	2,077	2,234	2,346
New Schemes:			
Property	3,641	2,581	151
IT and Communications	865	20	2,020
Equipment	1,121	200	200
Vehicles	319	0	0
<b>Total Capital Programme</b>	<b>14,211</b>	<b>7,560</b>	<b>6,855</b>

Proposed Capital Financing	2018/19 £000	2019/20 £000	2020/21 £000
Government Grants	500	400	300
Capital Receipts	4,305	371	1,835
Revenue Contribution to Capital	500	500	1,000
External Contributions to Capital	872	0	0
HQ IT Reserve	209	209	202
Borrowing Requirement	7,825	6,080	3,518
<b>Total Capital Financing</b>	<b>14,211</b>	<b>7,560</b>	<b>6,855</b>

## RESERVES

47. The Reserves Strategy as approved by the Commissioner has been developed to ensure that the Commissioner's reserves are sufficient to meet the known risks and issues facing the Constabulary without holding excessive sums.
48. Investment over the past few years has helped deliver over £60m of savings since 2010 whilst maintaining front-line services and absorbing increased demands. The level of reserves currently held and their forecast use is shown below.

Table 6: Reserves

	Apr-18 £000	Mar-19 £000	Mar-20 £000	Mar-21 £000
Revenue Reserve for Capital	845	0	0	0
Capital Receipts	0	0	0	0
Unapplied Capital Grants	0	0	0	0
Earmarked Capital Reserves	845	0	0	0
IT Reimbursement Reserve	0	0	0	0
Redundancy Reserve	882	632	632	632
MTFS Reserve	1,136	1,136	1,136	1,136
LGPS Actuarial Reserve	600	0	0	0
Earmarked Revenue Reserves	2,618	1,768	1,768	1,768
General Reserve	5,273	5,273	5,273	5,273
<b>Total Reserves</b>	<b>8,736</b>	<b>7,041</b>	<b>7,041</b>	<b>7,041</b>

49. Capital receipts from selling assets in the past have now been fully utilised, no other receipts have been assumed until the Estates Strategy has been approved and implemented. It is expected that any receipts from the Estates Strategy will be used to fund any associated expenditure making the Strategy as close to self-funding as possible. Capital Reserve & Grants are likely to be zero throughout the MTFS period as any grants or contributions received will be used to fund capital expenditure in full in the year in which it is received.
50. Although the current plans are for minimal staffing changes, given the challenging financial scenario going forward there is a potential for redundancies in the future and a fund has been set aside to cover these costs to avoid any further strain on the revenue budget and service provision.
51. The Medium Term Financial Strategy (MTFS) reserve was created at the start of the austerity period to recognise that to facilitate savings and drive out efficiencies there would be a need to 'invest to save' pump priming or temporary funding to allow changes to take place to deliver savings. This reserve will be utilised as and when plans are finalised and agreed.
52. Every three years the Local Government Pension Scheme (LGPS) is subject to an actuarial review. This sets out the actuary's view on the assets and liabilities of the pension fund and sets the employer's contribution rate for the following three years together with any additional contributions required. The last actuarial review was in March 2016 and the outcome impacts on the budget forecast for 2017 to 2020. Due to current economic climate, forecast future requirements and returns on assets held, the contribution rates increased. To assist in the transition to the higher rates funding has been set aside to smooth the increase over the three year period. This is shown in the above table under the LGPS Actuarial Reserve.
53. The General Reserve is held to deal with emergencies; unexpected demands and in-year changes to forecast budgets. While special grants can be applied for from Central Government should there be a major incident, the expectation is that the first 1% will be met from the existing funding. Best practice dictates that at least 3% of the revenue budget is held for such purposes and the

above level of general reserve is just above 3%. The 2018/19 budget report will include specific commentary on reserve strategies in place and the robust plans on how these reserves will be spent in a timely and effective manner in coming years to help deliver the Commissioner's Police & Crime Plan priorities.

## SUMMARY

54. The failure of Government funding to reflect the costs of pay and price inflation, commitments and increases in demand means that savings will be required over the MTFS period. The Commissioner may annually decide to increase the Council Tax precept to help to fund this shortfall, however this will take into account the needs, priorities and views of the public in Cheshire at the time.
55. The plans and assumptions made in this MTFS retain the strong links to the Commissioner's Police and Crime Plan such as neighbourhood policing, remaining connected with communities who are at the foundation of what the police do; the Estates Strategy enabling a modern and less costly estate whilst improving our service to the public of Cheshire; and an IT/agile enabled workforce that is more productive.
56. Collaboration programmes, the use of technology and the review of infrastructure and buildings will deliver savings over the MTFS period together with the outcomes of the annual PBB process.
57. It is recognised that the plans mentioned in this MTFS are ambitious and that they will need full support and continual review to ensure that they can be implemented and therefore deliver the expected savings. The Constabulary monitors the implementation of these plans and reports regularly to the Commissioner, to ensure proper scrutiny and planning of the medium term financial scenario can be undertaken.