



Police Committee

Date: THURSDAY, 21 JANUARY 2016
Time: 11.30 am
Venue: COMMITTEE ROOMS, 2ND FLOOR, WEST WING, GUILDHALL

12. **REVENUE AND CAPITAL BUDGET 2016/17 AND DRAFT MEDIUM-TERM FINANCIAL PLAN UP TO 2018/19**

Joint report of the Chamberlain and Commissioner.

For Decision
(Pages 1 - 12)

Item received too late for circulation in conjunction with the Agenda.

John Barradell
Town Clerk and Chief Executive

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Committee(s)	Dated:
Police Committee	21 January 2016
Subject: Revenue and Capital Budget 2016/17 and Draft Medium-Term Financial Plan up to 2018/19	Public
Report of: The Chamberlain and The Commissioner	For Decision

Summary

Following the Government's announcement of the provisional police funding settlement for 2016/17 in December this report updates the draft medium term financial plan presented to your Committee and the Finance Committee in September 2015. This is summarised at a "headline" level in the table below

POLICE MEDIUM TERM FINANCIAL PLAN	2015/16	2016/17	2017/18	2018/19
	Latest	Forecast		
	Outturn	/Original	Forecast	Forecast
	£m	£m	£m	£m
<u>January 2016 Forecast</u>				
Expenditure*	123.9	107.2	107.8	108.4
Income*	(120.7)	(107.2)	(104.9)	(103.6)
Deficit (Surplus)	3.2	0.0	2.9	4.8
General Reserve (In-Hand) Overdrawn at 31 March	(5.4)	(5.4)	(2.5)	2.3
Minimum Reserve Level (agreed by Common Council)	4.0	4.0	4.0	4.0
Further Savings/Income required to maintain minimum reserve	0.0	0.0	(1.5)	(6.3)
<u>September 2015 Forecast</u>				
Deficit (Surplus)	3.6	3.9	4.8	NA
General Reserve (In-Hand) Overdrawn at 31 March	(5.0)	(1.1)	3.7	NA
<u>Change from September Forecast</u>	(Better)	(Better)	(Better)	(Better)
Deficit (Surplus)	(0.4)	(3.9)	(1.9)	NA
General Reserve (In-Hand) Overdrawn at 31 March	(0.4)	(4.3)	(6.2)	NA

* Includes cash flow assistance for Action Fraud in 2015/16 and recovery in subsequent years (paragraph 10)

Key Points

- **Government Core Grant:** An improvement of £2.2m in core grant for 2016/17 from £49.8m assumed in September to £52m announced in the provisional settlement. The draft medium term financial plan (MTFP) assumes core grant will continue at this level across the period whereas the September forecast assumed year on year 5% reductions. This equates to a £7m "increase" in core grant for 2016/17 and 2017/18 and is the main reason for the £6.2m improvement in the reserves position by 2017/18 (bottom line of table above).
- **Reserves:** As a result of the improvement in core grant the revenue budget for 2016/17 breaks even. However, there is still a deficit of £2.9m forecast for 2017/18 rising to £4.8m in 2018/19. This would leave the reserve at £2.5m as at

31 March 2018 (£1.5m below the £4m “minimum”) and potentially an overdrawn position of £2.3m by 31 March 2019.

- **Business Rates Premium:** The provisional settlement indicated that, in order to maintain funding levels in real terms, Forces would need to increase their council tax precepts. Due to the City’s low council tax base, the equivalent mechanism for the City is the Business Rate Premium. No increase has been assumed in the premium.
- **Employees:** The draft MTFP is based on the reduced establishment of 700 police officer and 410 police staff posts included in the September forecast. These numbers are further reduced to 690 and 385 respectively with the inclusion of vacancy factor targets (paragraph 8 and appendix 1).
- **Other revenue expenditure (excluding Action Fraud):** Non pay costs are capped at £29m in cash terms across the period - the reduced level assumed in the September forecast (paragraph 9).
- **Action Fraud:** The City Fund is providing cash flow assistance in relation to the Action Fraud Service. IBM’s significant mobilisation costs during the first year cannot be managed within Police reserves. The City Fund will therefore be advancing the Police £9.9m in 2015/16 to be repaid back from a Home Office capital grant and from savings generated over the lifetime of the contract (paragraph 10).
- **Specific Government Grants and other income streams:** By 2018/19 income is forecast to reduce by £5.2m. In particular prudent assumptions have been made on specific grant allocations which have yet to be confirmed (paragraph 11 and appendix 2). The actual levels of income achieved could have a particularly significant impact on the estimated deficits for 2017/18 and 2018/19.
- **Capital and Major Revenue Projects:** The revenue budget includes a contribution of £1m per annum towards the capital and major revenue projects programme. A firm programme of projects for 2015/16 and 2016/17 has been prepared. However, plans for 2017/18 and 2018/19 are still in progress (paragraphs 13 and 14 and appendix 3).

The draft medium term forecast suggests that although the 2016/17 budget breaks even, the position for later years remains challenging and further steps will be required to achieve a balanced financial position over the medium term. This will not be easy as the more straightforward saving options have already been identified. However, steps taken in the near term to address the gap combined with the more favourable than anticipated provisional funding settlement allows more time to ensure changes can be implemented in a way that minimises the impact on policing the City of London. It is intended to provide an update on the strategy for restoring financial balance in time for the Resource Allocation Sub Committee Away-Weekend on 24/25 June.

Recommendations

Members are asked to:

- note the latest forecast outturn for 2015/16

- review and approve the revenue budget for 2016/17 for submission to the Finance Committee
- review and approve the capital budget for 2016/17;
- note the indicative deficits forecast for 2017/18 and 2018/19; and
- note that a further report (or reports) will be presented on the strategy for restoring financial balance by 2017/18 together with an updated programme of capital and major revenue projects over the medium term. These will be prepared in time for the Resource Allocation Sub Committee Away-Weekend on 24/25 June.

Main Report

Background

1. This report provides the Committee with the Force's revenue and capital budget 2016/17 and draft medium-term financial plan up to 2018/19. The overall financial strategy is unchanged: to put in place a robust 3-year plan with sufficient net cashable savings to maintain a minimum general reserve balance of £4m over the period.
2. A substantial amount of detail and complexity underpins the figures in this report, which aims to present the information as succinctly and clearly as possible. Additional financial details on individual items can be provided on request.

Revenue Position

3. In summary, the City of London Police draft medium-term financial plan (MTFP) is set out in the table overleaf:

POLICE MEDIUM TERM FINANCIAL PLAN JANUARY 2016	2015/16	2016/17	2017/18	2018/19
	Latest	Original	Forecast	Forecast
	Outturn	Budget	Forecast	Forecast
	£m	£m	£m	£m
Employees	81.7	78.7	79.8	81.0
Other Expenditure	32.3	29.0	29.0	29.0
Action Fraud - additional contract costs/savings	9.9	(0.5)	(1.0)	(1.6)
Expenditure	123.9	107.2	107.8	108.4
Specific Government Grants	(38.1)	(36.3)	(34.7)	(34.0)
Partnership Income	(13.1)	(13.2)	(13.0)	(12.9)
Fees and Charges	(2.1)	(1.1)	(1.1)	(1.2)
Income	(53.3)	(50.6)	(48.8)	(48.1)
Total Net Expenditure	70.6	56.6	59.0	60.3
Funded by:				
Core Grant	(52.4)	(52.0)	(52.0)	(52.0)
Premium	(5.1)	(5.1)	(5.1)	(5.1)
Action Fraud - cash flow adjustments	(9.9)	0.5	1.0	1.6
Resources (Cash Limit)	(67.4)	(56.6)	(56.1)	(55.5)
Deficit (Surplus)	3.2	0.0	2.9	4.8
General Reserve				
Opening Balance at 1 April	(8.6)	(5.4)	(5.4)	(2.5)
Total Expected Use of (Contribution to) Reserve	3.2	0.0	2.9	4.8
General Reserve (In-Hand) Overdrawn at 31 March	(5.4)	(5.4)	(2.5)	2.3
Minimum Reserve Level (agreed by Common Council)	4.0	4.0	4.0	4.0
Further Savings/Income required to maintain minimum reserve level	0.0	0.0	(1.5)	(6.3)

Comparison to September Update	2015/16	2016/17	2017/18	2018/19
	Latest	Forecast	Forecast	Forecast
	Outturn	/Original	Forecast	Forecast
	£m	£m	£m	£m
January 2016 Forecast				
Deficit (Surplus)	3.2	0.0	2.9	4.8
General Reserve (In-Hand) Overdrawn at 31 March	(5.4)	(5.4)	(2.5)	2.3
September 2015 Forecast				
Deficit (Surplus)	3.6	3.9	4.8	NA
General Reserve (In-Hand) Overdrawn at 31 March	(5.0)	(1.1)	3.7	NA
Change from September Forecast	(Better)	(Better)	(Better)	(Better)
Deficit (Surplus)	(0.4)	(3.9)	(1.9)	NA
General Reserve (In-Hand) Overdrawn at 31 March	(0.4)	(4.3)	(6.2)	NA

4. Compared to the update presented to Police and Finance Committees in September 2015 the draft medium-term financial plan summarised in the Table above presents an improved position delivering a balanced revenue budget for 2016/17 without breaching the £4m “minimum” reserve. However, there are still significant funding pressures and the requirement for deficit reduction measures remain. There is a deficit of £2.9m forecast for 2017/18 rising to £4.8m in 2018/19. This would leave the reserve at £2.5m as at 31 March 2018 (£1.5m below the £4m “minimum”) and potentially an overdrawn position of £2.3m by 31 March 2019. Action is therefore needed to restore financial balance by 2017/18. A further report (or reports) will be presented

on the strategy for restoring financial balance in time for the Resource Allocation Sub Committee Away-Weekend on 24/25 June.

Provisional Police Revenue Funding Settlement

5. The main reason for the improvement since September is the more favourable than anticipated provisional police funding settlement for 2016/17 announced by the Home Office in December. The September update assumed a year on year reduction of 5% in police core grant funding which was consistent with the expected outcome of the Spending Review which was a 25% reduction in police funding over the course of this Parliament. The provisional settlement is a reduction of £0.3m (0.5%) - £2.3m better than the September forecast.
6. For the purpose of the draft MTFP it is assumed that core grant funding will remain at 2016/17 levels across the planning period. Compared to the position outlined in the September update this equates to a £7m “increase” in core grant for 2016/17 and 2017/18 and is the main reason for the £6.2m improvement in the reserves position by 2017/18.
7. The provisional settlement also indicated that, in order to maintain funding levels in real terms, Forces would need to increase their council tax precepts. Due to the City’s low council tax base, the equivalent mechanism for the City is the Business Rate Premium. No increase has been assumed in the premium.

Key Revenue Assumptions

8. **Employees:** Staff costs account for over 70% of gross expenditure. The draft MTFP is based on the reduced establishment of 700 police officer and 410 police staff posts included in the September forecast – from 730.5 and 450.1 respectively. The lower establishment is further reduced to 690 and 385 respectively with the inclusion of vacancy factor targets which have been included in the pay budgets (see appendix 1 for further details). The Force is actively ensuring that it follows proper process particularly around consultation with the workforce affected and recognised Trade Unions. Provision for pay awards has generally been included at 1% across the period.
9. **Other Expenditure:** with the exception of Action Fraud (para 10) all non- pay budgets have been capped at £29m in cash terms across the period. This was the level set for 2016/17 in the September forecast but increased for an on-going annual revenue contribution to capital and major revenue projects of £1m and additional I.T. costs of £2.1m. The Force will need to prioritise within this overall cash limited sum of £29m.
10. **Action Fraud:** The revenue position outlined above includes the cash flow assistance which the City Fund will be providing in relation to the Action Fraud Service. Members will recall that this service was transferred by the Home Office from the National Fraud Authority to the City Police with effect from 1 April 2014. Subsequently, the service was subject to a procurement process which was won by IBM. The phasing of contract payments reflects IBM’s significant mobilisation costs during the first year which cannot be managed within Police reserves. The advance from City Fund of £9.9m will be

recovered through a Home Office capital grant of £3.3m during the current year and savings generated by new working arrangements over the 5 year contract period as IBM shift from more expensive Contact Centre costs to lower cost web-based reporting.

11. **Specific Government Grants and other income streams:** Notwithstanding the increase in Capital City Funding announced in the settlement (from £2.8m in 2015/16 to £4.5m in 2016/17) overall income over the MTFP period is forecast to reduce by some £5.2m mainly in relation to prudent assumptions on government grant funding. A breakdown by individual funding streams is set out at appendix 2 with a number of these streams not due to be confirmed until March or later. The accuracy of the forecasts is particularly dependent on the actual levels of income achieved and beneficial outcomes for 2017/18 and 2018/19 could make potentially significant contributions towards the funding gaps.
12. **Business Rates Premium:** As indicated above, no increase in the business rate premium has been assumed. The premium may only be increased in 0.1p increments with each 0.1p generating around £1.6m each year. It was last increased in 2006/07 – to 0.4p. The City Police currently receives £5.1m p.a. from the premium and the City's non-police services receive £1.4m.

Capital and Major Revenue Projects

13. A provisional programme of capital and major revenue projects together with the anticipated funding available is set out at appendix 3. Firm proposals are set out for 2015/16 and 2016/17. For 2017/18 and 2018/19 the proposals are work in progress. To a large extent a number of significant projects are outside the Force's control. The Emergency Services Mobile Communications Programme is a Home Office mandated programme and uncertainty remains over the timing and the Home Office contribution towards funding. The Ring of Steel IMs-DRS procurement project was initiated as a capital project however feasibility studies have shown that the preferred solution could be to externally host this functionality which means that the expenditure will principally (but not exclusively) be of a revenue nature. In addition the Ring of Steel Plate Reader Units were delayed pending a decision on national Automatic Number Plate Readers programme.
14. Individual projects are being, or will be, progressed through the Gateway Approval Process in accordance with the City's Project Procedure and it is intended to report back to Police Committee with an updated programme covering the medium term.

Implications and Options

15. The draft medium term forecast suggests that, although the 2016/17 budget breaks even, the position for later years remains challenging and further steps will be required to achieve a balanced financial position over the medium term.
16. This will not be easy as the more straightforward saving options have already been identified. However, steps taken in the near term to address the gap

combined with the more favourable than anticipated provisional funding settlement allows more time to ensure changes can be implemented in a way that minimises the impact on policing the City of London.

17. The September update report set out the following four principal options open to Members for closing the gap which are still relevant:

- Further budget savings / income generation: staff costs account for over 70% of the net budget, a key focus therefore continues to be on workforce numbers.
- Increase in the Business Rate Premium (BRP): Other forces will be looking hard at the scope for raising their council tax precept. This was signalled in the provisional settlement with the flat Police settlement (in real as opposed to cash terms) assuming precept income increases to the maximum amount. For the City, the residential base is so low that an increase of 2% in council tax would only generate £106,000. The comparable precepting mechanism for the City is the business rate premium. In the past, the assumption has been for an increase to be linked to a specific new/additional proposition, such as the Ring of Steel.
- Flexibility on Minimum Reserve – a reduction below the current £4m minimum would carry some risk as it is likely that the Force will face further budget reductions or pressures, over and above those already identified.
- Contribution from the City of London – Members have generally taken the view that the core funding requirements should be provided by the government, but could decide to redirect funding from City Fund or City's Cash. Such funding decisions would need to be considered against other competing pressures and the precedent this might set for the City's non-police, as well as police, funding.

Conclusion

18. The Force's primary commitment remains that of protecting the public and the City of London. This is taking place within the context of delivering greater local accountability and transparency against the background of a continuing drive for the reduction of costs and duplication as well as increased partnership and collaborative working with other agencies to deliver cross force specialist capabilities. This requires radical transformation in the way in which services are currently delivered to the public and such transformation requires investment to improve the response to changing threats.

19. This budget has demonstrated the Force's tangible commitment to deficit reduction whilst ensuring that Police capability and capacity are not put at risk. Whilst the forecast deficits for 2017/18 and 2018/19 are somewhat lower than previously anticipated due to the more favourable funding settlement, the challenge remains of achieving a balanced budget over the medium term that will deliver the policing service in an innovative and sustainable manner. Amongst other things, this will require the development of a more robust income generation strategy and sufficient headroom to provide for investment.

20. A further report (or reports) will be presented on the strategy for restoring financial balance by 2017/18 together with an updated programme of capital and major revenue projects over the medium term. These will be prepared in time for the Resource Allocation Sub Committee Away-Weekend on 24/25 June.

Appendices

- Appendix 1 – Employees
- Appendix 2 – Specific Government Grants and other income streams
- Appendix 3 – Capital and Major Revenue Projects Programme

Background Papers

Report to Police Committee (16 January 2015) on Revenue and Capital Budget 2015/16 and Draft Medium-Term Financial Plan up to 2017/18

Report to Police Committee (22 September 2015) and Finance Committee (25 September 2015) on City of London Police – Medium Term Financial Plan and Budget Update

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Chamberlain's Department, Deputy Financial Services Director

EMPLOYEES – ASSUMPTIONS

Medium Term Strategic Workforce Plan Police Officers	2015-16 FTE	2016-17 FTE	2017-18 FTE	2018-19 FTE
Approved Establishment Baseline	730.5	700.0	700.0	700.0
Police Officer Efficiencies	30.5	0.0	0.0	0.0
Vacancy Factor Target	8.0	10.0	10.0	10.0
Budgeted Establishment*	692.0	690.0	690.0	690.0
Pay awards and allowances	1%	1%	1%	1%

* Includes Officers on Secondment	17.0	15.0	15.0	15.0
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Medium Term Strategic Workforce Plan Police Staff	2015-16 FTE	2016-17 FTE	2017-18 FTE	2018-19 FTE
Approved Establishment Baseline	450.1	410.0	410.0	410.0
Police Staff Efficiencies	40.1	0.0	0.0	0.0
Vacancy Factor Target	21.0	25.0	25.0	25.0
Budgeted Establishment	389.0	385.0	385.0	385.0
Pay Awards - Basic	1.25%	1.0%	1.0%	1.0%
- London Weighting	3%	1.0%	1.0%	1.0%

Specific Government Grants and other income streams

	Baseline Budget 15/16 £m	Estimates 2016/17 £m	Estimates 2017/18 £m	Estimates 2018/19 £m
Government Grants				
National Fraud Intelligence Bureau - NCSP	(7.0)	(6.0)	(5.4)	(5.1)
National Fraud Intelligence Bureau - Home Office	(2.9)	(2.6)	(2.3)	(2.1)
Cyber Protect - NCSP	0.0	(0.4)	(0.4)	(0.4)
NLF - Home Office	(2.9)	(2.3)	(2.1)	(1.9)
Overseas Anti-Corruption Unit - DfID	(1.4)	(0.5)	0.0	0.0
Economic Crime Victim Care Unit - Home Office via MPS	(0.3)	0.0	0.0	0.0
Regional Fraud Team - Home Office via MPS	(0.2)	0.0	0.0	0.0
Prevent - Home Office	(0.2)	(0.1)	(0.1)	(0.1)
NICC - Home Office	(2.8)	(4.5)	(4.5)	(4.5)
DSP - Home Office	(5.5)	(4.7)	(4.7)	(4.7)
CTSA - Home Office	0.0	(0.2)	(0.2)	(0.2)
EOD - Home Office	(0.5)	(0.4)	(0.4)	(0.4)
Loan Charge Grant - Home Office	(0.0)	(0.0)	(0.0)	(0.0)
Pension Grant - Home Office	(14.5)	(14.7)	(14.7)	(14.7)
Government Grants Total	(38.1)	(36.3)	(34.7)	(34.0)
Partnership Income				
PIPCU - IPO	(1.5)	(1.5)	(1.5)	(1.5)
DCPCU - FFA UK	(2.4)	(2.4)	(2.4)	(2.4)
Insurance Fraud Enforcement Department - ABI	(4.0)	(4.1)	(4.0)	(3.9)
Op Skynet - European Commission	(0.3)	(0.2)	0.0	0.0
Safer Transport Team - TfL	(1.3)	(1.3)	(1.3)	(1.3)
Commercial Vehicle Unit - TfL	(0.3)	(0.3)	(0.3)	(0.3)
Late Night Levy - CoL	(0.3)	(0.3)	(0.3)	(0.3)
Policing the Bridges - CoL	0.0	(0.2)	(0.3)	(0.3)
HGV Taskforce - TfL	(0.1)	0.0	0.0	0.0
Tower Bridge - CoL	(0.1)	(0.1)	(0.1)	(0.1)
London Safety Camera Partnership - TfL	(0.3)	(0.3)	(0.3)	(0.3)
POCA	(0.6)	(0.6)	(0.5)	(0.5)
Seconded Officers	(1.2)	(1.1)	(1.2)	(1.2)
Firearms Support - Bank of England	(0.8)	(0.8)	(0.8)	(0.8)
Partnership Income Total	(13.1)	(13.3)	(13.0)	(12.9)
Sales, Fees, Charges & Rents				
Fraud Academy	(1.4)	(1.0)	(1.1)	(1.2)
Donations/Contributions to Cadets & Mounted Branch	(0.0)	0.0	0.0	0.0
TFG income from courses	(0.1)	0.0	0.0	0.0
Custody Charges	(0.0)	0.0	0.0	0.0
Disclosure & Barring Services	(0.1)	0.0	0.0	0.0
Data Protection	(0.0)	0.0	0.0	0.0
Car Pound Income	(0.1)	(0.0)	(0.0)	(0.0)
Speed Awareness Courses	(0.1)	0.0	0.0	0.0
Court Fees	(0.1)	0.0	0.0	0.0
Project Griffin	(0.0)	0.0	0.0	0.0
Bishopsgate Rent/Service Charges	(0.1)	(0.0)	0.0	0.0
Sales, Fees, Charges & Rents Total	(2.1)	(1.1)	(1.1)	(1.2)
Grand Total	(53.3)	(50.6)	(48.8)	(48.1)

Capital and Major Revenue Projects Programme

Medium Term Financial Plan - Capital and Major Revenue Projects	2015/16 Forecast Outturn	2016/17 Budget	2017/18 Forecast	2018/19 Forecast	Total
Expenditure	£'000	£'000	£'000	£'000	£'000
Digital Interview Recorders	13	0	0	0	13
Mobile Working Services	87	0	0	0	87
Network Refresh & Upgrade' and 'Data Storage & Application Hosting'	281	0	0	0	281
Crime Recording and Intelligence System	0	700	0	0	700
Vehicle Replacement Programme 2015/16	253	250	250	250	1003
Ring of Steel (Video Management System)	0	50	0	0	50
Ring of Steel (Plate Reader Units)	0	80	0	0	80
Ring of Steel River Cameras	0	350	231	0	581
Telephony Refresh & Data Consolidation	172	0	0	0	172
HR Software Refresh	143	0	0	0	143
IT Server 2003 Upgrade	60	0	0	0	60
IL4 Infrastructure Refresh	129	0	0	0	129
ESMCP (Airwave Replacement)	180	469	0	0	649
HOLMES	0	50	0	0	50
Intranet Upgrade	0	100	0	0	100
Total Programme Expenditure	1,318	2,049	481	250	4,098
Funded By					
Home Office Capital Grant Allocation	(700)	(700)	(567)	(510)	(2,477)
Revenue Contribution	(1,000)	(1,000)	(1,000)	(1,000)	(4,000)
2015/16 Allocation from Bank of England Funding	(80)				(80)
2015/16 Sale of Vehicles	(60)				(60)
Bridge House Trust contribution to Ring of Steel river cameras		(350)	(231)		(581)
Total Income	(1,840)	(2,050)	(1,798)	(1,510)	(7,198)
(Funding Available) / Funding Gap	(522)	(1)	(1,317)	(1,260)	(3,100)

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