

Committee: Police	Date: 6 th December 2013
Subject: Medium Term Financial Plan 2013-2017	Public
Report of: Commissioner of Police POL 59/13	For Information

Summary

This report provides Members with information regarding the Force's Medium Term Financial Plan (MTFP) for the period 2013-2017, see **Appendix A**.

This report should be considered in the context of the CSR for the period 2011-2014, which resulted in a reduction in the Force's budget of approximately 14% in cash terms. In response to this financial challenge, the Force implemented the 'City First' change programme.

The Force's Financial Plans are predicated on a number of assumptions, with the risk attached to each assumption being actively managed. For the MTFP, a number of risks have been built into the budgets, including a reduction in DSP/Capital City funding, revenue contribution to capital spend, and the assumption that there will be no increase in the Business Rate Premium.

If all of these risks materialise, the Force will require £5.86m from Reserves in 2014/15, and will require an additional £6.68m and £8.7m from Reserves in 2015/16 and 2016/17 respectively (Table 1). As a result the Force is attempting to mitigate these risks.

However, the use of Reserves, in each year of the MTFP, can be split between Reserves required to fund 'one-off' expenditure and Reserves required to fund 'on-going' annual revenue deficits. Tables 2 to 2b detail this analysis for each year of the MTFP.

The Force's plan to upgrade the Ring of Steel and IT improvements have yet to be agreed and therefore no provision for expenditure on these capital projects has been made.

The financial landscape beyond 2015/16 remains unclear but the Force continues to work on strategic options to increase revenue sources and further reduce expenditure.

These include:

- New Accommodation estate;
- Better use of IT to increase efficiency;
- Procurement savings (Uniforms);
- Shared services with Corporation of London;
- Developing the Fraud Academy;

Incorporating use of Reserves to fund elements of the accommodation strategy as agreed by Police Committee, the forecast balance of Reserves as at end of 2014/15 is £8.51m and £1.34m as at the end of 2015/16 (Table 4).

However, as the Court of Common Council has stipulated that the minimum Reserve balance should be £4m over the medium term planning period, mitigation strategies will have to be implemented during 2014/15 in order to retain the minimum reserve at 31st March 2016.

The Capital Programme will require a supplement from Reserves to implement the agreed programme. Due to the Force's straitened position, this has been limited to £1.0m in 2014/15 and 2015/16 respectively and £nil in 2016/17. The supplement is already included in the forecast balances of Reserves mentioned above.

Finally, the Home Office is reviewing the methodology for distributing the Police Formula Grant. Currently the Force receives 'damping' grant and will clearly be exposed to greater financial risk if the 'damping' mechanism is removed.

Recommendation

It is recommended that Members note the content of this report.

MAIN REPORT

BACKGROUND

1. The Comprehensive Spending Review for the period 2011 – 2014 has reduced the Force's budget by approximately 14%¹ in cash terms. Notwithstanding driving out all available non-pay savings, given that approximately 80% of the Force budget is expended on pay related costs it was decided that the Force's establishment of both police officers and staff would have to reduce over this period to achieve the level of savings required.
2. To implement the transformational change required the Commissioner initiated the 'City First' change programme.
The objectives of the programme were to:
 - (i) Manage budget reductions over a four year period;
 - (ii) Implement a 'new' Policing model in early 2012 to ensure earliest delivery of all available efficiency savings both in terms of headcount reductions and operating practices.
3. At the time of the initiation of the programme during April 2011 the budgeted establishment of police officers was 887² FTE and police staff 455³ FTE. As at 1st November 2013, the agreed City First model establishment is 731 FTE police officers and 480 police staff. While the police staff figures include growth arising from new Economic Crime funding streams, this growth does not resolve the challenge of delivering core policing functions within the City, which is reliant on the ongoing delivery of the 'City First' change programme providing greater efficiency and effective use of available resources.
4. Police staff numbers include 32 posts in areas that are currently being reviewed as part of the ongoing efficiency programme. These areas are IT, HR and General Services. It is anticipated that in 2015/16, the FTE for police staff will fall to 470.
5. Due to Police Regulations, the reduction of the police officer complement by 156 could only be achieved by 'natural wastage' as the opportunities to make police officers redundant are extremely limited. The historical

¹ POL 08/11 City First : City of London Police Change Programme

² POL 08/11 City First : City of Police Change Programme

³ POL 08/11 City First : City of Police Change Programme

turnover rate for police officers is approximately 48 per annum, and as a result it was forecast that it would take the Force approximately 3 years to reduce police officer strength to the required establishment level.

6. Members agreed that for the remainder of the CSR period, the cost of all police officer posts above the agreed establishment would be funded by Reserves, as these were seen as ‘one off’ costs.
7. However, due to prudent management of the Force’s budget, the Force has not been required to draw on its Reserves to balance its budgets (to date) during the current CSR period

CURRENT POSITION - REVENUE

8. The Chancellor announced the results of the Spending Round 2013 on 26th June. For 2014/15, the Police will face a 5.1% (real) or 3.3% (cash) reduction in Formula Grant funding. Individual force allocations are to be announced later this year. For 2015/16, Formula Grant funding will fall by 4.9% (real) and 3.2% (cash). For 2016/17, the Formula Grant funding is assumed to fall by 3.75% (cash).
9. Detailed below is the Force’s actual expenditure and income the financial year 2012/13 and a forecast of the budget for each financial year thereafter until 2016/17. The landscape beyond 2015/16 remains very unclear due to a potential change in Government in 2015/16.

Table 1: Actual and Forecast Budget Performance 2012-2017

	Actual	Forecast	Budget	Plan	Plan
	2012/13	2013/14	2014/15	2015/16	2016/17
	£000s	£000s	£000s	£000s	£000s
EXPENDITURE	104,407	105,507	105,478	104,505	104,503
INCOME	(41,810)	(42,180)	(38,588)	(38,588)	(38,588)
TOTAL NET EXPENDITURE	62,597	63,327	66,890	65,917	65,915
Cash Limits	62,597	62,937	61,030	59,241	57,213
(Transfer to) / From Reserves	(1,465)	390	5,860	6,676	8,703
Reserves b/f	13,797	15,262	14,872	9,012	2,336
Reserves c/f *	15,262	14,872	9,012	2,336	(6,367)

* The reserves balances are before the ring-fenced Accommodation strategy amounts as shown in Table 4

10. It should be noted that based on the current funding plans and forecast expenditure by the Force, the Force will exhaust its Reserves during 2016/17.
11. To address the forecast budget gap in the period 2014/15 to 2016/17 and beyond, the Force has already undertaken a number of initiatives:
 - Continuing to implement a reduced headcount operational policing model
 - Pursuing Capital City Funding to replace the existing Dedicated Security Post (DSP) Funding
 - Development of the Fraud Academy to generate income.
 - Reducing premises' costs following implementation of the Force Accommodation Strategy.
 - Pursuing external funding opportunities for Economic Crime.
 - Securing procurement savings.
 - Use of Reserves.
12. Tables 2 to 2b are an analysis of the funding gap. The analysis of the 2014/15 funding gap identifies 'one off' expenditures which includes (a)

revenue contributions of £1m a year in 2014/15 and 2015/16 towards the funding of the capital programme; (b) the Force has assumed a loss of £3.48m of the DSP ‘damping’ grant and (c) Members have agreed that the Force would fund the costs of police officer posts above the agreed establishment from Reserves of £0.65m.

Table 2: Analysis of 2014/15 Deficit

Analysis of 2014/15 Deficit		£m	£m
Spends agreed to be funded from Reserves:			
Capital Spend		1.00	
One-costs of Supernumerary Officers			
2014/15 Budget Officers 740			
2013/14 forecast Officers 730			
Difference of 10 at an average cost of £65,000		0.65	
One-off Spends			1.65
DSP/Capital City			3.48
Underlying Revenue Deficit - to be funded from Reserves			<u>0.73</u>
2014/15 Budget Deficit			<u><u>5.86</u></u>

13. Excluding the ‘one off’ costs and the loss of the DSP ‘damping’ grant, the underlying budget deficit is £0.73m.
14. When the City First financial model was originally prepared, it was envisaged that during the course of the CSR period the Business Rate Premium would increase from 0.4 p to 0.5 p in the £. The value of the increase is approximately £1.4m.
15. A similar analysis to determine one-off costs as distinct from the underlying deficit has been undertaken for the financial years 2015/16 and 2016/17. A table for each year is shown below:

Table 2a: Analysis of 2015/16 Deficit

Analysis of 2015/16 Deficit		
	£m	£m
Spends agreed to be funded from Reserves:		
One-off Capital Spends		1.00
DSP/Capital City		3.48
Underlying Revenue Deficit - to be funded from Reserves		<u>2.19</u>
2014/15 Budget Deficit		<u><u>6.67</u></u>

Table 2b: Analysis of 2016/17 Deficit

Analysis of 2016/17 Deficit		
	£m	£m
Spends agreed to be funded from Reserves:		
DSP/Capital City		3.48
Underlying Revenue Deficit - to be funded from Reserves		<u>5.22</u>
2014/15 Budget Deficit		<u><u>8.70</u></u>

Members may wish to note from Table 2, a and b, that the underlying deficit is increasing. This is a combination of reducing grants and increasing pay and prices.

16. Members may wish to note that notwithstanding the projected spend against the one-off costs, there is a requirement for the Force to balance the budget in each year. Critical to this aim is securing Capital City funding. However, the Force will need to develop a financial plan to constrain costs within the budget period during 2015/16, so that the on-going forecast budget deficit in 2016/17 can be reduced to a manageable level.
17. The assumptions included within the MTFP for 2013/17 are as follows:

Table 3: Assumptions included in the MTFP 2013-2017

	2013/14	2014/15	2015/16	2016/17
Budgeted Police Officer FTE as at 1 April	782	740	730.5	730.5
Police Officer Vacancy Factor £m	1.6	0	0	0
Budgeted Civilian Staff FTE as at 1 April	436.5	480	470	470
Civilian Staff Vacancy Factor £m	0.5	0.25	0.25	0.25
Pay Inflation	1%	1%	1%	1%
Non-pay Inflation	n/a	1.9%	1.8%	1.8%
Revenue Supplement to Capital Programme £m	1.4	1.0	1.0	0
Dedicated Security Posts/ Capital City Funding £m	8.5	5	5	5
Police Formula Grant	Actual	-3.3%	-3.2%	-3.75%
Business Rate Premium £m	4.1	4.1	4.1	4.1

USE OF RESERVES

18. In addition to the items identified above (tables 2 to 2b), which are funded from Reserves, the Force has also committed to fund from Reserves an element of the Accommodation Strategy of £0.5m for 2014/15 and 2015/16 respectively.
19. Below is a table which shows the proposed ring-fencing of Reserves:

Table 4: Ring-fenced Use of Reserves

	2013/14 Full Year Forecast		2014/15 Budget		2015/16 Plan		2016/17 Plan	
	£m	£m	£m	£m	£m	£m	£m	£m
Opening Balance		15.26		14.87		8.51		1.34
Surplus/(Deficit) - per Tables 2 to 2b	(0.39)		(5.86)		(6.68)		(8.70)	
Ring-Fence: Accommodation Strategy			(0.50)		(0.50)		(0.50)	
Balance C/fwd		14.87		8.51		1.34		(7.87)

20. If Capital City funding is reduced to £5m, the force will either be required to cap its use of reserves in 2015/16 in order to comply with the directions of the Court of Common Council with consequent implications for budget reductions, or seek approval to a reduction to the minimum balance of reserves to be retained (currently £4m).
21. In addition to the above, the Force's financial commitments to upgrade the Ring of Steel, implement IT Improvements and Project Athena – have yet to be determined and provided for in the above budget, but these areas will need to be funded.

CURRENT POSITION - CAPITAL

22. The proposed Capital Programme for the medium term period to 2015/16 is shown at **Appendix B**.
23. This Capital Programme is monitored by a Board chaired by the Assistant Commissioner. It is forecast that the Capital Programme for 2014/15 will fully use the £1.0 m supplement from the revenue budget.
24. For 2015/16, the Capital Programme Budget assumes a requirement of £1.0m supplement from the revenue budget. However, not all schemes have yet been approved by the Force's Strategic Management Board/your Committee; therefore final costs are not known.
25. Due to the Force's straitened position, the mid-term budget assumes a reduced revenue contribution to Capital accounts; however, the Force will continue to monitor this assumption.

THE FUTURE

26. Individual Force budget settlements for 2014/15 and 2015/16 have yet to be announced. Furthermore, the financial landscape beyond 2015/16 remains unclear, albeit that a continued reduction in the level of available resources is predicted.
27. Clearly the Home Office decision regarding the 'Capital City' grant to offset the reduction in Dedicated Security Post (DSP) funding is a critical factor, as is the decision by Members as to whether to support a rise in the Business Rate Premium.
28. The Home Office is reviewing the distribution methodology for Police Formula Grant. In previous years the City of London has contributed to the damping scheme, whereas in 2013/14 the City became dependent on the damping mechanism and therefore exposed to greater financial risk should the damping provision be removed as a result of the review.

CONCLUSION

29. The Force continues to face significant financial challenges beyond the existing CSR period.
30. Current plans indicate that the Force will be able to contain the budget for 2014/15 but with a large supplement from General Reserves. However, this is predicated on a number of assumptions, including Police Officer strength, and the level of external funding streams.
31. Should the 'worst case' scenario materialise, the Force will either be required to cap its use of Reserves in 2015/16 in order to comply with the directions of the Court of Common Council with consequent implications for budget reductions, or seek approval to a reduction to the minimum balance of reserves to be retained (currently £4m)..
32. Plans are therefore being further developed to increase revenue sources and further reduce expenditure to offset the predicted decrease in resources for 2015/16, and future years. These plans will be activated during 2014/15 as the extent of permanent streams becomes known.
33. It is recommended that Members note the current position.

Background Papers:

POL52/12 Medium Term Financial Plan 2012-2015

Appendices

Appendix A: Medium Term Financial Plan (Revenue) 2013-2017

Appendix B: Capital Programme 2013-2016

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City of London Police
MEDIUM TERM FINANCIAL PLAN 2012-2017

	Current Spending Review Period				Next SR Period	
	2012/13 Actual	2013/14 Budget	2013/14 Forecast	2014/15 Budget	2015/16 Plan	2016/17 Plan
Employees	83,953	79,944	82,615	82,284	81,996	82,816
Premises	4,138	4,820	4,365	4,906	4,974	5,013
Transport	2,111	2,512	2,168	2,431	2,475	2,500
Supplies and Services	9,272	9,893	11,128	11,131	10,313	10,416
Third Party Payments	810	890	1,181	1,171	1,192	1,204
Transfer Payments	1	1	0	0	0	0
Transfer to Reserve	1,468	0	0	0	0	0
Contingencies	0	300	0	0	0	0
Revenue Contribution to Capital Expenditure	0	1,393	1,393	1,000	1,000	0
Central Support Services	2,654	2,370	2,657	2,555	2,555	2,555
Total Expenditure	104,407	102,123	105,507	105,478	104,505	104,503
Government Grants	(30,486)	(28,271)	(28,520)	(24,407)	(24,407)	(24,407)
Other Grants	(8,857)	(9,045)	(9,929)	(11,144)	(11,144)	(11,144)
Customer Client Receipts	(2,377)	(1,870)	(3,731)	(3,037)	(3,037)	(3,037)
Investment Income	0	0	0	0	0	0
Transfer From Reserves	(90)	0	0	0	0	0
Total Income	(41,810)	(39,186)	(42,180)	(38,588)	(38,588)	(38,588)
Total Net Expenditure	62,597	62,937	63,327	66,890	65,917	65,915
Funded By:						
Home Office Core Grant	30,208	20,608	20,608	19,928	19,290	18,567
CLG Core Grant	27,250	37,190	37,190	35,963	34,812	33,507
Business Rate Premium	4,139	4,139	4,139	4,139	4,139	4,139
City Corporation Contribution to NLF	1,000	1,000	1,000	1,000	1,000	1,000
Total Resources	62,597	62,937	62,937	61,030	59,241	57,213
Forecast Surplus/(Deficit)	0	(0)	(390)	(5,860)	(6,676)	(8,703)
Reserves						
General Reserve B/F	13,797	15,262	15,262	14,872	9,012	2,336
Forecast Use of Reserve in year	1,465	0	(390)	(5,860)	(6,676)	(8,703)
General Reserve C/F	15,262	15,262	14,872	9,012	2,336	(6,367)
POCA Reserve B/F	1,600	1,510	1,510	1,510	1,510	1,510
Forecast Use of Reserve in year	(90)	0	0	0	0	0
POCA Reserve C/F	1,510	1,510	1,510	1,510	1,510	1,510

City of London Police
CAPITAL PROGRAMME 2012-2016

Project	Original Budget 2013/14	Forecast Out-turn 2013/14	Budget 2014/15	Plan 2015/16
	£000	£000	£000	£000
Expenditure				
Vehicle Replacement Programme	314	335	504	250
Airwave Radios				
Crime Recording and Intelligence System	603		564	300
Digital Interview Recording		9		
Ring of Steel	500		232	1,289
Ring of Steel ANPR Back Office Upgrade		152		
Ring of Steel In Car ANPR		257		
Ring of Steel Mobile ANPR		58		
IT Infrastructure Refresh		4		
Corporate Website Re-development		63		
SSU - replacement and new technical equipment		4		
East Coast Information Services Consortium	400			
City Corporation HR System	65	65		
City Private Fibre Network	300			
Airwave Upgrade to Liverpool Street Station	50	50		
Programme Management		43		
Joint control room			500	
Mobile Working			100	
Microsoft Enterprise Agreement		855		
EROS2		63		
ACESO Digital Forensic Phase 1		70		
ACESO Digital Forensic Phase 2		80		
Ops Planning		60		
HR Hardware Refresh		100		
Schemes in pipeline - KnowFraud Upgrade		484		
Total Expenditure	2,232	2,751	1,900	1,839
Funded by				
HO Capital Grant	(839)	(839)	(900)	(839)
HO Capital Grant brought forward	0	(519)	0	0
Revenue contributions	(1,393)	(1,393)	(1,000)	(1,000)
Total Income	(2,232)	(2,751)	(1,900)	(1,839)