

<b>Committee(s):</b> Police Finance	<b>Date:</b> 17 <sup>th</sup> January 2014 18 <sup>th</sup> February 2014
<b>Subject:</b> Revenue And Capital Budget 2014/15	<b>Public</b>
<b>Joint Report of:</b> Commissioner of Police and the Chamberlain POL 03/14	<b>For Decision</b>

### Summary

This report updates the Committee on the latest approved revenue budget for 2013/14 and seeks approval for the proposed revenue and capital budgets for 2014/15, for subsequent submission to the Finance Committee.

In summary, the City of London Police Revenue budget is as follows:

	<b>2013/14</b>	<b>2014/15</b>	
	<b>Latest</b>	<b>Original</b>	<b>Movement</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Total Gross Expenditure</b>	<b>105.51</b>	<b>105.48</b>	<b>(0.03)</b>
<b>Total Gross Income</b>	<b>(42.18)</b>	<b>(41.00)</b>	<b>1.18</b>
<b>Total Net Expenditure before use of reserves</b>	<b>63.33</b>	<b>64.48</b>	<b>1.15</b>
<b>Transfer from Reserves</b>	<b>(0.39)</b>	<b>(4.12)</b>	<b>(3.73)</b>
<b>Total Net Expenditure/Cash Limit</b>	<b>62.94</b>	<b>60.36</b>	<b>(2.58)</b>
<b>Reserves</b>			
<b>General</b>	<b>(14.87)</b>	<b>(10.25)</b>	<b>4.62</b>
<b>Accommodation Project</b>	<b>-</b>	<b>(0.50)</b>	<b>(0.50)</b>
<b>Proceeds of Crime Act</b>	<b>(1.51)</b>	<b>(1.51)</b>	<b>-</b>
<b>Total Reserves at 31 March</b>	<b>(16.38)</b>	<b>(12.27)</b>	<b>4.12</b>

**Income and favourable movements are presented in brackets**

The net outturn for 2013/14 is now anticipated to be £63.33m, resulting in a required transfer from Reserves of £0.39m. The original budget envisaged the need to draw some £2.1m from General Reserves, thus the overall positive net movement is £1.7m. The main reasons for this improvement are set out in paragraph 13. The original budget for 2014/15 assumes a cash limit of £60.36m a reduction of £2.58m (4.1%) from 2013/14.

In order to bring the 2014/15 budget within the cash limit of £60.36m a transfer from the general reserve of £4.12m is required. The use of

reserves for 2014/15 can be split between reserves required to fund ‘one-off’ expenditure of £1.65m and reserves required to fund ‘on-going’ annual revenue deficits of £2.47m. Paragraph 19 and Table 3 details this analysis.

After allowing for the ring-fencing of a £0.5m contribution from reserves to the Accommodation Project, the anticipated general reserve balance at 31 March 2015 is £10.25m, paragraph 23 and Table 4 details this analysis. This is an improvement of £1.74m compared to the position outlined in the Medium Term Financial Plan (MTFP) for 2013-2017 presented to the Committee’s last meeting.

The main changes between the assumptions underpinning the MTFP and the 2014/15 budget are:

- A higher than anticipated reduction to the main Police grant. The MTFP allowed for the 3.3% general cash reduction the Home Office announced in relation to overall police funding, from £57.8m in 2013/14 to £55.9m in 2014/15, but the reduction in funding is some £0.7m worse than anticipated. This is mainly due to additional top slicing to fund a number of new initiatives which reduce the amount of main Police grant available to individual forces to use at their discretion. The total cash reduction to main Police grant in 2014/15 compared to 2013/14 is £2.57m (4.5%). All forces receive the same reduction.
- In addition to the main Police grant the City Police receives many specific grants. One of these, for Dedicated Security Posts/Capital City funding, was prudently forecast to reduce from £8.5m to £5m as the City Police has been benefiting from protection measures in the distribution formula. This grant has now been confirmed at £7.8m for 2014/15 ‘*in recognition of its (the Force’s) national and international city functions*’. Whilst this compares favourably with the £3.5m reduction that had been anticipated by the Force, it does still represent a further £0.7m cash reduction to funding compared to 2013/14.

Assumptions included in the MTFP regarding a reduction in the revenue contribution to capital spend and no increase in the Business Rate Premium is unchanged in the budget.

The financial landscape beyond 2014/15 remains unclear and the Home Office is reviewing the methodology for distributing the main Police grant. Currently the Force benefits from protection measures (‘damping’) in the distribution formula and will clearly be exposed to

greater financial risk if the ‘damping’ mechanism is removed or reduced. In addition, plans 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 Force continues to work on strategic options to eliminate the ongoing annual revenue deficits and mitigate further risks by increasing revenue sources and further reducing expenditure. As agreed at your December meeting, the Force will liaise with the Chamberlain to produce a report to be brought back to the Committee in July to agree timelines to mitigate risk and balance the budget over the period of the MTFP.

### **Recommendations**

Your Committee is requested to:

- Note the latest position of the 2013/14 budget;
- Review and approve the revenue budget for 2014/15 to ensure it reflects the Committee’s objectives and approve the budget for submission to Finance Committee; and
- Review and approve the Capital budget for 2014/15.

## **MAIN REPORT**

### **BACKGROUND**

1. The Comprehensive Spending Review for the period 2011 – 2014 has reduced the Force’s budget by approximately 14%<sup>1</sup> 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.

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

3. At the time of the initiation of the programme during April 2011 the budgeted establishment of police officers was 887<sup>2</sup> FTE and police staff 455<sup>3</sup> FTE. As at 1<sup>st</sup> 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 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 fully draw on its Reserves to balance its budgets to date during the current CSR period.

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

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

## CURRENT POSITION – REVENUE

8. Summarised below is the Force’s actual expenditure and income for the financial year 2012/13, latest budget for 2013/14 and the proposed budget for 2014/15.

Table 1: Actual and Budget Performance 2012-2015

	Actual 2012/13	Latest Budget 2013/14	Original Budget 2014/15
	£000s	£000s	£000s
<b>EXPENDITURE</b>	102,942	105,507	105,478
<b>INCOME</b>	(41,810) <sup>1</sup>	(42,180)	(40,999)
<b>TOTAL NET EXPENDITURE</b>	<b>61,132</b>	<b>63,327</b>	<b>64,479</b>
<b>Cash Limits</b>	<b>62,597</b>	<b>62,937</b>	<b>60,363</b>
<b>Transfer to / (From General Reserve)</b>	1,465	(390)	(4,116)
<b>General Reserve b/f</b>	<b>13,797</b>	<b>15,262</b>	<b>14,872</b>
<b>General Reserve c/f<sup>2</sup></b>	<b>15,262</b>	<b>14,872</b>	<b>10,756</b>

<sup>1</sup> Includes a contribution of £90,000 from the POCA reserve

<sup>2</sup> The general reserve balance is before the ring-fenced Accommodation strategy amount as shown in Table 4

9. **Appendix A** provides a more detailed breakdown of the above table.

**Appendix B** sets out the main assumptions underpinning the budget.

**Appendix C** details the funding of the Force’s cash limit and other sources of income.

**Appendix D** – shows the breakdown of the specific grants related to the Economic Crime Directorate for 2014/15. These grants total £17.53m – this is 16.6% of the total expenditure of £105.47m. Of the £17.53m, £9.6m (54.7%) are external grants with business partners within the City of London.

### Latest Approved Budget for 2013/14

10. The latest approved budget requires a transfer from reserves of some £0.4m. The original budget envisaged the need to draw some £2.1m from General Reserves, thus the overall positive net movement is £1.7m. This favourable movement of £1.7m comprises an increase of £3.4m in Government grant for Dedicated Security Posts partly offset by additional

costs mainly relating to staffing for Regional Intelligence, National Lead Force, Fraud Academy and Support Services.

### **Proposed Budget for 2014/15**

11. In order to bring the 2014/15 budget within the cash limit of £60.36m a transfer from the general reserve of £4.12m is required. This is an improvement of £1.74m compared to the position outlined in the Medium Term Financial Plan (MTFP) for 2013-2017 presented to the Committee's last meeting.
12. The MTFP was predicated on a number of assumptions regarding the key risks to the Force's financial position. This proposed budget incorporates the assumptions included in the MTFP regarding the Business Rate Premium (no increase) and the revenue contribution to capital spend (a reduction of £0.4m), however, recent announcements have resulted in changes to grant funding which are reflected in the budget.
13. The changes in grant funding since the MTFP was considered by the Committee relate to the Dedicated Security Posts/Capital City grant and the main Police grant.
14. Dedicated Security Posts/Capital City funding, was prudently forecast to reduce from £8.5m to £5m as the City Police has been benefiting from protection measures in the distribution formula. This grant has now been confirmed at £7.8m for 2014/15 'in recognition of its national and international city functions'. Whilst this compares favourably with the £3.5m reduction that had been anticipated by the Force, it does still represent a £0.7m cash reduction compared to 2013/14.

Table 2: DSP/Capital City Grants

	<b>2012/13 Actual £000</b>	<b>2013/14 Budget £000</b>	<b>2014/15 Budget £000</b>
DSP (main element)	8,079	4,774	4,961
DSP (damping)	-	3,178	-
Capital City	-	-	2,450
Explosive Ordnance Disposal (EOD)	400	400	300
Prevent	77	120	110
	<b>8,556</b>	<b>8,472</b>	<b>7,821</b>

15. In relation to the main Police grant the MTFP allowed for the 3.3% general cash reduction the Home Office announced in relation to overall police funding but the reduction in funding announced in the provisional settlement is some £0.7m worse than anticipated. This is mainly due to additional top slicing to fund a number of new initiatives. These initiatives include: the setting up a Police Innovation Fund (£50m), additional funding for the Independent Police Complaints Commission (£18m), National Police Co-ordination Centre (£2m), the College of Policing (£3m), the City Police Capital City Grant (£2m) and the new ‘Her Majesty’s Inspectorate of Constabulary’ inspection programme (£9.4m). These top-slices reduce the amount of main Police grant available to individual forces to use at their discretion. The total cash reduction to the Force’s main Police grant in 2014/15 compared to 2013/14 is £2.57m (4.5%) - from £57.8m to £55.2m. All forces will receive the same percentage reduction.

## USE OF RESERVES

16. Table 3 shows the analysis of the 2014/15 budget shortfall of £4.12m which is funded by a transfer from reserves. It includes the following ‘one off’ items:
- a revenue contribution of £1m in 2014/15 towards the funding of the capital programme;
  - the costs of police officer posts above the agreed establishment from Reserves of £0.65m.

Table 3: Analysis of 2014/15 Deficit

	£m	£m
<b>Spends agreed to be funded from Reserves:</b>		
<b>Capital Spend</b>	1.00	
<b>One-off costs of Supernumerary Officers</b>		
<b>2014/15 Budget Officers 740</b>		
<b>2013/14 forecast Officers 730</b>		
<b>Difference of 10 at an average cost of £65,000</b>	0.65	
<b>One-off Spends</b>		<b>1.65</b>
<b>Underlying Revenue Deficit - to be funded from Reserves</b>		<b><u>2.47</u></b>
<b>2014/15 Budget Deficit</b>		<b><u><u>4.12</u></u></b>

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 as reported in the Medium term Financial Plan 2012-2017

17. Excluding the ‘one off’ costs, the underlying budget deficit is £2.47m.
18. 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 0.4p to 0.5p in the £. The value of such an increase is approximately £1.4m. This increase was not agreed for 2014/15.
19. In addition to the expenditure items identified above in Table 3, which are funded from reserves, the Force has also committed to contribute £1.0m, phased in equal instalments over two years commencing in 2014/15, from reserves towards the Accommodation Strategy.
20. Below is a table which shows the proposed ring-fencing of Reserves for this purpose in 2014/15:

Table 4: Ring-fenced Use of Reserves

	2013/14 Latest		2014/15 Budget	
	£m	£m	£m	£m
<b>Opening Balance</b>		<b>(15.26)</b>		<b>(14.87)</b>
<b>Deficit per Table 3</b>	<b>0.39</b>		<b>4.12</b>	
<b>Ring-Fence: Accommodation Strategy</b>			<b>0.50</b>	
<b>Closing Balance</b>		<b>(14.87)</b>		<b>(10.25)</b>



## **CURRENT POSITION - CAPITAL**

21. The proposed Capital Programme for financial year 2014/15 is shown at **Appendix E**.
22. This Capital Programme is monitored by a Board chaired by the Assistant Commissioner. Due to the straitened position of the Force, the capital budget has been constrained so as to reduce the supplement from the revenue budget from £1.4m in 2013/14 to £1.0m in 2014/15. However, the Force will continue to monitor the position.
23. 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.

## **THE FUTURE**

24. The financial landscape from 2015/16 remains unclear, albeit that a continued reduction in the level of available resources is predicted.
25. The Home Office is reviewing the distribution methodology for the main Police grant. Currently the Force benefits from protection measures ('damping') in the distribution formula and will clearly be exposed to greater financial risk if the 'damping' mechanism is removed or reduced.

## **CONCLUSION**

26. The Force continues to face significant financial challenges beyond the existing CSR period.
27. Current plans indicate that the Force will be able to contain the budget for 2014/15 but with a large supplement from General Reserves. Clearly this is not sustainable over the medium term. To address the forecast budget gap in the period 2014/15 and beyond, the Force is already undertaking a number of initiatives:
  - Continuing to implement a reduced headcount operational policing model
  - 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.

28. As agreed by the Committee in December the Commissioner will liaise with the Chamberlain to produce a report to be brought back to the Committee in July to agree timelines to mitigate risk and balance the budget over the remaining period of the current MTFP (2013-17).

**Background Papers:**

Pol 59/13 Medium Term Financial Plan 2013-2017

**Appendices**

Appendix A: Income & Expenditure Actual and Budgets

Appendix B: Budget Assumptions

Appendix C: Income & Grants Schedule

Appendix D: ECD Grants 2014/15

Appendix E: Capital Programme

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# Income & Expenditure Actual and Budgets

Appendix A

	2012/13 Actual	2013/14 Latest Budget	2014/15 Original Budget
Employees	83,953	82,615	82,284
Premises	4,141	4,365	4,906
Transport	2,111	2,168	2,431
Supplies and Services	9,272	11,128	11,131
Third Party Payments	810	1,181	1,171
Transfer Payments	1	0	0
Revenue Contribution to Capital Expenditure	0	1,393	1,000
Central Support Services	2,654	2,657	2,555
<b>Total Expenditure</b>	<b>102,942</b>	<b>105,507</b>	<b>105,478</b>
Government Grants	(30,486)	(28,868)	(26,808)
Other Grants	(8,857)	(9,881)	(11,807)
Customer Client Receipts	(2,377)	(3,431)	(2,374)
<b>Total Income</b>	<b>(41,720)</b>	<b>(42,180)</b>	<b>(40,999)</b>
<b>Total Net Expenditure</b>	<b>61,222</b>	<b>63,327</b>	<b>64,479</b>
<b>Cash Limit:</b>			
Home Office Core Grant	30,208	20,608	19,715
CLG Core Grant	27,250	37,190	35,509
Business Rate Premium - General	4,139	4,139	4,139
Business Rate Premium - NLF	1,000	1,000	1,000
<b>Total Cash Limit</b>	<b>62,597</b>	<b>62,937</b>	<b>60,363</b>
<b>(Surplus)/Deficit transferred to reserves</b>	<b>(1,375)</b>	<b>390</b>	<b>4,116</b>
<b>Reserves</b>			
General Reserve B/F	(13,797)	(15,262)	(14,872)
Transfer to/(from) revenue in year	(1,465)	390	4,116
ringfenced for accommodation project	0	0	500
<b>General Reserve C/F</b>	<b>(15,262)</b>	<b>(14,872)</b>	<b>(10,256)</b>
<b>Accommodation project</b>	<b>0</b>	<b>0</b>	<b>(500)</b>
POCA Reserve B/F	(1,600)	(1,510)	(1,510)
Transfer to/(from) revenue in year	90	0	0
<b>POCA Reserve C/F</b>	<b>(1,510)</b>	<b>(1,510)</b>	<b>(1,510)</b>

Income and favourable balances are presented in brackets

Table 4: Budget Assumptions

	<b>Latest Approved Budget 2013/14</b>	<b>Original Budget 2014/15</b>
<b>Budgeted Police Officer FTE as at 1 April</b>	728.28	740
<b>Police Officer Vacancy Factor £m</b>	1.6	0
<b>Budgeted Civilian Staff FTE as at 1 April</b>	458.1	480
<b>Civilian Staff Vacancy Factor £m</b>	0	0.25
<b>Pay Inflation</b>	1%	1%
<b>Non-pay Inflation</b>	n/a	1.9%
<b>Revenue Supplement to Capital Programme £m</b>	1.4	1.0
<b>Dedicated Security Posts/ Capital City Funding £m</b>	8.5	7.8
<b>Police Formula Grant £m</b>	57.8	55.2
<b>Business Rate Premium £m</b>	5.1	5.1

## Appendix C

## Budget Grant &amp; Income Schedule

Core Grants	2013/14 Latest £000's	2014/15 Budget £000's	Variance (Better)/Worse
Home Office	(20,608)	(19,715)	893
Communities & Local Government	(37,190)	(35,509)	1,681
Business Rate Premium - General	(4,139)	(4,139)	0
Business Rate Premium - NLF	(1,000)	(1,000)	0
	<b>(62,937)</b>	<b>(60,363)</b>	2,574
<b>Specific Grants</b>			
NLF	(2,805)	(2,853)	(48)
NFIB	(5,180)	(4,756)	424
NFC	(1,079)	-	1,079
NFC RFT	-	(333)	(333)
	<b>(9,064)</b>	<b>(7,942)</b>	1,122
<b>External Grants</b>			
DCPCU	(2,287)	(2,422)	(135)
IFED	(2,656)	2,919)	(263)
OACU	(1,084)	(1,270)	(186)
PIPCU	(804)	(1,186)	(382)
Op Hypae	(51)	(68)	(17)
Op Sandpiper	(227)	(203)	24
Fraud Academy	(497)	(1,523)	(1,026)
	<b>(7,606)</b>	<b>(9,591)</b>	(1,985)
<b>Capital City/DSP</b>			
DSP	(4,774)	(4,961)	(187)
Damping	(3,178)	-	3,178
Capital City	-	(2,450)	(2,450)
EOD	(400)	(300)	100
Prevent	(120)	(110)	10
	<b>(8,472)</b>	<b>(7,821)</b>	651
Safer Transport	(1,195)	(1,200)	(5)
Others	(3,418)	(2,084)	1,334
Police Pension	(11,345)	(11,345)	0
Secondments	(1,080)	(1,016)	64
	<b>(17,038)</b>	<b>(15,645)</b>	1,393
	<b>(105,117)</b>	<b>(101,362)</b>	<b>3,755</b>

Appendix D

Summary of ECD Grant Income 2014/15

Funding Position	Directorate	Funding Stream	Grant Amount £	
Bid agreed but no formal documents yet	ECD	National Lead Force	(2,852,546)	16%
Bid agreed but no formal documents yet	ECD	National Cyber Security Programme/National Fraud Intelligence Bureau	(4,756,434)	27%
Confirmed	ECD	RFT	(332,692)	2%
Self-funding	ECD	Fraud Academy - external	(1,523,649)	9%
Confirmed	ECD	DCPCU - external	(2,422,200)	14%
Confirmed	ECD	IFED - external	(2,919,000)	17%
Confirmed	ECD	PIPCU - external	(1,186,000)	7%
Confirmed	ECD	OACU - external	(1,270,000)	7%
Confirmed	ECD	Op Hypae - external	(67,582)	0%
Confirmed	ECD	DCPCU - Op Sandpiper - external	(203,000)	1%
		<b>Total</b>	<b>(17,533,103)</b>	

These grants are included in the Total Income of £38.59m in Appendix A  
 The ECD Grant of £17.53m is 16.6% of the Total Expenditure of £105.5m  
 External ECD Grants equate to £9.6m - 54.7% of the total  
 £17.53m

Capital Programme

Appendix E

Project	Latest Budget 2013/14	Budget 2014/15
	£000	£000
<b>Expenditure</b>		
Vehicle Replacement Programme	335	314
Crime Recording and Intelligence System		354
Digital Interview Recording	9	
Ring of Steel		232
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		
City Corporation HR System	65	
City Private Fibre Network		
Airwave Upgrade to Liverpool Street Station	50	
Joint control room	42	
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	
KnowFraud	484	
Action Fraud		
IT Infrastructure Upgrades		900
<b>Total Expenditure</b>	<b>2,751</b>	<b>1,900</b>
<b>Funded by</b>		
HO Capital Grant	(839)	(900)
HO Capital Grant brought forward	(519)	0
NPIA Grant re NSPIS Custody and Case Prep Upgrade	0	0
Capital Receipts	0	0
Revenue contributions	(1,393)	(1,000)
<b>Total Income</b>	<b>(2,751)</b>	<b>(1,900)</b>