

<b>Committee:</b> Police	<b>Date:</b> 16 January 2015	
<b>Subject:</b> Revenue and Capital Budget 2015/16 and Draft Medium-Term Financial Plan up to 2017/18		<b>Public</b>
<b>Report of:</b> The Chamberlain and the Commissioner of Police		<b>For Decision</b>

### Summary

The draft financial plan for the period to 2017/18 indicates a deteriorating position as set out in the following table:

	<b>2014/15</b> Latest Outturn £m	<b>2015/16</b> Original Budget £m	<b>2016/17</b> Indicative Forecast £m	<b>2017/18</b> Indicative Forecast £m
<b>Total Net Expenditure</b>	68.9	59.2	58.8	59.9
<b>Resources (Cash Limit)</b>	(60.4)	(57.5)	(54.9)	(52.3)
<b>Deficit to be funded from Reserves</b>	8.5	1.7	3.9	7.6
<b>General Reserve at 31 March - (in-hand) / overdrawn</b>	(5.9)	(4.2)	(0.3)	7.2

The key points are:

- an £8.5m use of general reserves in the current financial year – an increase of £1.1m on the figure previously reported;
- 2015/16 should require a lower use of reserves (£1.7m), leaving a balance of £4.2m at 31 March 2016 which is above the minimum reserve level of £4m – the latter representing approximately 3.6% of Police gross expenditure;
- the deficits of £3.9m and £7.6m for 2016/17 and 2017/18 respectively are not sustainable and would cause the general reserve to be overdrawn by £7.2m;
- the 2015/16 Government funding settlement for core grant was £1.1m worse than anticipated, a cash reduction of £2.8m (5.1%) on 2014/15. This was partly offset by an increase of £0.4m (16%) in Capital City Funding. The grant for Dedicated Security Posts has still to be announced;
- further cash reductions of 5.1% in core grants have been assumed for each of 2016/17 and 2017/18;
- due to uncertainty over the future levels of funding for ‘Capital City’ and ‘Dedicated Security Posts’, a reduction of £2.3m (27%) has been assumed for 2016/17 and 2017/18 when compared to the 2015/16 estimate.
- only modest annual allowances have been included for pay and price increases – generally 1% per annum;
- a planned reduction in the number of police ‘staff’ has been included - from 480 currently to 410 by 1 April 2016;

- at this stage, police 'officer' numbers have been retained at 730 across the period; and
- the capital budget has been severely constrained so as to reduce the supplement from the revenue budget to £1m in 2015/16 and 'nil' thereafter.

A financial strategy to maintain a minimum general reserve balance of £4m over the period to 2017/18 will be presented to the Committee before the summer recess.

### **Recommendations**

Members are asked to:

- note the latest forecast outturn for 2014/15
- review and approve the revenue budget for 2015/16 for submission to the Finance Committee
- review and approve the capital budget for 2015/16; and
- note the indicative forecasts for 2016/17 and 2017/18 together with the proposal to report back to Committee before the summer recess setting out a financial strategy to maintain a minimum general reserve balance of £4m over the period to 2017/18.

## Main Report

1. This report provides the Committee with information regarding the Force's revenue and capital budget 2015/16 and draft medium-term financial plan up to 2017/18.
2. The overall financial strategy is 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. The purpose of this report is to set out:
  - The latest forecast outturn for 2014/15
  - The revenue and capital budgets for 2015/16
  - Key assumptions underpinning the 2016/17 and 2017/18 indicative forecasts.
3. 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.
4. In summary, the City of London Police draft medium-term financial plan is:

	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
	<b>Latest Outturn</b>	<b>Original Budget</b>	<b>Indicative Forecast</b>	<b>Indicative Forecast</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Total expenditure	120.7	112.1	109.4	110.5
Total Income	(51.8)	(52.9)	(50.6)	(50.6)
Total Net Expenditure	68.9	59.2	58.8	59.9
Funded by				
Core Grant	(55.2)	(52.4)	(49.7)	(47.2)
Premium	(5.1)	(5.1)	(5.1)	(5.1)
Resources (Cash Limit)	(60.4)	(57.5)	(54.9)	(52.3)
<b>(Surplus)/Deficit</b>	<b>8.5</b>	<b>1.7</b>	<b>3.9</b>	<b>7.6</b>
<b>General Reserve</b>				
Opening Balance at 1 April	(14.4)	(5.9)	(4.2)	(0.3)
Total Expected Use of Reserve	8.5	1.7	3.9	7.6
<b>General Reserve at 31 March (in-hand) /overdrawn</b>	<b>(5.9)</b>	<b>(4.2)</b>	<b>(0.3)</b>	<b>7.2</b>

5. The draft medium-term financial plan summarised in the Table above should be considered in the context of efficiencies that the Force has already delivered, in particular the *City First* savings of £16m. These savings were independently verified by the Chamberlain's Department and *City First* led to the launch of a new operating model for the Force on 1st April 2013.

## USE OF RESERVES

### General Reserve

6. The Court of Common Council resolved that the minimum general reserve sum of £4m should be retained over the Spending Review period ending in 2014/15. The retention of this relatively modest level of reserve (some 3.6% of gross expenditure) over the period of the medium term financial plan to 2017/18 is still considered an appropriate strategy.
7. Based on current assumptions the expected general reserve balance at the end of each financial year is summarised below:

	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
	<b>Outturn Latest</b>	<b>Original Budget</b>	<b>Indicative Forecast</b>	<b>Indicative Forecast</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Opening balance at 1 April</b>	(14.4)	(5.9)	(4.2)	(0.3)
Contribution to capital	2.4	1.0	0	0
One-off revenue expenditure	4.2	0.4	0	0
Underlying revenue deficit	1.9	0.3	3.9	7.6
<b>Total expected use of reserve</b>	<b>8.5</b>	<b>1.7</b>	<b>3.9</b>	<b>7.6</b>
<b>Closing balance at 31 March</b>	<b>(5.9)</b>	<b>(4.2)</b>	<b>(0.3)</b>	<b>7.2</b>

### **2014/15**

8. As set out in the Table above, the Force began 2014/15 with very healthy reserves of some £14m. There is significant investment in the current year in one-off essential projects e.g. IT, accommodation and mobile working. As a result the net outturn for 2014/15 is now anticipated to require a transfer from reserves of £8.5m. This represents an increase of £1.1m compared to the £7.4m requirement reported to Committee last month. This increase is primarily due to start-up costs associated with the new Agilysis contract, the desktop refresh project and the refurbishment of 65a Basinghall Street.
9. At 31 March 2015, the general reserve balance is expected to be £5.9m.

### **2015/16**

10. In order to bring the 2015/16 budget within the cash limit of £57.5m a transfer from the general reserve of £1.7m will be required. The planned use of reserves for 2015/16 can be split between those that will be required to fund earmarked one-off expenditure of £1.4m and reserves to fund an underlying annual revenue deficit of £0.3m. Successful delivery of the 2015/16 budget will be challenging.
11. The anticipated general reserve balance at 31 March 2016 is £4.2m.

## **2016/17 and 2017/18**

12. The indicative deficits of £3.9m and £7.6m for 2016/17 and 2017/18 respectively are unsustainable because they relate to the underlying annual revenue position and the reserves would be largely exhausted by 2016/17.

13. A proposed action plan to address this issue is set out later in this report.

### Other Reserves

14. In addition to the General Reserve, the Force has two reserves earmarked for specific purposes; the Proceeds of Crime Act (POCA) Reserve and the Accommodation Strategy Reserve.

15. The use of POCA monies is restricted to funding measures to improve asset recovery and local crime fighting priorities for the benefit of the community. The forecast assumes a contribution of £0.5m p.a. towards existing police operational activities which fulfil the POCA criteria together with funding for a number of one-off initiatives. As at 31 March 2015 the balance on the reserve is anticipated to be £3.7m and this is forecast to reduce to £2m by 31 March 2018.

16. It is currently anticipated that the £1m set aside for the Accommodation Strategy will be fully utilised by 31 March 2016.

## **ASSUMPTIONS**

17. The deteriorating financial position over the period of the draft medium-term financial plan arises from the combined impact of a continuing reduction of both core and specific government grants together with allowances for pay and prices increases (albeit generally a modest 1% per annum). In particular, a 5.1% year-on-year cash reduction in core grant up to 2017/18 has been assumed. This is in line with the reduction for 2015/16 announced by the government in its Provisional Police Finance Settlement on 17 December 2014.

18. Other key assumptions relate to planned cashable savings / increased incomes, as follows:

- Reduced police staff pay costs
  - an efficiency programme that is focused on securing reductions in police staff posts from 480 FTEs down to 410 FTEs by 1 April 2016
  - reduced overtime costs
- Reduced non-pay costs (following initial one-off investment costs mainly in 2014/15)
  - accommodation e.g. exit New Street lease, cleaning
  - IT modernisation programme
  - mobile working services
  - contractual and non-contractual spend on supplies and services
- Additional revenue income (core policing)
  - Bank of England escort duties
  - Fraud Academy trading surpluses
  - Application of a full-cost recovery approach to ECD funded units.

19. These savings follow from detailed line-by-line scrutiny by the ACPO team of directorate heads' 3-year zero-based budget bids.

## **CAPITAL BUDGET**

20. The proposed capital programme for financial year 2015/16 is shown at Appendix E.
21. This capital programme is monitored by a Board chaired by the Assistant Commissioner. The capital budget has been severely constrained so as to reduce the supplement from the revenue budget to £1m in 2015/16 and 'nil' thereafter.
22. There are a number of pipeline projects which will be prioritised through the Board so that organisational objectives will be met within available resources.

## **RISKS**

23. The financial landscape beyond 2015/16 remains unclear. The indicative forecasts up to 2017/18 are based on a number of key assumptions, with the risk attached to each assumption being managed actively by an assumption 'owner' (see Appendix B). A number of risks have been built into the plan; including a substantial reduction in DSP/Capital City funding, the assumption that there will be no increase in the Business Rate Premium and continuing year-on-year reductions in core grant funding.
24. The assumptions are considered to be reasonable on the basis of currently available information; in particular, however, there is a high level of uncertainty around core police grant funding over the period up to 2017/18. This uncertainty will not be resolved until after the May 2015 general election.
25. The indicative forecasts for 2016/17 and 2017/18 are unsustainable because the underlying annual revenue deficit is increasing and the reserves will be fully exhausted. Furthermore, the Force will continue to face major financial challenges at least up to 2019/20. Other forces are already voicing their concerns publicly about the very limited means to close budget deficits in the years ahead given the relentless efficiency drives that have already taken place. The challenge is particularly acute for smaller forces as HMIC has acknowledged.

## **ACTION PLAN**

26. As noted earlier in this report, successful delivery of the 2015/16 budget will be challenging and the indicative forecasts for 2016/17 and 2017/18 are unsustainable. The action plan to address these issues is set out below:

### **2015/16**

27. Successful delivery of the 2015/16 budget will require effective management by accountable directorate heads and close monitoring by the finance team, to ensure that scarce resources are aligned at all times to strategic objectives and immediate priorities. The exposure to financial risk and uncertainty remains high.
28. Some final work on ECD budgets will be undertaken to ensure that income and expenditure assumptions are as robust and up-to-date as possible for 2015/16 and beyond in what is an especially complex, uncertain and critically important area of activity for the force.
29. Subject to this final work, and with a planned contribution of £1.7m from general reserves, the Force will be able to contain the budget for 2015/16.

## **2016/17 and 2017/18**

30. Whilst the Force will be able to contain the budget for 2015/16, this is not sustainable in 2016/17 and 2017/18 despite the substantial new savings that are planned and already assumed in the medium-term financial plan. Therefore, the Commissioner is now seeking to identify additional strategic options to increase revenue sources and further reduce expenditure in line with the overall financial strategy of maintaining a minimum general reserve balance of £4m.

31. A package of radical measures will be required to eliminate the underlying revenue deficits that are currently forecast. Potential options that may be considered include;

- Seeking increases in revenue income e.g. DSP/Capital City funding, the Business Rate Premium, renegotiation of contracts with ECD funders
- A reduction in the number of established police officer posts (currently 730.5 FTEs)
- Closing down the mounted unit
- Reducing the subsidy on rail travel for police officers
- A further reduction in the number of established police staff posts
- New accommodation estate
- Better use of IT to increase efficiency
- Procurement savings
- Collaboration with the Corporation e.g.
  - Joint contact & control room
  - Community safety hub including counter terrorism and road safety
- Increased financial contributions from the Economic Crime Directorate and the Fraud Academy towards the overall Force budget.

## **CONCLUSION**

32. The Commissioner will liaise with the Chamberlain to produce a financial strategy to maintain a minimum general reserve balance of £4m over the period to 2017/18. This strategy will be presented to the Committee before the summer recess.

## Appendices

- **Appendix A** provides a more detailed breakdown of the medium-term financial plan.
- **Appendix B** sets out the key assumptions.
- **Appendix C** shows a schedule of income sources, which total £53m in 2015/16.
- **Appendix D** shows the breakdown of the specific grants in the Economic Crime Directorate, which total £22m in 2015/16. This is 20% of the total expenditure of £112m. Of the £22m, £8m are grants from business partners within the City of London.
- **Appendix E** sets out the proposed capital programme for 2015/16.

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