

Committee(s): Police Finance	Date(s): 25 th September 2015 22 nd September 2015
Subject: City of London Police Medium Term Financial Plan and Budget Update	Public
Report of: Chamberlain and Commissioner of Police Pol 47-15	For Information

Summary

This report updates the draft medium term financial plan presented to Members in January 2015 that predicted a deteriorating financial position to 2017/18. This latest report is presented in the context of continued uncertainty of national police funding from 2016-17 onwards.

POLICE MEDIUM TERM FINANCIAL PLAN SEPTEMBER 2015				
		2015/16	2016/17	2017/18
		Estimate	Forecast	Forecast
		£m	£m	£m
1	Employees	83.3	83.5	84.4
2	Other Expenditure	28.8	25.9	26.1
3	Total Income	(52.9)	(50.6)	(50.6)
4	Total Net Expenditure	59.2	58.8	59.9
	Funded by:			
5	Core Grant	(52.4)	(49.8)	(47.2)
6	Premium	(5.1)	(5.1)	(5.1)
7	Resources (Cash Limit)	(57.5)	(54.9)	(52.3)
8	Deficit presented to Police Committee 15 January 2015	1.7	3.9	7.6
9	Potential Savings Identified	(1.9)	(4.3)	(5.0)
10	Cost Pressures	4.8	4.3	2.2
11	Additional Contribution from POCA Reserve	(1.0)	0.0	0.0
12	Deficit (Surplus) after Savings	3.6	3.9	4.8
	General Reserve			
13	Opening Balance at 1 April	(8.6)	(5.0)	(1.1)
14	Total Expected Use of (Contribution to) Reserve	3.6	3.9	4.8
15	General Reserve (In-Hand) Overdrawn at 31 March	(5.0)	(1.1)	3.7
16	Minimum Reserve Level (agreed by Common Council)	(4.0)	(4.0)	(4.0)
17	Further Savings/Income required to maintain minimum reserve level	0.0	2.9	7.7

Key Points:

- The Force's budget reduced by approximately 14% in cash terms from 2011-14, which necessitated a reduction in the Force officer and staff numbers of 14.4%, as staffing costs make up around 80% of the Force budget.
- Funding for Critical National Infrastructure (CNI) and Dedicated Security Posts (DSP) was also cut by 28% (from £7.8m in 2011 to £4.6 m in 2015-16).
- Economic Crime funding has fallen, despite success in achieving some specific funding for fraud units.
- In the round, core Government Grant has reduced from £61.6m in 2011-12 to £52.4m in 2015-16 and £16m of savings have been delivered
- The immediate priority has been to ensure a balanced budget position for 2015/16 but a number of measures have also been identified that will contribute to closing the forecast gap for 2016/17 and 2017/18. A gap still remains in those two years so further work will be needed.
- In the coming months Members will need to consider four principle options for closing the funding gap in 16/17 and 17/18. Further budget savings / income generation; increase in the Business Rate Premium (BRP); Flexibility on Minimum Reserve; and contribution from the City of London.

Recommendations

It is recommended members note:

- the balanced budget position for 2015/16 following the identification of additional savings and scaling down of Reserves to £4m.
- the need to identify additional savings / secure additional income in 2016/17 and 2017/18 in order to bridge the forecast budget gap and maintain target reserve levels.
- that further proposals will be brought forward following the outcome of the Government's Spending Review and the police funding formula consultation.

Main Report

BACKGROUND

1. This report updates the draft medium term financial plan presented to Members in January 2015 that forecast a deteriorating financial position to 2017/18. It takes account of a further review of savings options, updated income figures and cost pressures. A further update will be required after the Government's Spending Review announcement on 25 November, which is likely to confirm further significant reductions in police grant funding, and the outcome of the police funding formula consultation is confirmed.
2. These further savings will be in addition to the significant savings that have already been delivered as a result of earlier Spending Reviews: the

Force's budget reduced by approximately 14% in cash terms from 2011-14, which necessitated a reduction in the Force officer and staff numbers of 14.4%, as staffing costs make up around 80% of the Force budget. Police officer numbers reduced from 887 FTEs in April 2011 to 731 and police staff from 455 to 450 FTEs (the latter would show a larger reduction but the decrease in support staff has been largely offset by growth in specialist crime functions).

3. On income reductions:
 - Funding for Critical National Infrastructure (CNI) and Dedicated Security Posts (DSP) was also cut by 28% (from £7.8m in 2011 to £4.6m in 2015-16).
 - Economic Crime funding has fallen, despite success in achieving some specific funding for fraud units. The small increase in National and International Capital City Funding (NICC) since 2014/15 has not been sufficient to offset these grant reductions.
4. In the round, core Government Grant has reduced from £61.6m in 2011-12 to £52.4m in 2015-16 and £16m of savings have been delivered. The Force has taken steps to ensure that the City's priorities continue to be delivered and aggregate crime levels have fallen, but there have been increasing pressures in areas such as economic crime, cyber and counter terrorism and it will become increasingly difficult to identify further savings against this backdrop, whilst still maintaining a visible police presence in the City of London.
5. The City of London Police Commissioner and Chamberlain have therefore undertaken a line by line assessment of savings, income raising opportunities and cost pressures. The immediate priority has been to ensure a balanced budget position for 2015/16 but a number of measures have also been identified that will contribute to closing the forecast gap for 2016/17 and 2017/18. A gap still remains in those two years so further work will be needed.

MEDIUM TERM FINANCIAL PLAN 2015-16 to 2017-18

6. The latest estimate for the current year and the forecasts for 2016/17 and 2017/18 are shown below.

POLICE MEDIUM TERM FINANCIAL PLAN SEPTEMBER 2015				
		2015/16	2016/17	2017/18
		Estimate	Forecast	Forecast
		£m	£m	£m
1	Employees	83.3	83.5	84.4
2	Other Expenditure	28.8	25.9	26.1
3	Total Income	(52.9)	(50.6)	(50.6)
4	Total Net Expenditure	59.2	58.8	59.9
	Funded by:			
5	Core Grant	(52.4)	(49.8)	(47.2)
6	Premium	(5.1)	(5.1)	(5.1)
7	Resources (Cash Limit)	(57.5)	(54.9)	(52.3)
8	Deficit presented to Police Committee 15 January 2015	1.7	3.9	7.6
9	Potential Savings Identified	(1.9)	(4.3)	(5.0)
10	Cost Pressures	4.8	4.3	2.2
11	Additional Contribution from POCA Reserve	(1.0)	0.0	0.0
12	Deficit (Surplus) after Savings	3.6	3.9	4.8
	General Reserve			
13	Opening Balance at 1 April	(8.6)	(5.0)	(1.1)
14	Total Expected Use of (Contribution to) Reserve	3.6	3.9	4.8
15	General Reserve (In-Hand) Overdrawn at 31 March	(5.0)	(1.1)	3.7
16	Minimum Reserve Level (agreed by Common Council)	(4.0)	(4.0)	(4.0)
17	Further Savings/Income required to maintain minimum reserve level	0.0	2.9	7.7

7. Further savings of £1.9m have been identified for 2015/16 (i.e. in addition to the savings included in the Police budget presented last January). The £1.9m reflects savings across the Force, particularly in the vacancy factor and contract spend. However, additional cost pressures of £4.8m have emerged, particularly on the IT spend required to ensure a stable and reliable service, and the New Street lease. The confirmed external Dedicated Security Post funding is also below the level assumed in the original budget.
8. The remaining gap of £3.6m (after an additional contribution from the Proceeds of Crime Act (POCA) Reserve of £1m) will be addressed through a draw down on the General Reserve, leaving the General Reserve at £5m and above the Minimum Reserve Level of £4m agreed by Common Council.

PROVISIONAL BUDGET 2016-17 ONWARDS

9. The forecast and interim plans for 2016/17 and 2017/18 are more uncertain, particularly until we know the outcome of the Spending Review, which will impact on the core grant and a number of specific grants for economic crime, counter-terrorism and capital city funding, and Formula Grant Review.
10. The core forecast assumes a year on year 5% reduction in police grant funding, consistent with expected outcome of the Spending Review of a 25% reduction in police funding over the course of this Parliament. There are, in addition, a number of continuing cost pressures. Additional savings of £4.3m have so far been identified to offset these reductions and pressures but these need to be tested further and implementation plans developed.
11. Even if these plans can be firmed up, a deficit of £3.9m in 16/17 and £4.8m in 2017/18 remains, prior to any adjustment to the General Reserve.
12. In 2016/17, a contribution of only £1m could be made from the General Reserve, before hitting the minimum £4m requirement, leaving £2.9m to be found from further savings or options set out below.
13. In 2017/18, the position becomes more acute as the budget gap, if general reserves are to be maintained at £4m, potentially rises to £7.7m to be found by further savings or options set out below.

IMPLICATIONS AND OPTIONS

14. The revised interim medium term forecast suggests that although the 2015/16 budget position can be managed through a combination of further savings and a drawdown of the reserves, the position for later years becomes a lot more challenging. Further steps will be required, when we are able to firm up on the numbers after the Spending Review.
15. This will clearly not be easy as the more straightforward saving options will have already been identified. However taking steps in the near term to address the gap will give Members more options to consider and allow more time to ensure any changes can be implemented in a way that minimises the impact on policing the City of London.
16. The four principal options open to Members for closing the gap, which you will want to consider over the coming months are:
 - **Further budget savings / income generation:** staff costs account for nearly 80% of the net budget, a key focus therefore would need to be on workforce numbers. Current savings plans assume a reduction in

Police Officers to 700, PCSOs to 16 and staff numbers are set to fall by 75 as a result of the current change programme.

- **Increase in the Business Rate Premium (BRP):** other forces will be looking hard at the scope for raising the precept. For the City, there is an option of increasing the BRP – an increase of 0.1p in the pound could generate around £1.6m each year, and could contribute around up to around £3m to closing the £7.7m budget gap in 17/18 if the premium was increased in both years. In the past, the assumption has been an increase should 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 we already know about.
- **Contribution from the City of London** – Members have generally taken the view that the core funding requirements should be provided by the government, but Members could decide to redirect funding from City Cash (there is very little headroom in City Fund). Such funding decisions would need to be considered against other competing pressures and the precedent this might set for our local authority, as well as police, funding.

CONCLUSION

17. Members are therefore asked to note the balanced budget position for 15/16 following the identification of further savings and draw down of reserves. And to also note that further work will be undertaken to firm up on the underlying budget position in light of the Spending Review and other current developments and on the options available to close the remaining budget gap in 16/17, 17/18 and beyond.

*Adrian Leppard
Commissioner
City of London Police*

*Dr Peter Kane
Chamberlain
City of London Corporation*