

Committee:	Date:
Police Committee	15 December 2016
Policy and Resources Committee	15 December 2016
Court of Common Council	12 January 2017
Subject:	Public
Draft City of London Police Medium-Term Financial Plan up to 2019/20	
Report of:	For Decision
The Chamberlain and the Commissioner	
Report author:	
Ian Dyson, City of London Police	

Summary

This report provides an update on the City of London Police (COLP) Medium Term Financial Plan (MTFP) presented to Police Committee and Finance Committee in January 2016. The revised MTFP position shows a deteriorating financial position which is potentially offset by the adoption of options outlined in paragraphs 11 to 15 below

The new MTFP position has been arrived at within a context of increased terrorism threats post the attacks in France, Belgium and Germany and revised national planning assumptions in the United Kingdom. The associated additional pressures on frontline policing response capability, protective services, growing cybercrime and online crime demand, and intelligence requirements have also been considered along with work undertaken in the last quarter to better understand increasing demand pressures within policing directorates. .

A meeting on 27 October 2016 between the Chamberlain, the Commissioner, and Chairmen of Police and Finance Committees to review the revised MTFP assumptions and the financial and operational risks, resulted in the agreement of some joint options to mitigate new threats and risks across the MTFP as well as consider future viable efficiencies. These include the joint commissioning of professional analytical work to assess value for money opportunities, current and future demand and potentially a revised operating model and also to review supervisory rank ratio structures within the force to potentially achieve future efficiency savings and reinvestment. Within these discussions the Chamberlain agreed to finance the professional analytical review.

Without the adoption of mitigating measures, the financial position shows the budget deficit varying from £3.1m in 2017/18 to £5.9m in 2018/19 and £3.1m in 2019/20

Should mitigating recommendations be agreed the Assistant Commissioner and Director of Finance (COLP) will agree with the Chamberlain's Office a parallel efficiency plan to ensure value for money within the force which will continue to be tracked within existing force governance structures including Force Change Board and Strategic Finance Board.

Recommendations

Members are asked to:

- note the latest forecast outturn for 2016/17 of a deficit of £2.6m, funded by a drawdown in the Reserve to £1.5m.;
- note the forecast budget deficit varying from £3.1m in 2017/18 to £5.9m in 2018/19 and £3.1m 2019/20 before mitigation;
- recommend to the Court of Common Council the relaxation of the reserve threshold of £4m and approve the use of reserves in 2016/17 totalling £2.6m and 2017/18 totalling £1.5m;
- agree that the City Corporation should meet the revenue contribution to fund capital schemes already budgeted for in 2017/18 and 2018/19 of £1.4m and £1m respectively and that the additional headroom on business rate premium is applied to help meet the increased budget pressures;
- agree in principle the use of City capital resources to finance the Police capital programme in future, subject to a further report;
- agree the revision of current vacancy factors and efficiency targets within the force as an efficiency option over this MTFP, pending outcome of external review; and
- note that the usual report detailing revenue and capital estimates will be submitted to Police committee in January following settlement of the Police grant from the Government.

Main Report

Background

1. This report provides the Committee with the draft medium term financial plan up to 2019/20.
2. The reported outlook deteriorated during the year resulting in the accelerated use of reserves during 2016/17 mainly as a result of external pressures which are reflected across the MTFP. The changes since the budget was approved in January 2016 are fully set out in paragraphs 3 to 9 as follows.
3. External factors have created most of the pressures on force budgets. In particular, global terrorism issues have forced the Chief Officer team to consider reversing policy decisions on Police Officer post efficiencies and vacancies to ensure capability and resilience. To in part offset this cost an efficiency saving on non payroll costs has been included in 2017/18 and beyond.
4. Legislative changes which affect all constabularies in relation to enhanced payments to federated ranks arising from the judgement in the Bear v Scotland case and additional payments to police officers acting as 'covert handlers' following recent legal rulings.
5. Changes in the contribution rate by the Home Office in its relation to funding police officers' medical retirement and ill health costs £0.4m.

6. Transport for London Camera Partnership ceased its provision of partnership funding of £0.3m effective from 31 March 2017. This is unanticipated and therefore affects the MTFP assumptions across the remaining years.
7. The under-recovery of overheads of £0.5m relating to Economic Crime Directorate and the inability to vary contracts.
8. Internal pressures arising from changing how the force funds the Ring of Steel moving from capital programming to a managed service increased costs by £0.2m.
9. These variations are summarised below and show a net deterioration since January 2016. The recommendations for reducing the budget deficit are set out in paragraphs 11 to 16.

Budget changes since January 2016	2016/17 Outturn £m	2017/18 Estimate £m	2018/19 Estimate £m	Total £m	2019/20 Estimate £m
Budget deficit reported in January 2016	0	2.9	4.8	7.7	n/a
Vacancy factor and net efficiency impacts	0	2.8	2.8	5.6	
Pension scheme cost pressures	0.4	0.4	0.4	1.2	
Legislative Impacts: Bear v Scotland/CHIS	0.2	0.2	0.2	0.6	
Ring of Steel managed service	0.2	0.2	0.2	0.6	
2015/16 capital programme reprofiled exp.	0.6			0.6	
Provision for bad debt: Food Standards Agy	0.3			0.3	
Other net variations	0.1			0.1	
Economic Crime Academy: income costs	0.3			0.3	
ECD underrecovery of overheads recharged	0.5			0.5	
Income adjustments to reflect current programmes	0	-0.1	0.8	0.6	
Total variations	2.6	6.4	9.2	18.1	0
Less baseline adjustment on business rates	0	-2.0	-2.0	-4.0	
Less increased savings on non pay	0	-1.3	-1.3	-2.6	
Revised budget deficit January 2017	2.6	3.1	5.9	11.5	3.1

Revenue Position

10. In summary, the City of London Police draft medium-term financial plan (MTFP) is outlined in table 1 below:

Police Medium Term Financial Plan January 2017	2016/17 Latest Outturn £m	2017/18 Draft Budget £m	2018/19 Estimate £m	2019/20 Estimate £m
Employees	83.3	84.7	85.8	83.1
Other Expenditure	31.4	29.3	29.3	29.3
Cashable savings targets to be achieved against non pay	-	(1.2)	(1.3)	(1.3)
Expenditure	114.7	112.8	113.8	111.1
Specific Government Grants	(37.4)	(35.5)	(34.2)	(33.5)
Partnership Income	(13.3)	(12.3)	(11.8)	(11.4)
Fees and Charges	(2.5)	(1.0)	(1.0)	(1.0)
Income	(53.2)	(48.8)	(47.0)	(45.9)
Total Net Expenditure	61.5	64.0	66.8	65.2
Funded by:				
Core Grant	(52.1)	(52.1)	(52.1)	(53.4)
Business Rates Revaluation	(6.8)	(8.8)	(8.8)	(8.7)
Resources (Cash Limit)	(58.9)	(60.9)	(60.9)	(62.1)
Funding Gap	2.6	3.1	5.9	3.1
Remaining Reserve applied	(2.6)	(1.5)	-	-
Net Funding Gap	-	1.6	5.9	3.1

Options for reducing the budget deficit

11. The three options for reducing the budget deficit are:

- use existing reserves with the agreement of the Court of Common Council.
- agree to change the decision in January 2016 to finance capital programmes from force revenue budgets and instead replace these resources with capital funds provided by the Corporation.
- review force budgets to identify additional savings from non pay budget reductions. Members should note a cashable savings target is already included in the figures above so this additional target would be challenging.

12. The use of existing reserves requires agreement from the Court of Common Council. The threshold requires reserves to be maintained at or above £4m. Current estimates show that the drawdown on reserves will take reserves below the threshold in 2016/17 with a forecast drawdown of £2.6m. Reserves will be completely exhausted by 2017/18. In practice, the Corporation would then provide Reserve cover for the Police, with any potential requests for further funding being considered in the usual way.

13. The force finances its capital programme with an allocation of capital grant from the Home Office of approximately £0.4m and the balance is derived from the Police Grant which is a revenue budget. This procedure of applying revenue to fund capital programmes is termed “revenue contribution to capital”. The substantial scale of national and partnership programmes to be carried out from 2016/17 to 2019/20 means that it is not possible to deliver these programmes from the police grant without detriment to operational policing delivery. In view of this, the Commissioner is seeking Members’ support to reverse the decision to finance the capital programme from revenue resources and to request the financing of capital programmes from capital funding provided by the Corporation. This currently amounts to £1.4m in 2017/18 and £1m in 2018/19, though there are other schemes that will require funding (see Appendix C) . Members have signalled that the priority call on headroom in City Fund over the next three years should be capital investment to address bow-waves and long term needs. If Members are minded to agree this change a separate report will be made in the New Year to set out the funding required and the governance surrounding this new arrangement.
14. A forthcoming review of force budgets will aim to identify further viable options for savings. Specific areas to be considered include contractual management with the Corporation’s procurement team, travel and expenses budget lines and supplies and services budgets. Action plans will be developed and tracked through City of London Police's Force Change Board and Strategic Finance Board.
15. Should Members agree to the funding of capital schemes from City Fund capital resources, there remains funding shortfalls across all years, and specifically £0.2m in 2017/18 (comprising £1.6m deficit less £1.4m revenues contribution to capital now being met by the City). Further discussions between the Chamberlain and Commissioner will take place to identify the appropriate funding area from which to address this gap. The Commissioner also proposes to defer resolving the budget deficits arising in later years until the conclusion of the demand and value for money review and will report to Members at that time. The Commissioner has agreed to review force supervision ratios with a view to streamline and reduce supervisory numbers to enhance value for money. Given the limited personnel turnover within the force due to limited churn, we envisage any efficiency savings will only be realised with any significance in the financial year 2019/20.
16. Members should note that all the deficit figures are based on an assumption that the Home Office grant will remain broadly the same. The actual figure won't be available until later this month and any consequential changes will be picked up in the estimates report due to be submitted to committee in January.

Capital and Major Revenue Projects.

17. The force receives capital grant funding from the Home Office which supports in the main capital expenditure on Fleet.

18. In 2016/17 the force successfully bid for and received Police Innovation Fund Grants amounting to £0.5m for delivery of specific schemes also set out within Appendix C.

Capital shortfall and options to close the gap

19. The proposed capital programme for 2017/18 to 2019/20 shown in Appendix B has been limited again and priority given to projects where collaborative commitment has been made for example the Niche Collaboration Agreement on Case Custody Crime and Intelligence Programme (CCCI) which will assist in managing down the capital costs and minimising risk in the future.
20. The updated programme at Appendix B contains several new programmes that contribute to funding shortfalls in each year to 2019/20 totalling £9.8m. The inclusion of programmes funded through revenue contributions to capital schemes increases the shortfall by £2.4m to £12.1m (rounding differences). The Chamberlain has invited the Commissioner to submit capital expenditure plans for consideration by Policy and Resources and Finance Committees to achieve funding of the capital of £12.1m through the Corporation's Capital Fund. This will be subject to a further report once the precise schemes to be funded have been agreed and the governance around this funding has been considered.
21. The programmes in Appendix B were not included in the MTFP presented to Members in January 2016 and include two major capital programmes which are the CCCI and the Home Office mandated Emergency Services Network. The Force has made considerable progress in thoroughly scoping CCCI to achieve the best collaborative implementation and development solution costed at £3.2m.
22. The Emergency Service Network (ESN) programme has more risk and uncertainty attached in terms of overall programme value, timing and level of Home Office funding contribution, and force "revenue to capital contribution". Due to the scale, complexity and interdependencies of this programme and the lack of available resources to deliver large scale capital programmes, the Commissioner is raising awareness of the significant financial implications related to ESN
23. There may be additional risks to revenue budgets if project management resources cannot be extracted from core policing to deliver CCCI and ESN capital programmes. These risks have not been included within the revenue budgets within this report since they are yet to be agreed.

Implications and Options

24. The January 2016 report set out three principal options open to Members for closing the budget gap; however all options need to be informed by robust and objective scrutiny. The jointly commissioned value for money and demand analysis review is aimed at informing how the force will look in 2020 and the potential changes needed within the operating model to achieve this. A cornerstone of this review is to identify how savings can be credibly achieved without compromising operational efficiency.

25. The Court of Common Council threshold for reserves of £4million is projected to be breached in 2016/17 and current forecasts show that the current level of reserves will not exceed or approach £4m over the next 5 years. The threshold acts as an early warning system, highlighting the level of headroom available before a call on the Corporation's reserves is required. In view of the predicted financial challenge it is the view of the Chamberlain and Commissioner that the reserve threshold is suspended.

Conclusion

26. Further consideration is required on the measures needed to restore financial balance within City of London Police budget and the recommendations agreed to begin to offset the budget deficit.

Appendices

- Appendix A – Revenue Income 2017/18 – 2019/20
- Appendix B – Capital Programme 2017/18 – 2019/20
- Appendix C – Capital Outturn 2016/17

APPENDIX A

FORCE REVENUE INCOME	Draft Budget 2017/18 £m	Estimates 2018/19 £m	Estimates 2019/20 £m
Government Grants			
National Fraud Intelligence Bureau - NCSP	(5.7)	(5.4)	(5.1)
National Fraud Intelligence Bureau - Home Office	(2.5)	(2.3)	(2.2)
Cyber Protect - NCSP	(0.4)	(0.3)	(0.3)
NLF - Home Office	(2.2)	(2.1)	(2.0)
Overseas Anti-Corruption Unit - DfID	(0.5)	0.0	0.0
Prevent - Home Office	(0.1)	(0.1)	(0.1)
NICC - Home Office	(4.5)	(4.5)	(4.5)
DSP - Home Office	(4.4)	(4.2)	(4.0)
CTSA - Home Office	(0.2)	(0.2)	(0.2)
EOD - Home Office	(0.4)	(0.4)	(0.4)
Loan Charge Grant - Home Office	(0.0)	(0.0)	(0.0)
Pension Grant - Home Office	(14.7)	(14.7)	(14.7)
Government Grants Total	(35.5)	(34.2)	(33.5)
Partnership Income			
PIPCU - IPO	(1.4)	(1.3)	(1.3)
DCPCU - FFA UK	(2.3)	(2.2)	(2.1)
Insurance Fraud Enforcement Department - ABI	(3.8)	(3.7)	(3.5)
Safer Transport Team - TfL	(1.3)	(1.2)	(1.1)
Commercial Vehicle Unit - TfL	(0.3)	(0.3)	(0.3)
Late Night Levy - CoL	(0.3)	(0.3)	(0.3)
Policing the Bridges - CoL	(0.3)	(0.3)	(0.3)
Tower Bridge - CoL	(0.1)	(0.1)	(0.1)
London Safety Camera Partnership - TfL	0.0	0.0	0.0
POCA	(0.6)	(0.5)	(0.5)
Seconded Officers	(1.1)	(1.2)	(1.2)
Firearms Support - Bank of England	(0.8)	(0.8)	(0.8)
Partnership Income Total	(12.3)	(11.8)	(11.4)
Sales, Fees, Charges & Rents			
Fraud Academy	(1.0)	(1.0)	(1.0)
Sales, Fees, Charges & Rents Total	(1.0)	(1.0)	(1.0)
Total Income	(48.8)	(47.1)	(45.9)
Funding			
Core Grant	(52.1)	(52.1)	(53.4)
Business Rate Revaluation*	(8.8)	(8.8)	(8.7)
	(60.9)	(60.9)	(62.1)
Grand Total	(109.7)	(108.0)	(108.0)
<i>*There is an assumed increase of £2m annually in respect of the business rate revaluation</i>			

APPENDIX B

City of London Police Indicative Capital Programme - 2017/18 to 2019/20

Capital Programmes 2017/18 -2019/20	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	Total
Expenditure	£'000	£'000	£'000	£'000
Vehicle Replacement Programme 2015/16	250	250	250	750
HR Software Refresh	30	55		85
IL4 Infrastructure Refresh	20	95	14	129
Intranet Upgrade	100	0	0	100
Forensics Digital Laboratory ISO 17025 Compliance	38	32	40	110
Livestock: Purchase of Animals & Related Equipment	56	16	16	88
TFG Tasers & Ancillary Equipment including Body Armour	50	50	50	150
Automation of payroll systems & duty management system	300	200	0	500
Crime Recording and Intelligence System Capital	1,925	637		2,562
Ring of Steel River Cameras	231	0	0	231
ESN (Airwave Replacement)	4,000	4,531	-	8,531
Total Programme Expenditure	7,000	5,866	370	13,236
Funded By				
Contribution from revenue budgets to capital	(1,000)	(1,000)	0	(2,000)
Bridge House Trust contribution to Ring of Steel river cameras	(231)			(231)
Home Office Capital Grant	(400)	(400)	(400)	(1,200)
Total Income	(1,631)	(1,400)	(400)	(3,431)
(Funding Available) / Funding Gap	5,369	4,466	(30)	9,805

Direct Revenue Financing 2017/18	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	Total
Capital Expenditure	£'000	£'000	£'000	£'000
Mobile Working Services	378	0	0	378
Total Programme Expenditure	378	0	0	378
Funded By				
Contribution from revenue budgets to capital	(378)	0	0	(378)

APPENDIX C

City of London Police Capital Programme 2016/17 Projected Outturn	
Capital Programmes 2016	2016/17 Projected Outturn
Expenditure	£'000
Vehicle Replacement Programme	322
HR Software Refresh	44
Network Refresh	143
IL4 Infrastructure Refresh	150
Police Innovation Fund	529
Crime Recording and Intelligence System Capital	708
Ring of Steel (Video Management System)	360
Ring of Steel River Cameras	237
ESN (Airwave Replacement)	469
Total Programme Expenditure	2,962
Funded By	
Reveue Contribution to Capital	(1,551)
Bridge House Trust contribution to Ring of Steel river cameras	(237)
Home Office Capital Grant	(400)
Home Office Grant 2015/16 - Unapplied	(122)
Home Office - PIF Allocation	(529)
Total Income	(2,839)
(Funding Available) / Funding Gap	123