

Committee: Police Performance & Resource Management Sub-Committee	Date: 5 th September 2012
Subject: Medium Term Financial Plan 2012 -15	Public
Report of: Commissioner of Police POL 53/12	For Information
<p><u>SUMMARY</u></p> <p>This report provides Members with information re the Force’s Medium Term Financial Plan (MTFP) for the period 2014/15.</p> <p>Force financial plans have been developed based on 3 scenarios which are all predicated on a number of assumptions and variable risk assessments.</p> <p>The risk attached to each assumption is being actively managed and if mitigation is effective the Force will be able to contain the City First structure within the existing budget forecast envelope for 2014/15.</p> <p>Also included is a proposed Use of Reserves plan which will result in a balance of £6 M as at 31st March 2015 compared to £4.6 M as assumed in the previous MTFP.</p> <p>The financial landscape beyond the existing 2014/15 remains unclear but the Force has already identified a number of strategic options to increase revenue sources and further reduce expenditure in anticipation of resources being further reduced in the next Comprehensive Spending Review (CSR) period.</p> <p>RECOMMENDATION</p> <p>It is recommended that Members note the content of this report.</p>	

MAIN REPORT

BACKGROUND

1. As part of the Force’s Policing Plan, your Police Committee agreed the Force’s Medium Term Financial Plan (MTFP) for the period 2011-14, at

its meeting on 4th March 2011 (POL 18/11 refers). The final version of the published plan was presented on 11th April 2011.

2. In that plan the Force outlined the financial challenge the Force faced during the current Comprehensive Spending Review (CSR) period to 2014/15.
3. For ease of reference, the agreed plan at that time is detailed below:

	Revised 2010-11 Budget	Approved 2011-12 Budget	Projected 2012-13 Budget	Projected 2013-14 Budget	Projected 2014-15 Budget
LOCAL RISK	£000s	£000s	£000s	£000s	£000s
Expenditure	101,007	96,574	88,311	85,636	82,184
Income	(35,914)	(29,563)	(27,563)	(27,151)	(27,151)
TOTAL LOCAL RISK	65,093	67,011	60,748	58,485	55,033
TOTAL RECHARGES	3,529	3,512	3,563	3,615	3,667
Central Risk	435	0	0	0	0
TOTAL NET EXPENDITURE	69,057	70,523	64,311	62,100	58,700
Cash Limit	67,249	66,523	62,400	60,600	58,700
(Transfer to)/from Reserve	1,808	4,000	1,911	1,500	0
Reserve b/f	(13,385)	(12,027)	(8,027)	(6,116)	(4,616)
Reserve c/f	(12,027)	(8,027)	(6,116)	(4,616)	(4,616)

4. The Force instigated the City First Change Programme in order to address the challenge the Force faced from the significant reduction in resources received during the current CSR period. Your Police Committee have been apprised at regular intervals on progress against this Programme and therefore this report will restrict itself to reporting progress against financial plans.

CURRENT POSITION - REVENUE

5. Detailed below is the Force's actual performance over the financial years 2010/11 and 2011/12 and a forecast of the budget for each financial year thereafter, for the current CSR period.

	2010/11	2011/12	2012/13	2013/14	2014/15
	£M	£M	£M	£M	£M
Cash Limit	66.249	66.393	62.597	60.500	58.700
Actual Outturn	65.927	65.153			
Under/(Over) Spend	0.322	1.240 ¹			

6. The Force has detailed plans for addressing the financial position for the remaining years of the CSR period.
7. These plans consider 3 scenarios, based on a sensitivity analysis, for the projected revenue budget for 2014/15 which are detailed below. Each scenario is based on a set of assumptions which reflect a different risk profile for each assumption.

	RISK BASED ASSESSMENT		
	Lower bound <i>Pessimistic case</i> £M	Best estimate <i>Central case</i> £M	Upper bound <i>Optimistic case</i> £M
Pay Costs	61.91	60.96	60.54
Non Pay Costs	23.03	22.06	22.06
Income	22.79	22.79	22.79
Net Expenditure	62.15	60.23	59.81
Cash Limit	58.70	60.20*	60.20*
Funding Gap	-3.45	-0.03	0.39

*See table in para 8.

¹ During 2011/12, the Force received a substantial cash forfeiture award of £1.6m from the Home Office. In accordance with the guidelines of the scheme, the income has been ringfenced for "crime reduction initiatives". Excluding this income the Force's 2011/12 revenue outturn resulted in a transfer from the Police General Reserve of £0.36m.

8. The assumptions included within the scenarios and the associated risk profile are as follows:

Assumption	Range	Action Owner
Police Officer Numbers greater than new model	26-82 FTE	Director of Corporate Services
Further Savings from Proposed Model	£0-0.25M	Directorate Heads
Possible Revision in CoL Recharges	£0.25-0.5M	Director of Corporate Services
Non Pay Savings	£0.5-0.75M	Director of Corporate Services
Net Cost of Formalising Arrangements with MPS	£0.5-1.0M	Commander
*Increase to Business Rate Premium	£0-1.5M	Commissioner

9. In order to manage each risk the Force has assigned a lead officer for each assumption to ensure that as circumstances progress the ongoing risk is mitigated/offset wherever possible e.g. for the assumption on Police Officer numbers an element of short term mitigation using measures such as the vacancy factor has been built in to each of the scenarios. Overarching progress will be monitored at the City First Programme Board chaired by the Commissioner.
10. The current projected forecast for the Revenue Budget for 2014/15 assuming that all risks are effectively mitigated is that the Force will contain the new City First structure within the forecast budget envelope.

USE OF RESERVES

11. Financial plans for the current CSR period include a scheduled use of Reserves. The planned and actual use of Reserves for each of the financial years of the CSR period amount to:

Financial Year	Planned £M	Actual £M
2010/11	0.5	(0.3)
2011/12	4.0	0.4
2012/13	3.0	
2013/14	1.5	
2014/15	0	

12. As at 31 March 2012 the Force has a current balance of Reserves of £13.797M.
13. The Force has taken planned and deliberate steps to maximise Reserves, by ensuring that expenditure within each financial year of the CSR period is robustly controlled to only address essential expenditure. This has resulted in a significant under-spend in each year of the CSR period to date. Reasons for under-spends have been reported to your Committee previously by means of quarterly budget monitoring and annual outturn reports.
14. The Force wishes to amend its original planned use of Reserves to address new risks and priorities that were not known at the time the original plan was conceived.
15. The proposed new schedule, which is within the parameters² agreed by the Court of Common Council for the phased/managed utilisation by the Force of its Reserves, is detailed below:

	£M
Reserves Brought Forward 1 April 2012	13.8
Planned Use of General Reserves 2012/13	3.0
Balance as at 31 March 2013	10.8
2013/14	
Agreed Use of Reserves 2013/14	1.5
Revenue Supplement to Capital	1.7
Balance as at 31 March 2014	7.6
2014/15	
Agreed Use of Reserves 2014/15	0.0
Contingent Provision for Salaries	1.6
Revenue Supplement to Capital	0.0
Balance as at 31 March 2015	6.0

16. These changes are planned to address the following risks:
- Capital expenditure being greater than the Home Office Capital Grant in 2013/14; and

² The retention of a basic minimum reserve sum of £4.5m over the medium term planning period (i.e. to 2014/15) but with up to a further £0.5m being available to offset any reductions in specific grants below budgeted provisions over this period, effectively resulting in a revised minimum reserve balance of £4m being retained.

- Police Officer strength being greater than establishment in 2014/15. This is due to the fact that under Police Regulations, Police Officers cannot be made redundant. Forecast reductions have been assumed due to natural wastage and retirements, but these are predicted to be insufficient to meet the required budget in 2014/15.

CURRENT POSITION - CAPITAL

17. The proposed Capital Programme for the remainder of this CSR period is shown below:

Project	2012/13	2013/14	2014/15
	£M	£M	£M
Vehicle Replacement 2011/12	0.027		
Airwave Radios in Vehicles	0.061		
NSPIS Custody and Case Prep Upgrade	0.197		
Interview Recording	0.015		
Vehicle Replacement	0.250	0.250	0.200
ANPR/CCTV Replacement	0.250	0.750	
Corporate Website	0.200		
ECIS Collaboration	1.320	0.972	0.222
City Corporation HR System	0.152	0.065	0.162
Microsoft Enterprise Agreement	0.114		
Holmes 3 Upgrade	0.052		
IT Infrastructure Refresh	0.231		
City Private Fibre Network		0.300	
Project Athena		0.300	
Other unspecified programmes			0.366
Total Cost of Programme	2.869	2.637	0.950
Funded By:			
Home Office Capital Grant	0.935	1.000	1.000
Top Slice: National Police Air Service	(0.050)	(0.070)	(0.050)
Income from NPIA	0.163	0.000	0.000
Total Funding	1.048	0.930	0.950
Revenue Supplement to Capital	1.821	1.707	0.000

18. The Capital Programme for 2012/13 will require some £1.8M supplement from Reserves, however not all schemes have yet been

approved by the Force's Senior Management Board/your Committee, therefore final costs are not known.

19. The Capital Programme for 2013/14 will require some £1.7M supplement from Reserves subject to all schemes being approved and delivered within the financial year, on budget.

THE FUTURE

20. The full financial settlement for the final two years of the current CSR period has yet to be announced. Furthermore, the financial landscape beyond the existing CSR period remains unclear, albeit that a continued reduction in the level of available resources is predicted.

21. Current uncertainties for the future planning include:

- The impact of any funding reductions announced for the final two years of the current CSR period beyond those already provided for in the Force's Medium Term Financial Plan
- When the next Spending Review will take place
- The anticipated size of the spending cuts post 2014/15
- How the cuts post 2014/15 will be allocated across services.

22. The following broad strategic options have been identified as areas for consideration to mitigate future funding reductions:

- Increased income generation through the development of the Fraud Academy and targeted pursuit of International and Capital City and other grant streams.
- Police officer pay and pensions – the impact of Winsor and Hutton recommendations on expenditure levels
- Police staff pay and pensions – the impact of national pay freezes and Hutton recommendations on expenditure levels
- Collaboration and Outsourcing opportunities. Development of future working arrangements and service provision with the East Coast Information Systems Consortium, Metropolitan Police Service, British Transport Police City of London etc
- Accommodation and estate provision. Provision of a reduced yet more cost effective estate coupled with modernised and streamlined working practises.

CONCLUSION

23. The Force continues to face significant financial challenges both for the remainder of the existing CSR period and beyond. Current plans indicate that the Force will be able to contain the new City First structure within the forecast budget envelope (after risks have been mitigated). Plans are also being developed to increase revenue sources and further reduce expenditure to offset any resultant decrease in resources in the next CSR period.

24. It is recommended that Members note the current position.

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