**S25 STATEMENT FOR FINAL BUDGET SUBMISSION**

**ROBUSTNESS OF BUDGET AND ADEQUACY OF RESERVES**

## 1 INTRODUCTION

The Local Government Act (Part II) 2003 requires the Chief Finance Officer (Section 151 officer) to report on the robustness of budget estimates and the adequacy of the financial reserves.

The approach to the Medium-Term Financial Plan (MTFP) is set out in the Mayor's guidance to all functional bodies and forms the overarching framework for financial planning and management. The annual budget is an integral part of the rolling multi-year MTFP.

This report has been written as part of the Mayor's Final Draft Consolidated Budget 2024/25 Budget which is set by the Mayor in February 2024 and the final budget for MPS and MOPAC. The Mayor's Office for Policing and Crime (MOPAC)'s CFO and Section 151 Officer holds the post of the Chief Finance Officer and Director of Corporate Services A summary of the evaluation is set out below.

## 2 OVERALL ROBUSTNESS OF THE BUDGET

The Medium-Term Financial Plan (MTFP) forms the overarching framework within which the MOPAC and MPS financial planning and management activity takes place. The annual budget is an integral part of the rolling multi-year MTFP which feeds into the wider Mayoral budget for the Greater London Authority (GLA).

## 3 CONTEXT

Nationally funding for policing is challenging and has not kept pace with increased demand for policing and with inflation. For MOPAC and MPS this is further exacerbated by a number of other factors including:

- The continued underfunding in the National and International City Grant which is now estimated to be c£240m lower than the true cost of policing a major city like London.
- Increased demands on policing that is evident through the recent protests including Just Stop Oil and Israel/Palestine for which no additional funding has been provided
- Increased costs of statutory activities that are not reflected in funding allocations
- The need for reform and address the issues raised in the Baroness Casey review and HMICFRS reports
- The clawback of Police Uplift Funding as a consequence of challenges in recruiting police officers and the setting by government of targets that cannot be achieved to retain this funding in the short term

It is on this basis that the budget has been developed and includes growth for the new investment MPS believes is needed to reform and deliver NMfL.

Funding allocations beyond 2024/25 have not been announced and future forecasts have been made on a number of assumptions. It is likely that there will continue to be volatility in both spending and income. Reserves therefore need to be considered as part of the overall financial planning and a new reserves strategy has been developed to ensure there remains a focus on longer term financial resilience and sustainability.

The financial planning and budget setting process is made more difficult due to the impact of policing protests and the reduction in special grant to fund all of the costs associated with this and other similar activities. Similarly, the need to address structural issues within the MPS budget has created further pressure. In the longer term, this approach will be valuable as it provides more stable and realistic budgets which will support activity to strengthen overall budget holder accountabilities and responsibilities. This is of particular importance when considering the longer-term financial position which forecasts a budget gap of c£300m in 2025/26 and future years.

Activities that strengthen financial management and provide more accurate, realistic and up to date financial and non-financial data to support decision making are essential and will form part of an agreed framework with MPS within which financial management will operate.

This report sets out the strategic direction and the actions required to ensure financial sustainability and resilience can be achieved.

## 4 FINANCIAL ENVIRONMENT AND FRAMEWORK

The following section details key elements that have shaped the construction of the 2024/25 budget.

### *Previous and Current Financial Performance*

Until 2022/23, the MOPAC/MPS budget has underspent and reserves have increased as a result of this. Balancing the budget in 2022/23 was only achieved through a decision not to make a revenue contribution to the capital programme. In 2023/24, an overspend of £27.6m is forecast based upon the Q3 2023/24 reporting date. This is a reduction of £12.5m the £40.1m overspend that was forecast at the end of Q2. MPS are continuing to work towards delivering a balanced outturn against their revised budget.

The capital programme has traditionally seen significant slippage with budgets reprofiled to future years. This is not the case in the current financial year that is showing a small variance (£9.7m underspend at Q3) and includes expenditure for devices that has been brought forward.

Undoubtedly with the need to reform and to address the concerns raised by Baroness Casey and HMICFRS, means that the future budget is changing and the controls around it need to be different.

**Demand and Pressures**

Policing one-off events that are unique to a capital city are increasing. In the current financial year, the cost of policing including protests relating to Just Stop Oil and Israel/Palestine have placed additional costs on the MPS budget. Additional funding has been received for some of these but not all. The ability to absorb these costs and manage within the current resources is becoming more challenging and is contributing to the current financial position and financial outlook. Special grants are also tapering which is placing more pressure the financial position. This is at a time when demand is increasing and inflation fluctuations are common.

***CIPFA Financial Resilience Index and HMICFRS Benchmarking***

In response to the unprecedented financial challenges faced by local government and other parts of the public sector, CIPFA has developed a Financial Resilience Index to act as an analytical tool for Chief Finance officers to support good financial management and shows the financial position on a range of measures associated with financial risk. HMICFRS has also released a set of benchmarking data and has also recently released a productivity review of all police forces across England.

CIPFA provide guidance to public bodies regarding the signs that an organisation is suffering from financial stress indicators:

- Running down reserves or a rapid decline in reserves - using up reserves to avoid cuts can only provide temporary relief
- Failure to plan and deliver savings to ensure the council lives within its resources
- Shortening medium-term financial planning horizons - could indicate a lack of strategic thinking and an unwillingness to confront tough decisions
- Greater “still to be found” gaps in saving plans
- Growing tendency for unplanned overspends and/or carrying forward undelivered savings into the following year - sign an authority is struggling to translate its policy decisions into actions.

The current MTFP is showing that the MOPAC/MPS budget is showing signs of many of these and enhanced governance is needed to ensure that this indicators are monitored in real time and updated to take account of future financial forecasts:

- MOPAC/MPS reserves have been high for a number of years however the financial pressures needed to deliver reform has resulted in a greater ‘call’ on reserves. Compared to comparators, MOPAC/MPS reserves beyond 2023/24 are low and general reserves remain at 1.1%.

- The delivery of savings has not always been achieved with 54% of the 2023/24 forecast to be delivered. These have however not always been subject to the same level of scrutiny as they have been in the building of the 2024/25 budget. Improved financial reporting during 2023/24 has enabled us to address these issues as part of the 2024/25 budget submission.

- The level of debt is currently not showing a stress indicator however MOPAC/MPS has, over recent years, relied on capital receipts following a rationalisation of the estates portfolio. The opportunity to release capital receipts to support capital investment has reduced significantly and therefore future ambition including the remaining estate, investment in technology and transformation will need to be funded from borrowing. The cost of borrowing and the affordability within the revenue budget needs to be carefully monitored and controlled through the capital process to avoid this being a stress in future years.

- The financial gap in 2025/26 and future years is significant and has increased significantly to previous forecasts, exacerbated by uncertainty about future funding levels.

***Police Funding Formula***

The Home Office has signalled for a number of years that a formula review is to be undertaken. Whilst the commitment to undertake a review of the funding formula remains, the time frame for doing so has still not been confirmed. The current MTFP assumes no changes to the funding formula.

Consideration of the following key areas has been given and a control framework has been developed that will ensure ongoing monitoring of these and the financial position:

## 5 INTERNAL CONTROLS

In light of the significant financial challenges facing MOPAC/MPS in future years, enhanced governance arrangements and a strengthened internal control framework have been agreed with MPS to drive forward stronger financial control and enhanced monitoring and oversight. The assessment of the budget for 2024/25 takes account of these and it is essential that the arrangements are effective immediately, noting that some of the work is improvement and will need to be set out with a structured plan for delivery with agreed timescales. This approach forms the basis under which the CFO is therefore able to propose the budget noting the risks associated with the challenging financial environment MOPAC and MPS finds itself operating within.

Recognising that there are risks in the budget and that there is a forecast overspend in the 2023/24 financial year, a Q1 review is to be carried out early in 2024/25. This will take account of the final out-turn position for 2023/24 and any emerging risks. This may result in changes and realignment to the budget. A review of the effectiveness of internal controls will be carried out as part of this process.

***Corporate Strategy and Policy Framework***

MPS has developed a Business Plan and Budget framework which has been proposed by the MPS Chief Officer – Strategy and Transformation and MPS Chief Officer – People & Resources for 2024/25. More of the detail is still emerging however there is a commitment from MPS that:

- the newly created Business Planning and Budget Implementation Group (BPIG) will oversee the business planning and budget cycle giving consideration to both capital and revenue budget proposals ensuring there is a balanced draft budget proposal in the Autumn in accordance with the GLA budget guidance issued each year.
- will introduce a business planning function and that business plans will be aligned to the MTFP
- Introduce internal controls to key cost drivers where there is some discretion to exercise control.

***Financial Leadership and Delivery***

The need for accurate, timely and robust financial monitoring is a key priority and one that allows for effective oversight of MPS finances. The following improvements have been agreed and will be implemented for the 2024/25 and future financial years:

- **Role of the CFO**

The importance of the role of the MPS CFO and is recognised and the CFO is now a member of the Management Board and all of the relevant Boards/Groups. This is necessary to ensure that the influence and leadership needed from a CFO in a time of financial challenge is at the highest level.

- ***Monitoring of Financial Performance***

Monthly financial monitoring to be introduced to supplement the current quarterly reporting. Monthly monitoring is to be reported to the newly established Business Planning and Budget Implementation Group and reported monthly through to MOPAC via the Executive Committee (ExCo) arrangements of which MOPAC representatives are observers.

Monitoring and controls of key levers that can impact on the in-year monitoring and the MTFP are being introduced together with delegations and thresholds for underspends.

Separate to these arrangements, MOPAC is to receive more detail on the monitoring position and more detailed reviews outside of ExCo. The Terms of Reference for the MOPAC Investment Advisory Committee will be reviewed.

A newly established Sub-Committee of the London Policing Board (Finance and Performance Committee) will also receive financial monitoring information in order to further inform and enhance the scrutiny/oversight function. Enhanced reporting to the Joint Audit Panel will also be developed.

- ***Delivery of Savings***

More due diligence on the deliverability of savings has been carried out since the Mayor's 2024/25 Draft Final Consolidated Budget.

| **2024/25 Savings £m** | RAG | | | |
|---|---|---|---|---|
| Business Group | R | A | G | Grand Total |
| | **£m** | **£m** | **£m** | **£m** |
| Frontline Policing | 0.0 | -3.5 | -14.5 | **-18** |
| Operations and Performance | -11.9 | -2.9 | -2.8 | **-17.6** |
| Comms & Eng | 0.0 | -0.6 | 0.0 | **-0.6** |
| DDaT | -1.0 | -0.7 | -17.1 | **-18.8** |
| P&R | 0.0 | -19 | -3.5 | **-22.5** |
| Centrally Held | 0.0 | -22.7 | -66.9 | **-89.6** |
| Cross Cutting | 0.0 | -15.7 | 0.0 | **-15.7** |
| **Grand Total** | **-12.9** | **-65.1** | **-104.8** | **-182.8** |
| % | 7.1% | 35.6% | 57.3% | |

- £104.8m (57%) of the savings are Green with a clear plan in place or an alteration to the base budget that will be made during the budget build phase
- £65.1m (36%) of the savings are Amber rated and have an approach/methodology identified, with current activities focusing on finalising details.
- £12.1m (7%) of the savings are Red. Work is in place to request that the Budget Leads either confirm detailed plans for the savings, or identify new savings proposals to the same figure. This is a priority action.

This is greater assurance than in previous years and demonstrates a commitment to ensure that savings are deliverable before the start of the financial year. The role of BPIG will support greater assurance and challenge.

- ***Financial Systems***

The current financial system does not provide all of the features expected for the organisation the size of MOPAC/MPS. In recognition of this and the need to ensure both organisations have the technology to support them:

- An improvement plan for the current financial systems is being developed to provide greater workflow, automation and improved financial reporting.
- A programme board has already been established and progress against this will form part of the regular monitoring and oversight arrangements. It is essential that key components of the improvement plan are delivered at pace and will need to be monitored.

- ***Budget Holder Accountabilities and Responsibilities***

    - It is recognised that this is an area of focus and development. The improvement work required in relation to this is considered as part of the improvement plan that will be an output of the assessment against compliance with the Financial Management Codes.

- **Finance Capacity and Capability**
    - Finance capacity has reduced over recent years and, with a more challenging financial environment, the skillset needed from finance professionals is changing. A review of the required finance capacity and capability is planned to ensure that the professional advice needed is available.

## 6 BUILDING THE 2024/25 BUDGET

The environment and framework set out has influenced the way in which the 2024/25 budget has been developed. Throughout the process both the MPS Executive Committee and MOPAC Board have been significantly involved in the development of their budgets. Engagement with MOPAC and the GLA has continued.

### *Assumptions*

Underlying assumptions have been reviewed by the MOPAC and MPS CFOs

- The provision of inflation and other grants and income is considered to be appropriate and is consistent with trends. The risks associated with changes in assumptions, in particular inflation, is recognised within the MTFP.
- Risks continue in relation to the policing of protests and the reduction in special grant as well as achieving the targets set by Home Office in order to access more Police Uplift Funding.
- Structural issues in the budget have been addressed based on current and historic trends and an assessment of what is required to deliver NMfL priorities.
- Growth to support reform and NMfL has been incorporated and will be managed and monitored through the new governance arrangements with decisions made at ExCo. Arrangements to manage the NMfL growth against the delivery of the cross-cutting savings have been introduced which places budget responsibility in one place. This provides greater control and provides greater assurance.
- The impact of the capital programme on borrowing assumptions including the application of capital receipts has been tested with specialist advice from the GLA Treasury Management team.
- The impact of key Digital/Transformational projects including CONNECT and Command and Control has been considered including the resetting of the CONNECT business case which has been factored into the budget as ongoing growth

### *Capital Programme Risk Management & Governance*

The Capital Strategy has been developed on an incremental basis and the process for accepting new schemes needs further development.  The governance arrangements for capital and capital scrutiny will need to be reviewed in the context of the new governance arrangements that are being introduced.

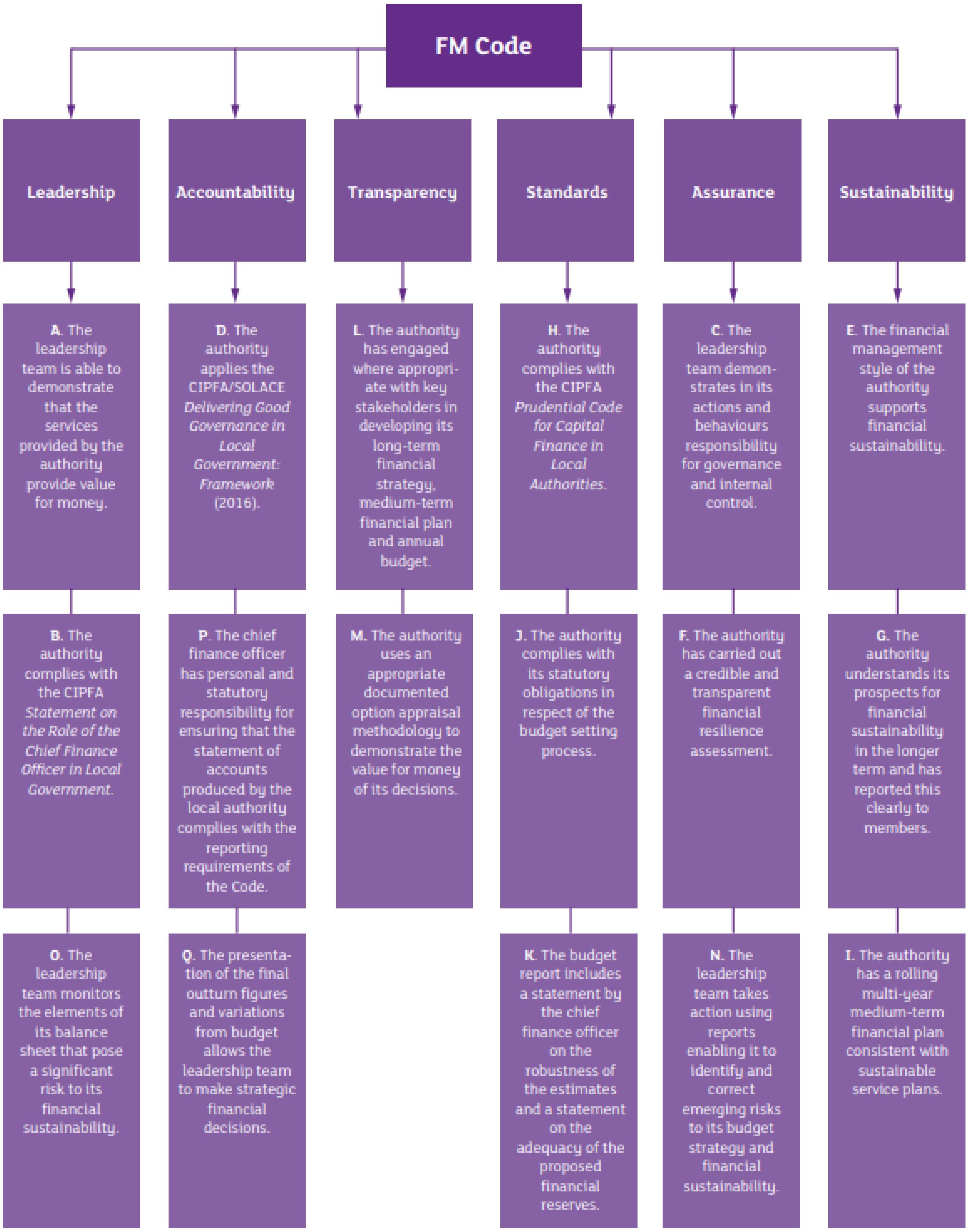
The reliance on borrowing is increasing due to the lack of other sources of funding. Further prioritisation of the capital programme will be necessary if additional funding sources cannot be identified.  This prioritisation exercise is being carried out in the context of the affordability of the capital financing costs given the provisional settlement and confirmation from other funding partners that there is no further support available to MOPAC/MPS.

***CIPFA Financial Management Code***

The Chartered Institute of Public Finance and Accountancy (CIPFA) published a Financial Management Code I 2019.  This code is designed to support good practice in financial management and to assist local authorities (include policing) in demonstrating their financial sustainability.  The Code has been introduced because the exceptional financial circumstances faced by local authorities have revealed fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future.
The FM Code sets out the principles by which authorities should be guided in managing their finances and the specific standards that they should, as a minimum, achieve.

Additionally, the Home Office has published the Financial Management Code (for Policing)

MOPAC's Self-Assessment is being updated to reflect progress on the improvement plan.  MPS is reviewing compliance against the code and it is anticipated that this will result in the need for an improvement plan in order to achieve full compliance. The CIPFA Financial Management Standards are set out in the Diagram below:




Throughout the Code there are several references that demonstrating compliance is the collective responsibility of Board members, the Chief Finance Officer and the Senior Leadership Team.

The first full year of mandatory compliance was 2021/22 and best practice requires an update on an annual basis. There are areas of improvement that will need to be addressed and the findings of the assessments (for both MOPAC and MPS) will be presented to the Joint Audit Panel with regular progress updates.

Training within MOPAC to support budget holders has been introduced during 2023/24.

## 7 ADEQUACY OF RESERVES AND RISK ASSESSMENT

The assessment of reserves is important in the context of significant investment requirements, the need to deliver high levels of savings and re-prioritisation of budgets and sustained cuts in funding and depletion of reserves. It is important to acknowledge that reserves are ‘one off’ funds and are therefore suitable for funding ‘one off’ or unexpected costs. The use of reserves to fund ongoing expenditure or a failure to achieve budgeted savings is never advised, except in emergencies and/or to enable transition to new ways of working.

Whilst the use of reserves to date has been deemed to be affordable, they were not used for emergencies or to transition to a new way of working and therefore now at a level whereby any significant further use would leave the MPS exposed to risk and unable to manage potential risks. This is particularly important in the context of an MTFP which has significant investment requirements and significant funding gaps in future years.

In recommending an adequate level of reserves, the CFO considers and monitors the opportunity cost of maintaining particular levels of reserves. This opportunity cost may be the lost opportunity of investing those funds in service improvement and/or spending on alternative activities. There is a balance to be struck between setting prudent levels of contingencies and reserves considered to be an adequate ‘safety net’ and ensuring sufficient funds are in place for the delivery of policing.

The assessment is made on the basis that the governance arrangements, the due diligence and the internal control framework set out in this report are in place from 1 April 2024 and that the business planning arrangements for 2025/26 take account of the need to build back reserves.

The projected profile for reserves over the current MTFP period is set out below and assumes that the 2023/24 projected overspend can be mitigated through management action during Q4 2023/24.

| **Forecast Balances at the end of Financial Year** | | | | |
|---|---|---|---|---|
| | **2023/24** | **2024/25** | **2025/26** | **2026/27** |
| | **£m** | **£m** | **£m** | **£m** |
| Earmarked Reserves | 237.9 | 82.4 | 50.1 | 37.6 |
| General Reserves | 46.6 | 46.6 | 46.6 | 46.6 |
| **Total Forecast Reserves** | 284.6 | 129.0 | 96.6 | 84.3 |
| **% to Net Budget** | 6.6% | 2.9% | 2.1% | 1.8% |
| **% General Reserves to Net Budget** | 1.1% | 1.1% | 1.1% | 1.1% |

### General Fund Balance

General reserves average 3.1% across police and crime commissioner offices nationally. At 1.1%, the general reserves for MOPAC/MPS are significantly lower than this. However the significant earmarked reserves in previous years have acted as a buffer. With this ‘buffer’ dwindling, the level of general reserves must increase and a recommended level of 2-3% has been set. This equates to £87m - £131m.

For 2024/25, the availability of earmarked reserves (up to 2.9%) provides some additional resilience however cannot be relied on in the longer term as the funds will be needed in future years. This has been accepted as a key part of the financial strategy for 2025/26 onwards and will form part of the business planning process that will start early in 2024/25.

Enhanced governance arrangements have been set out in the reserves strategy to provide a lever that can control access to reserves during the year. Should unfunded pressures emerge, access to reserves will need to be carefully considered and take account of the overall financial position. Greater control and oversight of underspends within budgets and enhanced internal controls and governance will provide more opportunity for risks to be managed at a more strategic level. As previously set out, the effectiveness of this as a control mechanism will be evaluated at the end of May when the Q1 review is carried out.

To manage reserves and to make sure that the overall financial risks to the MTFP are fully considered, the reserves strategy has enhanced the governance and control arrangements so that S151 sign off is needed for all movements.

The trajectory of reserves shows a reduction in future years although there is an expectation that the general reserves will be built back up in 2025/26 and future years and therefore it is expected that the position will improve over time.

## 7 CONCLUSIONS

The financial environment remains challenging and the police settlement was disappointing and has added to the gap. The flexibilities available to the Mayor have been fully used with the agreed increase in the precept. With no indication on future funding, the ongoing ringfencing of the PUP monies to officer numbers and reduced reserves, the financial position from MPS is uncertain. This is further evidenced by the forecast budget gap of c£300m in the 2025/26 financial year.

The 2024/25 budget is complex with many component parts that need to be managed and monitored carefully. It is essential that the governance and internal controls that are being introduced are effective and that there is an early opportunity to review these so that early assurance can be given. It is on this basis that the budget can be signed off.

The risks going forward cannot however be ignored and there needs to be a collective approach to managing resources within the funding available. The development to the Business Plan and the alignment of resources will support this and progress will need to be sufficiently advanced early in 2024/25 to give assurance that a balanced position can be achieved for 2025/26 and future years.

MOPAC will need to be assured throughout the year that the governance arrangements and internal controls set out in the report are working and that management action is being taken where financial variances start to emerge and/or when plans are not being met. Failure to do so poses the risk of expenditure exceeding income which could lead to the issue of a S114 notice. To avoid this, strong financial leadership from leaders across the organisation and the right levers in place to control expenditure, must be in place. The approach outlined in the final budget report sets out the control framework to support this and it is on this basis and with these controls in place that the budget is approved.

The financial position will however be monitored carefully throughout the year and the statutory powers will need to be considered if the outcomes required being achieved.