

MINUTES

Meeting: Budget Monitoring Sub-Committee

Date: Wednesday 11 September 2019

Time: 2.00 pm

Place: Chamber, City Hall, The Queen's Walk, London, SE1 2AA

Copies of the minutes may be found at:

<http://www.london.gov.uk/mayor-assembly/london-assembly/budget-monitoring>

Present:

Gareth Bacon MP AM (Chairman)

Len Duvall AM (Deputy Chair)

Jennette Arnold OBE AM

1 Apologies for Absence and Chairman's Announcements (Item 1)

1.1 There were no apologies for absence.

2 Declarations of Interests (Item 2)

2.1 **Resolved:**

That the list of offices held by Assembly Members, as set out in the table at Agenda Item 2, be noted as disclosable pecuniary interests.

3 Minutes (Item 3)

3.1 **Resolved:**

That the minutes of the Budget Monitoring Sub-Committee meeting held on 12

June 2019 be signed by the Chairman as a correct record.

4 Summary List of Actions (Item 4)

4.1 The Sub-Committee received the report of the Executive Director of Secretariat.

4.2 **Resolved:**

That the completed and outstanding actions arising from previous meetings of the Budget Monitoring Sub-Committee be noted.

5 Quarter 1, 2019/20 GLA Group Monitoring Reports (Item 5)

5.1 The Sub-Committee received the report of the Executive Director of Secretariat.

5.2 **Resolved:**

That the Quarter 1, 2019/20 GLA Group Monitoring Reports be noted.

6 Q1 2019-20 Review (Item 6)

6.1 The Sub-Committee received the report of the Executive Director of Secretariat as background to putting questions to the following invited guests:

6.2 Panel A

- Peter Lewis, Chief Finance Officer, Mayor's Office for Policing and Crime; and
- Ian Percival, Finance Director, Metropolitan Police Service.

6.3 Panel B

- Patrick Doig, Divisional Finance Director, Surface Transport, Transport for London (TfL); and
- Oana Ford-McNicol, Head of Financial Planning, TfL.

6.4 A transcript of the discussion with Panel A is attached at **Appendix 1** and a transcript of the discussion with Panel B is attached at **Appendix 2**.

6.5 During the course of the discussion, Members requested that the Finance Director, Metropolitan Police Service provide confirmation of the average annual cost of a newly appointed Police Constable.

6.6 At the end of the discussion, the Chairman thanked the guests for their attendance and helpful contributions to the meeting.

6.7 Resolved:

- (a) That the report and discussion be noted.**
- (b) That authority be delegated to the Chairman, in consultation with party Group Lead Members, to agree any output from the discussion at the meeting.**

7 Mayor's Decision Lists: 3 May 2019 to 4 July 2019 (Item 7)

7.1 The Sub-Committee received the report of the Executive Director of Secretariat.

7.2 Resolved:

That the Mayor's Decision Lists for the period 3 May 2019 to 4 July 2019 be noted.

8 Payments over £250 (Item 8)

8.1 The Sub-Committee received the report of the Executive Director of Resources.

8.2 Resolved:

That the report be noted.

9 Budget Monitoring Sub-Committee Work Programme (Item 9)

9.1 The Sub-Committee received the report of the Executive Director of Secretariat.

9.2 Resolved:

That the work programme be noted.

10 Date of Next Meeting (Item 10)

10.1 The next meeting of the Sub-Committee was scheduled for Wednesday, 4 December 2019 at 2.00pm in the Chamber, City Hall.

11 Any Other Business the Chairman Considers Urgent (Item 11)

11.1 There were no items of business the Chairman considered urgent.

12 Close of Meeting (Item)

12.1 The meeting ended at 3.00pm.

Chairman

Date

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Budget Monitoring Sub-Committee – Wednesday, 11 September 2019

Transcript of Item 6 – Q1 2019/20 Review – Panel A

Gareth Bacon AM (Chairman): Item 6, which is the main item of business today, is the first quarter of 2019/20 review. Can I welcome our guests. The meeting is in two parts today. In the first part, we are looking at policing. In the second part, we will be looking at Transport for London (TfL). In the first part, can I welcome our guests, Peter Lewis, who is the Chief Finance Officer (CFO) at the Mayor's Office for Policing and Crime (MOPAC), and Ian Percival, who is the Finance Director at the Metropolitan Police Service (MPS). Welcome, gentlemen. Thank you very much for coming along.

The opening question, which is one that obviously occupies a lot of time for Members here and occupies time with the Mayor, is around police numbers. The Mayor set a target to get to 31,000 by the end of the financial year. How are you tracking against that?

Ian Percival (Finance Director, Metropolitan Police Service): We are tracking well at the moment. We have a healthy pipeline at the moment. Our forecasts are that we are still on target to reach the 31,000 by the end of the calendar year.

Gareth Bacon AM (Chairman): By the end of March of next year?

Ian Percival (Finance Director, Metropolitan Police Service): No, the target we are aiming to get --

Gareth Bacon AM (Chairman): The March of 2020 is what I meant.

Ian Percival (Finance Director, Metropolitan Police Service): The end of the calendar year.

Gareth Bacon AM (Chairman): By the end of the calendar year?

Ian Percival (Finance Director, Metropolitan Police Service): We are hoping to reach 31,000.

Gareth Bacon AM (Chairman): OK, so within three months from now?

Ian Percival (Finance Director, Metropolitan Police Service): Yes.

Gareth Bacon AM (Chairman): What is the current number?

Ian Percival (Finance Director, Metropolitan Police Service): At the end of August, about 30,300.

Gareth Bacon AM (Chairman): OK. How often are the recruitment rounds conducted? A recruitment round is not overnight, so how often do people pass out?

Ian Percival (Finance Director, Metropolitan Police Service): I think monthly, but I am not close to the detail on that.

Gareth Bacon AM (Chairman): OK. Are you comfortable with the level of vacancies you have at the moment? You suggested you were just now. You said that would be at the end of the year.

Ian Percival (Finance Director, Metropolitan Police Service): Obviously we want to recruit to our target as quickly as we can, and that is our plan.

Gareth Bacon AM (Chairman): OK. If you do not hit the target by the end of the year, what will be done to correct that? A lot of political capital is invested in the 31,000.

Ian Percival (Finance Director, Metropolitan Police Service): We are doing everything we can. If you look at the pipeline of recruits that we have, it is very healthy. The number of joiners is very positive. As I say, from our workforce planning colleagues, we have a confidence that that pipeline will continue. We have additional growth coming soon as well as additional money, so we will do what we can - if it looks like there are lags - around additional advertising to keep the pipeline healthy.

Gareth Bacon AM (Chairman): OK. One of the things that came out of the first quarter report was that police spend was overspent by £53 million, and 60% of that, £32 million of that, was police overtime. Is that connected to lack of officers, or is that connected to operational necessity?

Ian Percival (Finance Director, Metropolitan Police Service): It is largely connected to operational necessity. The Commissioner's stated aim is to clamp down on violence, so there is a lot of operational activity, and also, we have had quite a challenging year to date with the Extinction Rebellion and the various protests that we have had to police. It has been quite a challenging operational year. That is the main driver for the overspend.

Gareth Bacon AM (Chairman): I will let Assembly Member Duvall come in briefly, and then I will take you back again.

Len Duvall AM (Deputy Chair): On the overtime, in terms of your forecast on the overtime on the three-year strategy, are you building into it - do you have a criteria of it going upwards, rather than going downwards? It used to be something the MPS used to control. It is a very useful policing tool. I understand that. I get that. Overtime has crept up in the past because of the lesser number of officers. We now see a different level of activity on different things. What are the factors? What are you taking into account in terms of your forecasting issues around overtime? You do not overspend on overtime, or do you? The management of the overtime budget.

Ian Percival (Finance Director, Metropolitan Police Service): We have previously overspent on overtime, the individual line, but we have managed that within the overall outturn position within the organisation. Last year, broadly, we underspent by about £12 million. Within that there was an overspend on overtime, but it was managed from underspends elsewhere. Does that answer the question?

Len Duvall AM (Deputy Chair): Yes. What is the thinking over the next couple of years, then, about it?

Ian Percival (Finance Director, Metropolitan Police Service): Over the next couple of years our current plans will be that the overtime stays flat in our budget plan, but we are reassessing all of our line items in order for the November budget submission that we have to do to the Greater London Authority (GLA), and that is one of the things that are under consideration at the moment. Our current published plan has it flat.

Len Duvall AM (Deputy Chair): Are you setting it flat because you think that is your controlled target, then? It is not controlled. It is always going to get bigger. Operation meets financial accounting, and budgetary issues. How does it work? Surely – call me old-fashioned – you might increase it on the basis of, “This is what we hit this year. By next year, in our forward plan, we have X visits by dignitaries, X lot coming on”. You must increase it, or not.

Ian Percival (Finance Director, Metropolitan Police Service): We are revisiting it in the current planning work that we are doing at the moment. We are looking at it, and there are a number of factors to take into account. As I said, this year has been quite busy, and we do look at what is upcoming.

It is also, if I may, just worth making a point that within that overspend on overtime there is some money that we will claim back from the Home Office through special grants, and some of it is within the counter-terrorism protective security area, which will be managed within the overall counter-terrorism position. Whilst we present it gross, and that is a £30 million-odd overtime, there is to the tune of about £15 million or so that we hope would be claimed back.

Len Duvall AM (Deputy Chair): Thank you.

Gareth Bacon AM (Chairman): Looking forward, from an estimates point of view when you are doing a budgeting round, police officers and police pay in particular, how much do you estimate the cost of an average individual police officer?

Ian Percival (Finance Director, Metropolitan Police Service): The average police constable is around about £59,000.

Gareth Bacon AM (Chairman): OK. Recently, I think last week, the Chancellor made the pledge of 20,000 additional police officers across the country. I know what the MPS ask is – actually I’m asking you to contradict what the MPS ask is – but how many police officers are you expecting to come through from that?

Ian Percival (Finance Director, Metropolitan Police Service): The Commissioner has asked for 5,000 to 6,000 of that. Our working assumption at the moment is that that is what we will get. Therefore, our working assumption is 25% to 30% of the funding that is made available.

Gareth Bacon AM (Chairman): OK. How quickly do you think they will feed through?

Ian Percival (Finance Director, Metropolitan Police Service): It is difficult. Obviously, we cannot predict the future, but based on advice we are getting at the moment, as I say, the pipeline for our officers is healthy, so we are now seeing some recruitment. We have to be mindful that the recruitment is national. Therefore, at the moment, I think we are probably the only force recruiting at the level of the volumes that we are. Once this becomes national, all forces will be recruiting, so inevitably there will be lots of people trying to recruit police officers. We are confident that we will do everything we can and the best we can to secure 5,000 to 6,000 officers of the overall allocation.

Gareth Bacon AM (Chairman): How easy does the MPS find it to recruit? My background is that I used to chair the Fire Authority. Every time the Fire Brigade went out to recruit, they would be vastly oversubscribed. We might be looking at, say, 300 new firefighters, and they would get something like 9,000 applicants. Nine times out of ten, they would fill every position. For the MPS, do you get a very large supply of people? Is it a popular job that people want to do, or is it more challenging?

Ian Percival (Finance Director, Metropolitan Police Service): It is not an area that I am an expert on, I have to say, but based on the advice or the information that we have been given at the moment, we are finding lots of people wanting to join. Our applications are higher than they have been for some time, and our pipeline of recruits is sufficient to give us the numbers that we have budgeted for over the next few months, which would suggest that it is a job that people are wanting to do now.

Gareth Bacon AM (Chairman): The MPS on its own makes up around about a quarter of the United Kingdom's (UK) policing establishment, doesn't it? If you apply that ratio strictly, then the 5,000 out of the 20,000 is a perfectly reasonable ask. The key, though, and for us on this side of the table particularly, is recruiting these people as quickly as possible so they can make a difference in the city as quickly as possible. How much do you know about how the MPS would change the recruitment strategy to make that happen? You have suggested that there will be 700 police officers net recruited between now and the end of the year, so three months. It would have to increase quite a bit, wouldn't it - this is over and above people leaving for retirement and other reasons - in order to get that that throughput as quickly as possible. Is that fair?

Ian Percival (Finance Director, Metropolitan Police Service): Yes.

Gareth Bacon AM (Chairman): However, you are not the right person to ask. It is something we can ask a bit later on, I think, with other colleagues. The Government has released £750 million this year, which, on the costing that you have just suggested, would equate to around about 12,500 police officers of the 20,000 that they have talked about, so a fair chunk. If that money is not time-limited, they [the recruitment of police officers] can be spread over time, but if it has to be done within this financial year, then that implies that that needs to be spent and the new recruits need to be in place by the end of the financial year, doesn't it?

Ian Percival (Finance Director, Metropolitan Police Service): Sorry. I may have misheard you. The Government has allocated £45 million this year and then £750 million next year. Our aim, subject to when we get the details, is that about 500 of those will come to the MPS.

Gareth Bacon AM (Chairman): OK. No, that is fine. That is what I was going to, so that is quite helpful. Where do you expect to place them? Would they be randomly assigned? Are they going to be assigned to specific parts of London? Again, is this a question that is not directly --

Ian Percival (Finance Director, Metropolitan Police Service): I am afraid it is not. It is not, and it would be for the Board --

Gareth Bacon AM (Chairman): OK. This is going to be a Police and Crime Committee type of question.

I will ask the final question and then I will pass over to Assembly Member [Jennette] Arnold [OBE]. What number of officers are you expecting to be using for your next budget and the business plan for 2022/23?

Ian Percival (Finance Director, Metropolitan Police Service): If I can, before we get into the additional growth that has just been announced, our working assumption was that we maintained 31,000 police officers for the next couple of years. We now need to make some assumptions about the additional funding. The Government announcement said that by the end of March 2021 there will be up to 20,000 officers recruited nationally. To repeat myself, the Commissioner has asked for 5,000 to 6,000 of that, so we will be working on the assumption of between 25% and 30% of those as our planning assumption, and we will state clearly in our budget what the assumptions are. That would be our planning assumption.

Gareth Bacon AM (Chairman): It is fair to say probably around about 32,500?

Ian Percival (Finance Director, Metropolitan Police Service): Yes, the maths would suggest that, by the end of the year.

Gareth Bacon AM (Chairman): OK. Assembly Member Arnold [OBE]

Jennette Arnold OBE AM: Thanks, Chairman. Just confirm for me, when we talk about the 31,000 officers, is that inclusive of constables, special units, all the way, including the Commissioner?

Ian Percival (Finance Director, Metropolitan Police Service): Yes.

Jennette Arnold OBE AM: At the end it would be across all ranks, the 31,000?

Ian Percival (Finance Director, Metropolitan Police Service): Yes.

Jennette Arnold OBE AM: The vacancies that you are talking about filling, then, and recruiting into, is it just constable vacancies?

Ian Percival (Finance Director, Metropolitan Police Service): Initially, obviously, the recruits are constables, but there will be vacancies across the ranks. Once we bring people in as constables, there will be promotions that follow that.

Jennette Arnold OBE AM: Yes. I am just trying to understand your projections. You talked about the cost of a constable at £59,000.

Ian Percival (Finance Director, Metropolitan Police Service): That is the average cost, yes.

Jennette Arnold OBE AM: That is just salary, isn't it?

Ian Percival (Finance Director, Metropolitan Police Service): That would be the salary and the associated pension, London allowances and National Insurance contributions.

Jennette Arnold OBE AM: They come now, with all their kit and all of that. Is that also within that £59,000?

Ian Percival (Finance Director, Metropolitan Police Service): That is not within the £59,000. That is just salary-related on costs.

Jennette Arnold OBE AM: Salary and associated stuff. In the budget, you then have the resource to add to the amount of money you are getting to recruit at that basic level. Do you see what I mean? All the additional costs, then. Where is that money coming from?

Ian Percival (Finance Director, Metropolitan Police Service): I have to say it all has to be caveated with detail to be worked through. But, with the additional money that we are getting to support the growth, there has been some allowance made for the additional costs associated with officers; for example, for kit and uniform, etc. There is some provision within the allocation for that.

Jennette Arnold OBE AM: What about promotions in the system? Constables by themselves: that is not how the force is made up. You talked about sergeants and others. Where do you find that additional money

if, say, you have to find an extra 100 sergeants in order to give proper supervision to the new recruits? Where would you find that money?

Ian Percival (Finance Director, Metropolitan Police Service): We will work that through with the additional sums of money that are given to us for the growth. There is some allowance in the additional funding that we get for some supervisory levels within the additional money, and we just have to do that modelling, which we --

Jennette Arnold OBE AM: That would be part of the extra, say, £45 million from Government?

Ian Percival (Finance Director, Metropolitan Police Service): Yes.

Jennette Arnold OBE AM: You are not able, are you, through your current financial state to find that within the service because - we will go on to it later - you are barely able to meet the savings now that are required of you?

Ian Percival (Finance Director, Metropolitan Police Service): I think the savings and the officer salary and increments are separate things. When we talk about the average cost, there are a huge range of costs within our police pay budget, and there is of course churn. 31,000 officers: there is huge variation and huge sensitivity to the average. As people get promoted and as people move up, to my other point, we also have retirees. People, if they are at the top of their grade, retire, and then people come in at a lower salary at the start, so there is quite a lot of churn in an almost £1.9 billion budget. We manage to budget for those increments. We do work that through our modelling. That in itself is not a pressure to us.

Jennette Arnold OBE AM: OK. Thank you.

Gareth Bacon AM (Chairman): Just to clarify, that single point is an important one. The £60,000 average encompasses all ranks, doesn't it?

Ian Percival (Finance Director, Metropolitan Police Service): Yes.

Gareth Bacon AM (Chairman): The cost of a newly-minted police constable fresh out of Hendon will not be £60,000, will it? It will be a lot lower than that. The £60,000 also pays for the people at the more senior ranks. Across the piece, £60,000 is the average cost per individual, but not the actual cost per individual.

Ian Percival (Finance Director, Metropolitan Police Service): Yes. Let me check just one thing, please. The £60,000 is the average cost of a constable. I will just confirm that, but you are absolutely correct. Somebody new, straight in, is not going to cost us £60,000. That would be a lower figure.

Gareth Bacon AM (Chairman): OK. Just one final clarification question from me before we move on, and Assembly Member [Len] Duvall is going to take the pit in a minute. The cost of the kit: is that a revenue or capital cost?

Ian Percival (Finance Director, Metropolitan Police Service): It is a mixture. It will depend what the kit is. Some of it will be capital. Some of our information technology (IT) is capital, and some of it is revenue cost, like uniform, for example.

Gareth Bacon AM (Chairman): Uniform would be revenue, but things like radios may be capital?

Ian Percival (Finance Director, Metropolitan Police Service): Yes.

Gareth Bacon AM (Chairman): It might be revenue in handcuffs and other hardware --

Ian Percival (Finance Director, Metropolitan Police Service): Yes, basically.

Jennette Arnold OBE AM: Sorry. Chair, can I just come back? Did you say the London allowance was also included?

Ian Percival (Finance Director, Metropolitan Police Service): The London allowance was in those average salary figures that I was quoting, yes.

Jennette Arnold OBE AM: Right. Yes, thank you.

Gareth Bacon AM (Chairman): We will have a bit of a chat about your budget gap, which is obviously significant, and you have been using reserves to plug it. Assembly Member Duvall is going to step in on this one.

Len Duvall AM (Deputy Chair): What will be the impact of the existing funding gap on the 2019/20 overspend?

Ian Percival (Finance Director, Metropolitan Police Service): If the overspend materialises at the end of the year and we did not take corrective action, it would be a circa £50 million reduction on the reserves. That would be the way that we would have to balance the books, but we are not anticipating that being the case.

Len Duvall AM (Deputy Chair): That is a deliberate policy, isn't it? For this year, your three-year strategy, it is about overspending, but you are going to take the corrective action. There is a deliberate policy about going into your reserves, using that to support your budget.

Ian Percival (Finance Director, Metropolitan Police Service): We took a view some time ago that we would use some reserves to support one-off initiatives, yes, but the reserves do not support the base budget. In fact, this year we are transferring money into reserves.

Len Duvall AM (Deputy Chair): How do the reserves then support your budget? If they do not support the base budget, what are they supporting in terms of running down the reserves?

Ian Percival (Finance Director, Metropolitan Police Service): For some of our one-off expenditure, like transformation or change-related activity, we would use reserves to support it.

Peter Lewis (Chief Finance Officer, Mayor's Office for Policing and Crime): May I contribute?

Len Duvall AM (Deputy Chair): You will have to speak up. Sorry, my hearing seems to be going. If you just raise your voices slightly.

Peter Lewis (Chief Finance Officer, Mayor's Office for Policing and Crime): Of course. Just to emphasise Ian's point, there is an addition to reserves during the year. To follow the line of questioning you had around police officer numbers and so on, there is a deliberate attempt to put money into reserves in order to continue the level of police numbers in future years. You will see from the report £118 million being

invested in reserves during 2019/20 to allow for the 31,000, the budgeted amount, to continue into the years beyond that. There is a deliberate policy of using reserves in that positive way as well.

Len Duvall AM (Deputy Chair): I am not questioning that. I think, just putting it back on record, that is a deliberate act and we have a strategy for the three years. The question is, at the end of that three years, what do we do? That is when that strategy comes to an end. Presumably, in year 2, you start thinking about what happens in years 4 and 5 and 6?

Peter Lewis (Chief Finance Officer, Mayor's Office for Policing and Crime): Yes, and certainly, in the current climate, predicting what the financial settlement for any public sector organisation is going to be beyond those years is very difficult. What has been put in place is practical, given the current financial arrangements. Clearly, now we know of the Government's intent to fund additional police officers, that will influence that strategy going forward, and perhaps an ongoing commitment, depending on the political environment, as to whether there is further investment in the public sector as a whole.

Len Duvall AM (Deputy Chair): Just going back, we are all working on the assumption that with the Government announcement, and in terms of our existing strategy, we are going to go beyond the 31,000 officers.

Peter Lewis (Chief Finance Officer, Mayor's Office for Policing and Crime): At the time the budget was set, the 31,000 was the budgeted amount, and that was being sustained. Clearly, now, we have new information that would suggest we will go significantly beyond the 31,000. The Mayor will be working with the MPS to make sure that happens.

Len Duvall AM (Deputy Chair): Maybe, Chairman, that is something we should follow up with the Plenary when we have the Commissioner about that policy announcement and those issues. Obviously, there are additional costs and it goes to the heart of the question of what the Chairman had said, where they are allocated, what they do, and where you put them – as the case may well be asked in that sense in terms of the estate.

Just tell us. I come from a traditional local government background. It is always about the use of reserves. I think it is quite right you use those to support your budget. Just remind us the strategy of the declining use of the reserves. I am not sure what the percentage is now of the level of reserves you have. If we continue with the planned strategy, they are going to be fairly low, but you think it is all manageable and containable. What is the percentage where you think you will be at the end of year 3?

Peter Lewis (Chief Finance Officer, Mayor's Office for Policing and Crime): The general reserve is around 2%. That is £46 million. That has been in place for quite a period of time and is intended to be in place. There are no plans to draw upon that. We draw upon advice, for example, from our external auditors, who commented that those reserves are at a relatively low level but not an inappropriate level; so we draw comfort from that. Clearly, we use our professional judgment to ensure that there is a sustainable level. At a time when funding is under significant pressure, as it has been for a number of years, to put money into reserves is a difficult issue to justify at a time that efficiencies and savings are being made elsewhere.

Len Duvall AM (Deputy Chair): OK. It is all predicated that you are making those savings elsewhere, isn't it?

Peter Lewis (Chief Finance Officer, Mayor's Office for Policing and Crime): Yes.

Len Duvall AM (Deputy Chair): I know any quarter 1 (Q1) represents just a little snapshot of where we are, but in your forecast of savings, how confident are you that you can deliver the savings required for the budgets 2020/21 and then on to 2022/23?

Peter Lewis (Chief Finance Officer, Mayor's Office for Policing and Crime): Clearly, the plan is still being formulated. There is an element of savings for those years that have been identified, and I think the track record of delivery of savings – £850 million over recent years – shows that the police have been successful in doing so. More effort needs to be made to deliver even more in the future. What we do not know is the impact of the announcement that we have just been talking about, the £750 million, and how that will affect the future requirement of savings. You will have seen in the medium-term plan, as was set previously, there were £50 million of savings not yet identified for the next financial year, and a further £50 million for the year afterwards. We will be revising over this autumn period the full medium-term financial strategy and taking account of the better information that we know.

Len Duvall AM (Deputy Chair): OK. We might need to return to that as well. You are essentially a people-based organisation, but even in good times of funding settlements for the MPS you have always still maintained a discipline of identifying the savings to reinvest in the service. Is that correct, or am I in some romantic era or MPS financing or MOPAC overseeing your predecessor body in the Metropolitan Police Authority (MPA)?

Peter Lewis (Chief Finance Officer, Mayor's Office for Policing and Crime): I will let Ian comment on the history because I have only been here a few weeks, but in terms of where things are at the moment in terms of MOPAC oversight of the arrangements, certainly there is a transformation programme that is funded and supported in the MPS in order to deliver the very savings that you have talked about: improvements in efficiency and improvement in service quality as well. That does continue and that continues to be scrutinised. I do not know if you want to comment on the history of that, Ian.

Ian Percival (Finance Director, Metropolitan Police Service): No. You are absolutely correct. We have always made savings, and we have always had just basic pressures in our budget – for example, inflation – that we have needed to manage because we do not get given extra money for that. We have had a history of always making savings. As Peter says, through the recent years, we have a history of delivering as well.

Len Duvall AM (Deputy Chair): OK. To do your jobs properly from your different aspects overseeing this budget, when do the politicians or the senior management team at the MPS have to take these decisions that start to impact either on the current three-year strategy or beyond? When are you looking for the policy decision to be made to enable you to plan to change course, which could be quite reasonable? When are you expecting those decisions to be made or told to you? When would you like them? Then we can talk about the reality of when they are likely to take place. What timescales do you need?

Peter Lewis (Chief Finance Officer, Mayor's Office for Policing and Crime): The work has particularly started in the MPS about developing the mechanics of the budget. We would expect that to be talked about amongst politicians and be informed to do that in late October, early November, when we start to gain that steer, when we understand the ingredients and so on. That all depends, of course, on knowing the detail of the financial settlement, and we are not sure when we will know the detail of the officer allocation and the funding allocation that goes with it. Of course, the overall local government settlement affecting police might not be known until early December, and that is at the time when there can be more meaningful discussions about the actual budget going forward.

Len Duvall AM (Deputy Chair): OK. Let's talk a little bit about the current assumptions on wage settlements across the business plan period. What assumptions are you working on?

Ian Percival (Finance Director, Metropolitan Police Service): 2% is our assumption each year for both officers and staff.

Len Duvall AM (Deputy Chair): That is what has happened in the past, is it?

Ian Percival (Finance Director, Metropolitan Police Service): This year, the officer rise was 2.5%. The police staff pay is still being negotiated. The officer rise was 2.5% this year.

Len Duvall AM (Deputy Chair): Let's wind forward. In 2021, if I understand some of your answers, can we expect a balanced budget and a full-funded business plan? Is that too ambitious, 2021?

Peter Lewis (Chief Finance Officer, Mayor's Office for Policing and Crime): The basic answer to the question is there has to be a balanced budget. We do not have any alternative but to present a balanced budget. As to whether or not that involves further efficiencies or savings or it has the potential for growth, we await to see the detail of the settlements coming forward. Clearly, that depends on the outcome of the current political situation and so on as well.

Len Duvall AM (Deputy Chair): OK. Thank you.

Gareth Bacon AM (Chairman): All right. Just a quick tidy-up from me in closing: just picking up on something that Assembly Member Duvall was asking about earlier on. Did I understand you to say that there are still £50 million of unidentified savings in each of the next two financial years? Is that correct?

Peter Lewis (Chief Finance Officer, Mayor's Office for Policing and Crime): That is what the medium-term strategy shows, yes.

Gareth Bacon AM (Chairman): OK. I did some back-of-a-fag-packet calculations while you were saying that. The £750 million for next year: if the MPS takes a quarter of that, bearing in mind what we were saying earlier on about the ratio, that works out to £184 million, which on its own would pay for 2,233 police officers. I have rounded out to the £60,000 average. If you have not found the savings for £50 million, some of that money would be needed to use to plug that gap, wouldn't it?

Peter Lewis (Chief Finance Officer, Mayor's Office for Policing and Crime): The bit of information we have not talked about, Chairman, is that, as part of the information we have been given so far as part of the Home Office announcement, they have confirmed that the support for the pensions liability, which was a complication in setting this year's budget and one-off funding was given, will be continuing. All other things being equal, that would address that £50 million gap. As I say, all other things being equal, there will be other things that will have changed both positively and negatively over that time. We hope that the benefit of the £750 million will be all in a positive direction, but, again, we wait to see the details of that.

Gareth Bacon AM (Chairman): Sure. What I was going to ask you was whether that money is being ring-fenced specifically to provide police officers or whether it allows forces - I was going to say police services - the discretion to spend it, in this case to plug the funding gap and then use the rest of the money on police officers, or whether it all has to be spent on police officers?

Peter Lewis (Chief Finance Officer, Mayor's Office for Policing and Crime): We do not know the rules from the Home Office yet as to whether or not it is ring-fenced from there, but I am sure from the Mayor's point of view we will be wishing to make sure that as many officers as possible are recruited.

Gareth Bacon AM (Chairman): Yes. That is not quite reassurance, but I take your point that it is a bit early because the Government has not told you what the rules are yet.

Peter Lewis (Chief Finance Officer, Mayor's Office for Policing and Crime): No.

Gareth Bacon AM (Chairman): OK. All right. I think that is it from me, in which case we have come to the end of our session, quite a brief one. Thank you very, very much, gentlemen, for attending and your answers. There may be one or two slightly follow-up points that we want to pick up with you in writing if anything occurs to us afterwards. Thank you both very much.

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Budget Monitoring Sub-Committee – Wednesday, 11 September 2019

Transcript of Item 6 – Q1 2019/20 Review – Panel B

Gareth Bacon AM (Chairman): Welcome back, everybody. In section 2 we are going to be talking to Transport for London (TfL), so we would like to welcome back Patrick Doig, who is the Divisional Finance Director at Surface Transport, TfL, and Oana Ford-McNicol, who is the Head of Financial Planning at TfL. Welcome to both of you.

We are going to start by talking about the operating account, and Assembly Member Arnold [OBE] is going to lead off on that one.

Jennette Arnold OBE AM: Yes, thank you, and welcome. Let me just preface my question with this comment. TfL's operating performance in Q1 2019/20 shows a net cost of operations of £13 million. It is our understanding that this is £136 million lower than anticipated in the budget. Can you start by telling us what are the key drivers behind this higher-than-expected income level?

Oana Ford-McNicol (Head of Financial Planning, Transport for London): Sure. I will start and, Patrick, please jump in if I leave anything out.

As we set out in our quarterly financial performance report, we started the year with a really good performance. Our operating income was £29 million better than budget, which was very much driven by better-than-expected demand, mainly in London Underground. Our operating costs are 5% lower than budget as well, which is a combination of [the] timing of our projects, both relating to some non-essential maintenance projects in London Underground and timing of restructuring projects, and underlying savings that we are achieving ahead of expectations. Overall --

Jennette Arnold OBE AM: Can you stop there? Just explain "timing". What do you mean by that?

Oana Ford-McNicol (Head of Financial Planning, Transport for London): Let me try to get into a bit more detail around our operating cost. The overall variance versus budget is £81million favourable. That £81million is made up of a number of things. Some of the big variances are in London Underground. London Underground, year to date, is about £22million favourable to budget, and this variance is mainly driven by the - how do I explain it better - reshaping of some non-essential maintenance works. A big part of it is linked to the maintenance project on the Victoria line or the maintenance project works at Acton. What happened there is this project had been planned to start earlier this year, and we had experienced a number of delays which were linked to a shortage of gearboxes, believe it or not, and the rolling stock market. As far as I understand, those issues are now resolved, and the first Victoria line train has been now given back into the system with 100% of scope. That is a portion of spend that we expect to fully recover by the end of the year.

Jennette Arnold OBE AM: That reshaping or, if you like, not spending because things were halted then gave you that opportunity to show lower operating costs?

Oana Ford-McNicol (Head of Financial Planning, Transport for London): That is right.

Jennette Arnold OBE AM: On just the Victoria line?

Oana Ford-McNicol (Head of Financial Planning, Transport for London): This particular variance within this quarter is linked to this particular project within the planned refurbishment or heavy overhaul of the Victoria line fleet.

Another big part of this variance is to do with the timing of transformation implementation costs. As the Committee will be aware, when we published our business plan last year, we launched the next phase of our transformation; committing to reduce the cost of our back and middle office by about 30%. There is a lot of work going in the organisation, and transformation is progressing well. However, the financial assumptions as to where we actually incur costs can only ever be, at the beginning of such a process, a high-level assumption. What we have found is that we are now experiencing - I would not say delay - a reprogramming, if you want, of this spend. We are fully expecting to incur the cost. However, I cannot give you at this stage a full answer as to when exactly it is going to be incurred. We expect the majority of it to be incurred this year. There is a possibility that some of it will flow into next year.

Jennette Arnold OBE AM: When we next meet - your papers say at Q2 or Q3 - we will then see all of that back to as planned?

Oana Ford-McNicol (Head of Financial Planning, Transport for London): We should see that cost coming back into our operating account. As our Chief Finance Officer (CFO) has explained at the Board meeting at the end of July, we are now undertaking an exercise to review our budgetary assumptions, and we are fully expecting to report back to the Board after the end of period 6, which is after the end of September.

Jennette Arnold OBE AM: Great. Just tell me a little bit more, then. It looks from the papers that we have in front of us that a higher-than-expected income level came from the Underground.

Oana Ford-McNicol (Head of Financial Planning, Transport for London): That is correct.

Jennette Arnold OBE AM: How did that happen?

Oana Ford-McNicol (Head of Financial Planning, Transport for London): Our passenger income year to date is £29 million better than budget, or about 3% better than budget and 2% better than last year. The favourability to budget has two components. Demand in [the London] Underground has been stronger than what we anticipated. Again, going back to a bit of context, remember when we published our budget last year in March, we took a set of cautious assumptions, having planned on the assumption that the UK will leave the European Union at the end of March. Therefore, we are expecting a degree of softness in our demand assumptions of passenger journeys.

Demand on the Underground had been declining in 2017 and for the best part of 2018. We have seen journeys on [the] Underground starting to grow in about Q3 and Q4 in 2018, so when we wrote our budget for 2019/20, we decided we did not have enough information to bake-in that favourability. In the context of the real uncertain economic environment we are operating in, we perhaps took a cautious assumption. That is one part of that favourability.

As you have seen from our financial report, bus income as well is about £9 million better than budget year to date, and again that is to do with demand or journeys which are better than what we had expected. Let me be clear: bus journeys are still declining year-on-year and have been declining over the last three years. What has changed is that they are declining at a lower rate than what we have assumed in the budget.

How these trends will translate into, say, Q2 and our full year --

Jennette Arnold OBE AM: Yes, that was my next question.

Oana Ford-McNicol (Head of Financial Planning, Transport for London): Again, it is something that we are reviewing as part of our review of budgetary assumption, and we will be in a position to update you with a refreshed view at the end of November when we publish our business plan. However, uncertainties remain. We are still planning in an economic environment of heightened uncertainty. We still have a six-month window for the opening of the Elizabeth line, so again it is uncertain at this stage what will be the extent of that revenue loss on the Elizabeth line finally. Therefore, we must remain cautious and we must maintain the level of financial discipline that we have maintained so far.

Jennette Arnold OBE AM: Yes. What is the talk in terms of the organisation about this uptake on the London Underground? The recent report, when Londoners were interviewed, talked about it being overcrowded, uncomfortable, in some instances the worst place to be, which does not give you a picture of a place people are rushing to. Is there any sort of feel? Is it inner, outer?

Oana Ford-McNicol (Head of Financial Planning, Transport for London): It is a really interesting question, and we have done a lot of research and a lot of analysis as to our demand trends. As the Committee will know, it is really not an exact science. What we are seeing, though, is strong demand mainly led by terminus points. It looks like commuter journeys into London have increased, and that correlates with what we are seeing with the strength of jobs, particularly in central London.

Again, a note of caution. September historically is the month when demand trends seem to reset. Last year we have seen demand trends in Underground resetting. On the positive, it is hard to tell whether this trend will continue at this existing pace or we are going to start seeing some softness. Again, it is difficult to tell, but for now we are cautiously optimistic.

Jennette Arnold OBE AM: Thank you. Back to you, Chairman.

Gareth Bacon AM (Chairman): Thank you very much, Assembly Member Arnold [OBE].

If we move on and talk about the capital account, I do not know who will be best-placed to answer that, Patrick, whether it will be you or whether it will be Oana again. We have seen capital expenditure. This is a bit of theme often in transport funding. It tends to track behind delivery. Your delivery of capital is tracking behind the budget you have established. Why is that? Why does that happen so often?

Oana Ford-McNicol (Head of Financial Planning, Transport for London): Again, I will start, and maybe Patrick [Doig] can help me with some examples of Surface. As you heard from our colleagues earlier, I think in June [2019], when you discussed the investment programme in detail, in order to understand the performance versus budget on capital in particular we really need to unpack the investment programme a bit. I will try to do that for you today.

Year to date in Q1, we were £93 million below budget. About 50% of that favourability is in our major projects. Across the board within our major projects we have reported savings. Actually, this favourability that we are reporting is driven by good news. We are still committed to fully delivering our strategic tier 1 and 2 milestones, albeit we accept there has been some slippage on the operational milestones.

As the Committee will be aware as well, these big infrastructure projects like Four Lines Modernisation (4LM), like Northern line, include a provision for risk. When these projects are at their early stages, it could be as big as 10% to 20% of the total cost of the project. As projects mature and go through their different stages and their key milestones, the risk profile changes. Our big infrastructure project, 4LM, is 83% complete from a cost perspective. Northern line extension is 66% complete from a cost perspective. Actually, Northern line has now achieved a number of key milestones early. What that has allowed us to do is to reprofile our risk provision and release a big amount towards our estimated final cost.

Gareth Bacon AM (Chairman): Can I ask you to pause just there just to make sure I have understood what you said to me?

Oana Ford-McNicol (Head of Financial Planning, Transport for London): Yes.

Gareth Bacon AM (Chairman): Part of the reason for delivery tracking behind where you thought you would be in terms of spend is because the element of risk that you had built in has actually worked out quite favourably. You have not had to access the money because it has not been so bad.

Oana Ford-McNicol (Head of Financial Planning, Transport for London): Correct.

Gareth Bacon AM (Chairman): When you get to the project, you can release effectively an underspend for other projects. Is my understanding of that correct?

Oana Ford-McNicol (Head of Financial Planning, Transport for London): That is right. Yes, that is right. Yes.

Gareth Bacon AM (Chairman): Sorry. I interrupted you.

Oana Ford-McNicol (Head of Financial Planning, Transport for London): It works both ways. In the Northern line, we have achieved milestones early. We have been able to release amounts that we were holding in terms of risks that we now have reason to believe, based on fact, are not going to materialise. On the 4LM, we know that we had some delays and that had put some pressure on the final estimated cost, as you will be aware from our investment programme reports. Again, overall, within our major projects, we have some really good news in terms of really being able to manage out some of the risks. We are still on track to deliver the strategic milestones, and at the moment there is some good news on the estimated final costs.

About half of the variance year to date is in our other portfolios. About £15 million is in our property. Our commercial development function manages a number of portfolios that look at building homes, as you well know, and disposals of various sites across the TfL estate. It is notoriously difficult to forecast accurately the timing of when various sites are going to be disposed, which has caused and is causing a significant lag versus budget.

The other aspect to the underspend year to date is linked to funding from third parties. About £6 million of the underspend year to date is to do with the Emergency Services Network, where funding we have received from Government again has been rescheduled. Therefore, the rate of spend in the project has slowed down accordingly.

Then we have for the remainder of the variances our other programmes, which are mostly work-bank based programmes with many, many, many projects of like nature. Within these we have experienced some delays, as

I explained, in London Underground and also particularly in Patrick's [Doig] area in Surface. We have a lot of externalities that impact on our ability to deliver to the timelines that we have set ourselves.

Broadly, I would say the variance year to date is some really good news. We are doing things more efficiently, better. We have been able to mitigate risk, so we are able to release some money back into the investment programme. About 50% is timing, very much driven by the timing of disposal in our property and estates, portfolios and the timing of works within London Underground and Surface.

Gareth Bacon AM (Chairman): OK. Politicians like to look at averages a lot and build policy around averages. The trouble with averages is that they do disguise an awful lot beneath the surface. Again, if I have understood what you have said correctly about risk, in some of your projects it turns out that there is too much risk built in, and the money can then be released and used to shore up other projects where perhaps for whatever reason there has been too little risk. If we said that, on average, TfL is building in too much risk, that would be an unfair criticism to make because different projects are different: different size, different complexity, different scope. You have nodded, which is good, because I was going to ask you to validate whether I have understood you correctly.

The capital milestones, the budget milestones that you established over the period: what we often see - and it might be related to the point I have just made - is that the delivery of the budget is underspent but the milestones do not change, and you still seem to be achieving them. Why is that?

Patrick Doig (Divisional Finance Director, Surface Transport, Transport for London): There are two reasons for that. Firstly, a budget milestone will also include an element of schedule risk allowance. Risk in the project materialises in two ways: in terms of cost, increasing cost, and impacting on schedule. In the same way that we look at the potential risks and how they might impact the costs and try to model the average likely impact on costs, we do the same on schedule. With all our published milestones, there will be an element of schedule risk allowance that may or may not materialise. When a risk happens in a project, quite often it takes a bit longer and you may spend the money slightly later, but you still may hit your published milestone because it was in the schedule risk allowance that you set for that milestone.

The second element is that our published milestones are the really critical end-dates generally for our projects, when we bring those projects into beneficial use and benefit our customers and passengers, whereas a number of things that Oana [Ford-McNicol] is talking about are the interim milestones along the way. We might experience some slippage at what we call our tier 2 or tier 3 milestones, the interim milestones. They may have slipped, but we are still able to hold the end-date of those projects due to rescheduling or replanning the projects.

Gareth Bacon AM (Chairman): OK. Again, just to clarify that I have understood you, you build in sufficient flexibility for you to catch up, effectively, so if you miss the early stage of a milestone, by the end of a milestone you have caught yourself up. Is that right?

Patrick Doig (Divisional Finance Director, Surface Transport, Transport for London): We aim to. Clearly, we do not want to put too much slack in the schedule so it is not a realistic delivery profile, but the aim is to get around about, in project planning terms, a P50 approach, that 50% of the time you would have it about right.

Gareth Bacon AM (Chairman): Yes. I think you have correctly anticipated where I was going to go with the next one, which is: are you comfortable that you are not being over-generous in terms of your scheduling and

your assessment of risk? Could you be more hard-nosed about it, I suppose is the right question, or do you think you have got it at the right level?

Patrick Doig (Divisional Finance Director, Surface Transport, Transport for London): What we try to do is make sure that we are really driving the project teams with the most aggressive timescale that we can possibly have. Any individual project team is held to account to a much more ambitious timescale than we might be putting in our budget and committing to externally, so that keeps the pressure on any individual project team and hopefully ensures there is no complacency in our delivery. Certainly, you should have heard that from Mike [Brown MVO, Commissioner of TfL] and Simon [Kilonback, CFO, TfL] about how they manage projects.

Gareth Bacon AM (Chairman): How often is that reviewed? You have a particular methodology that you go through, and I accept what you say about keeping pressure on and not letting people slack off. How often do you review individual projects or indeed the entire approach to delivery?

Patrick Doig (Divisional Finance Director, Surface Transport, Transport for London): In terms of the individual projects, there will be a cycle of reviews for every project. Every project will have a project board, a programme board and a portfolio board, so there are hierarchies of review. It will happen every four weeks. That will be the key control mechanism for our main investment programme portfolio. Clearly, most projects will have working meetings that happen every more frequently than that to keep delivery. Then, at a quarterly level, we go through the whole portfolio as part of our quarterly business reviews. That ultimately cumulates with Mike Brown and Simon Kilonback and then the Board in the form of the Programmes and Investment Sub-Committee, which will review the overall programme on a quarterly basis.

In terms of methodology, the last major refresh of our overall methodology was probably about three or four years back, when we started to bring together our Major Projects Directorate. We do monitor it and make some minor refinements on an ongoing basis to our programme methodology.

Gareth Bacon AM (Chairman): OK. You refresh the business plan frequently, in my experience. Looking at your budget going forward, constantly in the public sector over the last ten or more years, squeezing more out of the existing resources is a constant theme. Do you think that you are able to drive more value out of the process than you have at the moment, or do you think you are at the right level?

Oana Ford-McNicol (Head of Financial Planning, Transport for London): The obvious answer is that we should always aim to be better and leaner and more efficient. If you look back at our performance over the last three years, back in 2015/16 we were making a deficit of £800 million, including a general grant of £650 million. Overall, excluding the impact of the general grant, we were making a deficit of £1.5 billion. Last year we made a deficit of £400 million, so that should be testament to how well we have been able historically to drive efficiencies and do things better.

Equally, I think, in the investment programme there has been an incredible amount of work to try to really understand the root cause of underspend by type of project, and I know that the divisional boards and the Investment Programme Board are continuously looking at how we are evolving that methodology. David Hughes [Director of Strategy and Service Development, London Underground, TfL], when he was in front of you here in July, talked about that it is important to do things well, rather than do them in a hurry. I think the answer will be absolutely yes, and we are looking over the next three to four years to start being a bit more agile and take a more network-wide approach, particularly to projects that are lending themselves to a work-bank, so we are able to flex projects forwards and backwards a little bit easier when, as life happens, things do not happen as we perhaps forecasted them to happen.

Gareth Bacon AM (Chairman): OK. Thank you. The final section, which will not take too long, I do not think, is talking about the spending review, and Assembly Member Duvall is going to take that.

Len Duvall AM (Deputy Chair): Can we just talk about the impact of the spending review last year? We know it was only for one year, but was there any impact in terms of the announcement for TfL's business plan?

Oana Ford-McNicol (Head of Financial Planning, Transport for London): The short answer for us is no. Our core funding remains unchanged for next year. However, what this spending review round had not answered for us is that long-term certainty of funding that we have been asking for and we have been hoping that we are going to resolve as part of this year's Comprehensive Spending Review.

Len Duvall AM (Deputy Chair): Even though the Chancellor mentioned about bus improvements in the rest of the country, you are not hopeful that London would get a share of that money?

Patrick Doig (Divisional Finance Director, Surface Transport, Transport for London): It is more than not hopeful. Unfortunately, we are very disappointed that London and TfL specifically are excluded from bidding into any of these national pots to support buses and highways and streets. That remains the case.

Len Duvall AM (Deputy Chair): All right. OK. That is pretty clear. There is not much to follow up on that.

Len Duvall AM (Deputy Chair): OK. All right. Thank you for that. We might follow up and come back to you upon reflection.

Gareth Bacon AM (Chairman): We may do. That was extremely rapid-fire. We have reached the end, so you are let off early.

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