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## Financial performance report for Quarter Two 2016/17

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### A REPORT SUMMARY

1. This is the second full quarterly financial monitoring report for 2016/17 for the MOPAC Group. Taking account of the proposed budget changes and the latest forecasts for savings there is a revenue forecast underspend of £7.8m, representing 0.3% of net expenditure. Capital spend is forecast to be £49m below budget, 17% of budget.
2. The report:
  - Includes proposed revenue movements after the budget was submitted to the GLA, including a proposed decreased use of earmarked reserves, and
  - Examines the forecast against the financial background in which the budget for the year was set and highlights risks to delivering the 2016/17 savings to ensure a balanced budget at the year end. For completeness the proposed revenue and capital budget movements are applied in determining the forecast outturn position.

### B SUPPORTING INFORMATION

#### **Financial performance for 2016/17 - revenue**

1. Detailed in Appendix 1 is the Summary Revenue Budget Monitoring Statement for Quarter Two of 2016/17 incorporating the projected outturn for the financial year. A net underspend of £7.8m is forecast for the year against the approved net budget of £2,498m (£3,339m gross budget).
2. Overall, the picture for Quarter Two is a widening of the underspend on police officer and police staff pay offset by some short and medium difficulties in achieving planned savings.

#### **Achievement of savings target**

3. The MPS has a £126.9m savings target this year. Appendix 2 shows that the MPS is confident however that £84.3m of the £126.9m savings target for 2016/17 will be delivered in 2016/17. A further £22.6m may not be delivered this year due to timing issues but will be delivered next year. This leaves £20m remaining where there is a high risk of non-delivery in this and future years. The two key risk areas include savings in respect of police overtime and the implementation of the Total Technology Programme Infrastructure (TTPi) / Towers contracts in Digital Policing (DP).

#### **Other key pressures and inter dependencies**

Police pay

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4. The MPS is currently forecasting an outturn position of £35.3m underspend on police pay, of which £29m relates to internally funded posts. The £6m underspend in externally funded posts is compensated by additional use of Counter Terrorist/Protective Services grant in other, non-police pay areas of expenditure and therefore is not a net underspend to MPS.

#### Police staff pay

5. The forecast outturn underspend on police staff pay is £22.2m and is an increase on Quarter One. The majority of this underspend is internally funded (£16.7m) and is primarily within Territorial Policing (TP). The underspend in TP relates to delays in appointing Dedicated Detention Officers (DDOs) and Forensic Health Care Nurse recruitment as well as vacancies across the Boroughs for Public Access Officers. The other significant gaps are in Local Delivery Support Services Administrators and Communications Officers. The MPS are reviewing the understrength position within Criminal Justice to mitigate future risks.

#### Police overtime

6. Police officer overtime is forecast to overspend by £18.4m at year end which is an increase of £6.2m since Quarter One. Of this amount £7.4m is fully funded through the CT/PS grant leaving a net overspend of £10.9m. This forecast overspend position reflects the difficulties in achieving the planned savings in the 2016/17 base budget (TP released £10.2m and SC&O £8.5m). Particular pressures include the revised minimum strength levels for bank holidays and (for TP) a need to cover vacancies in Met Detention, costing £1.6m in police overtime.
7. All overall overtime position is being kept under review by the Deputy Commissioner's Gold Group and by the Assistant Commissioners' Chief Officers Groups. The current working assumption is that £6m will need to be funded in the 2017/18 overtime budget, largely due to the revised minimum strengths for bank holidays

#### Running costs

8. The MPS is forecasting to overspend by £37.3m. The key variance under this heading relates to the staged progress to implement the Digital Policing TOM (Target Operating Model). Of this amount, estimates suggest £10m relates to savings with structural delivery problems and an additional saving of £14.4m is achievable, but will not be delivered in the current financial year. A comprehensive review needs to be carried out on the strategic budget pressures in 2016/17 and 2017/18 arising from the implementation of the System Integration Application Management (SIAM) and Towers model.

#### Grants

9. During Quarter Two Specialist Operations (SO) performed an extensive review across the MPS to realign expenditure to meet key priorities. This exercise has increased other Counter Terrorist non -pay expenditure categories by £16m matched by a corresponding increase in the application of grants.
10. In addition, the MPS benefited from additional Proceeds of Crime Act income grant which has been transferred to Reserves for future use.

### **Capital Programme**

11. Capital expenditure for the year is forecast at £238.3m against an adjusted 2016/17 programme of £287.0m, with a forecast underspend of £48.7m. Actuals to date as at September 2016 are £83m. It

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should be noted however that the respective provisioning departments are undertaking a comprehensive review of their capital programme areas as part of the annual joint MPS/MOPAC budget scrutiny process. A revised plan for 2016/17 and 2017/18 for submission for the DMPC and the GLA is being prepared and work is progressing and an interim plan has been submitted for discussion.

12. Further details including analysis of spend against the new Portfolio Structure can be found in Appendix 3.
13. As at the 30 September 2016 the MOPAC Group had received net capital receipts of £65m the year end forecast remains at £479m. However, there are risks several risks that may alter the timing and level of receipts generated in future years, such as the economic climate post the decision to exit the EU, new Mayoral priorities and the ongoing review of the estates transformation programme.

#### **Movements on the capital programme**

14. There are no changes to the 2016/17 capital programme, however there are minor changes to the way the capital programme is split and reported internally over the new Portfolios. The minor changes are due to discussions over the allocation of projects and improved analysis.

## Overall revenue position against the updates 2016/17 budget

The table below provides a summary of the Quarter Two position for subjective budgets for the MPS and MOPAC. The total year to date figures for Col 1 are based on updated budget profiles as part of the detailed forecast exercise for this quarter. These profiles have been updated to reflect recent events and new information that has come to light since the budgets were originally set. The forecast outturn position at the end of Quarter Two shows an underspend of £7.8m.

**Table 1 MOPAC Group Summary Revenue Budget Monitoring Statement for Quarter Two of 2016/17**

Year to Date Budget £m	Year to Date Actuals £m	Year to Date Variance £m	Cost category	Annual Budget £m	Forecast £m	Variance £m	%
906.5	894.9	-11.6	Police Officer Pay	1,829.2	1,793.9	-35.3	-1.9%
244.7	234.8	-9.9	Police Staff Pay	489.0	466.8	-22.2	-4.5%
31.5	31.7	0.2	PCSO Pay	61.1	60.5	-0.6	-1.0%
<b>1,182.7</b>	<b>1,161.4</b>	<b>-21.2</b>	<b>Total Pay</b>	<b>2,379.3</b>	<b>2,321.1</b>	<b>-58.2</b>	<b>-2.4%</b>
34.8	42.0	7.3	Police Officer Overtime	69.4	87.7	18.4	26.5%
10.7	11.8	1.1	Police Staff Overtime	21.2	21.5	0.3	1.4%
0.1	0.1	-0.1	PCSO Overtime	0.3	0.2	-0.1	-33.3%
<b>45.6</b>	<b>53.9</b>	<b>8.3</b>	<b>Total Overtime</b>	<b>90.8</b>	<b>109.4</b>	<b>18.6</b>	<b>20.5%</b>
<b>1,228.2</b>	<b>1,215.3</b>	<b>-12.9</b>	<b>Total Pay &amp; Overtime</b>	<b>2,470.1</b>	<b>2,430.5</b>	<b>-39.6</b>	<b>-1.6%</b>
24.1	23.5	-0.6	Employee Related Expenditure	54.9	52.7	-2.2	-4.0%
87.4	84.7	-2.7	Premises Costs	169.5	171.4	1.9	1.1%
28.0	30.5	2.5	Transport Costs	57.0	61.5	4.5	7.9%
234.7	213.5	-21.2	Supplies & Services	487.6	520.7	33.2	6.8%
<b>374.3</b>	<b>352.3</b>	<b>-22.0</b>	<b>Total Running Expenses</b>	<b>769.0</b>	<b>806.3</b>	<b>37.3</b>	<b>4.9%</b>
21.5	21.5	0.0	Capital Financing Costs	43.0	42.9	0.0	0.0%
17.9	17.1	-0.8	Discretionary Pension Costs	35.9	34.6	-1.3	-3.6%
<b>1,641.9</b>	<b>1,606.1</b>	<b>-35.8</b>	<b>Total Gross Expenditure</b>	<b>3,318.0</b>	<b>3,314.3</b>	<b>-3.7</b>	<b>-0.1%</b>
-133.2	-136.8	-3.6	Other Income	-273.3	-275.1	-1.8	0.7%
-206.2	-201.4	4.8	Specific Grants	-429.0	-434.5	-5.4	1.3%
-28.8	-14.0	14.8	Transfers to/(from)Reserves	-117.3	-114.2	3.1	-2.6%
<b>1,273.7</b>	<b>1,253.9</b>	<b>-19.8</b>	<b>Total Net Expenditure</b>	<b>2,498.4</b>	<b>2,490.5</b>	<b>-7.8</b>	<b>-0.3%</b>
-1,249.2	-1,249.8	-0.6	Funding (General Grant & Precept)	-2,498.4	-2,498.4	0.0	-
<b>24.5</b>	<b>4.1</b>	<b>-20.4</b>	<b>Overall MPS &amp; MOPAC Total</b>	<b>0.0</b>	<b>-7.8</b>	<b>-7.8</b>	<b>-</b>

## Update on savings delivery

The table below shows the current position on the deliverability of the £126.9m savings proposals for 2016/17. The total savings of £126.9m consist of back office savings of c£80m with the remainder coming from front/middle office budgets. All of these savings were agreed as part of the 2016/17 budget process. The forecast suggests that there will be an under delivery of £42.6m against the savings plan, i.e. there is confidence that £84.3m will be delivered in 2016/17 and £22.6m may not be delivered this year due to timing issues, this saving will be delivered next year. This leaves £20m remaining where there is a high risk of non-delivery and a pressing need to consider and recommend mitigating actions. DP are currently reviewing the implementation of the TTPi / Towers contracts to identify proposals to manage the DP pressures. The other high risk areas under review include Association of Chief Police Officer Drivers and Training.

	<b>Planned Saving (£m)</b>	<b>Forecast Saving (£m)</b>	<b>Variation (£m)</b>
Savings with structural delivery problems	-33.5	-13.5	20.0
Savings with timing delivery problems	-38.0	-15.4	22.6
Savings that are forecast to be delivered in full	-55.4	-55.4	0.0
Overall Total – MPS	-126.9	-84.3	42.6

## Capital Programme analysed across new portfolios

In line with the new MPS Portfolio Structure the capital programme has been analysed across the 13 portfolios. In this early stage meetings are currently being held with Senior Responsibility Officers to take them through the approved capital programme and explain how the individual budgets fall across Portfolios. As the year progresses the report will be enhanced with forecasts provided across the life of the projects.

The table below shows the full year budget and year to date position across the portfolios.

**Summary position of spend by Portfolios – September 2016**

<b>MPS Portfolio structure</b>	<b>Budget £m</b>	<b>Actuals £m</b>	<b>Forecast £m</b>	<b>Variance £m</b>
Creating a Business Support function of the Future	1.1	0	0.3	-0.8
CT Policing Change Portfolio	12.6	1.2	15.1	2.5
Strengthening our Armed Policing Capability	2.2	0	7.3	5.1
Enhance Digital Policing for 2020	32.1	12.8	28.3	-3.8
Improving Public Access and first contact	3.9	0.7	4.4	0.5
Optimising Response	19.3	3.4	10.1	-9.2
Reinforcing HQ, Improving Information Management	2.0	0	2.6	0.6
Smarter Working (mobility)	46.3	2.0	39.0	-7.3
Transforming Investigation and Prosecution	30.5	8.9	30.2	-0.3
Adjustment to reflect interim forecast from DP			-6.9	-6.9
	<b>150.0</b>	<b>29.0</b>	<b>130.4</b>	<b>-19.6</b>
Delivering Maximum Commercial Efficiency - Fleet	23.2	4.9	18.2	-5.0
Transforming the MPS Estate	113.8	48.7	89.7	-24.1
<b>Total Capital Programme</b>	<b>287.0</b>	<b>82.6</b>	<b>238.3</b>	<b>-48.7</b>

### Delivering Maximum Commercial Efficiency (Fleet)

The total fleet forecast is currently £18m against a budget of £23m (including additional projects such as Royalty and Specialist Protection (RaSP) uplift and Armed Response Vehicle uplift). The specific MPS forecast is £14m on a budget of £18.8m and spend to date of £4.8m. The forecast reflects the expected low spend in the early part of the financial year and is based on the planned delivery dates of vehicles in the 2016/17 Vehicle Response Plan (VRP).

Due to the delays experienced late last year with the outline approval of the vehicle replacement programme and ongoing corporate for tender approvals, there is a shortfall in the volume of vehicles expected to be replaced by the end of the year. Priority has also been given to the various uplifts for Armed Fleet and RaSP creating additional demand on available resources within Fleet Services. Fleet Services are requesting that £5m is reprogrammed into 2017/18 to

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allow for the replacement of vehicles including 120 Ultra Low Emission Vehicles to meet our environmental and clean air objectives.

### **Strengthening our Armed Policing Capability**

The forecast has increased to £7.3m to reflect the Firearms uplift forecast as well as the ARV uplift funded by the Home Office of £2.2m. The Firearms uplift is fully funded from the capital programme with the balance from revenue reserves.

### **Transforming the MPS Estate:**

Property Services as at the end of Period 6 have spent £49m against the approved budget of £114m. The forecast outturn has been amended to £90m as at September 2016.

- The impact of delays in approving key investment decisions that affect delivery of the Estates Transformation Strategy.
- An increase in the approved budget for the redevelopment of Curtis Green of £9m due predominantly to circumstances beyond the control of MOPAC/MPS and principally related to perimeter security, telecommunications works and public realm works.
- The impact of delays in planning approvals, finalising the design of Belvedere, Hammersmith and the driving school at Hendon, completing the disposal of Paddington Green and commencing the related redevelopment have meant that the original timelines for these schemes and the associated profile of spend have changed. Whilst some expenditure in relation to these schemes (currently estimated to be £10.2m) will be incurred in 2016/17, the majority of expenditure has now been re-profiled into future years.

In light of these factors set out above the capital programme has been revised. Therefore whilst the totality of Property Services Department (PSD) capital spend for 2016/17 to 2020/21 remains at c£708m as previously approved, the profile of spend between years has changed and will be reflected in the capital submission due to be made to the Mayor in November 2016.

### **Digital Policing**

Digital Policing, has a capital spend to date of £29m on a budget allocation of £150m. The forecast has increased from £80m last quarter to £130m at the end of Quarter Two providing a forecast net underspend at year end of £20m. The net underspend reflects estimates of slippage in projects including the Mobile Devices Programme and expenditure below budget on Command and Control Futures pending litigation. The forecast expenditure is also dependent on the approval of key investment decisions by Management Board and MOPAC.

### **Planning for future years**

It is unlikely that the total underspend will be used to bring forward other projects planned for future years to 2016/17, as all three of the provisioning departments are either operating at full capacity, or in the case of Fleet Services experiencing delays in commissioning services.