

REQUEST FOR DMPC DECISION – PCD 103

Title: Budget Submission 2017/18-20/21

Executive Summary:

As part of the production of the GLA Group budget MOPAC is required to submit a budget proposal to the Mayor. This paper sets out the proposed revenue and capital budgets for the period 2017-18 to 2020-21.

This budget submission has been developed in a financially challenging period where funding is restricted and the demands on policing are increasing and changing substantially. MPS are undergoing a significant programme of transformation and efficiencies.

MOPAC/MPS are still not fully compensated for the shortfall of £170m in National, International and Capital City (NICC) grant, and face a risk of a loss of resources from 2018/19 onwards from the Police Formula Funding review.

The proposed revenue budget for 2017/18 meets the budget guidance, addresses the Mayoral manifesto commitments and matches the cash sum of £613m, an increase of £17.4m on last year, allocated by the Mayor for 2017-18. We propose to maintain the strategic target of 32,000 officers. This will be increasingly challenging in the years ahead. We will work with the MPS to transform the way it works to ensure that, with these officers, it can deliver a good universal service to everyone, make the necessary improvements to specialist services to protect London's most vulnerable people, and maintain its capability to protect the city from the threats of terrorism, organised crime, cyber crime and major civil emergencies.

A draft capital programme estimated at £1,587m over the period is also proposed to invest in existing assets and to develop new initiatives. The capital programme is under review and will be revised later in the budget process. The funding and borrowing limits to support this level of investment are also set out.

Recommendation:

The DMPC is asked to approve the proposed 2017/18-20/21 budget submission to the GLA.

Deputy Mayor for Policing and Crime

I confirm I have considered whether or not I have any personal or prejudicial interest in this matter and take the proposed decision in compliance with the Code of Conduct. Any such interests are recorded below.

The above request has my approval.

Signature

Spine Under

Date

Dec 5 2016

PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE DMPC

Decision required – supporting report

1. Introduction and background

- 1.1. This MOPAC budget submission forms part of the annual process to create the overall GLA Group budget. The DMPC has been delegated the authority to make the annual budget submission to the Mayor of London in line with the agreed Budget Timetable.

2. Issues for consideration

- 2.1. The MOPAC priorities and Mayoral manifesto commitments which frame the proposed budget are set out in the attached document. As this is the first year of the Mayoralty a new Police and Crime Plan has been issued for consultation for completion before the end of March 2017. Any significant changes arising from the consultation will be contained within the overall budget.

2.2. Revenue Budget

- 2.2.1. MOPAC faces significant financial challenges over this budgeting period. Government funding for London policing is being held below flat cash level and demands on policing are increasing. In the spending review the flat cash settlement was based on the assumption of a 2.5% increase from Council Tax. Whilst 'acquisitive crimes', such as burglary and car theft, have fallen, patterns of crime are changing. In recent years, there has been an increase in some types of recorded violence within London, including knife crime and gun crime discharges, with reports of child protection, sexual violence, vulnerable people, hate crime and fraud also increasing. Their rise has significant implications for the MPS and their partners. These crimes require more resources and specialist skills to investigate, along with partnership work with other agencies such as the Health Service and local councils. In addition, non-crime demands (e.g. those in mental health crisis) on policing to be the service of last resort mean that there are additional unfunded pressures on the MPS budget.
- 2.2.2. MOPAC/MPS face additional funding pressures because the Home Office does not fully fund the costs the MPS incurs in providing policing in London for national and international capital city (NICC) functions. A shortfall in NICC funding of £170m is the result – the equivalent of £61 for each household at Council Tax Band D. The Home Office have accepted that we receive a shortfall in NICC funding but have not yet provided any additional resources to meet this extra cost. MOPAC continues to lobby the Home Office to obtain funding to meet the full cost of providing this service.
- 2.2.3. Moreover the Government have announced a review of the general Police Grant to report by February 2017 with a view to implementing any changes in time for 2018/19. MOPAC/MPS receive some 25% of the national total, so against the background of no new resources, any changes in grant distribution are likely to impact disproportionately on London policing. MOPAC/MPS will continue to press the case for London on funding. However, there are clearly risks that any new distribution methodology may transfer resources away from London thereby exacerbating the funding pressures facing MOPAC/MPS.
- 2.2.4. In order to address these rising demands and the changing nature of policing in London the MPS are implementing their One Met Model (OMM) transformation programme. This is designed to invest in and improve the visibility, productivity and effectiveness of the force, and will enable the release and re-direction of officers to the priorities in the Police and Crime Plan. Under the budget agreed by the previous Mayor currently officer numbers are 31,344. We propose to maintain the strategic target of 32,000. This will be increasingly challenging in the years ahead. As part of previously

agreed savings back office services are reducing to 15% of total revenue expenditure by 2019/20, lower than most similar forces according to HMIC/national benchmarks.

- 2.2.5. Additional unfunded costs and pressures MOPAC faces are estimated at in excess of £400m over the years 2017-21. These cover a range of items including external pressures of pay and non-pay inflation and single tier pension costs. There are also costs associated with the uplift in firearms and investment in modern IT and mobility, hence the borrowing costs from capital investment.
- 2.2.6. Previously agreed savings and the identification of a further savings through this budget cycle have been balanced against these pressures. Because officer numbers have fallen below target in 2016/17, this will help bridge the budget gap in 2017/18 as there will be vacancies in early 2017/18. Therefore the proposed 2017/18 revenue budget meets the cash sum of £613m allocated and addresses the Mayoral commitments. Significant efficiencies and savings in 2017/18 of £74.8m have been identified in order to meet the budget target and these will present challenges in delivery. The savings will require careful management by MPS and oversight from MOPAC to be delivered.
- 2.2.7. There is planned use of reserves to support the changes necessary to meet the target budget. After taking this funding into account, the forecast budgets for 2018/19 and onwards set out below show significant unfunded pressures.

	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m
Target Budget Gaps	55	95	184	136
Additional £17m	-17	-17	-17	-17
Impact of officer numbers below target at year start	-38	0	0	0
Unfunded pressures	0	78	167	119

- 2.2.8. The budget for 2016/17 has led to police officer numbers falling slightly below target and this means there will be vacancies early in 2017/18. The budget for 2017/18 can then be balanced through applying additional resources of £17.4million (equivalent to just over 2.5% on the Council Tax police precept) from the Mayor. However, this in itself will not balance the budget from 2018/19 onwards and further savings and/or additional resources will need to be identified. Importantly, the Budget process for 2018/19 onwards will need to begin early to allow sufficient time to identify and implement efficiency measures in order to achieve a balanced position going forward. MOPAC/MPS and GLA continue to make the case to the Home Office to obtain a fairer and more sustainable level of funding for policing, and will continue to identify further opportunities to reduce costs.

2.3. Capital Budget

- 2.3.1. The proposed investment programme for the period 2016-17 to 2020-21 is estimated at £1,587m through a portfolio of transformation called the One Met Model (OMM). The analysis of investment across the OMM portfolio is set out in the attached draft programme. This is subject to further MPS review and MOPAC approval to monitor delivery of such a large and complex inter-dependent series of investments. This will inform future budget processes.

- 2.3.2. The proposed funding to support this investment is also provided in the attached, and for 2017/18 requires no new borrowing. The scale of the investment to modernise the retained MOPAC estate and to transform digital policing to enable a more visible and mobile police force may require additional borrowing. The estimated revenue costs of any additional borrowing are included in the draft revenue budget. We will work to ensure that our plans for estate disposal align with the Mayor's affordable housing policies, and detailed work on this is on-going between the GLA and MOPAC.
- 2.3.3. Authorised limits and the operational boundaries for the management of borrowing to support the capital programme are included in the attached.

2.4. Robustness of Budget

- 2.4.1. The MOPAC Chief Finance Officer has provided assurance as to the robustness of the estimates proposed and the adequacy of the proposed financial reserves. The current policy on reserves is to maintain general reserves at a level of 1.5% of net revenue expenditure. The proposals made in the attached will result in a level of general reserves of 1.8% at the end of 2017-18. It is important to maintain sufficient reserves, particularly during periods of organisational change or when budgets are reducing, to provide financial cover to meet any short term pressures while the organisation adjusts to meet the financial resources available.
- 2.4.2. A suite of appendices providing further detail and analysis is included.

3. Financial Comments

- 3.1. This is a financial report and the details are set out in the body of the report.

4. Legal Comments

- 4.1. MOPAC is subject to the budget setting requirements of the Greater London Authority Act 1999, as amended. As set out above the proposed budget submission reflects the Mayor's guidance.
- 4.2. Further to the creation of the MOPAC, pursuant to section 6 of the Police Reform and Social Responsibility Act 2011 ("the Act"), MOPAC must issue a police and crime plan within the financial year in which each ordinary election is held, which is underway and on schedule for completion before the end of March.
- 4.3. Under section 3 (6) of the Act, MOPAC is under a duty to secure the maintenance of an efficient and effective police force. Under paragraph 7 of schedule 3 of the 2011 Act MOPAC may do anything which is calculated to facilitate, or is conducive or incidental to, the exercise of its functions. Under section 79 of the Act, MOPAC must have regard to the Policing Protocol when exercising its functions. The Policing Protocol provides that PCCs (including MOPAC) as recipient of all funding, must determine how this money is spent. In London, this is also to be read within the context of the GLA Act 1999, and the Mayor's budget setting requirements.
- 4.4. MOPAC/MPS as statutory bodies must only budget for activities that fall within its statutory powers. Further, the Commissioner must ensure that good value for money is obtained in exercising functions, which includes securing that persons under his direction or control obtain good value for money in exercising their functions. Any future proposals for a reduction in staff/officer posts must comply fully with employment law and People Services and the Directorate of Legal Services at the MPS, as appropriate, will need to be engaged to ensure compliance with any statutory or regulatory requirements in relation to any redundancy or redeployment matters.

5. Equality Comments

5.1. The potential equality implications of the budget are included in the equality impact assessment of the draft Police and Crime Plan which is out for consultation.

6. Background/supporting papers

6.1. Appendix 1

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOIA) and will be made available on the MOPAC website following approval.

If immediate publication risks compromising the implementation of the decision it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary.

Part 1 Deferral:

Is the publication of Part 1 of this approval to be deferred? NO

If yes, for what reason:

Until what date:

Part 2 Confidentiality: Only the facts or advice considered as likely to be exempt from disclosure under the FOIA should be in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a **Part 2** form – NO

ORIGINATING OFFICER DECLARATION:

	<i>Tick to confirm statement (✓)</i>
Head of Unit: The Interim Finance Director has reviewed the request and is satisfied it is correct and consistent with the MOPAC's plans and priorities.	✓
Legal Advice: Legal advice is not required.	✓
Financial Advice: The Strategic Finance and Resource Management Team have been consulted on this proposal.	✓
Equalities Advice: Equality and diversity issues are covered in the body of the report.	✓

OFFICER APPROVAL

Chief Executive

I have been consulted about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report. I am satisfied that this is an appropriate request to be submitted to the Deputy Mayor for Policing and Crime.

Signature R. Lawrence

Date 5/12/16

MOPAC/MPS BUDGET SUBMISSION 2017/18-20/21

1. BACKGROUND

- 1.1. This budget submission has been prepared against the background of continued pressure on resources arising from the underfunding of the NICC grant; the below flat lining of police grant; inflationary pressures on pay and non-pay budgets, and other unfunded pressures.
- 1.2. The underfunding of the NICC grant is a particular concern and continues to be the subject of lobbying and representations to the Home Office to compensate London for these additional costs. Furthermore, any Home Office review of the formula used to distribute Policing Grant presents a further risk to MOPAC/MPS resources.
- 1.3. This paper sets out the proposed MOPAC/MPS revenue and capital budgets for the period 2017-18 to 2020-21 for approval by the Deputy Mayor for Policing and Crime. These have been prepared in accordance with the Mayor's Budget Guidance issued in June 2016 and will form part of the overall GLA Budget to be agreed in February 2017.

2. MAYORAL PRIORITIES

- 2.1. The Mayor aims to develop a number of strategies over the next four years. Broadly, he has set five key areas of importance:

2.1.1. Part 1: Accommodating growth

This priority acknowledges the pressure on land in London as the economy and population continue to grow. The Mayor aims to protect land used for employment, to increase housing around stations and well-connected town centres; and to place an emphasis on mixed-use developments. Through the London Plan and his transport strategy, he aims for Londoners to have better access to affordable housing, jobs, culture, social infrastructure and for methods of transport to keep pace with the number of people who need to travel.

2.1.2. Part 2: Housing

This responds to the pressure on housing in London and incorporates affordable housing, private renting, homelessness and rough sleeping. It notes that this must be a partnership effort and will be led by the new Homes for Londoners team at City Hall. The Mayor plans to build housing on TfL and other surplus public sector land, to help the development industry to do more and to offer a variety of affordable housing types. Affordable housing includes low-cost rented properties, London Living Rent, shared ownership and a target of 50% of new builds being affordable.

2.1.3. Part 3: Economy

The Mayor is aiming to preserve and enhance London's global competitiveness in spite of uncertainty around leaving the EU. This includes delivering world-class transport infrastructure, arguing for an immigration system that prioritises access to talent, and protecting environment and culture so that businesses continue to choose London. In addition, he aims to increase opportunities for all (regardless of background and age) and to promote economic activity during the day and night, taking particular account of small businesses.

2.1.4. Part 4: Environment, transport and public space

This incorporates a focus on the health and wellbeing of Londoners, for business competitiveness, to protect the environment and the Green belt, and on improving air quality. It includes an aim for London to be zero carbon by 2050, which will be achieved by introducing measures for cleaner, more efficient energy production and use. In addition, the Mayor will look to reduce traffic and encourage walking and cycling on 'healthy streets' and will work to protect London's heritage and culture promoting good design in public spaces.

2.1.5. Part 5: A city for all Londoners

This priority centres on improving social integration by addressing inequalities, tackling disadvantage and discrimination and promoting participation. The Mayor aims to ensure that all who live in London regardless of race, disability, gender, etc. are given the resources they need to make London more equal. This relies on affordable transport, improved health, reduced health inequality and ensuring the city's culture continues to thrive.

2.2. Supporting the Mayoral priorities MOPAC has drafted a Police and Crime Plan – A Safer City for All Londoners. This Police and Crime Plan (PCP) is scheduled for formal consultation from December, running until 23 February 2017.

2.2.1. This will have a significant impact in terms of providing the single strategic direction for policing and crime in London. The Plan will set the context for the future policing budget, setting out specific funding commitments and being clear on the need to manage in excess of a further £400m of pressures over the next few years.

2.2.2. The Plan will also be explicit in its narrative on receiving a fair funding deal for London. It will argue that a fair funding deal for London needs to recognise the unique challenges of policing the capital, and provide adequate funding to meet them taking into account the pressures facing the MPS in the future.

2.2.3. The following priorities shape the Police and Crime Plan:

- Keeping Children and Young People Safe

- Tackling Violence Against Women and Girls
- Standing together against extremism, hatred and intolerance

2.2.4. Further detail on the Police and Crime Plan can be found at www.london.gov.uk/police-plan

2.3. One Met Model 2020

2.3.1. The Met's transformation programme the 'One Met Model 2020' has three drivers which will enable the delivery of the Police & Crime Plan:

- Every Community safer, through: accountable and visible policing at the most local level, a step change in the effectiveness of our services and a focus on protecting the vulnerable;
- A Safer London, through: tackling new and growing threats, freeing up officers from existing services and better management of demand;
- A Transformed, Modern and Efficient Met, that looks and feels more like London, with officers with the skills, tools and approach necessary to police London effectively

3. 2016/17 REVENUE AND CAPITAL FORECAST

3.1. The 2016-17 Budget was balanced and agreed in February 2016 through police officer numbers falling slightly. The key issues during the year have been the continued underfunding of the National, International and Capital City grant (NICC) of some £170million, below flat cash Government funding, and difficulties in delivering some planned savings, requiring management action to deliver offsetting savings.

3.2. The latest financial forecast for 2016/17 is based on monitoring at period 6 - to the end of September. In summary an underspend on police officer and staff pay is offset by some short and medium term difficulties in achieving planned savings in respect of police overtime, fleet out-sourcing and the implementation of the TTPI / Towers contracts. The overall position in 2016/17 is forecast to be favorable (an underspend) by some £7.8 million.

4. REVENUE BUDGET 2017/18-2020/21

4.1. MOPAC/MPS face additional funding pressures because the Home Office does not fully fund the costs the MPS incurs in providing policing in London for national and international capital city (NICC) functions. A shortfall in NICC funding of £170m is the result – the equivalent of £61 for each household at Council Tax Band D. The Home Office have accepted that we receive a shortfall in NICC funding but have not yet provided any additional resources to meet this extra cost. MOPAC continues to lobby the Home Office to obtain funding to meet the full cost of providing this service.

- 4.2. In September 2016 the Government announced that a further review of the Police Core Grant Distribution Formula will take place with a planned reporting date of spring 2017. This review is taking place in the context of no new resources and London receiving some 25% of the national total. Therefore, there are risks that this review could re-direct resources away from London thereby creating additional financial pressures.
- 4.3. In preparing the revenue and capital budget MOPAC/MPS carried out a detailed process of reviewing current budgets to identify savings and efficiencies. Budget challenge sessions took place to review current revenue and capital spending plans, and progress of the budget process and its outcomes have been subject to a number of reviews and monitoring at the MOPAC and MPS Oversight Board. A fundamental part of the budget strategy is to reduce back office costs down from 23% to 15% of gross expenditure by 2019/20.
- 4.4. MOPAC officers have attended joint MOPAC/MPS budget challenge sessions to test the MPS proposals and the DMPC has overseen the progress through her regular meetings with the Commissioner and Deputy Commissioner and through the MOPAC/MPS Oversight Board.
- 4.5. The 2016/17 MOPAC/MPS revenue budget totals some £3.334bn funded as follows:

	£m	%
Central Government Police Grant	1,932	58
Specific Grants	420	13
GLA Precept	567	17
Income	269	8
Use of reserves	146	4
Total	3,334	100

- 4.6. The key point here is that the major proportion (71%) of revenue support is from specific grant funding and must be spent on police services. MOPAC/MPS continue to press the Government to recompense London fairly for the additional costs as the capital city: the current shortfall is estimated at £170m.
- 4.7. The major proportion of expenditure at £2,525m is staff related (75%), with supplies and services at £395m (12%) and premises costs at £169m (5%). In recent years MOPAC/MPS have undertaken a major estates review and disposed of significant numbers of properties including New Scotland Yard/10 Broadway to generate capital receipts to support the transformation of the service.

- 4.8. The schedules at Annex 1 set out the 2017/18 proposed budget and the forecast budgets for 2018/19, 2019/20 and 2020/21. Figures for the 2015/16 outturn and the current years 2016/17 budget are provided for comparative purposes. These schedules show both the subjective and objective analysis.
- 4.9. Annex 1 shows the analysis of changes from the 2016/17 budget explaining the reasons for the movements in budget including inflation, savings and efficiencies, use of reserves, etc.
- 4.10. Inflation factors have been applied to various budgets for 2017/18 to reflect the anticipated cost increases, including 2% for staff and PCSO pay as part of a multi-year pay agreement, 1% for police officer pay and a contingency sum for the non-pay inflation.
- 4.11. In order to maximise the limited resources available to MOPAC a continuous process of improvement to identify and deliver savings and efficiencies is in place. For 2017/18 savings and efficiencies totalling £74.8m are proposed.

5. CAPITAL BUDGET

- 5.1. Programmes within the proposed capital programme have been selected and prioritised by reference to the One Met Model (OMM)
- 5.2. The latest capital programme forecast is set out in the table below with planned investment of some £1,587.5 million over the 5 year period to 2020-21.

Portfolio	Forecast period 6 2016/17	2017/18	2018/19	2019/20	2020/21	Total
	£m	£m	£m	£m	£m	
Creating the Shared Support Services of the Future	0.3	0.5	2.0	0.0	0.0	2.8
CT Policing Change Portfolio	2.6	2.1	1.1	0.5	0.0	6.3
Strengthening our Armed Policing Capacity	7.3					7.3
Enhancing Digital Policing for 2020 - DP Transformation	28.3	25.9	13.2	10.2	10.0	87.6
Improving Public Access and First Contact	4.4	4.3	7.0	7.0	0.0	22.7
Optimising Response	10.1	10.2	40.0	60.0	28.0	148.3
Reinforcing HQ Improving Information Management	2.6	4.0	32.0	25.0	15.0	78.6
Smarter Working (Mobility, Internet Replacement)	39.0	58.1	0.6	2.0	1.2	100.9
Strengthening Local Policing (Neighbourhoods, PVP, Local Investigation and Emergency Response)	0.0	2.0	2.0	1.0	0.3	5.3
Transforming Investigation and Prosecutions	30.2	35.9	54.2	27.4	1.8	149.4
Delivering Maximum Commercial Efficiency - Fleet	18.2	26.0	33.7	21.4	19.3	118.6
Transforming the MPS Estate	89.7	126.8	213.1	182.5	96	707.6
NCTPHQ	12.5	44.2	41.6	22.3	39	159.1
Overprogramming	-6.9					-6.9
Total	238.3	340.0	440.4	359.3	209.5	1,587.5

- 5.3. The planned funding for this investment programme is shown below:

Capital Funding					
Funding	Forecast period 6 2016/17	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m	£m
Capital Receipts*	188.1	274.0	76.2	96.2	152.1
Police Capital Grant	14.3	14.3	14.3	14.3	14.3
Other	35.9	51.7	48.8	29.1	43.1
Borrowing Requirement	0.0	0.0	301.1	219.7	0.0
Total Funding	238.3	340.0	440.4	359.3	209.5

*The receipts for 20/21 reflects the receipts of £100m expected in 21/22 and 22/23 as these receipts relate to the transformation proposals.

- 5.4. On the basis of these latest forecasts, and surplus capital receipts in 2020/21 there is an estimated funding shortfall of £476 million to be met from borrowing in the later years of the programme. The exact timing of this borrowing and consequential impact on the revenue budget will depend upon the speed at which the programme is implemented and any slippage or cost variations that may emerge, and the timing and value of capital receipts. Provision has been made in the draft revenue budget for these borrowing costs.
- 5.5. Funding the investment programme is heavily dependent (51% of the total) on the use of capital receipts from the sale of land and property. We will work to ensure that our plans for estate disposal align with the Mayor's affordable housing policies, and detailed work on this is on-going between the GLA and MOPAC.
- 5.6. Each of the programmes have been reviewed and, where these have progressed sufficiently using business case information, the revenue effects of the proposed investment have been included in the draft revenue budget.
- 5.7. The funding for the existing PFI schemes is provided for within the proposed budget.
- 5.8. The MPS are carrying out a further review of this draft capital programme which contains a number of large and complex inter-dependent investments to ensure that it is capable of being delivered. MOPAC will scrutinise these MPS proposals and a revised programme will be submitted later in the budget process.
- 5.9. Interest and financing costs are minimised through the use of capital receipts, capital grants and other sources of funding in the first instance. Where borrowing is required MOPAC is a member of the GLA Shared Service for Treasury Management function which provides access to expert advice for the management of investments and borrowings.
- 5.10. Quarterly in-depth and monthly exception reporting on the capital programme form an element of the oversight and scrutiny function of MOPAC.

6. TREASURY MANAGEMENT

- 6.1. The Prudential Indicators including the annual statement of Minimum Revenue Provision is set out in Annex 2.

7. RESERVES

- 7.1. Reserves fall into 2 categories: earmarked for specific purposes, and general reserves set aside to meet unplanned or unexpected changes in net expenditure.
- 7.2. MOPAC's policy on reserves is to hold a general reserve of at least 1.5 per cent of net revenue expenditure. This is on the basis that there are appropriate accounting provisions and earmarked reserves; reasonable insurance arrangements; a well-funded budget; and effective budgetary controls in place.
- 7.3. MOPAC is forecasting general reserves of £46.6m, including the Emergency Contingency Reserve of £23.1m, as at 31 March 2017. Current proposals are that this position will be maintained at the end of 2020-21. These reserves represent in excess of 1.5 percent of the forecast outturn net revenue expenditure in 2016-17, and the 2017-18 to 2020-21 balances represent in excess of 1.5 per cent in each year respectively. This is in line with MOPAC's policy.
- 7.4. Earmarked reserves have been established by MOPAC to provide resources for specific purposes. Earmarked reserves are forecast to reduce from £132m at the end of 2016-17 to £70.6m at the end of 2017-18 and to be reduced further to £58.8m at the end of 2018-19. Further planned calls on reserves during 2019-21 reduce the forecast balance further to £44.7m by 31 March 2021. It should be noted that this is a higher level of earmarked reserves than anticipated in last year's budget proposals. This use of reserves reflects the MPS's transformation strategy and investment in new IT.
- 7.5. The Mayor's Budget guidance sets out the framework for the use of reserves and that there should be no new use of reserves in meeting the planning guidelines. Revenue reserves stand at £296m of which £46.6m is held as a general reserve. The current proposed budget includes the planned use of reserves to support the revenue budget, reducing reserves to £91.3m at March 2021.
- 7.6.

Description	Opening Balance 1.4.2016 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Remaining Balance 31.3.2021 £m
Earmarked	-249.9	117.3	62.0	11.8	8.5	5.6	-44.7
General	-46.6	0	0	0	0	0	-46.6
Total	- 296.5	117.3	62.0	11.8	8.5	5.6	-91.3

- 7.7. The use of ear-marked reserves are planned as one-off investments to support the change programme.

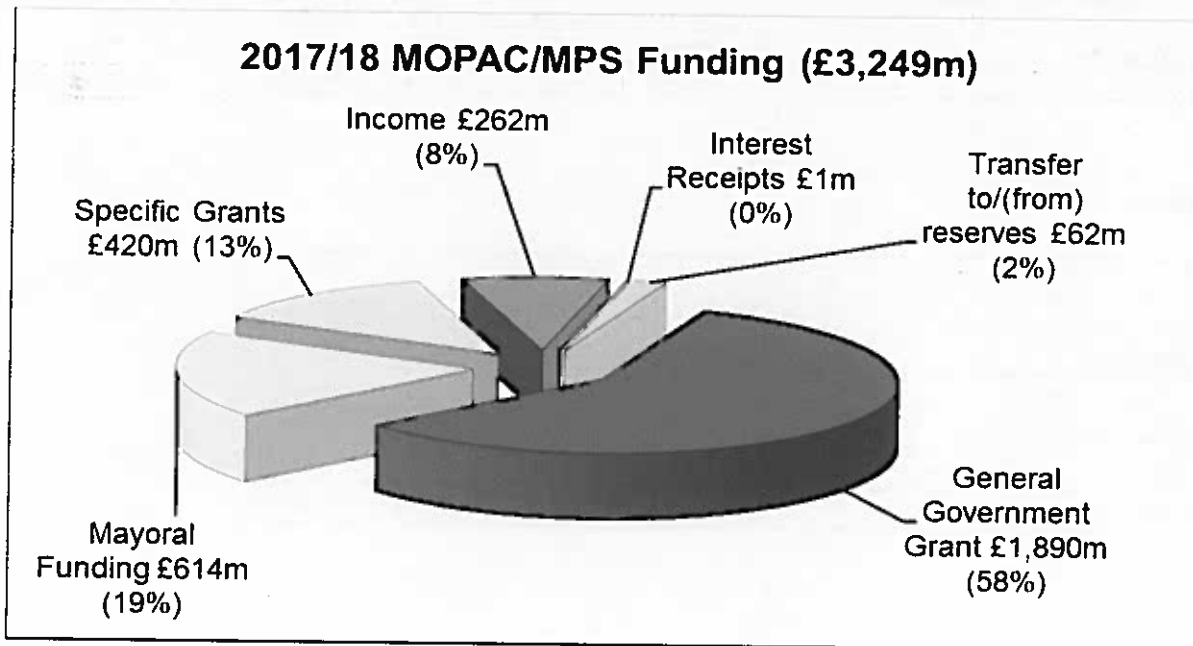
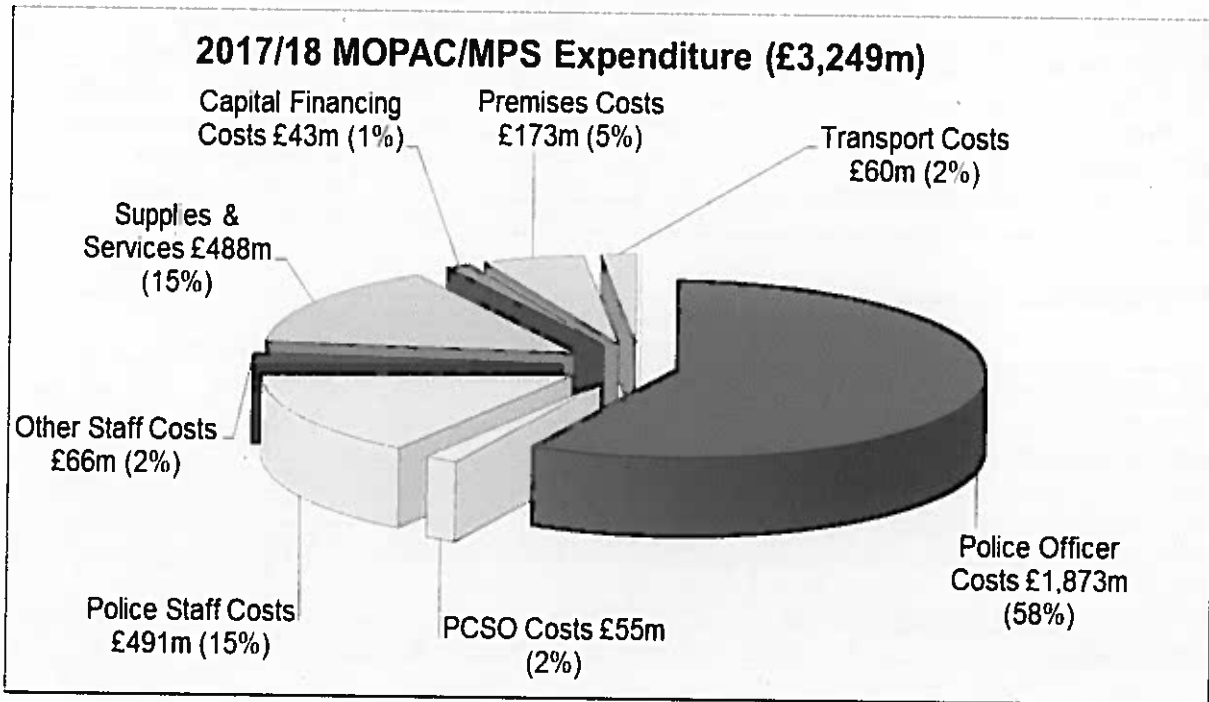
- 7.8. In the opinion of MOPAC's Interim Chief Financial Officer the proposed levels of reserves at the end of the planning period is small in the context of a revenue budget of £3.3bn. Whilst the proposed approach remains prudent and MOPAC will have in place adequate earmarked reserves and general reserves including the emergency contingency fund in the short term further work must be undertaken to ensure appropriate reserves in the medium term, in particular taking account of any impact of the review of the police funding formula.

Subjective Analysis 2015-16 to 2020-21

Outturn 2015/16 £000		Revised Budget 2016/17 £000	Forecast 2016/17 £000	Budget 2017/18 £000	Budget 2018/19 £000	Budget 2019/20 £000	Budget 2020/21 £000
	Pay						
1,756,990	Police Officer Pay	1,829,191	1,793,858	1,800,296	1,852,367	1,871,020	1,891,920
507,935	Police Staff Pay	489,045	466,797	469,348	477,130	474,958	451,058
66,616	PCSO Pay	61,062	60,474	54,363	54,819	55,279	55,879
2,331,540	Total Pay	2,379,298	2,321,129	2,324,007	2,384,316	2,401,257	2,398,857
	Overtime						
101,355	Police Officer Overtime	69,368	87,718	72,958	72,958	72,958	72,958
23,674	Police Staff Overtime	21,151	21,477	20,430	20,430	20,430	20,430
201	PCSO Overtime	288	198	288	288	288	288
125,231	Total Overtime	90,807	109,393	93,676	93,676	93,676	93,676
2,456,771	TOTAL PAY & OVERTIME	2,470,105	2,430,521	2,417,683	2,477,992	2,494,933	2,492,533
	Running Expenses						
37,740	Employee Related Expenditure	54,936	52,699	31,382	22,382	22,482	21,582
181,854	Premises Costs	169,493	171,376	173,284	172,684	183,734	131,284
61,987	Transport Costs	57,045	61,504	59,888	55,219	55,233	54,420
446,966	Supplies & Services	487,602	520,765	488,093	454,396	483,592	467,136
48,777	Capital Financing Costs	42,957	42,948	42,957	42,957	60,760	72,490
34,020	Discretionary Pension Costs	35,875	34,551	35,875	35,875	35,875	35,875
0	Expenditure Funded from Reserves						
811,344	TOTAL RUNNING EXPENSES	847,908	883,842	831,479	783,513	841,676	782,787
3,268,115	TOTAL EXPENDITURE	3,318,014	3,314,363	3,249,161	3,261,504	3,336,608	3,275,319
	Income						
-1,946	Interest Receipts	-1,300	-1,566	-1,300	-1,300	-1,300	-1,300
-275,794	Other Income	-271,997	-273,532	-262,262	-259,488	-261,688	-264,388
-387,207	Specific Grants	-429,039	-434,465	-420,143	-420,143	-420,143	-420,143
-664,946	TOTAL INCOME	-702,336	-709,564	-683,705	-680,931	-683,131	-685,831
	Unfunded pressures			0	-77,793	-166,911	-118,912
2,603,169	NET EXPENDITURE	2,615,677	2,604,800	2,565,457	2,502,781	2,486,567	2,470,577
-122,793	Transfer from reserves	-117,277	-106,400	-82,000	-11,800	-8,500	-5,600
2,480,376	NET EXPENDITURE AFTER TRANSFER TO/FROM RESERVES	2,498,400	2,498,400	2,503,457	2,490,981	2,478,067	2,464,977
-1,913,849	General Government Grant	-1,904,643	-1,904,643	-1,890,400	-1,876,224	-1,861,967	-1,847,677
-566,527	Mayoral Funding	-593,757	-593,757	-613,057	-614,757	-616,100	-617,300
-2,480,376	Funding	-2,498,400	-2,498,400	-2,503,457	-2,490,981	-2,478,067	-2,464,977

Business Group Analysis 2015-16 to 2020-21

Outturn 2015/16 £000		Revised Budget 2016/17 £000	Forecast 2016/17 £000	Budget 2017/18 £000	Budget 2018/19 £000	Budget 2019/20 £000	Budget 2020/21 £000
	Business Groups:						
1,171,155	Territorial Policing	1,137,795	1,153,703	1,134,165	1,134,165	1,134,165	1,134,165
694,224	Specialist Crime & Operations	732,561	720,569	741,989	729,289	729,974	729,974
290,667	Specialist Operations	325,841	332,266	320,043	320,043	328,061	326,089
620,366	Met HQ	591,544	617,312	560,036	515,299	513,767	413,204
2,776,412	Total Business Groups	2,787,741	2,823,851	2,756,233	2,698,796	2,705,967	2,603,432
	Corporate Budgets:						
34,020	Discretionary Pension Costs	35,875	34,551	35,875	35,875	35,875	35,875
84,652	Centrally Held	131,329	94,130	101,793	174,347	221,880	251,926
48,777	Capital Financing Costs	42,957	42,948	42,957	42,957	61,157	73,457
-1,946	Interest Receipts	-1,300	-1,566	-1,300	-1,300	-1,300	-1,300
-387,207	Specific Grants	-429,039	-434,465	-420,143	-420,143	-420,143	-420,143
0	Unfunded pressures	0	0	0	-77,793	-166,911	-118,912
-221,704	Total Corporate Budgets	-220,178	-264,403	-240,818	-248,057	-269,442	-179,097
48,461	Mayor's Office of Policing & Crime	48,115	45,352	50,042	50,042	50,042	46,242
2,603,169	Net revenue expenditure	2,615,677	2,604,799	2,565,457	2,502,781	2,486,567	2,470,577
-122,793	Transfer from reserves	-117,277	-106,400	-62,000	-11,800	-8,500	-5,600
2,480,376	Budget requirement	2,498,400	2,498,400	2,503,457	2,490,981	2,478,067	2,464,977
-1,913,849	General Grant	-1,904,643	-1,904,643	-1,890,400	-1,876,224	-1,861,967	-1,847,677
-566,527	Mayoral Funding	-593,757	-593,757	-613,057	-614,757	-616,100	-617,300
-2,480,376	Funding	-2,498,400	-2,498,400	-2,503,457	-2,490,981	-2,478,067	-2,464,977



Existing revised savings/efficiencies

Description	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s	Category
IT Digital Policing		-13,000	-21,000	-38,000	Procurement
Property		-5,000	-5,000	-64,000	Service Transformation
Overtime	6,100	6,100	6,100	6,100	Service Transformation
Other Back Office	-11,400	-19,000	-24,000	-24,000	Procurement
Other Front/Middle Office (including MiPs)	-12,000	-12,700	-12,500	-38,000	Commercialisation
Total	-17,300	-43,600	-56,400	-157,900	

New Efficiencies

	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s	Category
Changing workforce profile - officers	-10,000	-10,000	-10,000	-10,000	Other
Changing workforce profile - PCSOs	-4,000	-4,000	-4,000	-4,000	Other
Forensic Services (digital evidence)	-1,852	-2,085			Other
Mobility	-1,650	-3,400	-3,400	-3,400	Service Transformation
Amended use of Change funding	-2,000	0	0	0	Other
Total	-19,502	-19,485	-17,400	-17,400	
Recognition of current police officer numbers	-38,000				Other
Revised total	-57,502	-19,485	-17,400	-17,400	

Grant Changes

	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Grant	14,243	28,419	42,976	56,966
Specific grants	8,896	8,896	8,896	8,896
	23,139	37,315	51,872	65,862

Growth

Category	2017/18 (£000)	2018/19 (£000)	2019/20 (£000)	2020/21 (£000)
Support Capability	11,500	16,000	34,700	46,900
Operational Capability	17,800	7,400	7,000	7,000
Supporting transformation	12,600	23,900	23,600	23,600
Grand Total	41,900	47,300	65,300	77,500

Analysis of Change in Council Tax Requirement

Council Tax 2016/17	-566.7
Reduction in Government Grants	23.1
Additional Mayoral Funding	-17.4
Reduction in use of Reserves	55.2
Inflation	25.3
New Initiatives and net change in existing services	-13.3
Efficiencies	-74.8
Council Tax 2017/18	-568.6

The Mayor has yet to confirm the source of the proposed Additional Mayoral Funding which he has consulted MOPAC on.

Prudential Indicators for the Mayor's Office for Policing and Crime (MOPAC)

Including the Annual Statement of Minimum Revenue Provision

The following is subject to the further MPS review and MOPAC oversight of the capital programme.

It is recognised that the underlying demand for capital investment cannot always be fully satisfied by grant, capital receipts or revenue contributions due to present financial restraints. These Prudential Indicators have been calculated on the basis of the level of funding shown as available to support capital expenditure for the period 2017/18 to 2020/21.

The capital programme has been prepared on the understanding that it is supported by capital receipts from the disposal of land and properties. The Mayor's Office for Policing and Crime (MOPAC) implements the consolidation of its accommodation, primarily through the Corporate Real Estate Programme. Decisions will be taken as to how these receipts should be used; whether for further investment, or to repay, or negate the need for borrowing to finance capital expenditure. It is to be recognised that the receipts value is subject to the vagaries of the property market.

The affordability of the capital programme in terms of its impact on the MTFP will be closely monitored. Investment needs will be kept under review to align the longer-term plans of the MOPAC to available resources. The prudential indicators will be adjusted in light of any changes made.

Long-term liabilities include (a) Private Finance Initiative schemes; and (b) assets subject to finance leases. These items have been brought onto the balance sheet in accordance with technical accounting changes necessitated by compliance with International Financial Reporting Standards (IFRS).

Annual Statement of Minimum Revenue Provision

For 2017/18 the MOPAC will make a minimum revenue provision (MRP) in accordance with:-

(a) the capital financing requirement method for any borrowing undertaken prior to 2008/09, and for all borrowing undertaken since that date supported through the revenue grant settlement, and

(b) the asset life method for unsupported borrowing undertaken in 2008/09 and subsequent years as permitted by the flexibilities provided under the Prudential Code.

In accordance with The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting 2016/17, MRP in respect of (a) Private Finance Initiative schemes; and (b) assets subject to finance leases, both of which are now recorded as long term liabilities, is made by recognition of an element of the annual unitary charge as repayment of principal.

Affordability Indicators

1. Estimate of financing costs compared to net revenue stream.

2016/17	2017/18	2018/19	2019/20	2020/21
Estimate	Estimate	Estimate	Estimate	Estimate
1.72%	1.72%	1.72%	2.45%	2.94%

This indicator compares the total principal and net interest payments on external debt to the overall revenue spending of the authority. The MOPAC's external borrowing is considered low compared to other local authorities but this indicator is still important because the level of debt could be required to increase significantly and it is crucial to understand the affordability, prudence and sustainability of our borrowing policy. There has been a history of financing capital investment by utilising internal resources i.e. using cash balances to negate the need to go to the financial market and take out external loans. This practice is known as 'internal borrowing'.

2. Estimated incremental impact of capital investment decisions on the council tax precept by the GLA.

	2016/17	2017/18	2018/19	2019/20	2020/21
	Estimate	Estimate	Estimate	Estimate	Estimate
Previously Approved Base	£1.48	£1.44	£4.32		
Incremental Impact	-£0.15	-£0.25	£4.10	£6.24	£2.14

This indicator shows the actual impact of capital investment decisions on the Council Tax precept by the GLA. The indicator is calculated by comparing the cost of the capital programme including proposed increased investment, against the cost of the capital programme assuming no change to the previously approved programme. The council tax cost reflects (a) debt charges on Prudential borrowing; and (b) loss of interest on capital receipts used to finance new investment.

Prudence Indicator

3. Net borrowing and the capital financing requirement.

CIPFA's Prudential Code includes the following as a key indicator of prudence:

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the authority should ensure that net external borrowing does not, except in the short term, exceed the total of Capital Financing Requirement in the preceding year plus the estimates of any additional Capital Financing requirement for the current and next two financial years"

MOPAC has adopted the CIPFA Code of Practice for Treasury Management in Public Services.

Capital Expenditure Indicators

4. Capital Expenditure

2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Actual	Estimate	Estimate	Estimate	Estimate	Estimate
£000	£000	£000	£000	£000	£000
237,594	238,287	340,000	440,400	359,305	209,505

This indicator states the total capital spend covering all capital expenditure, not just that financed by borrowing. These figures include assumptions of expenditure to be incurred on projects, which are expected to be funded from specific grants provided by central Government.

5. Capital financing requirement (at end of financial year)

2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Actual	Estimate	Estimate	Estimate	Estimate	Estimate
£000	£000	£000	£000	£000	£000
647,933	620,302	593,738	869,777	1,049,544	1,055,070

The capital financing requirement as shown above measures the MOPAC's underlying need to borrow for a capital investment purpose. It also takes account of the principal sum noted as outstanding in respect of long term liabilities relating to PFI arrangements and assets subject to finance leases. The MOPAC chooses not to have a direct association between borrowing and particular items or types of expenditure. The MOPAC has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The MOPAC has at any point in time a number of cashflows (both positive and negative) and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy. In day-to-day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the MOPAC and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to borrow for a capital investment purpose.

External Debt Indicators

6. Authorised Limit for External Debt

	2016/17	2016/17	2017/18	2018/19	2019/20	2020/21
	Original	Revised	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000	£000
Borrowing	501,076	501,076	484,616	759,258	952,423	981,088
Long Term Liabilities	77,945	77,945	74,064	71,226	66,212	60,428
PFI	5,364	5,364	5,184	4,986	4,767	4,526
Fin Leases						
Total	584,385	584,385	563,864	835,470	1,023,402	1,046,042

This is the maximum amount that the MOPAC allows itself to borrow in each year. The Treasurer reports that these authorised limits are consistent with the MOPAC's current commitments, existing plans and the proposals in the budget report for capital expenditure and financing. They are also consistent with the MOPAC's approved treasury management policy statement and practices. They are based on the estimate of the most prudent but not worst-case scenario, with sufficient flexibility over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure and estimates of cashflow requirements.

The above figures reflect the understanding that from 2018/19 onwards the borrowing needs of the MOPAC will be matched by the negotiation of external loans. Figures are calculated on a cumulative basis taking account of PWLB repayment schedules.

7. Operational Boundary for External Debt.

	2016/17	2016/17	2017/18	2018/19	2019/20	2020/21
	Original	Revised	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000	£000
Borrowing	376,076	376,076	359,616	634,258	827,423	856,088

Long Term Liabilities	77,945	77,945	74,064	71,226	66,212	60,428
PFI	5,364	5,364	5,184	4,986	4,767	4,526
Fin Leases						
Total	459,385	459,385	438,864	710,470	898,402	921,042

The proposed Operational Boundary for external debt is based on the same estimates as the Authorised Limit but reflects directly the estimate of the most prudent, but not worst case scenario, without the additional headroom included within the Authorised Limit to allow for example for unusual cash movements and equates to the maximum of external debt projected by this estimate.

The concluding paragraph as noted above for the authorised limit for external debt also applies in respect of the operational boundary for external debt.

8. Actual External Debt (at start of financial year 2016/17)

Actual External Borrowing
1 April 2016 Actual £000
Long Term - 159,464
Short Term - 16,457
Total - 175,921
Long Term Liabilities
1 April 2016 Actual £000
PFI Arrangements - 82,248
Finance Lease Arrangements - 5,527
Total - 87,775

Total Actual External Debt - £263,696
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Treasury Management Indicators

The MOPAC has its own Treasury Management Strategy and the Treasury Management Indicators are approved at the beginning of each financial year as part of the Treasury Management Strategy.

Equalities Impact Assessment

The potential equality implications of the budget are included in the equality impact assessment of the draft Police and Crime Plan which is out for consultation.