

Appendix A

2011/12 Revenue Budget - Summary Financial Position

	2011/12 £m	2012/13 £m	2013/14 £m
Funding Assumptions * ¹	2,697.2	2,580.6	2,643.4
Net Revenue Expenditure * ¹	2,881.6	2,893.7	3,051.0
Budget Gap	184.4	313.1	407.6
Growth	38.6	51.8	56.0
Reductions:			
Corporate Issues	-44.8	-77.5	-106.2
Service Improvement	-85.7	-153.5	-183.9
Supports Services	-23.7	-16.4	-17.5
Operational Services	-31.1	-31.3	-34.6
MPA	-0.6	-0.6	-0.6
Total Reductions	-185.9	-279.3	-342.8
Budget Resilience	27.9	25.4	25.4
Budget Gap as per submission to the Mayor	65.0	111.0	146.2
Provisional Settlement Announcement			
Further reduction in General Grant	26.1	45.2	69.3
Revised Budget Gap following Provisional Settlement Announcement	91.1	156.2	215.5
Mayor's Draft Consultation Budget			
Additional Precept	-30.0	-30.0	-30.0
Revised Budget Gap following Mayor's Draft Consultation Budget	61.1	126.2	185.5

Notes:

*1. The funding assumptions for 2011/12 (including the police precept) prior to the police funding announcement was £2,594.6m, the announcement outlined that certain specific grants were being moved into the General Police Grant (Crime Fighting Fund - £73m, Rule 2 Grant - £54.7m, less a £5m reduction for these two grants which had already been accounted for and the Basic Command Unit (BCU) Fund - £7.9m). These changes combined with £28m in-year reductions for 2010/11 now treated as a permanent reduction, increased the total General Police Grant and increased Net Revenue Expenditure by £102.6m. The additional £30m precept and the further reduction in General Grant £26.1m increased the total funding assumption to £2,701.1m.

2. This analysis makes no allowance for changes in specific grant and third party income. The current planning assumption is that reductions on income will be matched by reductions in expenditure. If expenditure cannot be reduced as quickly as income the budget gap will increase.

Appendix B

	2011/12	2012/13	2013/14
	£m	£m	£m
Current Budget Gap (Mayor's Draft Consultation Budget)	61.1	126.2	185.5
Proposals for reducing the gap:			
1. Reduce the General Reserve balance (including Emergency Contingency Fund) to 2% of 2010/11 Net Revenue Expenditure (NRE) and realise the resource over two years.	-8.0	-7.0	
2. Further reduce the General Reserve balance to 1.5% of NRE and realise the resource over three years.	-5.0	-4.0	-4.0
3. Plan to achieve £11m Revenue Budget underspend in 2010/11 and realise the resource over two years.	-6.0	-5.0	
4. Reduction of expenditure in line with loss of BCU fund.	-8.0	-8.0	-8.0
5. Additional saving on PCSO reductions already built into budget.	-2.0	-6.5	-8.3
6. Removal of DSP core funding built into 2011/12 as part of 2010-13 budget process. (Expenditure to be contained within SO budget)	-4.0	-4.0	-4.0
7. Replace an assumed £20m of revenue contribution to capital (RCCO) in 2010/11 with additional external borrowing to fund capital expenditure in 2011/12.	-15.0	-5.0	
8. Additional MPA savings (inc use of reserves)	-0.4		
9. Reduction budget resilience	-2.8		
Potential Revised Gap	9.9	86.7	161.2
Additional cost pressures:			
10. Additional capital financing costs linked to point 6 above.	1.0	2.1	2.1
11. Additional amounts required to be paid to the National Police Improvement Agency (NPIA) *	1.0	8.0	15.0
Revised Gap	11.9	96.8	178.3

*Note The actual cost pressure is £1.4m in 2011/12, however £0.4m will be contained within the existing base budget

DRAFT

Letter from MPA to Mayor

Dear Boris

MPA Response to the GLA Group Budget Proposals and Precepts 2011-12 Consultation Document

Thank you for your letter dated 22 December 2010 setting out your draft consolidated budget for 2011/12.

Officers from the MPA, MPS and GLA have worked closely together in helping you develop your proposals for 2011/12 in a period of considerable uncertainty on funding. The Authority and Service recognise your continuing commitment to support policing in what are undoubtedly difficult financial times. This is particularly noticeable in the additional £30m you have identified for policing within your overall financial strategy of no precept increase for the GLA group as a whole.

After the additional precept support your proposals still identify £61.1m savings to be made by the MPA/MPS over and above the £157.9m savings already built into the draft policing budget.

Given the uncertainties still facing the Service the 2011-14 budget and business plan is still work in progress. However, the MPA/MPS has considered a number of options for reducing the core budget gap of £61.1m. These options are set out in the attached report and were considered and approved by the MPA Full Authority on 27 January 2011.

As you can see by a combination of prudent funding proposals and further reductions the proposals would reduce the gap to £11.9m in 2011/12 rising to £96.8m in 2012/13 and £178.3m in 2013/14.

The Service has a good record of achieving savings and we continue to work with it on closing this gap. Albeit that, given the level of reductions, planned for 2011/12 and the need, as far as is practically possible, to maintain a stable platform for delivering security for the Olympics, it will be difficult to identify further significant reductions for delivery next year.

Whilst the proposals will help us manage MPA/MPS finances over the next three years we recognise the need to identify and deliver permanent reductions as quickly as possible. You can be assured that the MPA/MPS are actively engaged in this process.

In developing your draft budget for consideration by the London Assembly we would recommend you incorporate the proposals set out in the attached report and recognise the work being carried out to close the budget gap.

The MPA/MPS remain committed to working with you to ensure that we do all that we can to maintain operational capability. The additional freedom given to London on PCSO funding also provides an opportunity to look at options to increase our

operational police officer resilience and, whilst remaining committed to the basic Safer Neighbourhood model, we are proposing that 537 operational police officer posts be deployed from the release of funds from the deletion of PCSO and traffic warden posts. This will provide additional police officer resilience on partnership and other operational priorities, in particular on transport services and in schools.

Operational police officer resilience is also being improved with the expanded programme of Special Constable recruitment. We have this year passed the 4,000 mark and remain on target to deliver 6,667 Special Constables by March 2012.

Officer numbers may, of course, also be affected by decisions yet to be made by government on specific grant and by partners on third party income as well as final decisions on precept income.

Our officers will continue to work with your officers in developing the 2011-14 budget but the analysis provided will inevitably change over the coming months as more information on funding becomes available and our proposals are developed.

Yours sincerely

Catherine Crawford
Chief Executive

Information for Mayor's Final Draft Consolidated Budget for 2011/12

1. Budget requirement 2010/11 to budget requirement 2011/12

Changes in the Police Authority's spending plans	2011/12 £m
2010/11 Budget requirement	2,673.3
<i>Changes due to:</i>	
Changes to General Grant	135.6
Inflation	56.5
Net reductions in existing services and programmes	-5.5
New initiatives and service improvements	71.3
Savings and efficiencies	-162.9
Increases in specific grants	-24.7
Transfers from reserves	-30.6
Savings to be identified	-11.9
2011/12 Budget requirement	2,701.1

2. Service Analysis

Revenue budget - summary by service

Outturn 2009/10 £000		Original Budget 2010/11 £000	Revised Budget 2010/11 £000	Forecast 2010/11 £000	Budget 2011/12 £000	Budget 2012/13 £000	Budget 2013/14 £000
	Business Groups:						
1,543,758	Territorial Policing	1,493,353	1,516,753	1,517,199	1,461,049	1,429,877	1,414,377
419,215	Specialist Crime Directorate	428,142	423,883	428,220	436,469	432,069	428,774
269,362	Specialist Operations	282,645	285,107	282,569	283,116	282,794	282,694
217,718	Central Operations	221,216	216,193	221,275	220,527	220,934	220,975
8,621	Olympics	34,541	26,807	24,132	59,489	183,354	0
255,395	Directorate of Resources	266,424	263,103	263,259	240,057	232,969	231,400
231,297	Directorate of Information	226,750	227,026	229,149	205,662	190,028	186,780
169,813	Human Resources	158,240	155,833	153,835	125,348	103,018	96,336
6,359	Directorate of Public Affairs	6,932	7,258	7,206	6,733	6,662	6,662
57,652	Deputy Commissioner's Portfolio	58,745	57,789	57,660	53,927	55,801	55,801
3,179,190	Total Business Groups	3,176,988	3,179,752	3,184,504	3,092,377	3,137,506	2,923,799
	Corporate Budgets:						
0	Discretionary Pension Costs	0	0	0	0	0	0
33,046	Centrally Held	30,125	33,125	33,125	33,125	33,125	33,125
-4,325	Capital Financing Costs	48,978	16,145	6,976	88,517	92,660	117,708
21,410	Interest Receipts	23,700	23,700	26,615	38,624	48,674	55,941
-842	Specific Grants	-800	-800	-950	-800	-800	-800
-591,314	Savings to be identified	-614,727	-586,761	-582,721	-516,779	-640,609	-355,955
0		0	0	0	-11,909	-96,755	-178,317
-542,025	Total Corporate Budgets	-512,724	-514,591	-516,955	-369,222	-563,705	-328,298
13,549	Metropolitan Police Authority	13,265	13,375	12,387	12,719	12,919	12,919
2,650,714	Net revenue expenditure	2,677,529	2,678,536	2,679,936	2,735,874	2,586,720	2,608,420
-16,108	Transfer from reserves	-4,229	-5,236	-17,636	-34,774	-21,320	-4,320
5,694	Transfer to reserves	0	0	11,000	0	0	0
2,640,300	Budget requirement	2,673,300	2,673,300	2,673,300	2,701,100	2,565,400	2,604,100
-2,640,300	Funding	-2,673,300	-2,673,300	-2,673,300	-2,701,100	-2,565,400	-2,604,100

3. Reserves

	01/04/10 £m	Balances in 2010/11 £m	Balances at 31/03/11 £m	Reserves at 31/03/12 £m	Reserves at 31/03/13 £m	Reserves at 31/03/14 £m
General reserves	47.4	0.0	47.4	34.4	23.4	19.4
Emergency Contingencies Fund	23.1	0.0	23.1	23.1	23.1	23.1
	70.5	0.0	70.5	57.5	46.5	42.5
Earmarked reserves	127.4	-45.1	82.3	60.5	50.2	49.9
Budget Pressures ¹	51.2	-12.4	38.8	38.8	38.8	38.8
Total	249.1	-57.5	191.6	156.8	135.5	131.2

Notes:

1 The budget pressures reserve shown above has been set up to help facilitate the shrinking of the organisation. An amount of £12.4m is forecast to be drawn-down in 2010/11 to fund costs of voluntary redundancy. Whilst it is not yet reflected in the figures above, it is expected that the remaining £38.8m will be drawn-down over the three years of the plan.

2. The use of balances in 2010/11 include a £11m transfer to reserves from a £11m underspend on revenue budgets. This reserve will be drawn down by £6m in 2011/12 and £5m in 2012/13.

3. Building on the initial five groups, HR is working closely with the Business Groups and SIP Change Leads to identify the next set of groups for early departure. This process is will be undertaken in consultation with the Trade Unions. The terms offered will be in accordance with the new Civil Service Compensation Scheme launched by the Cabinet Office in December 2010. A paper with detailed costs will be presented to the MPA Finance and Resources Committee on 17 February.

4. Subjective analysis

Revenue budget - summary by expenditure type:

Outturn 2009/10 £000		Original Budget 2010/11 £000	Revised Budget 2010/11 £000	Forecast 2010/11 £000	Budget 2011/12 £000	Budget 2012/13 £000	Budget 2013/14 £000
	Pay						
1,833,760	Police Officer Pay	1,884,095	1,852,901	1,843,285	1,884,750	1,878,412	1,839,627
597,206	Police Staff Pay	613,508	625,315	614,546	603,554	565,943	547,078
154,115	PCSO Pay	159,669	154,418	154,450	131,711	126,221	124,421
9,344	Traffic Wardens' Pay	7,942	8,765	8,775	309	308	308
2,594,425	Total Pay	2,665,214	2,641,399	2,621,056	2,620,324	2,570,884	2,511,434
	Overtime						
129,902	Police Officer Overtime	114,312	107,993	111,285	101,809	134,822	99,600
33,884	Police Staff Overtime	30,767	29,550	28,839	29,297	28,906	28,564
1,522	PCSO Overtime	1,593	1,371	1,079	1,763	1,763	1,763
488	Traffic Wardens' Overtime	318	333	312	63	63	63
165,796	Total Overtime	146,990	139,247	141,515	132,932	165,554	129,990
2,760,221	TOTAL PAY & OVERTIME	2,812,204	2,780,646	2,762,571	2,753,256	2,736,438	2,641,424
	Running Expenses						
34,221	Employee Related Expenditure	33,886	33,416	45,789	36,376	35,956	27,327
229,283	Premises Costs	234,155	233,239	237,354	215,112	243,876	208,060
71,092	Transport Costs	67,429	66,893	66,899	63,709	101,726	63,076
449,409	Supplies & Services	418,294	416,342	406,414	432,066	431,525	420,478
21,410	Capital Financing Costs	23,700	23,700	26,615	38,624	48,674	55,941
805,415	TOTAL RUNNING EXPENSES	777,464	773,590	783,071	785,887	861,757	774,882
3,565,636	TOTAL EXPENDITURE	3,589,668	3,554,236	3,545,642	3,539,143	3,598,195	3,416,306
	Income						
-842	Interest Receipts	-800	-800	-950	-800	-800	-800
-355,812	Other Income	-326,737	-321,264	-315,160	-306,906	-306,436	-305,939
-591,314	Specific Grants	-614,727	-586,761	-582,721	-516,779	-640,609	-355,955
-947,968	TOTAL INCOME	-942,264	-908,825	-898,831	-824,485	-947,845	-662,694
	Discretionary Pension Costs						
33,046	Discretionary Pension Costs	30,125	33,125	33,125	33,125	33,125	33,125
33,046	TOTAL DISCRETIONARY PENSION COSTS	30,125	33,125	33,125	33,125	33,125	33,125
	Savings to be identified				-11,909	-96,755	-178,317
2,650,714	NET EXPENDITURE	2,677,529	2,678,536	2,679,936	2,735,874	2,586,720	2,608,420
-16,108	Transfer from reserves	-4,229	-5,236	-17,636	-34,774	-21,320	-4,320
5,694	Transfer to reserves	0	0	11,000	0	0	0
2,640,300	Budget Requirement	2,673,300	2,673,300	2,673,300	2,701,100	2,565,400	2,604,100

Outturn 2009/10	Staffing Requirements (numbers of staff)	Original Budget 2010/11	Revised Budget 2010/11	Budget 2011/12	Budget 2012/13	Budget 2013/14
32,785	Police Officers	32,827	32,827	32,510	31,913	31,800
475	Recruits	264	264	0	0	0
33,260	Total Police Officers (including Recruits)	33,091	33,091	32,510	31,913	31,800
14,427	Police Staff	14,986	15,178	14,774	14,201	14,132
4,607	PCSOs	4,639	4,639	3,849	3,749	3,749
247	Traffic Wardens	218	218	8	8	8
52,541	Total Staffing Requirements	52,934	53,126	51,141	49,871	49,689
3,125	MSC	5,330	5,000	6,667	6,667	6,667
55,666	Total	58,264	58,126	57,808	56,538	56,356

5. Changes in existing services and programmes

Committed changes	2011/12	2012/13	2013/14
	£m	£m	£m
Total net committed changes	-5.5	74.0	-36.0

6. New initiatives

New Initiatives	2011/12	2012/13	2013/14
	£m	£m	£m
Operational Initiatives			
SCD - Telephone Investigation Unit (price increases), 24/7 operation in Operational Support Unit & covert running costs	1.7	1.8	1.7
SCD - Sapphire (additional officers)	1.2	1.2	1.2
SO - Loss of Overhead Income	1.0	1.0	1.0
TP - Implementing Child Sex Offender Disclosure Process, TP Development, Virtual Courts, Criminal Justice, Anti Gang etc	7.0	7.8	5.7
CO - Reduction in cost recovery from sporting events	2.6	1.6	1.6
CO - ACCO support costs, additional mounted branch costs etc	0.2	0.2	0.2
CH - Extreme Threats Group	0.2	0.4	0.4
CH - National Police Intelligence Agency	1.0	8.0	15.0
Total - Operational Initiatives	14.9	22.0	26.8
ICT Support Systems			
HR - Transforming Human Resources (Oracle support costs)	0.2	0.2	0.2
Projects into Service - PINS	14.1	21.5	25.5
Total - ICT Support Systems	14.3	21.7	25.7
Other			
Discretionary Pension Costs	2.0	1.0	1.0
DoI - Airwave usage cost pressure	1.0	1.0	1.0
DoR - Carbon Credit scheme	1.5	1.5	1.5
HR - Uniform storage	1.0	0.8	0.8
DoR - Capital Financing Costs	1.0	2.1	2.1
Total - Other	6.5	6.4	6.4
Total New Initiatives	35.7	50.1	58.9

7. Savings and efficiencies

Savings and Efficiencies	2011/12	2012/13	2013/14
	£m	£m	£m
Corporate Issues			
Officer and staff pay freeze for two years	-14.6	-38.9	-63.6
Withdrawal of Special Priority Payments to Officers	-16.2	-16.2	-16.2
Review of Police Staff Terms and Conditions	-10.0	-18.3	-22.3
ATOC agreement - tax passed onto officers	-4.0	-4.1	-4.1
Service Improvement			
Recruitment model modernisation	-8.2	-10.6	-10.6
Rationalisation of property estate	-8.5	-17.8	-23.8
Property Services modernisation and contract rationalisation	-9.5	-9.5	-11.5
Catering modernisation	-5.2	-7.3	-11.1
Training modernisation	-9.4	-21.3	-21.3
Transport rationalisation	-5.0	-5.0	-5.0
ICT efficiencies and contract rationalisation	-13.1	-23.9	-26.2
F & R modernisation and contract efficiencies	-0.9	-1.3	-1.4
Other strategic procurement	0.3	-13.7	-14.3
Asset tracking	0.0	0.0	-1.0
Territorial Policing development programme	-26.2	-43.1	-54.8
Support Services			
Resources Directorate	-8.2	-5.5	-5.4
HR Directorate	-0.9	-0.9	-0.9
Directorate of Information	-11.4	-8.8	-10.0
Deputy Commissioner Portfolio	-2.0	0.0	0.0
Directorate of Public Affairs	-0.2	-0.2	-0.2
Specialist Crime	-1.0	-1.0	-1.0
Operational Services			
Deputy Commissioner Portfolio	-3.5	-3.5	-3.5
Specialist Operations	-1.8	1.3	1.2
Central Operations	-1.3	-1.5	-1.5
Specialist Crime	-7.6	-10.0	-13.2
Territorial Policing	-18.9	-24.1	-25.9
MPA reductions			
	-0.8	-0.6	-0.6
Budget Resilience			
	25.1	25.4	25.4
Total savings and efficiencies	-163.0	-260.4	-322.8

5 (i) PROPOSED CORPORATE INDICATORS 2011/12

PORTFOLIO OF MEASURES TO FACILITATE FLEXIBLE APPROACH TO DELIVERY

Safety

	Indicator	Target 2011/12
	<u>KPI 1 VIOLENCE</u>	
	THE NUMBER OF VIOLENT CRIMES (INCLUDING ALL VICTIM BASED CRIME TYPES)	
	<u>KPI 2 PROPERTY CRIME</u>	
	THE NUMBER OF PROPERTY CRIMES (INCLUDING ROBBERY)	
	<u>KPI 3 ANTI SOCIAL BEHAVIOUR</u>	
	THE NUMBER OF ANTI-SOCIAL BEHAVIOUR INCIDENTS	

Confidence

	Indicator	Target 2011/12
	<u>KPI 4 LOCAL POLICE DOING A GOOD JOB</u>	
	PERCENTAGE OF PEOPLE WHO THINK THE POLICE IN THEIR AREA ARE DOING A GOOD JOB	
	<u>KPI 5 USER SATISFACTION</u>	
	PERCENTAGE OF VICTIMS SATISFIED WITH THE OVERALL SERVICE PROVIDED BY THE POLICE AND OF THESE THE PERCENTAGE OF I) WHITE USERS AND II) USERS FROM MINORITY ETHNIC GROUPS	

Olympics

	Indicator	Target 2011/12
	<u>KPI 6 DELIVERING A SAFE AND SECURE OLYMPICS</u>	
	LONDON 2012 OLYMPIC AND PARALYMPIC GAMES - OLYMPIC SAFETY AND SECURITY PROGRAMME STATUS (RED, AMBER, GREEN)	

Value for Money

	Indicator	Target 2011/12
	<u>KPI 7 EFFICIENT USE OF OUR ASSETS</u>	
	DELIVER A BALANCED BUDGET FOR 2011/12 AS SET OUT IN THE POLICING PLAN 2011-14	

5 (ii) CRIMES THAT COULD COMPRISE EACH OF THE KPI PORTFOLIOS IN 5 (i)

KPI 1 Violence - The number of violent crimes (including all victim based crime types)

Possible crime types to include:

- Violence with Injury
(mainly comprises Most Serious Violence (MSV) and Assault With Injury (AWI))
- Common assault
(minor code within Violence against the Person (VAP))
- Harassment (minor code within VAP)
- Other violence (remainder - part is included in VWI)
- Rape / serious sexual offences
- Other sexual offences
- Other weapon enabled crimes
(within gun crime / knife crime definitions not included above. Note: this would include some offences such as weapon enabled robbery that are also included in property crime)
- Flagged hate crime / domestic violence offences
(again this would include some offences that are included within property crime)

Note: robbery is considered a violent crime - however overall robbery is not shown in the list above as it has been included in the property crime grouping

KPI 2 Property crime - The number of property crimes (including robbery)

Possible crime types to include:

- Personal robbery
 - Business robbery
 - Residential burglary
 - Non-residential burglary
 - Theft of Motor Vehicle
 - Theft from Motor Vehicle
 - Motor Vehicle interference and tampering
 - Thefts from shops
 - Theft from Person (Snatches and Pick pocketing)
 - Theft of pedal cycles
 - Other theft
 - Criminal damage: Dwelling; Other building; Motor Vehicle; Other
-

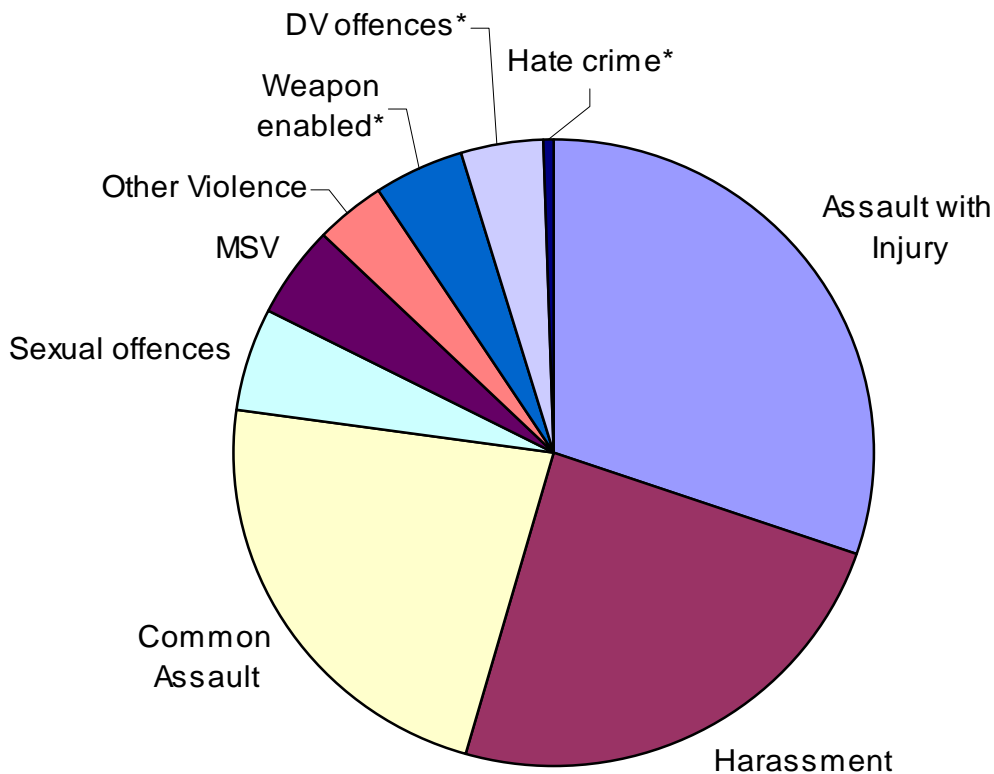
KPI 3 Anti-Social Behaviour - The number of anti-social behaviour Incidents as recorded on CAD:

- Vehicle - Abandoned Not Stolen
 - Vehicle Nuisance / Inappropriate Use
 - Rowdy Or Inconsiderate Behaviour
 - Hoax Call To Emergency Services
 - Rowdy / Nuisance Neighbours
 - Littering / Drugs Paraphernalia
 - Animal Problems
 - Trespass
 - Malicious / Nuisance Communications
 - Street Drinking
 - Prostitution Related Activity
 - Noise
 - Begging / Vagrancy
 - Fireworks
 - Criminal damage: Dwelling; Other building; Motor Vehicle; Other
-

5 (iii) RELATIVE PROPORTIONS OF POSSIBLE CRIME TYPES FOR INCLUSION IN THE VIOLENCE AND PROPERTY PORTFOLIO KPIS

KPI 1 Violence: The relative proportion of each crime type is shown in the following chart (ie indicating that, if all were included, around three quarters of the total would come from assault with injury, harassment and common assault).

Relative proportions of possible crime types within proposed Violence KPI

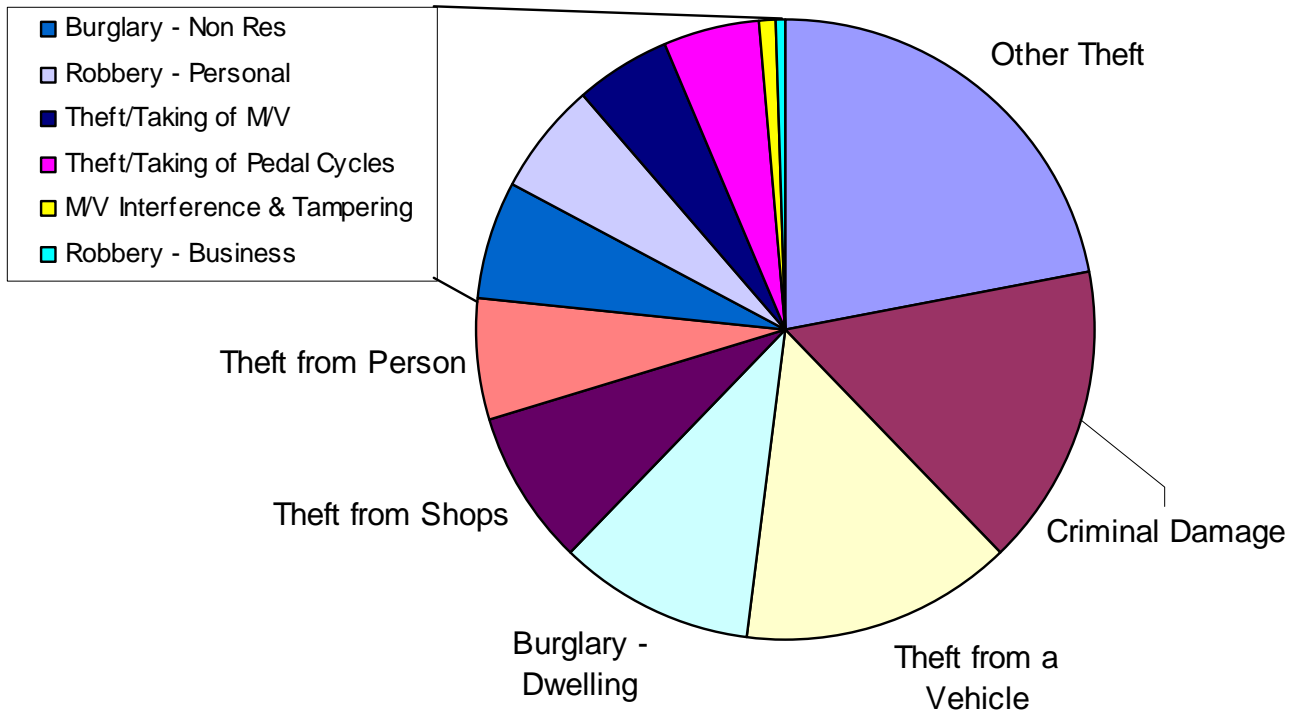


* Above chart shows domestic violence offences, hate crime¹ and weapon enabled crime² that is not included within the other violence groupings shown (eg gun/knife robberies, criminal damage flagged as DV / hate crime etc).

¹ Racist and religious offences; homophobic offences
² Gun crime and knife crime (within APACS crime category definition)
 Proportions based on FYTD (Apr - Nov 2010)

KPI 2 Property crime: Again, relative proportion of each crime type is shown in the following chart (that is, indicating that, if all were included, around half of the total would come from “other theft**”, criminal damage, or theft from MV):

Relative proportions of possible crime types within proposed Property KPI



** Other theft takes up nearly a quarter of the property crime types, but would take time to analyse further, as around 90% is classified as “Theft not classified elsewhere”.

MPA Treasurer's Statement on the Robustness of the Estimates and the Adequacy of the Proposed Financial Reserves

Reserves and Robustness of the Estimates

Background

1. Police authorities decide every year how much their overall budget requirement is. They base these decisions on a budget that sets out estimates of what they plan to spend on their policing services.
2. The decision on the budget requirement is taken before the year begins and it cannot be changed during the year, so allowance for risks and uncertainties that might increase police service expenditure above that planned, must be made by:
 - a) Making prudent allowance in the estimates for all of the requirements of the MPA/MPS, including all its business groups; and in addition,
 - b) Ensuring that there are adequate reserves to draw on if the estimates turn out to be insufficient.
3. Section 25 of the Local Government Act 2003 requires that an authority's chief financial officer reports to the authority when it is considering its budget. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so that Members will have authoritative advice available to them when they make their decisions.
4. Section 25 also requires members to have regard to the report in making their decisions.

Robustness of the estimates

Reliability/Accuracy

5. The budget process has involved Members, the Commissioner and his staff and my own staff in a thorough examination of the budget now recommended to the Authority. The estimates have been put together by, or with the involvement of, qualified finance staff and directed and reviewed by the MPS Director of Resources and her Corporate Finance section.

Scrutiny

6. Budget proposals have been through a rigorous scrutiny within the MPS, including the Management Board. The Chair of the Authority and I have both received regular briefings from the Director of Resources throughout the construction of the budget. Budget scrutiny meetings have been held by the MPA with all MPS business groups and Management Board members being asked to present their detailed revenue growth and savings proposals for scrutiny to a small group of officers and MPA members. This included the

Chair and Vice Chair to the Authority, and the Chairs of Finance and Resources Committee, and Resources and Productivity Sub Committee. The Chair of the Counter Terrorism and Oversight group attended for the specialist operations scrutiny, and the Chair of the Estates Panel attended for the Property Services scrutiny given their experience in their respective areas.

7. At each of these budget scrutiny meetings member's were not only provided with details of revenue and growth proposals for 2011-14, but also details of outturn for 2009/10 and current forecasts for 2010/11, plus any other issues that were seen to be key to the budget proposals. The purpose of the scrutiny process was not only to consider the possible impact of the proposed growth and savings on individual business groups but also the impact these would have across business groups.
8. In addition scrutiny meetings were held in relation to the Capital Programme and the balance sheet including a review of reserves. A number of budget workshops were also held for all members, providing members with the opportunity to scrutinise the budget proposals and to question and seek clarification from MPS officers on specific areas of interest.
9. Budget proposals were also scrutinised by the GLA Budget and Performance Committee as part the Committee's scrutiny of the Mayor's budget proposals.
10. Finance and Resources Committee and Strategic and Operational Committee have received update reports throughout the process and Full Authority approved the draft budget submission to the Mayor on 25 November 2010.
11. In addition there has been a dialogue with GLA officers throughout the process.

Achievability and Risks

12. The budget and business plan for 2011 – 14 has been prepared based on an increase of 1% on net revenue expenditure for 2010 – 11 (taking into account the movement of certain specific grants into general grant) in what has been a particularly challenging budget process. Not only were the MPA/MPS facing significant reductions in both general and specific grant, clarification of the level of these was received late in the process and final grant announcements for some specific grants are yet to be made. Difficult decisions have had to be made and there are therefore a number of key areas of risk in the budget as detailed below.

Olympics
13. This is a major programme of work and the MPA/MPS are working closely with the Government to ensure resources and service capacity is adequate to support the delivery of a safe and secure London 2012 Games.

Income generation
14. The MPA/MPS are becoming increasingly reliant on third party income from partners, however as finances become tighter there is an increasing risk that this income will be withdrawn, which cannot necessarily be met by a

corresponding reduction in costs. In addition there remains uncertainty with regard 3rd party income for future years.

Specific grant

15. Following December's provisional grant settlement there remains uncertainty regarding the level of a number of specific grants.

Medium term financial plan

16. The draft budget and business plan requires delivery of £163M savings in 2011/12 rising to £322.8M in 2013/14 and transfers from reserves of £34.8M in 2011/12, £21.3M in 2012/13 and £4.3M in 2013/14. However there remains a small budget gap of £11.9M in 2011/12, and more significant gaps of £96.8M in 2012/13 and £178.3M in 2013/14. Whilst the MPA/MPS have a good track record in the delivery of large savings and efficiency packages the task in hand over future years cannot be underestimated. The savings programmes have ambitious targets and some of the corporate initiatives may be subject to challenge. Therefore to recognise the risk associated with the delivery of these savings, a resilience provision of £25M has been included in the budget.

Non compliance

17. The MPS has previously experienced a number of instances of non-compliance on issues of internal control against contract regulations and agreed systems of internal control and is currently undertaking various programmes of work, including the Developing Resource Management Programme to improve and embed effective internal control. The Authority is closely monitoring progress in improving non compliance.

Treasury Management

18. All MPA investments are made in accordance with the Authority's Treasury Management Investment Strategy and comply with the CIPFA Code of Practice for Treasury Management in local authorities. The Strategy reflects prevailing financial market conditions and the advice of MPA treasury advisors Arlingclose, with due regard to the overall credit quality of available investment opportunities.

Redundancy Costs

19. A number of the initiatives included within the 2011-14 Budget & Business Plan that will deliver savings will involve a reduction in posts and the potential for redundancies. An earmarked reserve of £51.2M has been established through the realignment of a number of existing earmarked reserves to meet the potential cost of these.

Risk mitigation

20. The Authority's financial policies, accounting policies and governance arrangements contain a number of features to mitigate financial risks. These include the following:
21. The Authority has regular budget monitoring undertaken by Finance and Resources Committee and progress is also reported to the Mayor and London

Assembly (Budget Monitoring Sub Committee) on a quarterly basis. As at Period 8 (to the end of November) there is net overspend forecast of £2.7M against the approved budget. The expectation is that this will be managed down and the MPS has set a target of a £12M underspend for 2010/11.

22. Risk management has been built into the corporate governance arrangements of both the MPA and MPS so that there is proactive assessment of risks and processes to monitor and manage risks. This now includes a more detailed assessment of financial risks. Corporate Governance Committee takes an active role in reviewing these.

23. The MPA/MPS has adopted a focussed and structured approach to budget development in the context of the following key budget principles:-

- Doing all we can do to maintain operational capacity
- Delivering efficient and effective support services at the lowest possible cost
- Making the most productive use of our operational assets

This means

- Reducing our inanimate costs (vehicles, building etc) as quickly as possible. The intention being to remove 20% of these costs over the coming three years, including 25% of our estates costs.
- Ensuring the business model is as lean as practically possible. Over 80% of the planned annual service improvements from 2013/14 are from support services, and only then
- Mitigating the loss in capability through staff reductions, for instance through process re-engineering and working with others.

24. Other areas of mitigation include:-

- An element of the risk of financial loss is transferred externally through insurance arrangements.
- The Authority has appropriate general and earmarked reserves
- The Authority takes a prudent approach to achievability of income and debts due, making appropriate provisions for bad debts.
- The Authority has adopted accruals accounting, in particular making full provision for realistic estimates of future settlements of known liabilities.

Future Commitments

25. The financial projections for future years included in the budget show a significant level of ongoing commitment. However as highlighted above further work is required to bridge budget gaps in all three years. These will be reported to Finance and Resources Committee in the first place who will oversee progress.

26. The Authority's cash flow requirements are forecast and monitored on a monthly basis to ensure stable and predictable treasury management, avoiding unexpected financing requirements.

Capital

27. Proposals for the capital programme for 2011/12 to 2017/18 are still being drafted and will be presented to the Authority for approval by March 31st. These will include borrowing of £68M which has been assessed as affordable and in accordance with Prudential Code indicators.
28. A level of programming is being incorporated into the plan to enable the management of the programme, and processes are being strengthened to ensure that the MPS are able to fast track projects when others are delayed. This will enable best use of to be made of available finances whilst ensuring expenditure is contained within the approved budget.
29. The Authority recognises that given the uncertainties associated with resources, capacity issues, and the time required to plan major schemes, managing the capital programme represents a significant challenge. Steps will be taken to ensure that delivery and timing issues are addressed with the objective of improving the capacity levels of the provisioning departments.
30. In my view the robustness of the estimates has been ensured by the budget process, which has enabled all practical steps to be taken to identify and make provision for the Authority's commitments in 2011/12. Estimates have been prepared in a properly controlled and professionally supported process. The estimates have also been subject to due consideration within the MPA and MPS. However as stated above there are large scales savings to be delivered and a funding gap to be bridged in all three years Members will need to ensure that robust arrangements are in place with regard oversight of the savings programmes and future years budgets.

Adequacy of Reserves

31. Revenue reserves are cash backed balances, held on the balance sheet until they are spent or released for other purposes. As such, they can only be spent once, and are not part of the ongoing base budget.
32. The Authority's balance sheet reserves are held for three main purposes:
 - A contingency to cushion the impact of unexpected events or emergencies – this forms part of general reserves;
 - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this too forms part of general reserves; and
 - A means of building up funds to meet known or predicted liabilities or to smooth significant expenditure requirements – known as earmarked reserves.
33. There is no statutory guidance on reserves, and there has never been an accepted case for introducing a statutory minimum level of reserves, even in exceptional circumstances. CIPFA guidance issued in November 2008 confirms that authorities, on the advice of their treasurers, should make their own judgements on such matters, taking into account all the relevant local circumstances.

34. The Authority's external auditor has responsibility to review the arrangements in place to ensure that financial standing is soundly based. This includes reviewing and reporting on the level of reserves taking into account their local knowledge of the authority's financial performance over a period of time. It is not their responsibility to prescribe the optimum or minimum level of reserves for an individual authority.

General Reserves

35. The Authority has a policy of maintaining general reserves of at least 2% of net revenue expenditure provided that there are appropriate accounting provisions and earmarked reserves, reasonable insurance arrangements a well funded budget and effective budgetary control. As at 31st March 2010 the Authority had general reserves of £201.7M some 2.7% of the budget requirement.
36. As indicated in the table below current proposals will reduce this to 1.5% of the budget requirement over a three year period, a reduction of £28M, in line with the recommended new policy of maintaining general reserves of at least 1.5%. In my opinion the proposed approach remains prudent and the Authority will still have adequate reserves in place with general reserves totalling £42.5M in 2013/14, and further balance sheet resilience from a prudent approach to the establishment of earmarked reserves which are currently forecast to total £88.7M by 2013/14.
37. The position on general fund balances will be kept under constant review with the aim of building up future resilience as permanent reductions are implemented.

Earmarked reserves

38. Earmarked reserves have been established to provide resources for specific purposes. There can be a number of reasons why it is anticipated that earmarked reserves will still be unspent at April 2011:
- The reserve was created with the intention of being released over a number of forthcoming years (e.g. property related costs),
 - The reserve was prudently created to deliberately cover potential future years' liabilities (e.g. insurance fund),
 - The reserve was created to allow revenue account surpluses to be carried forward (e.g. Proceeds of Crime Act).
39. As part of the budget scrutiny process a review of the usage and need of the present earmarked reserves has been undertaken with the MPS. A detailed review will be undertaken by the Treasurer as part of the closing of the accounts process for 2010/11.

40. The current forecast position for reserves is detailed in the table below.

	As at 01/04/10 £M	Forecast balance at 31/03/11 £M	Planned reserves at 31/03/12 £M	Planned reserves at 31/03/13 £M	Planned reserves at 31/03/14 £M
General Reserve	47.4	47.4	34.4	23.4	19.4
Emergency Contingencies fund	23.1	23.1	23.1	23.1	23.1
Total General Reserves	70.5	70.5	57.5	46.5	42.5
Earmarked reserves	178.6	121.1	99.3	89.0	88.7
Total Reserves	249.1	191.6	156.8	135.5	131.2

Provisions

41. A review of provisions has been undertaken. The remaining provisions are also estimated to be sufficient to meet known liabilities, including in particular the provision for insurance liabilities.

Bob Atkins
MPA Treasurer
January 2011