

DRAFT

MPA BUDGET SUBMISSION

TO THE GLA

NOVEMBER 2003

PART 3

**2004/05 BUDGET AND
MEDIUM TERM FINANCIAL PROJECTION**

3. 2004/05 Revenue Budget and Medium Term Financial Projection

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VERSION FIVE

1. The Revenue Budget for 2004/05 and the Medium Term Financial Forecasts to 2006/07 set out in the attached statements have been developed in accordance with the Guidance issued by the Mayor on 30 May 2003.
2. The Guidance included specific policy objectives for the MPA to address in its submission as follows:
 - Development of options and supporting implementation plans and costings for increasing police numbers to 35,000 over the next 3 to 5 year period.
 - Implementation of recruitment and retention practices that deliver substantial progress to a representative workforce and minimise black and minority ethnic and female leavers.
 - Development of options and implementation of plans to increase the safety and security of women.
3. The first of these objectives is the subject of the Step Change business case which is included as a discrete component (Part Five) of the Budget Submission. The second objective is addressed through the Budget and Equalities section (Part Two) and the third objective is addressed within the Business Plan (Part One) of the submission.
4. The Mayor's guidance asked the Authority to exemplify savings requirements across a range of options which are described in greater detail in paragraphs 29 to 30. These options provide parameters within which the 2004/05 budget proposals have been developed.
5. The guidance prescribes the format in which the revenue budget is to be presented and this is reflected in the detailed statements. The guidance also requires that the submission includes details of reserves and balances and related policies.
6. The submission should also demonstrate a clear link between the business planning and budget process. The MPA/MPS corporate strategy, "*Towards the Safest City*", was published at the end of March 2003 and is included within this budget submission (Part One) together with an update note. The linkages between the budget process and business planning are described in paragraphs 45 and 46 below.

Overall Position

7. The Mayor's Budget guidance requires the Authority to exemplify savings requirements across three options as follows:

Option 1	A precept increase limited to 2.5% (£454.8m)
Option 2	2003/04 precept plus the full year cost of 2003/04 police officer and PCSO growth
Option 3	A budget requirement (net budget less all specific grants) of £2,351.6m per the 2004/05 forward financial plan in the final GLA Budget.

The strategy and options for increasing police numbers to 35,000 over the next 3 to 5 years are in addition to these three options, and are set out separately in Part Five of the submission.

8. **For exemplification purposes, the detailed budget has been constructed in line with option 3 of the guidance.** Work is continuing to exemplify further savings and reductions which would be required to meet options 1 and 2 as referred to in paragraphs 37 below.
9. The draft budget for 2004/05 (based on option 3) detailed in this submission totals £2,559.2m – an increase of 6.1% over the original 2003/04 budget. Total funding comprises Government grant, council tax precept and use of reserves. The current forecast of Government grant totals £2,019.8m, an increase of 2.7% over the original projection for the current year.
10. This overall position is summarised in table 3.1 as follows:

Table 3.1 2004/05 Revenue Budget – Overall position

	2003/04 £m	2004/05 £m	Change (+) %
Total expenditure	2,411.7	2,559.2	6.1
Funding:			
Government Grant	1,967.0	2,019.8	2.7
Precept (Option 3)	443.7	526.6	18.7
Movement in reserves	1.0	12.8	1280.0
Total Funding	2,411.7	2,559.2	6.1

11. Total expenditure is shown after committed growth items and new initiatives, and net of committed decreases and savings proposals. These are set out in further detail in later paragraphs of this submission.

12. Details of the expenditure estimates are set out in schedules 3.4 to 3.8 and the grant forecast is described in paragraphs 22 to 28, and set out in schedule 3.3. The ongoing impact of 2004/05 budget changes is set out in schedule 3.2.,together with details of other changes commencing during 2005/06 and/or 2006/07.
13. The precept calculation is set out in paragraph 29 for options 1 and 2 of the Mayor's guidance and paragraph 30 for option 3. The Medium Term Financial Projections to 2006/07 are set out in schedule 3.5 and described in paragraph 48.
14. The budget, net of specific Government grant and any movement in reserves, is referred to as the "budget requirement". The projected budget requirement for 2004/05 (for option 3) is:

Table 3.2 Projected Budget Requirement

	2003/04 £m	2004/05 £m
Total expenditure	2,411.7	2,559.2
Less use of reserves	(1.0)	(12.8)
Less specific grants	(202.9)	(195.0)
Budget requirement	2,207.8	2,351.4

A list of specific grants is set out in schedule 3.3.

15. The expenditure and income included within schedules 3.4 to 3.8 reflect total expenditure of £2,559.2m, an increase of £147.5m over the 2003/04 budget. A summary of this increase is shown below:

Table 3.3 Summary of change between 2002/03 Budget and 2004/05 Budget

	£m	£m
2003/04 Base Budget		2,411.7
Inflation	71.6	
Committed Increases	103.0	
Committed Decreases	(16.9)	
Efficiency and Other Savings	(45.5)	
New Initiatives	19.9	
Real Terms Change in Unfunded Pensions	15.4	
Sub Total		147.5
2004/05 Draft Budget		2,559.2

Expenditure

16. The Authority's Medium Term Financial projections have been reviewed and updated by means of a two stage process:
- A corporate update of service wide expenditure issues, e.g., inflation, pensions, police reform.
 - A business group review to update issues identified last year as well as new issues which have emerged since that time.
17. The corporate update of service wide issues comprises committed items only and includes significant unavoidable provision for inflation and the full year effects of additional police officers and PCSOs in 2003/04 as well as real growth in police pensions. A summary of the costs in 2004/05 of the major items is as follows:

	£m
Inflation/pay awards	71.6
Full year costs 2003/04 additional officers	26.2
Full year costs 2003/04 additional PCSOs	12.0
Pensions for increased level of retirements	15.4
Free travel for police officers increased costs	10.4
Police reform changes (including special priority payments)	8.5
	144.1

Inflation/Pay Awards

Pay awards for all police and civil staff have been included for the respective award dates in 2003/04, whilst non-pay inflation has been included at 2.5%.

Additional Officers and PCSOs

The full year's costs reflect the ongoing cost of the additional 1,000 police officers and additional PCSOs approved within the current year's budget and under recruitment within this year's HR deployment plan. All other proposed changes in staff numbers and costs are contained within the Step Change Programme submission.

Pensions/Increased Costs

The increased costs are based on the projections produced earlier this year by Hymans Robertson taking into account the projected numbers of normal retirements of police officers over the period. However, a saving of £5m has been included in respect of reduced numbers of ill health early retirements.

Free Travel for Police Officers

The renegotiation of the contract with the Association of Train Operating Companies (ATOC) has resulted in a significant increase in costs compared to the original agreement (plus a knock on effect of increased tax liability payments to the Inland Revenue). Costs in 2004/05 and 2005/06 will be subject to a survey but will be capped at agreed maximum levels but for 2006/07 and 2007/08 no cap has been included in the agreement. The figures included within the submission are based on the mid-point of the range of possible costs and, for 2004/05, the maximum level of costs would add a further £3.4m to these figures.

18. The scrutiny of business group issues was conducted by a multi-disciplinary team led by the Director of Strategic Planning and Performance comprising representatives of all business groups, finance services, strategic planning and other corporate units. The team was established to scrutinise all growth and savings proposals, and met formally for two full day sessions to review the budget proposals.

In reviewing growth proposals, the multi-disciplinary team established the following issues as being priorities for acceptance as part of the budget and planning for 2004/05. These priorities also support the corporate objectives reflected in *"Towards the Safest City"*.

- C3i/Airwave and related supporting activities.
- Criminal Justice modernisation and reform.
- Counter Terrorism requirements.
- Dealing with Organised Crime.
- Other legislative requirements.
- Essential maintenance of essential systems.
- Step Change and planning for future growth.

19. The initial returns of budgetary growth pressures from business groups totalled over £130m and thus a significant increase in the implied savings target to accommodate such growth. It was recognised that identifying such savings to match this demand would be unrealistic and it was clearly essential to reduce significantly the proposals for growth.

Taking into account the priorities identified above the value of growth items has been reduced although these still include significant sums for major priorities such as the C3i project, pressure on the MPS estate, particularly in Central London, and the full year effect of PFI schemes.

A detailed list and explanation of all proposed new initiatives is included in schedule 3.9 and committed growth items are shown in schedule 3.10.

20. Some proposals that were put forward as growth bids relate to “one-off” non-recurring or “spend to save” costs, which generate savings in future years, These items total £12.8m and it is proposed to fund these items from managed underspends in 2003/04 and existing earmarked reserves (see paragraph 43 below).
21. The budget pressures involved include the setting up of the Traffic Criminal Justice Unit and the refocusing of Criminal Justice case preparation work to improve support for victims and vulnerable witnesses. Once implemented, these proposals are expected to be contained within existing budgetary provisions. However, a temporary strengthening of civil staff is required during the transition and this will cost £6.4m in 2004/05 and a further £2.2m in 2005/06. Proposals to make savings in Forensic services are based on setting up in-house facilities to undertake work for the Counter Terrorism Fingerprinting Team and for forensic analysis of guns and ammunition. These will make ongoing savings of £1m per annum but require investment of £2m to establish. Substantial improvement is also required to improve resilience in power supplies and upgrade buildings to meet security requirements. A total of £2.3m has been identified as needed to cover the immediate requirements for this work. All the proposed “one-off” items are included in schedule 3.9 or 3.10 of the submission, as appropriate.

Grants

22. A summary of projected levels of grant funding over the medium term is set out in schedule 3.3. Making realistic projections has been particularly problematical due to the lack of information from the Home Office about funding levels in 2004/05 and 2005/06 following publication of SR2002. The intended date of the announcement of the proposed grant settlement for 2004/05 has been brought forward to mid November but still falls after the deadline for submission of the Draft Budget to the Mayor. The submission will therefore have to be reviewed in the light of the settlement before the Mayor goes out to consultation in December.
23. The only information in the public domain about funding levels was the statement in the National Policing Plan that “funding in 2004/05 and 2005/06 will grow in cash terms by at least 4% a year”. However, this figure relates to total police resources and experience in recent years has shown that headline increases on this basis can translate into significantly lower percentage increases in the amount of grant distributed to police authorities by way of the allocation formula. This results from disproportionate increases in top sliced provisions and earmarked grants. There is no clarity about the relative movement of these various components next year or the subsequent two years.

24. There was a major review of the grant distribution methodology in 2002 resulting in formula changes in 2003/04. There will be no methodology changes for 2004/05. However, there are likely to be changes in the data used in the formula. Some data, e.g., population, is regularly updated on an annual basis. This would be expected to have a marginal impact in a normal year. 2001 Census data was due to feed into the grant formula for the first time in 2004/05. Because this reflects changes that have taken place over ten years since the previous Census, the impact could be quite volatile. However, the Government has decided that it will not have time to make the appropriate statistical adjustments to the formula and therefore incorporation of Census data has been deferred to 2005/06.
25. The Home Office has been collecting information from all police authorities on their civil staff pension costs. This will be used to recalculate the Metropolitan Police civil staff pensions uplift in the allocation formula. The uplift is intended to reflect the fact that MPA civil staff pension arrangements differ from those of all other authorities. The calculation will be impacted for the first time by the transfer of the MPA civil staff pensions arrangements into the principal civil service scheme during 2002/03. However, there may also be significant movement in other authorities' pension costs following fund revaluations and the eventual formula impact is unpredictable.
26. In practice it is expected that changes in formula grant entitlement will be subject to limitation by way of a system of floors and ceilings as in 2003/04. The impact in 2003/04 was to limit the MPA's formula-based grant increase to 5.2%, although unfettered application of the formula would have generated an increase of 6.8%. The difference represents effectively a 'deferred' grant entitlement of approximately £27 million. Given the scale of this surplus above the 2003/04 ceiling it is unlikely that the formula effect of data changes in 2004/05 could bring the MPA's entitlement below the ceiling in that year. Therefore the crucial assumption that has to be made in order to assess the Authority's formula-based grant for 2004/05 is the level of the ceiling.
27. On the basis of recent history a headline increase of 4% in total police resources may result in an increase of no more than 2.5% in grant distributed by the formula. The Government is likely to set a floor broadly in line with some measure of inflation. It would be expected that there would be some gap between the floor and the ceiling. However, it is felt unlikely that the ceiling would exceed 3.5%. A ceiling at this level would represent a similar relationship to the headline increase in 2004/05 as the MPA's ceiling bore to the headline increase in 2003/04. This assumption has been used to estimate the formula grant entitlement for each year in the Medium Term Projections. A 0.5% variation from this assumption would change grant entitlement, and therefore the required precept or savings, by £7.8 million.
28. Earmarked grants have been assessed on the best information currently available. It is likely that the position will vary up to and including the grant settlement.

Savings Options

29. The Mayor's guidance sets out three options for which savings implications are to be exemplified (as referred to in paragraph 7 above). These were initially assessed in July 2003 following the first corporate stage of the expenditure review. At that point the 2004/05 budget requirement was provisionally estimated at £2,394.2m before consideration of business group pressures and identification of savings. This resulted in various savings requirements on each of the options as set out below:

Table 3.4. (i) GLA Precept 2004/05 – Option 1

	£000s
2003/04 Police component of precept	443.7
Add 2.5% inflation (on precept only)	11.1
Precept limit	454.8
Increase over 2003/04	2.5%
(Provisional) budget requirement	2,394.2
Less projected general grant funding	(1,824.9)
Less precept above	(454.8)
Implied savings target	114.5

Table 3.4. (ii) GLA Precept 2004/05 – Option 2

	£000s
2003/04 Police component of precept	443.7
Add Full year cost 2003/04 police officer growth	26.2
Add Full year cost 2003/04 PCSO growth	12.0
Precept limit	481.9
Increase over 2003/04	8.6%
(Provisional) budget requirement	2,394.2
Less projected general grant funding	(1,824.9)
Less precept above	(481.9)
Implied savings target	87.4

30. The impact of option 3 of the Mayor's guidance (which is based on a stipulated budget requirement rather than a precept increase) is shown below:

Table 3.4 (iii) Budget Requirement and Precept 2004/05 – Option 3

	£m
2004/05 Budget requirement (per Mayor's Guidance)	2,351.6
Less projected general grant funding	(1,824.9)
Precept limit	526.7
Increase over 2003/04	18.7%
Budget requirement	2,351.6
Less (provisional) budget requirement	(2,394.2)
Implied savings target	42.6

31. It should be noted that the expenditure figures in Tables 3.4 (i) to (iii) above **do not include** any costs associated with the Step Change Programme.

Savings Proposals

32. These savings requirements have to be seen in the context of the budgets over the last three years which have delivered cumulative ongoing savings in excess of £100m.
33. Achievement of this level of savings, makes the challenge of identifying savings for 2004/05 even more difficult. The need to exclude police pay and pensions and committed contractual payments from any savings calculation, leaves only about 30% of the total budget against which savings can be made. Within this "reducible budget", 50% is the civil staff pay budget and further savings against this budget runs the risk of resulting in more police officers being diverted to carry out civil staff roles rather than operational police duties.
34. In the light of the assessed requirements for each option the MPA Finance Committee agreed a target of £50m savings to be identified. All business groups were required to review their 2003/04 base budget in order to identify savings. A corporate review of the 2002/03 outturn was also made to identify opportunities for reducing expenditure and increasing income. All savings proposals were subsequently reviewed by the multi-disciplinary scrutiny team.

35. The detailed savings proposals (in relation to option 3) approved by the MPA Finance Committee are set out in schedule 3.12 and are summarised by business group as follows:

Table 3.5 Savings Proposals 2004-05

Business Group	£000s
Deputy Commissioner's Command	9,448
Human Resources	5,000
Resources	5,100
Specialist Crime	1,060
Special Operations	1,635
Territorial Policing	5,370
MPA	1,100
Service wide/Corporate	16,835
Total	45,548

A further saving of £6m relating to reduced provision for the police pay award is included under reduced inflation (£2.6m) and committed decreases (£3.4m).

36. The above savings proposals are sufficient to balance the budget in relation to option 3 of the Mayor's guidance. Additional savings of £44.8m would be required in respect of Option 2 and £71.9m in respect of option 1 – over and above the £50m savings identified for option 3.
37. Work is continuing to identify budget reductions which would be required to contribute towards options 1 and 2 and the submission will be updated after the results have been considered by the Authority.

Reserves

38. The Authority's usable revenue reserves fall into two categories: the general reserve and earmarked reserves. Capital reserves are considered in the capital programme component of the Budget Submission.
39. The Authority maintains a general reserve to meet unforeseen or emergency expenditure which cannot be contained within the approved budget and has agreed that this reserve be established at a minimum of 1% of net budgeted expenditure, provided that there are adequate accounting provisions and earmarked reserves, reasonable insurance arrangements, a well funded budget and effective budgetary control. These conditions are increasingly being met.
- Provisions for current liabilities are now at levels acceptable to the external auditor. Earmarked reserves have been enhanced as described in paragraph 43 below.
 - Revised insurance arrangements have been put in place during 2003 which provide good cover against catastrophic loss.

- Whilst the budget generally relies on the achievement of a level of savings funding has been substantially enhanced.
 - Budgetary control is improving and experience has shown that the organisation is capable of recovering from adverse variances.
40. As at 31 March 2003 the general reserve stood at £24.047m which equates to the 1% policy minimum. This can now be considered to be an acceptable level but clearly must not be reduced.
41. The Authority's balance sheet at 31 March 2003 includes earmarked revenue reserves totalling £42.671 million. These represent sums set aside to meet a variety of specific purposes. Most relate to relatively short-term requirements and are likely to be drawn down over the next two years. Some relate to longer-term future liabilities, for example lump sum police pension payments arising from a projected increase in the number of retirements over the period of the Medium Term Financial Projections
42. Expenditure against earmarked revenue reserves during 2003/04 is estimated to be £4m. A review has been carried out of all the reserve balances and, where possible, appropriate flexibility has been utilised to support the 2004/05 budget.
43. The reserves include a contingency of £6 million to meet unavoidable budget pressures. On the assumption that this will not be required during 2003/04, it is proposed that this sum can be used to finance "one-off" growth items in 2004/05. Furthermore this reserve can be enhanced for this purpose by managed underspendings during 2003/04. Specific underspendings being forecast in 2003/04 which will be ring-fenced to increase this contingency/reserve (to cover the projected cost of "one-off" growth items) include the following:

	£m
Increase interest on revenue balances	2.2
Police pay award 2003 at 3% rather than 3.5%	3.4
Third Party Liabilities	5.0
Congestion Charge	0.6
Police Advertising	1.6
Projected managed underspends	12.8

Most of these savings will also occur in 2004/05 and have been reflected in the detailed schedules of savings proposals or within reduced inflation increases.

Business and Budget Planning

44. The MPA/MPS Business and Budget Planning cycles have historically operated separately to different cycles and timetables for reasons largely determined by outside bodies such as the Home Office and GLA.

45. It has been recognised that the two planning activities must be brought closer together and with closer co-operation between officers concerned and the activities involved. This has already commenced with the Corporate Planning officers playing a full part within the multi-disciplinary team assembled to review all growth and savings proposals and those proposals being scrutinised against the corporate objectives reflected in *"Towards the Safest City"*. The content of the Mayor's Budget guidance and other financial issues such as financial management and control, and budget devolution have been fed into the MPS Corporate Strategic Assessment carried out in August/September 2003 which was considered at the Commissioner's Autumn Conference and which provides a major input into developing the proposed MPS priorities for 2004/05. In addition, further work in identifying financial risks has been carried out and fed into the Corporate Risk Management Group's risk assessment for the organisation. Schedule 3.13 identifies the links between new initiatives and committed growth items in schedules 3.9 and 3.10, and the business planning framework document *"Towards the Safest City"*.

Consultation

46. In accordance with the Mayor's Budget guidance the MPA is involved in wider consultation on the budget proposals in order to prepare the way for the Mayor's formal consultation in December/January. Presentations on the draft budget will be made to the Pan-London Stakeholders Consultation and the London Business Board. The Society of London Treasurers is being provided with a programme of briefings and the MPA will also meet with the ALG.

Medium Term Financial Projections

47. Financial projections for the period 2004 to 2007 are set out in schedule 3.5. The projections for the two years 2005/06 and 2006/07 include committed increases and some growth items deferred to later years only. In particular there is no provision at this stage for further increases in police officer numbers beyond that assumed in the current 2003/04 budget. Further projected increased in officer numbers (and associated infrastructure costs) are included within the Step Change Programme – Part Five of the submission.

Supporting Information

48. Detailed schedules supporting the information above are included on the following pages. A list of the schedules is provided within the Contents List at the start of this submission.

Summary of Technical Assumptions

Part 1: Corporately reviewed factors

- The impact of the Police Reform agenda on police pay and allowances
- The on-going impact of the Hay review on civil staff pay costs.
- The medium term implications of growth in police pensions.
- The progressive reduction in the cost of rent/housing allowance and compensatory grant.
- The progressive reduction in officers in receipt of the £1,000 allowance to compensate for housing allowance anomalies.
- The progressive effects of the increasing overall cost of the London Pay Lead for police officers.
- The full year effect in 2004/05 of the additional 1,000 officers in 2003/04.
- The full year effect in 2004/05 of the additional PCSOs in 2003/04.
- The adjustment of forecast pay awards and latest estimates of movements in RPI.
- The impact of the recently re-negotiated contract to provide free rail travel to police officers.

Part 2: Technical assumptions pertaining to finance projections

- The starting point is the approved 2003/04 base budget.
- Pay awards throughout the period of 3.5% pa for police and civil staff
- Price inflation of 2.5% throughout the period
- The revenue implications of the approved capital programme are reflected in the figures
- There will be no further PFI schemes coming into commission over the period and that levels of capital funding are broadly comparable with the current year.

Part 3: Factors excluded from the finance projections

The projections specifically *exclude* the following:

- Costs associated with the Step Change Programme.
- Any additional Police Community Support Officers funded by local authorities.
- Partnership income arrangements and associated expenditure.
- Costs (and specific grant) associated with the Safer Streets Initiative.
- Costs associated with the Airwave project for 2004/05 (grant received in advance) and for 2005/06 (part year only).

Schedule 3.2

Budget Changes in 2004/05 and the Medium Term

(figures are shown as incremental)

Status	2004/05	2005/06	2006/07	2007/08
	£'000	£'000	£'000	£'000
Inflation/pay awards on 2003/04 base budget	71,600	83,800	86,500	89,300
Sub-Total	71,600	83,800	86,500	89,300
Committed increases (see schedule 3.10)				
Full year costs of 2003/04 additional officers	26,200	900	900	1,000
Additional Revenue costs of C3i	12,462	(659)	(574)	(2,309)
Full year costs of 2003/04 additional PCSOs	12,000	400	400	400
Police officer free travel costs	10,435	1,200	100	100
Civil staff - Hay award increments	8,500	7,200	5,500	3,900
Reinstatement of C3i Police Officer posts civilianised	7,800	0	3,800	7,500
Extensions to estate portfolio	6,305	20	0	0
Special Priority Payments under Police Reform	5,400	5,600	1,200	1,200
PFI Unitary Charges	4,949	572	521	536
Increase in number of officers receiving London pay lead	4,700	2,100	2,100	2,300
Effect of other Police Reform changes	4,000	3,600	2,000	300
Revenue cost of IT Capital Programme	3,556	2,744	2,940	2,730
IT support for Modernising Operations	2,500	1,500	300	300
Re-tendering outsourced contracts (Directorate of Information)	2,400	2,400	0	0
Provision of pre-charge advice services from the CPS	1,702	(702)	0	0
Support to both covert & overt operations	1,494	1,790	982	982
Burglary Sole Response	1,411	1,540	1,266	0
Modernising Operations.	1,250	4,400	(1,100)	0
Re-tendering outsourced contracts (Property Services)	1,000	150	150	150
Additional Airwave running costs	1,000	0	0	0
Process of re-letting outsourced contracts	2,000	(1,000)	0	(1,000)
DNA analysis growth	923	569	1,254	0
Debt finance for capital programme	700	600	600	600
Additional Security	225	0	0	0
MPA administration of ill health retirements	100	0	0	0
Dual running of Airwave & Metradio	(20,020)	3,610	8,750	(10,650)
Sub-Total	102,992	38,534	31,089	8,039
Committed decreases (see schedule 3.11)				
Safer Streets	(8,008)	0	0	0
Progressive reduction in housing related allowances	(5,500)	(5,600)	(5,400)	(5,100)
Reduced provision for police pay award	(3,400)	0	0	0

Status	2004/05 £'000	2005/06 £'000	2006/07 £'000	2007/08 £'000
Sub-Total	(16,908)	(5,600)	(5,400)	(5,100)
<i>Efficiency and other savings (Listed in Schedule 3.12)</i>				
Sub-Total	(45,548)	4,200	0	0
New initiatives (see schedule 3.9)				
Estate resilience	4,290	(2,290)	0	0
Development of victim and witness focus desks	3,300	(1,100)	(2,200)	0
Transfer of functions to the centralised traffic unit	3,100	(3,100)	0	0
Information Management Business Change Programme (Freedom of Information Act compliance)	1,899	397	(982)	1,203
Counter Terrorism - Fingerprinting Team (CTFT)	1,400	(1,400)	0	0
War Crimes Unit	1,139	0	0	0
Backlog maintenance	1,000	0	0	0
Leadership programme - sergeants, inspectors and civil staff	750	0	0	0
Equipment for firearms forensic capability	600	(600)	0	0
Mobile Data Terminals (revenue element)	500	800	800	0
Cell Accommodation Project	500	0	0	0
People development (inc Occ Health and H&S)	475	0	0	(475)
Estates improved security	300	0	0	0
Monitoring of corporate performance priorities	256	0	0	0
Support to both covert & overt operations	250	(250)	0	0
Provision of 'Tasers'	200	(200)	0	0
Fees to identify PPP solutions to need for new cells/custody centres	0	1,750	0	0
South London training site	0	1,280	0	0
Community Volunteers Programme	0	1,030	791	0
Criminal Justice Support to CPS at point of charge	0	1,000	0	0
Vehicle Recovery & Storage Services expansion	0	800	870	800
Development of BOCU Help Desk function	0	250	4,100	3,382
Heathrow additional vehicles & support services	0	0	0	1,119
Increased security for rail and air terminals	0	0	0	380
Sub-Total	19,959	-1,633	3,379	6,409
<i>Real Term Changes in unfunded pensions</i>				
Growth in police pensions	15,400	24,100	22,800	12,900
Total	147,495	143,401	138,368	111,548

PROJECTED GRANT FUNDING 2003/04 - 2007/08

	Notes	2003/04 £'000	2004/05 £'000	2005/06 £'000	2006/07 £'000	2007/08 £'000
Central funding allocated by national formula (ie main police grant, RSG and NNDR)	1	1,562,053	1,616,725	1,673,310	1,731,876	1,792,492
<i>Annual increase</i>			3.5%	3.5%	3.5%	3.5%
MPS special payment	2	202,000	208,060	214,302	220,731	227,353
<i>Annual increase</i>			3%	3%	3%	3%
Sub-total general grants		1,764,053	1,824,785	1,887,612	1,952,607	2,019,845
Specific grants:						
Crime Fighting Fund	3	70,460	74,287	76,887	79,578	82,364
Pay lead grant	4	22,755	26,981	28,281	29,756	31,332
DNA expansion programme grant	5	5,644	4,600	4,600	0	0
Loan charges grant	6	3,700	3,500	3,400	3,300	3,100
Grant for free rail travel for police officers	7	2,500	2,500	2,500	2,500	2,500
Airwave grant	8	20,020	6,700	6,700	0	0
Funding for Special Priority Payments	9	7,800	13,183	18,793	19,951	21,149
Funding for counter-terrorism	10	47,000	47,000	47,000	47,000	47,000
Funding for PCSOs recruited in 2002/03	11	15,000	12,750	10,500	10,500	10,500
Funding for PCSOs recruited in 2003/04	12	1,900	3,500	3,500	3,500	3,500
Street Crime Initiative	13	8,008	0	0	0	0
Sub-total specific grants		196,779	195,001	202,161	196,085	201,445
TOTAL FUNDING		1,968,840	2,019,786	2,089,773	2,148,692	2,221,290
<i>Annual increase</i>			2.6%	3.5%	2.8%	3.4%

Notes

1. Assumes annual increase in formula-allocated funding at ceiling of 3.5%.
2. MPS special payment is assumed to increase by inflation.
3. Crime Fighting Fund provides full continuation funding for officers recruited 2000 to 2003 and 75% funding for officers recruited in 2003/04.
4. Assumes Home Office will fund London pay lead at 75% of annual cost excluding employer's national insurance.
5. Grant payments available up to 2005/06, subject to qualifying expenditure. Funding beyond that year subject to outcome of SR2004.
6. This grant is paid as a contribution to costs associated with pre-1990 debt and will disappear over time.
7. Home Office grant towards cost of free rail travel not expected to increase.
8. Grant for Airwave service costs confirmed until 2005/06. Funding beyond that year subject to outcome of SR2004
9. Grant to meet minimum cost of Special Priority Payments to police officers introduced under Police Reform.
10. Assumes counter-terrorism grant continues at 2003/04 level.
11. Grant for security PCSOs recruited in 2002/03 assumed to remain at 100%. Community PCSO funding reduces to 75% in 2004/05 and 50% in 2005/06 and thereafter.
12. Matched funding for 250 PCSOs to be recruited in 2003/04 was announced after the budget was set. Figures for 2004/05 assume full year costs for those staff but no further increases.
13. Street Crime grant (and associated expenditure) has been excluded from the 2004/05 budget.

Budget Objective Summary (1)

2003/04 original budget				2004/05 proposed budget		
Expenditure	Income	Net		Expenditure	Income	Net
£000	£000	£000		£000	£000	£000
			Business Groups:			
1,003,202	-51,268	951,934	Territorial Policing	1,145,928	-59,439	1,086,490
422,953	-39,266	383,688	Specialist Operations	222,259	-64,733	157,526
0	0	0	Specialist Crime Directorate	269,845	-11,671	258,173
25,663	-311	25,352	Policy, Review and Standards	0	0	0
261,616	-2,542	259,074	Deputy Commissioner's Command	288,239	-3,380	284,859
107,372	-28,660	78,712	Human Resources Directorate	131,521	-28,554	102,967
252,931	-42,093	210,839	Resources Directorate	281,835	-37,857	243,978
2,073,738	-164,139	1,909,599	Total Business Groups	2,339,628	-205,634	2,133,995
			Corporate Budgets:			
392,143	-87,500	304,643	Pensions	373,761	-94,644	279,117
190,571	-7,752	182,819	Not yet allocated	139,566	-6,700	132,866
582,714	-95,252	487,462	Total Corporate Budgets	513,327	-101,344	411,983
2,656,452	-259,391	2,397,061	Total MPS	2,852,956	-306,978	2,545,978
9,040	0	9,040	MPA	8,918	0	8,918
2,665,492	-259,391	2,406,101	Net Service Expenditure	2,861,874	-306,978	2,554,896
14,486	0	14,486	Capital financing costs	15,186	0	15,186
0	-8,900	-8,900	Interest receipts	0	-10,900	-10,900
2,679,978	-268,291	2,411,687	Net Expenditure	2,877,060	-317,878	2,559,182
		-202,887	Specific Grants			-195,001
		2,208,800	Net Revenue Expenditure			2,364,181
		-1,000	Movement in reserves			-12,842
		2,207,800	Budget Requirement			2,351,339
			Funding:			
		-1,764,053	Central funding			-1,824,785
		-443,747	Precept			-526,700
		-2,207,800	Total Funding			-2,351,485
		0	Funding surplus			-146

Budget Objective Summary (2)

Service analysis	Budget Approved by GLA £m	2003/04 Base Budget £m	September forecast outturn 2003-04 £m	Budget 2004-05 £m	Plan 2005-06 £m	Plan 2006-07 £m
Business Groups:						
Territorial Policing	951.9	1,050.7		1,086.5	1,094.9	1,098.6
Specialist Operations	383.7	150.8		157.5	157.3	157.3
Specialist Crime Directorate	0.0	243.7		258.2	258.3	260.8
Policy, Review and Standards	25.4	0.0				
Deputy Commissioner's Command	259.1	273.4		284.9	300.1	315.3
Human Resources Directorate	78.7	106.5		103.0	104.4	104.4
Resources Directorate	210.8	207.5		244.0	246.0	247.6
Total Business Groups	1,909.6	2,032.6	0.0	2,134.0	2,161.1	2,184.1
Corporate Budgets:						
Pensions	304.6	268.7		279.1	303.2	326.0
Not yet allocated	182.8	95.4		132.9	224.7	316.6
Total Corporate Budgets	487.5	364.2	0.0	412.0	527.9	642.6
Total MPS	2,397.1	2,396.7	0.0	2,546.0	2,689.0	2,826.7
MPA/Internal Audit	9.0	9.4		8.9	8.9	8.9
Net service expenditure	2,406.1	2,406.1	0.0	2,554.9	2,697.9	2,835.6
Capital financing costs	14.5	14.5		15.2	15.8	16.4
Interest receipts	-8.9	-8.9		-10.9	-10.9	-10.9
Net expenditure	2,411.7	2,411.7	0.0	2,559.2	2,702.8	2,841.1
Specific grants	-202.9	-202.9		-195.0	-202.2	-196.1
Net revenue expenditure	2,208.8	2,208.8	0.0	2,364.2	2,500.6	2,645.0
Transfer to/from reserves	-1.0	-1.0		-12.8	0.0	0.0
Budget requirement	2,207.8	2,207.8	0.0	2,351.3	2,500.6	2,645.0
Funding:						
Central funding	-1,764,053	-1,764,053		-1,824,785		
Precept	-443,747	-443,747		-526,700		
Total Funding	-2,207.8	-2,207.8	0.0	-2,351.5		
Funding surplus	0.0	0.0	0.0	-0.1		

Budget Subjective Summary - Employee Costs

Schedule 3.7

	Budget Approved by GLA £m	Movements and Virements Prior to Base Budget £m	2003-04 Base Budget £m	Budget Movements and Virements £m	Inflation £m	Growth £m	Budget 2004-05 £m	Main reasons for change
Police pay	1,196.9	-2.0	1,194.9	0.9	36.1	25.1	1,257.1	Police reform (9.4m), reduction in housing allowance (-£5.5m), London pay lead (4.7m), FYE of additional officers in 2003/04 (£19.4m), reduced provision for pay award (-£3.4m), modernising operations (£0.6m), FYE of additional PCSOs (-£0.1m)
Civil staff pay	326.0	53.8	379.8	0.6	14.1	26.8	421.3	FYE of additional officers in 2003/04 (£2.7m), modernising operations (£0.2m), PFI civil staff savings (-£1m), war crimes unit (£0.2m), additional security (£0.2m), burglary sole response (£0.8m), PSD resilience (£1m), retendering for outsourced contracts (£0.2m), C3i (£8m), support to operations (£0.6m), Freedom of Information Act (£0.5m), misc changes (£0.5m), development of witness focus desks (£3.3m), setting up centralised Traffic CJU (£2.8m), Hay increase (£8.2m), Airwave (-£1.2m), FYE of additional PCSOs (-£0.2m)
Traffic wardens' pay	20.4	-0.9	19.5	-1.3	0.7	-0.8	18.1	Saving to reflect underspend (-£1m), Hay increase (£0.3m), discontinue aid fund (-£0.1m)
Police community support officer pay	14.5	2.3	16.8	5.1	0.5	11.5	34.0	Additional PCSOs (£11.5m)
Sub-total: pay	1,557.8	53.2	1,611.0	5.4	51.4	62.7	1,730.5	
Police overtime	104.3	-8.6	95.7	0.7	2.9	3.2	102.4	FYE of additional officers in 2003/04 (£3.1m)
Civil staff overtime	20.6	0.6	21.2	0.0	0.7	-0.5	21.4	Discontinue aid fund (-£0.5m)
Traffic wardens' overtime	2.3	0.1	2.4	-0.3	0.1	-0.5	1.7	Discontinue aid fund (-£0.5m)
Police community support officer overtime	0.6	-0.5	0.1	0.4	0.0	0.2	0.8	
Sub-total: overtime	127.8	-8.4	119.4	0.7	3.7	2.5	126.3	
Other	6.2	0.7	7.0	0.0	0.0	0.3	7.4	Freedom of Information Act (£0.3m)
Pensions	403.3	-40.0	363.4	0.0	9.1	10.4	382.8	Growth in police pensions (£15.4m), reductions arising from lower number of ill-health retirements (-£5m)
Total employment costs	2,095.2	5.6	2,100.8	6.2	64.2	75.9	2,247.0	

Notes:

Housing/Rent Allowances are now included within Police Pay

Employer's superannuation contributions, which were classified under Civil Staff Pensions last year, are now classified under Civil Staff Pay

Budget Subjective Summary - Running Expenses and Income

Schedule 3.8

	Budget Approved by GLA	Movements and Virements Prior to Base Budget	2003-04 Base Budget	Budget Movements and Virements	Inflation	Growth	Budget 2004-05	Main reasons for change
	£m	£m	£m	£m	£m	£m	£m	
Running Expenses:								
Employee related	18.0	1.2	19.3	2.3	0.5	0.3	22.3	HR recruitment savings (-£1.1m), HR (-£0.2m), DCC savings (-£0.2m), PAYE settlement (funded from non-pay inflation) (£1.6m), FYE of additional PCSOs (£0.1m)
Premises costs	161.7	3.9	165.6	2.0	4.1	24.8	196.6	C3i (£7.7m), PFI (£4.9m), maintenance backlog (£1m), PSD resilience (£1m), outsource contracts retendering (£1m), FYE of additional officers in 2003/04 (£1.5m), extensions to estate portfolio (£5.8m), cleaning and guarding (£0.9m), CT fingerprinting team
Transport costs	53.0	-5.9	47.0	3.5	1.2	-1.4	50.2	FYE of additional officers in 2003/04 (£0.3m), war crimes unit (£0.9m), reductions on local vehicle hire (-£1.2m), congestion charge (-£0.6m), HR DTD savings (-£0.3m)
Supplies and services	329.4	2.5	331.9	12.1	8.3	-6.6	345.7	outsourced contract re-letting (£4.2m), Airwave and C3i (£5.8m), modernising operations (£2.5m), revenue costs of capital programme (£3.6m), support to operations (£0.9m), FOIA (£1m), reduced workstation support charges (-£4.2m), reduced consultants costs
Capital financing costs	14.5	0.0	14.5	0.0	0.0	0.7	15.2	Debt finance for capital programme (£0.7m)
MPA contingency	0.3	-0.2	0.0	0.0	0.0	0.0	0.0	
Total running expenses	576.8	1.5	578.3	19.8	14.1	17.8	630.0	
Not yet allocated	8.0	0.0	8.0	0.0	0.0	-8.0	0.0	Safer Streets (-£8m)
Total revenue expenditure	2,680.0	7.1	2,687.1	26.0	78.3	85.6	2,877.1	
Interest receipts	-8.9	0.0	-8.9	0.0	0.0	-2.0	-10.9	Interest on revenue balances (-£2m)
Other income	-259.4	-7.1	-266.5	-26.0	-6.7	-7.7	-307.0	Increase budget for secondees (-£2.5m), increase in income generation target (-£1m), operational receipts and income (-£3.8m), charge other forces for firearms training facility (-£0.1m), increased value of car sales (-£0.2m), income from courts for forfeit
Total income	-268.3	-7.1	-275.4	-26.0	-6.7	-9.7	-317.9	
Net revenue expenditure before specific grants	2,411.7	0.0	2,411.7	0.0	71.6	75.9	2,559.2	

Budget Savings Proposals for 2004/05

Efficiency and other savings <i>(figures are shown as incremental)</i>	2004/05	2005/06	2006/07	2007/08
	£'000	£'000	£'000	£'000
Deputy Commissioner's Command				
Replace consultants with permanent staff	(1,000)			
Temporary reduction in desktop IT support costs	(4,200)	4,200		
Property Services work on IT projects	(400)			
Workstation support costs reduction	(400)			
Compensation further saving in business group budget.	(1,000)			
External consultancy	(97)			
Strategic Development devolved budgets including large element of consultancy costs.	(1,300)			
Reduce various budgets - Diversity Directorate	(345)			
Reduce various budgets - Development & Organisation Improvement Team	(203)			
Reduce various budgets - Directorate of Professional Standards	(503)			
Total Deputy Commissioner's Command	(9,448)	4,200	0	0
Human Resources				
Corporate external trainers	(120)			
Reduce corporate redundancy budget	(140)			
Reduce running costs	(168)			
Reduce recruitment section staffing and advertising budget	(1,459)			
Review of Training notes	(39)			
Reduction in photocopying	(203)			
Reduction in transport costs	(296)			
Reduce various budgets - Strategic Management Unit	(75)			
Increased income - Secondees	(2,500)			
Total Human Resources	(5,000)	0	0	0
Resources				
Interest on Revenue balances	(2,000)			
Transport & devolved budgets	(1,280)			
Congestion charge budget	(600)			
Increased value of car sales	(200)			
Extend use of Corporate Charge Card	(20)			
Increase Income Generation target	(1,000)			
Total Resources	(5,100)	0	0	0
Specialist Crime				
Establish in-house forensic facility	(500)			
Establish in-house firearms and ammunition forensic facility	(500)			
Income from Court directions in respect of forfeiture of assets	(60)			
Total Specialist Crime	(1,060)	0	0	0

Efficiency and other savings <i>(figures are shown as incremental)</i>	2004/05 £'000	2005/06 £'000	2006/07 £'000	2007/08 £'000
Special Operations				
Charge other forces for use of firearms training facility	(135)			
Increase income from operational receipts	(1,500)			
Total SO	(1,635)	0	0	0
Territorial Policing				
Increased income from charges to Immigration Service	(1,000)			
Increased income from Operational Receipts	(500)			
Civil staff/ Traffic Warden element of Aid Fund	(1,000)			
Management cost reductions	(500)			
Additional income from Specialist support and Traffic	(320)			
Air support unit fuel costs	(50)			
Savings re staff transfer to PFI provider	(1,000)			
Traffic Wardens underspend	(1,000)			
Total TP	(5,370)	0	0	0
MPA				
Deletion of recruitment budget	(100)			
Deletion of Efficiency & Effectiveness Reviews budget	(1,000)			
Total MPA	(1,100)	0	0	0
Corporate				
Removal of compensation contingency	(5,000)	0	0	0
Reduced cost of police pensions and lump sums as a result of lower number of ill-health retirements	(5,000)	0	0	0
Use of non-pay inflation contingency to part fund cost of free rail travel	(6,835)			
Total Corporate	(16,835)	0	0	0
Total	(45,548)	4,200	0	0