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BRITISH TRANSPORT POLICE**

REPORT TO: British Transport Police Authority
DATE: 12 March 2009
SUBJECT: Medium Term Financial Plan - 2009/10 to 2011/12
SPONSOR: Chief Constable
AUTHOR: Director of Finance and Corporate Services

1. PURPOSE OF PAPER

- 1.1 This report submits proposals for the Medium Term Financial Plan (MTFP) for 2009/10 to 2011/12 including the Revenue Budget for 2009/10. The report builds on consideration given to the MTFP by the British Transport Police Authority (BTPA) on 27 January 2009 and the Strategy, Budget and Performance Monitoring (SB&PM) Committee on 6 February 2009.
- 1.2 Also included in this report as part of the MTFP, are proposals in respect of the capital programme for the period 2009/10 to 2011/12.

2. BACKGROUND

- 2.1 The draft budget proposals submitted to the BTPA and the SB&PM Committee were based on a projected revenue budget increase of 4.8% in 2009/10 reflecting a cap on an increase in Police Service Agreement (PSA) holders funding linked to the Retail Price Index (RPI) increase in August 2008. Lower projections were included for budget increases of 2% in 2010/11 and 2.5% in 2011/12 based on assumptions about the RPI in August 2009 and August 2010.
- 2.2 These reports also identified high priority growth items totaling £2.944m in 2009/10. It was recognised that a budget cap of 4.8% would only provide resources of £0.871m leaving a gap of £2.073m to be bridged by deferring the growth proposals or identifying savings to offset the costs.

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- 2.3 The BTPA meeting took the view that, notwithstanding the merits of the growth proposals, bearing in mind the current economic climate and its impact on the railway industry, it would be difficult to proceed with a budget increase as high as 4.8% even though the economic downturn may well exacerbate policing pressures. The SB&PM Committee were asked to consider lower levels of budget increase and the implications for budget reductions of increases ranging from 3.8% to 4.8% were outlined in the report to that Committee.
- 2.4 Following its review of the position, the relevant minutes from SB&PM Committee (6 February 2009) record the recommendations agreed as below:
- 2.4.1 That the current financial difficulties should be recognised, and that the Authority should respond by renewing discussions around the understanding of the RPI increase.
 - 2.4.2 The Force to create a new baseline for 2010/11.
 - 2.4.3 The Force to look into the implications of paying back the (DfT) loan early using the underspend in 2008/09.
 - 2.4.4 For planning purposes for years beyond 2010/11, figures around 2.6% should be explored.
 - 2.4.5 For 2009/10 the Force to present proposals to the Authority at a figure of less than 4.8% increase, using 4.4% as a guideline.
 - 2.4.6 Any proposals should identify the risks attached to them together with an assessment of how more limited growth could be achieved.
 - 2.4.7 The capital programme as presented be recommended to the Authority for approval.

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3. BUDGET BASELINE INCREASES FROM 2010/11

- 3.1 The current understanding with the Train Operating Companies (TOCs) is for budget increases to be limited to RPI increases for the three years 2008/09 to 2010/11. This follows a period of substantial investment and growth.
- 3.2 At the time the understanding was agreed, the clear implication was that, following a period of large increases in the budget and charges to PSA holders, it would be appropriate to contain the budget at the level established in real terms for the period of the new Strategic Policing Plan. The *Frontlinefirst* Efficiency Programme was set up to ensure that resources were targeted as effectively as possible and to continue to improve policing performance within existing resources.
- 3.3 For many years the RPI has been seen as an accepted measure of inflation and this should have been a reasonable basis to update the budget and maintain its value in real terms. The use of RPI was also appropriate in that it is used as the base yardstick for railway fare increases at 1% above RPI. British Transport Police (BTP) has used RPI in the month of August as this was available in September at the start of budget cycle. This was also close to July which is used by the Government in approving railway fare increases.
- 3.4 The economic disturbance experienced in 2008 has in fact made the RPI very volatile. Following large increases arising from oil and raw material price rises in the early part of the year, the RPI has dropped dramatically to near zero as the economic downturn bites. This volatility has detracted from the rationale for use of the RPI as the indicator of inflation.
- 3.5 Nevertheless, the Government has recently confirmed that the July RPI will be applied again in 2009 to determine railway fare increases from January 2010. It is anticipated that RPI could be negative in the range minus 2% - 3%. If this is the case, fare increases capped at 1% above

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RPI will mean a reduction in fares chargeable. Account must also be taken of the impact on passenger numbers. There has been significant growth in recent years but even if passenger growth remains positive, it will fall almost certainly fall short of the expectations built into the operating companies' business plans. This will clearly lead to cost pressures on the industry and its ability to fund any increase in the PSA.

- 3.6 Whilst this will be a significant factor in considering the BTP budget for 2010/11, it will also be necessary to consider the impact of inflation on the policing services and whether PSA funding is to be maintained in real terms. There are various measures of inflation published by the Office for National Statistics (ONS) that are appropriate for different purposes. The Government now focuses more on the Consumer Price Index (CPI) as its measure of headline inflation and this is used by the Bank of England in meeting its target for controlling inflation. It is normally lower than RPI but for January 2009, RPI was 0.1% whereas CPI was 3%.
- 3.7 The main difference is that RPI includes mortgage repayments and other housing costs that the CPI does not. The RPI has clearly been impacted heavily by the reduction in interest rates that have led to lower mortgage repayments. Changes in interest rates have little impact on BTP except on the Pension Funds and these only flow through after periodic revaluations. The current very low RPI is not therefore a realistic indicator of the inflationary pressure on BTP's budget.
- 3.8 The most significant inflationary impact on BTP is the nationally agreed and determined police officer's pay award. For non-pay inflation, the CPI is at present closer to the cost to BTP than RPI. These may be better indicators of requirements to maintain the BTP budget in real terms.
- 3.9 Given the current economic uncertainty, it would perhaps be inappropriate to come to any firm conclusions as to the basis for the budget increase in 2010/11. This will be reviewed again in July at the start of next year's budget cycle and firmed up during the course of the budget cycle.

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- 3.10 At that time account will need to be taken of the overall economic situation and that of the rail industry. The impact of inflation will be a factor and it may be appropriate to review the various indices available together with the cost of the police pay award. Equally, the demand for policing services is affected by passenger numbers and this has grown significantly in recent years. Also, the current economic problems could well lead to an increase criminal activity that will add to policing pressures. For planning purposes at this stage, the recommendation of the SB&PM Committee to consider 2.6% increases in the PSA has been followed in this report for years two and three of the MTFP.

4 2008/09 UNDERSPEND AND THE DEPARTMENT for TRANSPORT (DfT) LOAN

- 4.1 The proposal was made by the SB&PM Committee for BTP to look into the implications of using the 2008/09 underspend to repay the DfT loan early. The loan outstanding will be £3.5m at the end of this financial year. If the projected underspend of £1.6m were used to reduce the amount outstanding, the question would remain as to when the balance of £1.9m should be paid off.
- 4.2 At present, the loan is scheduled to be repaid by £1.7m in 2009/10 and £1.8m in 2010/11 in accordance with the agreement with the DfT. The early repayment could be used reduce the payment made in either or both of these years.
- 4.3 It is in fact difficult to see any positive advantage to BTP of linking the use of the 2008/09 projected underspend to any particular element of BTP's budget. The underspend will be automatically carried forward in the BTPA's accounts and increase its reserves. It is then open to the BTPA to apply this element of its reserves towards its budgeted expenditure and reduce the PSA holder requirement accordingly.

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- 4.4 Whilst there may be a case for increasing the level of revenue reserves held by BTP, given the financial pressures on PSA holders, the BTPA may well choose to use the underspend from 2008/09 to reduce the PSA requirement in either 2009/10 or 2010/11. This will be considered further in the next section of this report.

5. REVENUE BUDGET 2009/10 AND PROJECTIONS 2010/11 – 2011/12

- 5.1 The SB&PM Committee considered the impact of budget increase at various levels. An increase of 4.8% would provide resources to fund additional cost pressures of £0.871m. If no provision were made for this and a 'standstill' budget applied, the increase would be reduced to 4.4%. This was the guideline level that the Committee determined should be used in preparing this report.
- 5.2 The growth proposals submitted with the previous reports have been reviewed and the items listed below are considered of such a high priority that they warrant being included in the budget for next and future years even if savings need to be made elsewhere.



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Essential Service Development Proposals 2009/10	
	<u>£'000</u>
Additional resources within the Technology Department to support continued growth in workloads and maintain service level required	180
Crime budget - to provide additional resources where budgets have not kept up to date in respect of forensics, PNC access, telephone investigations etc	380
NE Area - Nottingham - move to 24 hour operation	510
CCTV - Force Control Room Birmingham - making full use of the £6m investment in equipment by Network Rail	170
Staffing requirements to cover increased workloads associated with the Taylor reforms etc.	135
Total:	1,375

- 5.3 The reasons for bringing forward these proposals were set out in detail in the SB&PM Committee report.
- 5.4 The main items deferred at this stage are £1.07m for three additional Neighbourhood Policing Teams outside London and £0.3m for a Major Incidents Fund. This will mean that the strategy of introducing Neighbourhood Policing across BTP will not be extended and if more major incidents occur than can be dealt with by the Major Incidents Team, it may be necessary to call on the Contingency Fund or accept abstractions from Areas.
- 5.5 If the budget is set at a 'standstill' level, the growth items identified above would need to be offset by savings. Every effort would be made to avoid reductions in police officers or front line services. The following areas of expenditure and approaches to managing the budget could be adopted.

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- 5.6 Consideration would first be given to the phasing of the implementation of the growth items to reduce the impact in 2009/10. It must be recognised that the full year costs would need to be found in 2010/11 but more time would be available to find the necessary savings.
- 5.7 Some items in the current budget submission are necessarily best estimates of likely costs. Two examples of this are non-pay inflation and the cost of the improved staff terms and conditions approved in principle in 2008/09 but not yet implemented. A limitation on the funds set aside for these issues could reduce the budgetary impact.
- 5.8 The amount included in the budget for depreciation has also been reviewed and a saving against the current proposed provision can be anticipated based on rephasing of the timing on Estates projects and IT purchases. Also scope may be found in the application of technical accounting adjustments.
- 5.9 No savings have been included in the draft budget for savings arising from the *Frontlinefirst* Programme on the basis that any savings identified are normally redirected into enhanced service provision in the Area or FHQ Department in which the savings are identified. Consideration might be given in appropriate circumstances to direct some cashable savings towards the general budget pressures.
- 5.10 Contributions to overhead costs are normally included in Enhanced Service Agreements (ESAs) and where these are being extended in 2009/10 additional amounts may be available if overhead costs can be contained.
- 5.11 It is difficult at this stage to quantify each of these specific elements but taking account of the opportunities available it would not be unreasonable to set a savings target of £1.375m to cover the high priority growth identified. It should therefore be possible to manage the budget at this level without impact on service provision. Appendix A attached sets out a draft budget based on this approach.

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- 5.12 Further savings beyond this would clearly be more difficult. If a lower level of expenditure were required it would be necessary to consider recruitment plans to save on staffing costs. Again, this would need to be applied to minimise any impact on service provision and the achievement of Policing Plan targets. However, larger reductions would inevitably mean a greater risk of performance targets being missed and detract from police visibility. This would also be particularly difficult if criminal activity does rise as a result of the economic downturn.
- 5.13 The budget projection for 2010/11 shows a higher savings requirement of £1.845m whereas the projection for 2011/12 after the DfT loan is repaid shows a small surplus. Any permanent savings identified for 2009/10 will flow through to 2010/11 but further savings will need to be identified to balance the budget in that year even assuming a 2.6% increase can be agreed. It must also be recognised that no new growth has been identified at this stage in future years and that issues are likely to arise that will have to be accommodated.
- 5.14 The issue of the projected underspend of £1.6m in 2008/09 also needs to be resolved. This can be applied to reduce the charges to PSA holders on a one off basis and in total would amount to a reduction of 0.8% in any one year. If the £1.6m were applied in full to 2009/10, assuming the underlying budget increase were approved at the standstill level of 4.4%, the increase in charges to PSA holders would be reduced to 3.6%.
- 5.15 This reduction would, however, need to be reinstated in 2010/11 increasing the charges to PSA holders in that year from the projected 2.6% to 3.4%. Alternatively, if only part of the underspend were applied in 2009/10 the balance could then be carried forward and applied in 2010/11 when budget pressures are higher.
- 5.16 Given the current economic difficulties it is assumed that the BTPA will wish to apply the reduction in 2009/10 to minimise the increase in charges to PSA holders in that year. The impact on the 2010/11 charges to PSA holders will need to be taken into account when the MTFP is next reviewed in July.

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6. BTP – LONDON UNDERGROUND REVENUE BUDGET 2009/10

As Members are aware, the budget for the London Underground Area is agreed with and funded directly by Transport for London (TfL). TfL have not at the time of drafting this report completed their budget process but have given a firm indication to BTP LU Area that the overall sum available for 2009/10 will be £51.667m. This is slightly higher than the provisional allocation forecast for 2009/10 at this time last year of £51.530m

It is not anticipated that the amount indicated will change and work is progressing in preparing a detailed budget within this funding envelope. It is proposed that BTPA should approve the LU Area budget at this level with delegated authority to the Chief Executive to approve any minor adjustment if required.

7. CAPITAL PROGRAMME 2009/10 TO 2011/12:

- 7.1 In considering the budget report at its last meeting, SB&PM Committee recommended the approval of the capital programme for the years 2009/10 to 2011/12. The summary programme is provided as Appendix C to this report – the details remaining the same as those provided to SBPM.
- 7.2 Experience has shown that the costs of capital projects will vary once the commissioning gets underway. There has also been a tendency in recent years for the programme to slip. In view of this, the total value of the programme is above the £13.0m agreed with the DfT based on its capital grant. The BTPA (and/or SB&PM) will be receiving regular progress reports on the programme to monitor spend.
- 7.3 The revenue impact of this programme is included in the figures in Appendix A and assume that the spend will be no more than £13.0m in 2009/10.

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8. CONCLUSIONS AND RECOMMENDATIONS:

- 8.1 The Authority approves the Force's budget of £201,315,000, representing a 4.4% increase in budget (representing a "standstill" budget).
- 8.2 The projected underspend of £1.6m in 2008/09 can be applied to reduce the charges to PSA holders on a one off basis and this would enable an increase in charges to PSA holders of 3.6% to be approved for 2009/10.
- 8.3 The high priority growth proposals totaling £1.375m identified in this report are essential to meet policing requirements and should be included in the approved budget.
- 8.4 A savings target to meet the cost of the growth should also be incorporated into the budget to be managed on the basis of the proposals set out in para 5 above.
- 8.5 A budget for BTP LU Area can be approved in the sum of £51.667 with delegated authority to the Chief Executive to approve any minor adjustment if required.
- 8.6 The Capital Programme as set out in Appendix C is achievable within the sums allocated by the DfT and is recommended for approval.
- 8.7 The revenue budget for 2010/11 still presents a significant challenge and an updated MTFP will be presented to the BTPA at the appropriate time so that timely consideration can be made of discussions with PSA holders on the proposals for that and future years.



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Appendix A

MTFP 2009/10 - 2011/12	Revenue Budget	Revenue Budget Projections		Notes (in Appendix B)
	2009/10	2010/11	2011/12	
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	
BTP Revenue Budget				
PSA Funding level brought forward	192,830	202,690	208,394	1
Inflation, accounting etc changes:				
Inflation (pay awards as agreed)	4,836	4,760	4,755	2
VAT reduction to 15% (9 months only)	(500)	500		3
IFRS Capital financing costs	1,242	(136)	(34)	4
DfT Loan	200	100	(1,800)	5
	5,778	5,224	2,921	
Full year effect of 2008/09 commitments:				
NPTs	400			6
Case and Custody Project	106	(75)		
Control Room Project	(432)	(130)		
Impact programme staffing	684		(209)	7
HR Transformation - Project costs	(114)	(1,260)		8
- Revised structure	(484)			
Mobile data costs	364			9
PDA replacement programme		400		10
	524	(1,065)	(209)	
One-offs in 2008/09 falling out	(707)			11
Revenue effect of capital programme	2,890	1,545	195	12
Service Developments:				
See Table in paragraph 3.4 of report	1,375			13
	1,375	0	0	
Draft BTP Revenue Budget:	202,690	208,394	211,301	
BTPA proposed budget:	1,937	1,987	2,039	14
Draft PSA Funding Requirement	204,627	210,381	213,340	
Projected PSA funding:				
Based on an increase of: 4.40%	203,252			
2.60%		208,537		
2.60%			213,959	
Savings to be identified in year	1,375	1,844	(619)	



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Appendix B

Note
(see
Appendix A)

Revenue Budget 2009/10 – Reasons for additions to Base Budget 2008/09

- 1 BTP Revenue Budget: This is the approved budget level funded from standard PSAs (excludes the BTPA budget which is added at the bottom of the table - see note 15). This is rolled forward each year based on the total BTP spend in the previous year. It is recognised that this includes for 2010/11 the roll forward of service development bids in total – these figures will be updated once the budget is finally agreed.
- 2 Pay awards and other inflation: This is based on the known pay awards for police officers (i.e. 2.65% in September 2008; 2.6% in September 2009 and 2.55% in September 2010) and similar awards for police staff. General inflation has been assumed at 2.5% where appropriate (this applies to non PSA income as well as those items of expenditure which are generally subject to price variances)
- 3 VAT Reduction: The reduction in the rate of VAT to 15% is until 31 December 2009 only. The saving in 2009/10 therefore falls out in 2010/11.
- 4 IFRS capital financing costs: This increase in 2009/10 is to bring capital financing and other charges in line with IFRS as required by the accounting rules under which BTPA operate. Once the base figure is updated there are minor adjustments year on year.
- 5 DfT Loan: The figures here reflect the repayment schedule agreed with DfT. The loan will be fully repaid in 2010/11.
- 6 Neighbourhood Policing Teams: This is the full year effect of the teams agreed in 2008/09. This does not include the cost of those Teams provided by the Mayor of London (50 officers / PCSOs) which are fully funded and therefore a net nil cost to BTP.
- 7 IMPACT Programme: IMPACT is a significant project to deal with the management of police information and making that information available to other police forces according to an agreed format and protocol. The project will begin shortly and the costs shown for 2009/10 include the set



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up costs which will fall out in 2011/12.

- 8 HR Transformation Project: This project will be completed next year and the project costs will fall out in 2010/11. The revised structure for the HR Department has involved some severance costs and these will fall out in 2009/10
- 9 Mobile Data Costs: The provision of PDAs and other similar equipment allows for more efficient working but there are some costs with the associated access to computer systems.
- 10 PDA Replacement Programme: These devices are relatively low cost as individual items and it considered appropriate to fund their replacement from the revenue budget (the original supply was funded by Home Office grant). This will not apply until 2010//11
- 11 One-offs falling out: This represents those items funded as one-offs in 2008/09 or previous years which have now been removed from the budget for future years.
- 12 Revenue Effect of the Capital Programme: This figure represents capital charges (depreciation etc) and other revenue costs (such as rents and rates on buildings provided) as a result of items included in the capital programme in this and past years.
- 13 Service Development Proposals: These are listed in the table in the report (paragraph 5.2) and represent the Force's highest priority items.
- 14 BTPA Budget: The Authority's budget has been increased by 3.8% in 2009/10 and forecast to increase by 2.6% per annum in 2010/11 and 2011/12 in line with the general increase applied for planning purposes.

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Appendix C

Summary Capital Programme 2009/10 to 2011/12	2009/10	2010/11	2011/12	Total
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
TOTAL LAND & BUILDINGS	6,670	5,140	3,500	15,310
TECHNOLOGY	4,996	2,588	2,370	9,954
TOTAL AIRWAVE	747	1,083	747	2,577
PLANT & EQUIPMENT	189	252	250	691
TOTAL MOTOR VEHICLES	1,900	2,500	1,650	6,050
TOTAL PROPOSED SPEND	14,502	11,563	8,517	34,582
PROPOSED DFT ALLOCATIONS	13,000	9,000	11,000	33,000
Surplus / (Deficit)	(1,502)	(2,563)	2,483	(1,582)