

BRITISH TRANSPORT POLICE AUTHORITY

Report to: Audit & Corporate Governance Committee

Date: Tuesday 17th March 2009

Subject: BTP's Relationship with London Underground Ltd (LU)

Sponsor: Director of Finance & Corporate Services and Chief Executive & Clerk

For: Information

1. PURPOSE OF PAPER

- 1.1 This report looks at the current arrangements between BTP and LU as far as budgets, accounting etc are concerned – it does not deal with operational issues except to clarify the position as set out in 1.2 below.
- 1.2 Operationally and legally BTP is responsible for policing the London Underground and the Chief Constable manages this part of BTP's policing via L Area. By virtue of s20 of the Railways & Transport Act 2003, the responsibility for securing the policing of the railway rests with the Authority and the Force. S31 of the Act gives BTP officers jurisdiction to police, amongst other things, track, networks and stations. This included London Underground. The Chief Constable is the Accounting Officer and has ultimate responsibility and accountability for operational, financial and management control. L Area is commanded by a Chief Superintendent, as is the case with other Areas. While L Area is the Area with the largest number of police officers, for all operational purposes it is treated as any other Area.

TfL fully fund the policing of the Underground by the BTP with all direct costs transacted through TfL's internal accounting system. This is governed by a PSA between the BTPA and TfL/London Underground dated the 22nd May 2002 made between the SRA, London Regional Transport and London Underground Ltd. Whilst the Secretary of State has power to make an Order requiring a person to enter into a PSA (and has done so in respect of persons who provide railway services and who have been granted a license under s8 of the Railways Act 1993, and Network Rail), he has not made such an Order in relation to LU. However, the relationship under which certain PSA costs covering Force HQ and BTPA costs etc are charged to LU via monthly invoices. As such, L area costs are not part of the core PSA costs

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of other BTP activities recovered from Train Operating Companies by the funding formula. The income from TfL/LU is treated in the same way as income from enhanced PSAs entered into with TOCs and Network Rail – but see also paragraph 2.5.

- 1.3 Following a brief discussion following the internal audit report on L Area at the last Audit & Corporate Governance (A&CG) Committee, the A&CG Chairman asked for a brief review of the governance etc arrangements as far as the financial arrangements are concerned.

2. CURRENT POSITION

Transaction Processing

- 2.1 L Area direct cost transactions are processed as part of the SAP accounting system operated by TfL. All payments and receipts pass through the TfL banking arrangements to be posted as income and expenditure to the accounts for L Area within the TfL accounts.
- 2.2 Non-staff costs are generally paid directly by TfL and recorded within the cost centre for BTP L Area within TfL's accounts. There are some exceptions – such as police officer training, uniform, forensic costs and technology – which are paid initially by BTP and charged to the L Area Holding Account within BTP's accounts. These costs are then invoiced to TfL and recovered in full by payment from TfL.
- 2.3 Payroll costs (police officers and police staff) are part of BTP's payroll and funded initially by the BTP bank account. All L Area costs are charged to the Holding Account within BTP's accounts. L Area is notified of the payroll detail and the full cost is recovered every period by way of a transfer from the TfL bank account.

Funding arrangements

- 2.4 The net costs of BTP L Area are met by TfL by virtue of their inclusion in the TfL accounting system and banking arrangements.
- 2.5 A separate charge is made to TfL for BTP Force HQ overheads which are calculated by reference to the principles within the charging model, adapted to suit the special nature of the relationship with Lu/TfL. This approach has been agreed with TfL. This charge reflects the proportion of FHQ overheads attributable to L Area but does not appear in the L Area Cost Centre within the TfL accounts. It is subject to a separate agreement with TfL and is credited as income within the BTP accounts. The 2002 Agreement requires LU/TfL to contribute on to the Authority's expenses as shall be equal to the total cost to the Authority of providing the policing service. The Agreement sets out the mechanism for calculating this contribution which is to be based on a service level needed to provide effective and efficient policing.

- 2.6 Similarly, TfL are charged for enhanced services provided to London Overground including the additional 50 officers recently agreed by the Mayor.
- 2.7 The Charging Model for distributing the net budget approved by the BT Police Authority does also include allocations for London Overground Rail Operations Limited (LOROL) and Serco as TfL's operators of the London Overground and Docklands Light Railway respectively. These are charged out in the same way as the charges to other TOC PSA holders.
- 2.8 The net amount recoverable by BTP under core PSAs does not include the costs of L Area as they are directly recovered from TfL under the above arrangements.
- 2.9 Discussions are underway with TfL to agree an amended Agreement which will, amongst other things, reflect the current funding arrangements. This Agreement will have to be approved by the Secretary of State.

Budget Monitoring

- 2.10 The L Area budget detail is loaded in to the TfL SAP accounting system and budget monitoring information is produced from this system. Budget monitoring reports are submitted to both TfL as part of their processes and BTP in the same way as other Areas and Departments. For BTP this involves the Commander and Area Finance Manager being questioned on their budget performance in a structured interview that takes place each period.
- 2.11 Currently, the summary budget monitoring information provided every period to BTP's Programme Board, and to SB&PM Committee and the Authority does not include figures relating to L Area .This reflects the fact that variances of actual expenditure from the approved budget will be met by TfL and not BTP.

LU has its own budget management processes and the managers responsible review spend on a 4 week period basis. There are monthly and quarterly sessions between LU and BTP at which budget issues are raised.

Accounting and Audit

- 2.12 The costs of L Area are not included in BTP's Statement of Accounts but are included in TfL's accounts (see note 25 on page 47 of BTP's 2007/08 Accounts). The transactions within BTP's accounts are subject to audit by NAO and those within TfL's accounts by auditors appointed by the Audit Commission. As such, transactions relating to L Area may be reviewed by both sets of Auditors.
- 2.13 L Area is the subject of internal audit by BTP's internal auditors in the same way as other areas. As with external audit, the L Area transactions and activity can also be looked at by TfL internal audit as part of reviews that cross service functions.

3. OPTIONS

- 3.1 While the current financial arrangements do appear complicated, it is considered that there is good governance and adequate control around the financial processes and they do work. At this stage, therefore, it is not proposed to make any significant changes. There are good controls in place and all of the expenditure is subject to external audit by Government appointed auditors.
- 3.2 From 2009/10 it is proposed to include the costs of L Area within the management accounts and budget monitoring information provided within the Force and to the Authority. This will allow those reviewing budgets to understand the full scale of BTP's operation and to question, when necessary, the budget performance on L Area.
- 3.3 The 'L' area was reviewed by PwC as part of its annual programme and the report was considered at the last A&CG meeting. That report will of course be followed up during the 2009/10 programme to ensure that all accepted recommendations have been actioned
- 3.4 As part of the preparation of the formal Statement of Accounts discussions will take place with NAO as to how L Area costs are presented. This will be reported to the Committee alongside the draft Statement at the next meeting.