

Report to: Police Authority
Agenda item: 6
Date: 21 January 2010
Subject: 2010/11 Budget: PSA Charge
Sponsor: Treasurer
Author: Treasurer
For: Decision

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1. Purpose of paper

1.1 This paper invites the Authority to set the PSA charge for 2010/11 following the completion of discussions with the DfT.

2. Background

2.1 At its meeting in December the Authority agreed the budget for BTP for 2010/11. Two further pieces of work needed to be completed before the Authority could set the PSA charge for the same year. These were:

- a) The Authority needed to agree a budget for its own activities. (This will be done under the previous item on this Agenda.)
- b) Following a review of capital financing practice there was the possibility that a change in that practice may impact on the PSA charge. The issue was under discussion with DfT and until those discussions had been completed it was not possible to determine the Charge.

2.2 It was agreed that the final decisions in setting the PSA charge would be made at the January meeting following completion of work on those two items.

3. Capital Financing

3.1 Members will recall that in order to finance the capital of the Force, a capital budget is agreed on a tri-annual basis and funding is received for the capital during the financial year in line with the spending profile. The accounting treatment has been to credit reserves with the gross amount received from the DfT. The depreciation on the assets purchased has been charged to the PSA holders over their useful economic life and these sums credited to accumulated depreciation in the balance sheet. This has had the effect of building a substantial capital financing reserve. We were concerned that this treatment had the effect

of double funding our capital requirement and sought clarification of this issue in discussions with the DfT and NAO.

- 3.2 The DfT having reviewed their own practice have concluded that in funding our capital requirement in full they have not taken account of the depreciation value collected from the PSA holders. In effect they have funded capital at gross values when the correct treatment would have been to fund capital through grant net of the depreciation value we collect from the PSA holders.
- 3.3 Having reached this conclusion they consider it essential to correct their practice and they plan to do so from this year onwards. This will have no effect on our capital programme or the force's revenue budget. Nor will it have any effect on the PSA charge as the review has confirmed that our practice in charging depreciation has been correct and will be continued
- 3.4 What the decision does mean is that, as there is no scope for changes in our capital financing practice there is no scope to amend the PSA charge from the figure which flows from the decision on the police budget. Therefore an increase of 1.3% will stand.

4. Review of Balance Sheet

- 4.1 We have already committed to a full review of all reserves and surpluses and reports on this will be brought back to future meetings of the Authority. In the course of this review decisions will have to be made on the use of the accumulated capital financing reserve. The DfT will also need to be involved in these discussions so the opportunity has been taken to give them an initial briefing on our plans and in particular on the increased pension liabilities we expect to face following the results of the triennial valuation.

5. The Proposals

- 5.1 Having completed the extra work needed the Authority is now in a position to set the PSA charge for 2010/11. On the assumption that the Authority agrees a 1.3% uplift in its own budget then the increase on the PSA charge overall would be 1.3%.
- 5.2 This outcome will be disappointing to the PSA holders who had made clear their view that a smaller increase and ideally no increase should be incurred. However, the Authority has already concluded that it has set appropriately challenging financial targets for BTP and greater savings cannot realistically be achieved for next year.
- 5.3 The financial challenges facing the funders have been recognised by the Authority and commitments already made to

engage with them fully in the further development of our medium term financial requirements. Opportunities for further reductions will have to be taken in that process but equally it will have to be recognised that the financial challenge associated with pensions funding dwarfs all other items. The Chair will be writing to PSA holders explaining the Authority's decisions.

5.4 With the early agreement of the budget, work will now continue on the allocation of the charges across all the PSA holders and, an analysis of charges will be brought to the Authority meeting in March for approval. As Members know the actual change in PSA charge incurred by 'new model' PSA holders will depend on the re run of the model that will be done before then. The affected PSA Holders are

- Arriva Train Wales
- Arriva Cross Country
- London Midland
- East Midlands
- LOROL
- Southern
- Croydon Tramlink
- Hull Trains

Fixed proportion PSA holders charges will increase by the standard figure of 1.3%.

6. Recommendations

6.1 Members agree an overall increase in the PSA charge for 2010/11 of 1.3%