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Report to: Police Authority

Agenda Item: 5

Date: 26 January 2012

Subject: Finance Group – Q3 2011/12 update

Sponsor: Chair Finance Group

Author: Authority Finance Director

For: Approval

1. Purpose of paper

To report on the outcome and the actions arising from, the quarter 3 meeting of the Authority's Finance Group.

2. Background

The Authority's Finance group was established to carry out detailed scrutiny and finance oversight activities in support of the work of the full Authority. This report summarises the key issues emerging from the quarter 2 meeting of the Group which took place on 16 January 2012.

3. Standing items

3.1 BTP Q3 (see Appendix A):

The Group received the detailed Q3 summary and the full year forecast, both are attached at Appendix A. The forecast outturn indicates an under spend of £0.9 million. This represents an improvement of £1.7m since the last quarterly reports and is because of the Operational Bench costs re-imbursed by the DfT £1.6m. The Operation Bench funding will be held centrally and Areas have been informed that they can overspend within the agreed tolerances, but they have no authorisation to exceed the current forecast.

Concerns were raised regarding the high level of forecast spends due before the end of the year across all areas of expenditure, including staff costs. BTP provide assurance that the figures included in the report have been explored and challenged appropriately and that BTP were confident with them. The Authority Finance Director was requested to review

and analyze the phased spending profile of BTP spend between the end of Q3 and the year end in relation to the following issues: timing of spend, the impact of Operation Bench funding, the back-loading of recruitment to the latter part of the year and the cost associated with the WAN project.

After operation bench, the variance in relation to the staffing budgets are caused, in the first part of the year by deliberately held vacancy gaps and then in quarter 4 back loading recruitment to be set up for the London Olympic committed headcount.

BTP provided an overview of the current position and pressures in relation to the capital budget. The end of year forecast spend is £10.8m, compared to a budget of £11.2m. However it was noted that this included a contingency spend of £0.4 million. BTPA requested that in the scheduled it would be helpful to include all income streams including any external funding and an analysis of the risk exposure of the budget. The level of contingency in the overall capital programme was discussed and BTP agreed to assess whether the overall level was set at the appropriate level to cover risks within the capital expenditure.

BTP tabled the latest cash-flow information at the meeting, and concerns were raised in relation to the risk in relation to April 2012 cash flow, which showed a balance of £7.4m in hand. It will be important to ensure the PSA income is managed and collected promptly around the year end.

3.2 **BTPA Q3 (see Appendix B):**

The year to date expenditure for the Authority was presented which showed an under spend of £165k against a budget of £1,082k. The detailed analysis of expenditure is attached in the report at Appendix B. Having reviewed the accruals and the forecast spend for the year, It was recommended that the forecast under spend of £150k be transferred into the contingency funding to off-set any potential future legal costs following the implementation of the new charging models. This recommendation was agreed by the finance group and needs to be approved by the Authority.
It was noted that the core PSA debtor ageing had improved with the settlement of an old LU invoice for £523k.

4. Capital Budget 2012/13

BTP provided an overview of the 2012/13 capital programme and of process that had been adopted in their review. The original paper is attached for information at Appendix D. The BTPA raised concerns in relation to the amount BTP were indicating for contingency funds for the programme. It was considered that a central contingency across all projects of £87k was insufficient. Following a discussion concerning the total amount of capital funding required, an agreement was reached that BTPA should request £11.6m from the DfT, which would include an increased contingency budget of £487k, for the programme. It was noted that the current capital DEL for capital for 2012/13 was estimated at £9.6m by the DfT. It was agreed, that subject to approval by the Authority, the Authority Finance Director would request an increased capital DEL budget from the DfT of £11.6m. If such a request was not successful, it was agreed that BTP should re-prioritize their capital projects.

It was agreed that the outline future years would be held at £11.2m as contingencies of £0.7m and £0.5m were already included for the following two years. The costs included in the paper were high-level, and would be refined during the business case process. It was noted that further savings may be identified. As there was a forecast under spend in 2011/12, it was questioned whether any projects from 2012/13 could be bought forward. BTP informed the group that this had already been reviewed and was not possible because of a number of reasons, for example supply chain issues in relation to the purchasing of new vehicles.

5. Other Items Discussed

5.1 **BTP Budget 2012/13 – London Underground –** It was noted that discussions had commenced but not yet concluded. A paper would be presented to the March Finance group and then the Authority.

5.2 **Charging Model 2012/13 Update –** An update was given by the Authority on progress made date. No major issues had been identified and the information being gathered was in line with the target timetable.

5.3 **Analysis of total cost to be used for calculating core PSA charges in 2013/14 onwards -** The Authority set out the

allocation of total costs going forward, using the new PSA. The wording of the new PSA would mean that any disputes in relation to charges would be split across the remaining PSA holders to pay as the DfT will not be funding the gap. Millie Banerjee and Andrew Figgures are currently meeting with all PSA holders to consult on the revised wording of the PSA and the resultant charges. Discussions were held around the results of arbitrations and the level of risk there would be in relation to non-payment during this period. It was noted that the DfT could provide cash flow support by means of a loan which would incur interest. The DfT would not, however, fund any irrecoverable gap. It was proposed that the Authority should assess the risk of potential PSA disputes and incorporate a financial assessment of the risk in future budgets beyond 2013/14.

5.4 **Britspace** – at the request of the Finance Group in November, a paper was presented to the group outlining BTP's exposure in relation to the contract for London North custody suite. The costs to complete the snagging list are recoverable from the administrators, and BTP are currently holding back retention monies owed on the contract.

5.5 **WAN** – BTP reported that Tribal are due to report back on the issues with the WAN project within the next week. Feedback given so far highlighted that there is no evidence of fraud, and that there were a number of discrepancies between the business case, current year budget allocation, changes in VAT rates and dual running costs. The overall total project costs presented to the Authority for approval were not expected to be exceeded. The full report will be presented to both Audit Committee and Finance Group when available. BTP did make the group aware of a potential over-run into 2012/13 due to delays with installation at P3 sites. This will lead to additional dual running costs forecasted until May 2012. All additional budget pressures are being reviewed and monitored closed by BTP.

5.6 **Pensions** – The BTP have met with the RPMI concerning the potential unauthorised payments that have been made to a small number of employees. All options and issues will be discussed at the next gold group meeting and the full Authority will be briefed.

5.7 **Utility bills** – Following the last series of finance reviews a number of Areas raised the issue that some TOCs are looking at cross charging utility bills for the office space that BTP use at their stations. Some TOCs are only looking to charge going forward, while others are looking at retrospectively charging for sites. BTP are currently assessing their exposure.

6. Issues for the next meeting

The Finance group will be considering the following at its next meeting in March;

- PSA Charges 2012/13 – Matrix Model
- L Area Budget and gross overhead contribution - 2012/13
- Financial implications of the WAN project
- Detailed Budget BTP 2012/13 and reporting thereon
- Reserves strategy

7. Recommendations

The Authority is asked to note the report and APPROVE the following recommendations from the Finance Group:

- The BTPA forecast under spend of £150k be transferred to the Central Contingency Fund.
- The capital budget for 2012/13 is set at £11.6 million, which includes a central contingency of £0.5 million.
- Subject to the above approval, the Authority Finance Director requests the DfT to approve capital DEL of £11.6 million.