

**Report to:** Finance Group  
**Agenda item:** 4  
**Date:** 19 March 2013  
**Subject:** BTP Budget 2013/14 – Revenue Budget Overground Final Allocation  
**Sponsor:** Interim Director of Corporate Resources  
**For:** Information

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**1. PURPOSE OF PAPER**

- 1.1 This report presents the final budget allocation for 2103/14 for BTP Overground Operations, a separate paper elsewhere on the agenda covers the final budget allocation for L Area Underground Operations. The budget allocation is based on the budget and PSA Funding that was approved by the BTPA on the 13 December 2012.
- 1.2 Since the budget was approved by the BTPA on the 13 December the Chief Constable has initiated a Budget Challenge review to ensure the maximum amount of resource is available to the frontline. This paper provided an update on the results of that review and also includes the Chief Constable's Budget Delegation and Responsibilities Letter which was issued to all budget holders on the 20 February 2013. This letter set out the final Areas and Departments Budget Allocations and the budget and procurement rules to be followed in 2013/14.

**2. BACKGROUND**

- 2.1 The approved net budget for BTP for 2012/13 is £252.181m. This is made up of £200.307m for over ground operations and £51.874m for operations on London Underground.
- 2.2 The approved budget for BTP allows for the use of £3.338m from savings previously achieved in order to meet the funding gap which arises from the PSA being lower than the Budget Requirement. After allowing for the use of these savings the resulting

2012/13 PSA for BTP was set at £196.969m, a standstill on the 2011/12 amount which in itself was a reduction of 2.5% on the 2010/11 PSA.

2.3 The combined BTP/BTPA PSA Charge for 2012/13 is £198.839m including £1.870m for the BTPA.

2.4 At the Full BTPA Authority meeting on the 13 December 2012 the BTPA approved a net budget requirement for the BTPA and BTP combined of £203.962m which after the application of £1.6m of previously found savings results in a combined PSA for the BTPA and BTP of £202.362m a below RPI increase of 1.8% over the current PSA. Table 1 below shows the calculation of the Net Budget and PSA for 2013/14 and over the medium term based on current assumptions which are set out at Appendix A.

**Table 1 – BTP/BTPA Budget Requirement and Proposed PSA**

	2012/13	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m	£m
BTP Net Budget Requirement	200.307	202.092	205.609	212.679	219.113
BTPA Net Budget Requirement	1.870	1.870	1.919	1.984	2.043
<b>Total BTP/BTPA Budget Requirement</b>	<b>202.177</b>	<b>203.962</b>	<b>207.528</b>	<b>214.663</b>	<b>221.156</b>
Release of previously found savings	3.338	1.600	0.000	0.000	0.000
BTP PSA	196.969	200.492	205.609	212.679	219.113
BTPA PSA	1.870	1.870	1.919	1.984	2.043
<b>BTPA PSA for BTP and BTPA</b>	<b>198.839</b>	<b>202.362</b>	<b>207.528</b>	<b>214.663</b>	<b>221.156</b>
Increase in PSA over previous year	0.0%	1.8%	2.6%	3.4%	3.0%

Source: BTPA 13 December 2012

2.5 At the time the budget and PSA was approved by the BTPA there was a small funding gap of £190k that the Chief Constable gave an undertaking would be resolved prior to the final budget being set. That funding gap has been resolved by reducing the budget provision for depreciation by a further £118k, by reducing the budget provision for the uplift in London Location allowance by £61k and by increasing receipts from Pension Plus by £11k.



### **3. CHIEF CONSTABLE'S BUDGET CHALLENGE**

- 3.1 In order to ensure the maximum amount of resource is focused on the frontline the Chief Constable instigated a Budget Challenge review prior to final budget allocations being made to Areas and Departments. The four strands to this review were:
1. A review of Force Headquarters budgets
  2. A review of Force wide Travel and Hotel budgets
  3. A review of the provision for non-pay inflation
  4. A review of pay budgets
- 3.2 The review of Headquarters budgets identified scope to reduce budgets in a number of areas. Budgets for conference attendance and consultancy have been substantially reduced, this together with reductions in Corporate Resources, Central Operations and Territorial Policing and Crime budgets has resulted in £450k of budget being made available to be deployed to the frontline.
- 3.3 BTP's national operational footprint has resulted in the Force incurring a significant amount of expenditure on travel and hotel costs. The Force Executive Board have initiated a number of control measures to reduce this expenditure, on the basis of these measures the Travel and Hotel budget has been reduced by 10%.
- 3.4 The Force Executive Board has also agreed a more challenging way to manage inflationary pressure locally. In future budget holders will be required to absorb budget increase resulting from inflationary pressure by identifying local efficiency savings. On this basis provision will only be made for contractually committed price increases in large corporate contracts, this reduces the amount required to be held centrally for non-pay inflation to £800k allowing £450k to be released to be deployed to the frontline.
- 3.5 The Force has also aligned pay budgets to more accurately reflect anticipated staffing levels during the year. This has eliminated the need for budget holders to maintain a vacancy gap in their budget allowing the budget on the frontline to be increased. Pay budgets are now set on the basis of the Budgeted Workforce Target in each period, this



approach combined with proactive workforce planning will ensure the maximum number of staff can be afforded from BTP's pay budgets.

- 3.6 The overall result of the Chief Constable's Budget Challenge review has been to increase the number of police officers that can be permanently deployed on the frontline by 30. This enables the officers that were temporally deployed to London South and Scotland during 2012/13 to be made permanent. It has also enabled the number of officer permanently deployed on Wales and West and North East to be increased by 5 each.
- 3.7 Funding the London South and Scotland officers on a permanent basis will allow the reserve that would have been used to fund these officers in 2013/14 to be released. The Force Executive Board in discussion with the Chief Executive have determined to use this reserve to contribute to the cost of maintaining operations to reduce metal theft following the reduction of central government funding for this purpose.

#### **4. DETAILED BUDGET**

- 4.1 The BTPA asked to be presented with the detailed budget load prior to the start of the financial year. The detailed budget load is presented at Appendix B. The budget for 2013/14 has been fully loaded onto the Forces financial system and checks have been made to ensure that each Areas and Departments budget is accurate and robust.

#### **5. BUDGETED WORKFORCE TARGET**

- 5.1 In order to ensure the maximum number of Police Officers and PCSOs that can be afforded from BTP's pay budgets the Force has moved to setting and managing budgets on the basis of a budgeted workforce target for each period. Each Area and Department has set a budget which accurately reflects the estimated number of Police Officers and PCSOs that will be in post throughout the year. As noted above this combined with a more proactive approach to workforce planning will ensure that any underspend resulting from a 'vacancy gap' will be minimised and the Force's Police Officer and PCSO budget can better match the numbers employed in each period.

- 5.2 For Police Staff it is considered appropriate for budgets to reflect a small vacancy gap (i.e. 2%) reflecting the likelihood that the churn in Police Staff would result in an underspend if the budget was set at a 100% staffing level.
- 5.3 The results of this exercise will ensure that budgets and staffing levels will be better aligned and pay budgets will fund the optimum level of employees. Table 2 below shows the combined Budgeted Workforce Target for all Areas and Departments for each period during 2013/14 and for each category of staff. The average number of Police Officers that will be in post during 2013/14 is 2,878 and the maximum number will be 2,903, this compares to an average number in post during 2012/13 of 2,824.

**Table 2 – Budgeted Workforce Targets for each period and category of staff**

Police Officers (budget doesn't include a vacancy factor)

	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Period 7	Period 8	Period 9	Period 10	Period 11	Period 12	Period 13	Total
Annualised BWT	2,878	2,878	2,878	2,878	2,878	2,878	2,878	2,878	2,878	2,878	2,878	2,878	2,878	2,878
Period BWT	2,824	2,825	2,841	2,880	2,894	2,890	2,898	2,903	2,897	2,890	2,897	2,892	2,886	2,878

PCSOs (budget doesn't include a vacancy factor)

	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Period 7	Period 8	Period 9	Period 10	Period 11	Period 12	Period 13	Total
Annualised BWT	370	370	370	370	370	370	370	370	370	370	370	370	370	370
Period BWT	376	373	368	376	372	381	371	369	368	366	365	363	362	370

Police Staff (budget includes a vacancy factor of 2%)

	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Period 7	Period 8	Period 9	Period 10	Period 11	Period 12	Period 13	Total
Annualised BWT	1,440	1,434	1,433	1,433	1,433	1,434	1,435	1,435	1,435	1,435	1,435	1,435	1,435	1,435
Period BWT	1,364	1,362	1,389	1,404	1,408	1,412	1,413	1,418	1,421	1,423	1,426	1,426	1,426	1,407

**6. CHIEF CONSTABLE'S BUDGET DELEGATION AND RESPONSIBILITIES LETTER**

- 6.1 The Chief Constable issued his Budget Delegation and Responsibilities Letter on the 20 February. This letter is a key part of the Force's Corporate Governance Framework as it sets out in detail the financial rules which must be followed by all budget holders. Copies of the Delegation Letter will be made available at the Finance Group.

**7. LONDON UNDERGROUND AREA BUDGET**

- 7.1 The net budget for L Area for 2013/14 is set at £52.698m and the charge for centrally organised services provided to L Area was set at £10.445m. A paper setting out the detail of the L Area budget is elsewhere on the Finance Group agenda.

**8. CAPITAL PROGRAMME**

- 8.1 Capital Planning for 2013/14 and over the following three years has been prepared under the remit of the Service Improvement Board to ensure robust business cases are developed and approved in accordance with the requirements of the BTPA Corporate Governance Code and Chief Constable's Delegation and Budget Responsibilities Letter. The Capital Programme was approved by the Authority in January 2013.

**9. CONCLUSIONS**

- 9.1 Members are asked to note the contents of the paper and the final allocation of the 2013/14 over ground budget.

**Appendix A****KEY MEDIUM TERM FINANCIAL PLANNING (MTFP) ASSUMPTIONS**

1. The key assumptions and risks underpinning the MTFP are set out below:

**Pay and Inflation**

2. The MTFP assumes that the two year pay freeze will continue until 2013/14, at that point it is projected that pay costs will rise in line with the amounts set out in the Autumn 2011 Budget Statement i.e. 1% per annum in 2013/14 and 2014/15. The impact on pay budgets in 2013/14 is a part year effect since the pay award for Police Officers is with effect from 1 September and from 1 July for Police Staff.
3. As Members will recall following the introduction of the EPS pay arrangements, Police Staff who achieve their PDR objectives are entitled to a salary point increase of 3% each year until they reach the top of their pay scale. For 2012/13 the cost of this pay progression at £950k can be met within budget, however in future years slower than expected staff turnover means that the scheme does not become self funded through staff turnover as quickly as was anticipated. This gives rise to a budget pressure of £700k in 2013/14, £550k in 2014/15 and £400k in 2015/16.
4. The Police Staff pay strategy for 2012/13 includes an increase in London Weighting Allowance (which has been held at its current level since 2008) as a means of helping to ensure that salaries do not become increasingly uncompetitive. Increasing the London Weighting Allowance by 10% a year is reflected in the MTFP at a cost of approximately £200k per annum. The Appointments and Remuneration Sub-Committee at its meeting in July 2012 approved this increase in London Weighting Allowance.
5. Since the MTFP assumptions were last presented to the Strategy Group a new budget pressure has emerged as a result of the unsocial hours provisions of the Winsor Review of Police Officer and Staff Remuneration and Conditions. The full year impact of these additional costs is in the order of £700k per year. There is no provision within the current MTFP for these costs and provision will need to be made in the refreshed MTFP.

### Non-pay Inflation

6. The current MTFP assumptions on the impact of non-pay inflation as set out to the Strategy Group by the Chief Executive are shown in table 4 below. The 2013/14 RPI assumption has been updated to reflect the latest forecast for RPI as published by HM Treasury (Forecast for the UK Economy a comparison of independent forecast – October 2012):

**Table 1 – Non-pay inflation assumptions in the current BTP MTFP**

	2012/13 %	2013/14 %	2014/15 %	2015/16 %
RPI Range	2.6 - 5.7	1.3 - 4.0	1.9 - 4.0	2.7 - 4.5
RPI based assumption in 2012/13 MTFP	4.0	2.9	3.0	3.5
Proposed RPI based assumption for 2013/14 MTFP		2.5	3.0	3.5
Calculated Inflator	2.9	1.8	1.4	1.3

Source: Paragraph 6 – MTFP for Financial Years 2012/13 to 2015/16 – Strategy Group 19 April 2012

7. The decision on which non pay inflation assumption to use is largely based on the Authority and Force's appetite for risk in that the RPI based assumption is less risky than the calculated inflator assumption which makes a number of specific assumptions about inflation impacts on categories of spend. It is proposed to use the revised RPI assumption for 2013/14 of 2.5% rising to 3% in 2014/15 and to 3.5% thereafter.
8. As mentioned above the Force Executive Board has also agreed a more challenging way for inflationary pressure to be managed locally. In future budget holders will be required to absorb budget increase resulting from inflationary pressure by identifying local efficiency savings. On this basis provision will only be made for contractually committed price increases in large corporate contracts, this reduces the amount required to be held centrally for non-pay inflation to £800k allowing £450k to be released to be deployed to the frontline.



**Budget Increases Included in the Refreshed MTFP**

- 9 There are a number of emerging budget pressures in addition to the impact of the Winsor pay reforms as mentioned above which have been addressed as part of next year's budget and the MTFP. The full list of budget increases including the newly emerging budget pressures are:
- 10 **Airwave Usage Costs** – As is the case for a large number of police forces BTP is subject to escalating costs of using the Airwave radio system. The use of the Airwave network is proactively managed within BTP to ensure that costs are minimised, however each year, as for every other force, the usage costs charged by the Airwave supplier continues to increase. The MTFP includes a further £200k in 2013/14 to meet this budget pressure. A further increase is projected for 2014/15 at which point the budget will be held for future years.
- 11 **Rent Reviews** – BTP negotiates any proposed increases in rent very robustly however this is an area of budget volatility and pressure. The MTFP includes £50k to meet known rent increases in 2013/14, the main properties this relates to are Birmingham and Callaghan Square.
- 12 **CCTV Maintenance** – As Members will be aware there been significant investment funded by Network Rail into BTP's CCTV capacity and capability. This investment which totals over £14m to date, with more being proposed, has enabled the building of a technical CCTV Hub which improves BTP's ability to manage and process CCTV, and respond to live events and incidents, from 14 train operators. To ensure the systems remain operational at all times, maintenance cover is required to ensure all hardware and software is supported. Proactive and reactive maintenance is required, together with additional support for major events e.g. New Year's Eve. Previously interim maintenance support was provided and this proved invaluable to BTP for the Jubilee, Notting Hill Carnival, Olympics and Paralympics. The estimated cost of this maintenance is £500k per annum which when considered against the significant capital investment which has been funded externally represents good value.

- 13 **Leadership Academy** – Members will be aware of the proposals to strengthen BTP's Leadership Strategy, Learning and Development have developed proposals to establish a Leadership Academy at an annual extra cost of £141k. T/ACC Newton has identified further savings through the review of the Human Resources and Learning and Development Departments to offset the additional cost of this initiative.
- 14 **Social Media** – this is an increasingly significant way in which BTP does business. Force Executive Board has approved £120k of spending on Social Media in 2012/13 and £100k has been added to the base budget from 2013/14. This amount which is provided for project and development costs does not include any provision for business as usual operating costs such as contact handling and may need to be reconsidered and potentially increased following detailed consideration of the business case for increasing social media capacity. The refreshed MTFP includes £100k to support the impact of Social Media.
- 15 **NPIA successor bodies increase in charge** – While it is extremely difficult to estimate the likely cost of additional charges falling on BTP following the winding up of the NPIA. A conservative estimate of a 15% increase in charge from NPIA successor bodies has been included in the MTFP this amounts to £150k per annum.

**Possible Budget Increases Not Included in the Refreshed MTFP**

- 16 There are a number of issues which may result in a budget pressure over the medium term but there is significant uncertainty over whether they will lead to a budget pressure and at what level of cost. It is considered prudent not to make provision in the MTFP for these pressures at this time but should they materialise it may be necessary to call on the Contingency Reserve should it not be possible to contain the budget pressure in year. These issues are:



- 17 **Additional Police Pension Employers Contribution** - The current MTFP includes an amount of £5m per year indexed to inflation to address the deficit in respect of the British Transport Police Force Superannuation Fund (for Police Officers) which Members will recall stood at £32m at the time of the last valuation. It is possible that following a further valuation of the Fund as at 31 December 2012 (indications are that the deficit may be in the order of £110m) that this level of contribution will need to be increased. However, no increase has been assumed as part of BTPs MTFP planning assumptions and should an increase in employer's contribution be required from 2014/15, perhaps as part of a package of changes to the contributions, membership and benefits structure of the BTPFSF, it will be necessary to revise upwards the proposed PSA position by an appropriate amount.
- 18 **Potential Costs of Pensions Auto Enrolment** - Members will be aware that like all employers BTP will in the future need to provide an Automatic Pensions Enrolment facility for all staff. The details of how this facility will be provided are yet to be defined and again there is no assumption in the current MTFP for any additional costs of this provision. The preliminary assessment of the liability for additional employer's contributions in respect of 376 employees who are not current active members of the BTPFSF or BTP Police Section of the Railways Pension Scheme range between £0.5m and £2m pa from 1 May 2013. A range of options on how this funding gap can be addressed have been developed and were subject to initial consideration by the Authority's Pension Sub-Committee on 13 November 2012. In the event that Pensions Auto Enrolment has a financial impact in 2013/14 it will be necessary to call upon the Contingency Reserve until such time that this can be built into budgets going forward.
- 19 **Withdrawal of Metal Theft Tasking Funding** – the MTFP makes no provision to fund the additional activity which was funded by the £5m of Metal Theft Tasking funding in 2011/12 and 2012/13. Should BTPA/BTP wish to continue with some of this activity into 2013/14 additional budget provision would need to be made.

**Appendix B**

**2013/14 Detailed Budget Load**

	Original Budget 2012/13 £	Period 12 Revised Budget 2012/13 £	Budget Load 2013/14 £
<b>Expenditure</b>			
<b>Staff Costs</b>			
<b>Police Officers</b>			
Pay and Allowances	95,418,826	94,525,309	97,267,301
Pensions	19,131,396	19,005,039	19,231,865
Overtime, Rest Days and Bank Holidays	4,573,892	5,236,642	4,844,523
	<b>119,124,114</b>	<b>118,766,991</b>	<b>121,343,689</b>
<b>PCSOs</b>			
Pay and Allowances	6,625,478	6,872,831	6,780,838
Pensions	570,042	595,008	593,643
Overtime, Rest Days and Bank Holidays	81,980	123,788	111,577
	<b>7,277,500</b>	<b>7,591,627</b>	<b>7,486,058</b>
<b>Police Staff</b>			
Pay and Allowances	40,344,042	39,072,795	40,908,174
Pensions	2,913,327	3,129,742	3,403,948
Overtime, Rest Days and Bank Holidays	324,210	766,476	408,145
	<b>43,581,579</b>	<b>42,969,013</b>	<b>44,720,267</b>
<b>Total Pay</b>	<b>169,983,193</b>	<b>169,327,631</b>	<b>173,550,014</b>
<b>Non Staff Costs</b>			
<b>Supplies and Services</b>			
Recruit and Other Training Costs	1,820,760	2,064,356	1,889,419
Other Supplies And Services	1,786,488	1,760,497	1,655,016
Employee Wellbeing	1,246,805	1,211,377	1,195,070
Forensic Costs	1,071,306	1,040,306	1,029,661
Postage, Printing, Stationery	906,518	908,880	882,969
Non Pay Inflation Provision	2,000,000	0	800,000
Insurance Costs	742,609	684,993	753,479
Contracted Labour Costs	866,865	783,314	665,656
Clothing And Other	560,391	603,442	609,411
Library, Media & Marketing	233,847	347,290	312,411
Compensations Claims	306,000	246,438	288,000
Legal Costs	245,462	307,835	260,039
Police Equipment	254,146	390,542	246,839
Support Staff Training Costs	184,885	221,263	208,310
Maintenance of Non Police Equip	126,204	131,800	158,478
Dog Feeding and Kenneling	169,727	120,800	121,940
I D Parade Costs	92,676	92,676	78,471
Advertising For Vacancies	70,000	70,000	70,000
Police Surgeon Fees	90,505	90,505	67,181
Revenue Contribution to Capital	0	175,692	0
	<b>12,775,193</b>	<b>11,252,006</b>	<b>11,292,350</b>
<b>Premises and Office Costs</b>			
Rents, Rates etc	10,042,295	9,956,958	9,826,379
Service Charges	2,623,511	2,596,333	2,541,375
Premises Maintenance and Repair	1,960,216	1,861,200	1,975,367
Insurance, Heating And Light	1,125,074	1,250,074	1,167,208
Photocopiers	230,393	402,102	383,327
	<b>15,981,489</b>	<b>16,066,667</b>	<b>15,893,656</b>

	Original Budget 2012/13 £	Period 12 Revised Budget 2012/13 £	Budget Load 2013/14 £
<b>Sundry Staff Costs</b>			
Temporary Agency Staff	282,316	823,717	427,100
Training Staff	149,418	279,828	220,044
Professional Fees	4,482	3,289	3,187
	<b>436,216</b>	<b>1,106,833</b>	<b>650,331</b>
<b>Communications and Computers</b>			
Technology Costs	7,780,590	7,259,509	7,961,204
Telephones	3,722,876	3,734,263	3,982,596
	<b>11,503,466</b>	<b>10,993,773</b>	<b>11,943,799</b>
<b>Transport Costs</b>			
Vehicle Costs	2,459,222	2,692,133	2,487,153
Travel And Hotels	1,049,279	1,138,275	945,577
	<b>3,508,501</b>	<b>3,830,408</b>	<b>3,432,730</b>
Capital Charges	9,627,195	9,692,444	9,429,246
In-year savings	0	1,600,000	0
Metal Theft Tasking Initiative	0	700,000	0
<b>Total Non Staff Costs</b>	<b>53,832,060</b>	<b>55,242,131</b>	<b>52,642,112</b>
<b>Total Expenditure</b>	<b>223,815,253</b>	<b>224,569,762</b>	<b>226,192,126</b>
<b>Income</b>			
EPSAs	-16,356,581	-16,773,472	-16,722,662
Income From LUL	-4,130,355	-4,130,355	-4,229,483
Related Party Income	-1,391,846	-1,438,111	-1,433,788
Other Income	-1,450,236	-1,648,446	-1,538,527
Royal Train Income	-99,235	-192,379	-95,500
Interest	-80,000	-80,000	-80,166
<b>Total Income</b>	<b>-23,508,253</b>	<b>-24,262,762</b>	<b>-24,100,126</b>
<b>BTPA Net Overground</b>	<b>200,307,000</b>	<b>200,307,000</b>	<b>202,092,000</b>
Less Reserves	3,338,000	3,338,000	1,600,000
<b>PSA Funding</b>	<b>196,969,000</b>	<b>196,969,000</b>	<b>200,492,000</b>