British Transport Police Authority

The Forum
5th Floor North
74-80 Camden Street
London NW1 0EG

T: 020 7383 0259
F: 020 7383 2655
E: general.enquiries
@btpa.police.uk

www.btpa.police.uk

Report to:	Finance Group
Agenda item:	7
Date:	17 October 2012
Subject:	Contingency Reserve
Sponsor:	Authority Finance Director
For:	Discussion

1. Purpose of paper

1.1 An agreed approach in valuing the strategic risks for the both the Authority and BTP has now been agreed. It was agreed that a quarterly update would be provided to the Finance group once the updated strategic risk registers had been presented to the quarterly Audit Committee.

1.2 Members of the finance group are asked to discuss the relative exposure and the current level of the contingency reserve.

1.3 Members are reminded that the contingency reserve is currently £3,285k.

2. Financial Assessment of Risks

2.1 A methodology agreed at the last Finance group has been applied to the BTPA risk register.

2.2 When the initial risks are assessed and entered onto the risk register, each one of them is assessed for probability and impact. The impact is measured across four different criteria which are reputation, financial, safety and performance and service. The financial impact used in the assessment of the original risk has been used. Once the financial impact, if any, of the risk has been established, this will be assessed as having an impact on the Police Force, which is categorised as minor, moderate, significant and major. A percentage range has been applied to these impact categorisations, this is in line with the ranges applied in the risk model used by the BTP/A. As discussed at the last Finance group a **mid-point** has been added to the percentages applied as a further development of this approach to assigning costs to risks.

2.3 These are set out below:

	Assigned Percentage Range		
	Lower range	Mid-point	Upper range
Minor	0.1%	2.5%	5.0%
Moderate	5.1%	7.5%	10.0%
Significant	10.1%	17.5%	25.0%
Major	25.1%	62.5%	100.0%

2.4 These percentages have then been applied to the risk of the event occurring to give a range of financial impact. This is set out in appendix A.

3. Adequacy of Level of Contingency Reserve

3.1 The outcome ranges for BTP and BTPA are from £1.7m to £4.7m and is summarised below:

	Assessed Risk Cost		
	Lower range	Mid-point	Upper range
	£k	£k	£k
BTPA	1.0	1.8	2.6
BTP	0.7	1.5	2.1
Total	**1.7**	**3.3**	**4.7**

3.2 No assessment has been made on the risks that are considered ALARP.

3.3 Both the WAN and disaster recovery risks have been closed in the last quarter on the BTP Strategic Risk register. The assessed risk cost has therefore fallen for BTP to the levels in the table above, with the upper range falling from £4m to £2.1m. There has been no change to the BTPA risks.

3.4 The current level of contingency is in line with the assessed mid-point cost of £3.3m. However if the 2012/13 financial forecast allows, it would be advisable to increase the contingency reserve, or to budget specifically for an annual increase.

4. Investment of Contingency Reserve

4.1 Currently no separate bank account is held for the contingency fund.

4.2 In determining the Treasury Management policy of BTP/A the requirements of Managing Public Money need to be considered. Managing Public Money states *that 'it is essential for departments and NDPBs to minimise the balances in their own accounts with commercial banks'* and *that 'any organisation which chooses not to use the Government Banking Service ('GBS') as its primary banking service* ***should justify that its policy offers value for money for the public sector*** *as a whole'*.

4.3 BTP/A currently enjoys a flexible and efficient banking service provided by a commercial bank albeit one that is 83% owned by the Government and receives interest at 0.28% above base rate on cash holdings. A smaller amount is deposited with the GBS, although very few transactions go through this account. A case can be made for BTP/BTPA to continue with its current use of a commercial bank as its primary banking service on the basis of efficiency and value for money.

4.4 Enquires have been made of the Royal Bank of Scotland ('RBS') as to whether BTP/A could benefit from an improved rate of return on our cash balances, potentially if the Contingency reserve was to be separated from the current account held. RBS have confirmed that this would only be possible if BTP/A held its cash in a term account with a minimum notice period of at least 6 months. Indicative rates provided by RBS for their term accounts were as follows:

- 6 months 1.01%
- 9 months 1.18%
- 12 months 1.32%

4.5 Members are asked to discuss whether the marginal improvement in return is considered sufficient to compensate for the inflexibility of holding cash for operational cash flow requirements at notice, provided the requirements of Managing Public money can be demonstrated.

5. Recommendations

Members are asked to:

5.1 discuss the level of the contingency and whether any that future budgets should incorporate a deliberate policy to increase the contingency level and include a specific risk premium and

5.2 discuss whether an amount equal to the contingency reserve should be invested in a separate bank account yielding marginally higher returns.