

Report to: Finance Group
Agenda item: 9
Date: 16 January 2013
Subject: Contingency Reserve
Sponsor: Authority Finance Director
For: Discussion

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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 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. A **mid-point** has been added to the percentages applied as a further development of this approach to assigning costs to risks.
- 2.2 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%

2.3 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 £1.5m to £4.4m and is summarised below:

	Assessed Risk Cost		
	Lower range	Mid-point	Upper range
	£m	£m	£m
BTPA	1.0	1.8	2.6
BTP	0.5	1.1	1.8
Total	1.5	2.9	4.4

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

3.3 The values associated with the BTP risks have reduced since quarter 2 as risk SR64 - Uncertainty about the state of public finances has been moved to ALARP. This reduction would have been more significant, but BTP have also re-opened risk SR41 - Disaster Recovery (DR) due to the delays in the failover testing. The estimated risk costs associated with DR are anticipated to increase once the funding for the business case is added. The net change is a mid-point reduction of £0.3m.

3.4 The current level of contingency is slightly lower (£0.3m) than what is current held in the reserve, when compared to the mid-point value. However if the 2012/13 financial forecast allows, it would still be advisable to increase the contingency reserve, or to budget specifically for an annual increase.

4. Recommendations

Members are asked to:

4.1 Assess if the current level of reserves are sufficient to cover the current strategic risks.

Risk Costings						
Methodology used						
Based on the strategic risk Financial Impact rating						
Assigned Percentage Range						
	Low range	Mid-point	Upper range			
Minor	0.0%	2.5%	5%			
Moderate	5%	7.5%	10%			
Significant	10%	17.5%	25%			
Major	25%	62.5%	100%			
BTP Risk						
		Impact	Estimated Costs £k	Risk Cost Low £k	Risk Cost Mid £k	Risk Cost Upper £k
SR41 - Disaster recovery		4	892	224	558	892
SR56 - Cable Theft		2	1,200	60	90	120
SR61 - Terrorist Attack		2	4,000	200	300	400
SR62 - Scotland		1	7,400	-	185	370
SR64 - MTFP						
Reopened due to delays with the failover testing. Estimated cost will be revised once the business case has been submitted						
EPSA charges.						
Estimated costs of terrorist attack based on 7/7						
Overhead contribution as based on the 12/13 charging model						
This is now considered ALARP and has been excluded from the calculations						
Total - BTP Risk			13,492	484	1,133	1,782
Costs taken from Service Improvement Board papers, EPS information, BTPA charging model 12/13, FHQ Finance and estimates where not available.						
BTPA Risks						
		Impact	Estimated Costs £k	Risk Cost Low £k	Risk Cost Mid £k	Risk Cost Upper £k
ASR 50 - Failure to have signed PSA		3		-	-	-
ASR 52 - Challenges to the charging mechanism		3	1,000	100	175	250
ASR 56 - LU Ltd choose to reduce policing levels		3	9,365	937	1,639	2,341
ASR 57 - Investment risk in relation to pension		1		-	-	-
ASR 60 - Pension scheme valuation for Police Officer te		4		-	-	-
Deficit in the officer fund was £36m, there is a recovery plan in place. A valuation is due at the end of 2012, and it is expected that the deficit might have increased and a new recovery plan with be required. Initial report is expected in July 2013. An interim report has been requested from Punter Southall. The Authority are assess the implications of the Hutton Report on BTP.						
This is a new risk added at the December 2012 Audit Committee. BTPA are awaiting the valuation to assess the potential impact.						
Total - BTPA Risk			10,365	1,038	1,814	2,591
Grand Total			23,857	1,522	2,946	4,373