

Report to: Police Authority
Item: 2
Date: 4 August 2016
Subject: Finance Committee
Sponsor: Committee Chairman
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For: Information

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1. Purpose of paper

- 1.1 This report summarises the business of the Finance Committee meeting that took place on 21 July 2016. Topics have been prioritised below, a copy of the minutes will be available for Members if further detail is required.

2. 2015/16 Final Outturn

- 2.1 The post year-end final position for the force management accounts was determined as £4.5m (£4.45m) adverse to budget (See [note A](#) below). In finalising an in-year amount for consideration for recovery via the charging mechanisms a number of adjustments have taken place:

- Removal of provisions relating to pre 2015/16 activity ([note B](#))
- Inclusion of all income against force expenditure (the move from net reporting)

Allowing for these adjustments, the reported overspend of the management accounts for income and expenditure moves to £3.44m (see [note C](#)) adverse. This assumes the recovery of £0.8m cost of policing not included in the £210,723k agreed at the Authority meeting dated 11 December 2014.

	<u>Management Accounts</u> <u>(Appendix A)</u>		<u>Management Accountants</u> <u>(Appendix B)</u>		
	<u>Actual</u>	<u>Budget Variance</u>	<u>Actual</u>	<u>Budget Variance</u>	
Net Reported MA Expenditure	270.72m	-4.45m			
3.1. Gross Reporting (all income)- PSA Income	-209.29m	0.21m			Note A
3.1. Gross Reporting (all income) - TfL Income Charge	-55.44m	-1.50m			
		-5.74m			
BTPA Cost	2.06m	-0.05m			
Cash Draw down	-1.59m	0.00m			
Deficit pre prior year adjustments		-5.79m		-5.79m	
3.2. Excluding prior year provisions	-3.16m	3.16m			Note B
Deficit reported as per Appendix A		-2.64m		-2.64m	
3.4. Inclusion of external depreciation			2.93m	-2.93m	
Deficit reported as per Appendix B				-5.57m	
3.3. Excluded expenditure	0.80m	-0.80m	0.80m	-0.80m	
Total deficit excluded from charging model		-3.44m		-6.37m	Note C

- 2.2 Consideration was given as to whether the depreciation on third party funded assets such as CCTV should be included within any wash-up charge to be recovered from PSA holders. The 2015/16 value of external depreciation is £2.9m. There is no provision within the agreement with Network Rail for further funding to be automatically provided at point of asset replacement. On the assumption that BTP will therefore be funding the replacement of the assets the charging of depreciation would therefore allow funding to be built up in advance. It was agreed that this should be included in the cost of policing. The Chief Executive and the Chief Constable were however requested to speak to Network Rail about whether any future funding for the asset replacements was possible.
- 2.3 Committee members were advised that in light of the £11m fall in cash over the past two years (£8.8m in 2014/15 and £2.3m in 2015/16) recovery of the overspend via the PSA charges rather than from reserves was recommended.
- 2.4 It was agreed by the Finance Committee that the £3.44m overspend is recovered via the PSA charges and is split across overground and underground. On the assumption that the Chief Executive and Chief Constable are not successful in asking for funding for replacement assets £2.9m for external depreciation will also be recovered.
- 2.5 Review of the PSA agreement and the TfL contract confirms that it is possible to recover the overspend from PSA holders.
- 2.6 Further work will be performed on the final value to be charged to each customer however a high level calculation according to the 2015/16 expenditure split indicates a 25% allocation to TfL and 75% to PSA holders.

2.7 Finance Committee members noted concern on the management of stakeholder relationships in light of the recovery of the overspend. A briefing for stakeholders is to be prepared and will be reviewed by Finance Committee members before sending. Stakeholder meetings will be attended by both the Chief Executive and the Chief Constable.

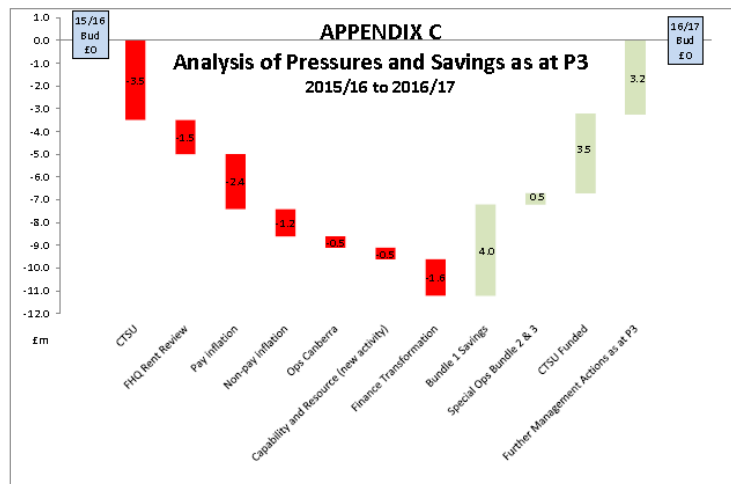
3. Capital Programme 2016/17

- 3.1 The Capital programme is proposed to spend £14.68m however this is greater than the funding available of £10.4m (being the recovery via depreciation).
- 3.2 On the basis that the funding value was £10.4m, BTP were instructed that capital spend must be limited to £10.4m for 2016/17. Over-programming to £15m was agreed on the basis that forecast spend is not to exceed £10.4m as at P3.
- 3.3 It was suggested that BTP should investigate the option of moving to a contract hire / renewal / maintenance contract rather than vehicle purchase to achieve savings.

4. BTP P3 2016/17 results

4.1 The full year forecast position as at period 3 includes a gap of £3.2m compared to 2016/17 budget and largely relates to financial pressures for items such as:

- £0.5m Operation Canberra
- £1.5m Rent review (FHQ and Blundell St)
- £1.5m Finance Transformation
- £0.5m P&D Activity for: Niche and senior leaders training, delays to moving to PAM medicals, legal and licencing.
- £3.6m inflationary items for pay and on pay
- Offset by £4.5m of identified efficiencies/ savings activities as shown below.



4.2 A management action plan is being developed to continue the work on closing out the remaining £3.2m budgetary gap. A key area will be reviewing the future resourcing strategy for the Force across both agency and fixed term contracts and permanent staff base, and establishing the right mix, and level in light of the current budgetary gap. Target vacancy gaps and corresponding budgetary reduction have been issued out across the Force, with anticipation this is worked up and reflected as part of the P4 financial forecast.

4.3 Finance Committee members were informed of some pressures and opportunities to the 16/17 budget, of which the key pressure items are included below. Those likely to materialise will be included in future forecasts.

- TfL 8% cash/budget reduction request of £5.6m. While £1.5m have been reviewed and declared as an opportunity to TfL. TfL have signalled that they only have budget provision for £61.5m versus the agreed authority budget of £67.1. A risk on income of £4m.
- A funding gap for external depreciation charges not included within PSA charges (up to £3m) as discussed above.
- An Authority funding gap of £0.6m relating to expenditure not included in the total cost of policing, this expenditure was deemed to be recovered from other sources of income such as TfL etc.
- Funding for the agreed budgeted £3.5m for CTSU growth activity, forecast at P3 to be £2.8m for this financial year.
- SWT PSA income dispute - (£1.64m)

4.4 The Chief Constable was asked to provide information to TfL to convey the operational impact of the savings noted above with the hope to agree the final TfL budget for 2016/17.

4.5 The Chief Executive informed the Committee that he will seek to recover the £0.6m shortfall in the BTPA budget in year.

4.6 The Chief Executive will also seek to finalise the dispute with South West Trains.

5. BTPA Q1 2016/17 results

5.1 The P3 YTD spend versus budget is showing a £12k underspend.

- 5.2 An updated forecast is currently being worked on. There are some pressures including maternity leave cover costs not budgeted for which will impact year end results. Work performed so far indicates a £20k forecast overspend.
- 5.3 The Committee reviewed the request to spend an additional £80k for a project manager for the Scotland project. They acknowledged the project manager was not in the budget for BTPA and requested that the Chief Executive seek funding from the DfT with respect to the post. They noted that the post was to be recruited and the expenditure on the Scotland Project funded.

6. Finance Action Plan

- 6.1 Members were provided with a high level timetable summarising the key milestones in the plan. The priorities for quarter two include work surrounding the efficiency project prior to the challenge meeting to be held with the DfT in October.

Timetable

	2016/17			2017/18			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Stabilisation							
short term resourcing requirements agreed	◆						
weekly and monthly KPI reporting of controls	→						
Restructure							
Future state organogram agreed	◆						
Implementation plan	→						
Management Accounting							
Improved management reporting	→						
Mid-year forecast	◆						
Cash, Reserves and Charges							
Agree short-term measures to mitigate cash reserves diminution	◆						
Decisions on wash up charges	◆			◆			
Strategic options for charging & cash reserves recovery		◆					
Including review of cost allocation across all funding streams (PSA, TFL, EPSA, other)		◆					
Including review of strategic options for implementing a charging framework that reduces / eliminates volatility		◆					
Including consideration of timelines, risks and issues for implementing changes		◆					

	2016/17			2017/18			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4
MTFP Review							
Develop five year MTFP		◆					
Integrated planning and budgeting process for 2017-18		→					
Efficiency							
Completion of "Value Mapping"	◆						
Back office benchmarking exercise	◆						
Efficiency proposals and product	◆						
DfT challenge meeting		◆					
Shared Services							
Business case prepared (Fin Co, Authority, DfT and Cabinet Office approval required)	◆						
End-2017 – migration to preferred option, subject to further consideration							
2016-17 Accounts							
Hard close of accounts	◆	◆	◆	◆	◆	◆	◆
Interim audit (based on Q3 accounts)		◆					
Final accounts			◆				
Year-end audit				◆			

- 6.2 The BTP Interim Finance Director presented to members the proposed future finance structure. This is intended to be headed by three key positions; Financial Controller, Head of Decision Support and Head of Commercial and Procurement.
- 6.3 The Committee has asked that further detail of the positions below the three heads is formulated and presented at the next finance committee.
- 6.4 The Chief Constable will ensure there is a dedicated HR support for development of the future finance function.

7. Contractual Dispute - Liberata (VDI)

- 7.1 The Finance Committee approved to pay Liberata the sum of £32,640 inclusive of VAT in full and final settlement of the work completed to date with both parties agreeing that the contract is terminated and that neither party has a claim against the other.

8. PSA issue- LOROL

- 8.1 There was a misallocation of Emerson Park and Stratford station to LOROL and Crossrail. The misallocation of Emerson Park to Crossrail has had an immaterial impact on charges. However the misallocation of Stratford resulted in a significant 16/17 provisional charge overpayment for LOROL and an underpayment for Crossrail.
- 8.2 Additionally, the BTPA were not informed about the end of LOROL's concession on 12th November 2016. Therefore, the 14/15 PSA charge 'wash-up' was spread across the full financial year 16/17 rather than being spread only until the concession end in November.
- 8.3 As a result of the 16/17 provisional model recalculation with the corrected SFOs for Stratford and Emerson Park, the LOROL full year charge decreases from £5,180,276 to £4,749,584 (-8.3%) and the Crossrail charge increases from £1,199,767 to £1,587,539 (32.32%).
- 8.4 The increase in the charge for Crossrail will be recovered as part of the calculation of the 16/17 actual charge, with the £388k being accrued for at the end of the year.
- 8.5 The 14/15 'wash-up' end-of-concession adjustment will increase from £34,713 to £56,409.
- 8.6 Finance Committee endorsed the corrected lower charge for LOROL and agreed to recover the difference after the calculation of the 16/17 actual charges in FY17/18 from Crossrail. It was also agreed to adjust

the amount of the 14/15 'wash-up' instalments in line with the timing of LOROL's concession end.

9. PSA issue- DB Cargo

- 9.1 DB Cargo raised concerns with the Authority Finance Director on the crime data set that had been used to calculate the charges and requested that a more recent data set was used i.e 14/15 rather than the original data set of 13/14 applied consistently across all PSA Holders.
- 9.2 Following a robust review of the crimes allocated to DB Cargo for 14/15, the number of records was reduced.
- 9.3 As a result of this, Finance Committee approved the proposal to charge DB Cargo £190k for their 15/16 PSA charge with any deficit against their original charge of £235k being included as part of the overall core PSA 15/16 wash-up charge calculation.

10. Recommendations

- 10.1 Members to note the contents of this report.