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**Report to:** Finance Committee  
**Agenda item:** 5.1  
**Date:** 1 March 2017  
**Subject:** Medium-Term Financial Projection 2017-18 to 2020-21  
**Sponsor:** Finance Director  
**Author:** Finance Director / Deputy Director, Decision Support  
**For:** Discussion

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## 1. Purpose

- 1.1 To present a high level Medium Term Financial Projection covering the four year period from 2017-18 to 2020-21 for Finance Committee consideration.
- 1.2 The paper presents the forecast Income & Expenditure projections for the period, highlighting the potential funding and cashflow pressures that arise as a result of investing in mandated initiatives.
- 1.3 While recognising that a number of key assumptions will need to continue to be refined, this paper is also to enable consideration by members of the options for addressing these financial risks and issues, and the future stakeholder engagement that will be required.

## 2. Recommendations

- 2.1 That members consider the financial risks and issues set out in this paper and discuss:
  - (a) The size of the funding challenges involved;
  - (b) The options for dealing with these challenges;
  - (c) The next steps.

## 3. Background

- 3.1 In establishing the current MTFP, BTP has had to give consideration to the following strategic directions and constraints as set out to the Force by the Department:
  - Price Promise to industry that annual increase of charges will not exceed RPI
  - Devolution of D Division policing to Police Scotland
  - Counter-Terrorism growth, namely around the establishment of a Regional CT hub
  - Apprenticeship levy
  - Development of ESN to replace Airwave
  - Necessary investment in infrastructure, in particular for WAN/LAN
  - Permanent Secretary's letter of 19<sup>th</sup> August 2016 on the comprehensive efficiency



programme, setting out:

- Efficiency savings that can be made between 2015/16 and 2019/20 from core policing budgets of a minimum 8% outturn are to be achieved
- Counter-Terrorism, EPSAs and TfL are to be protected where possible from the cost savings
- Savings should not have a material impact on effective policing of the rail network
- Implications for stakeholders, particularly PSA holders, should be carefully taken into account. Efficiencies should not undercut commitments made by PSAs to their customers or Government

3.2 Delivery of these initiatives within the constraint of a RPI-only increase to PSA charges is a constraint unique to BTP. SR15 ring-fenced funding for front line policing and Counter Terrorism for Home Office forces to progress with similar initiatives.

#### **4. Income & Expenditure Forecasts**

4.1 Appendix A sets out the current top level MTFP projection. This splits out:

- Funding
  - PSA and EPSA increases based on HMT forecast RPI increases of c3% per annum
  - PSA income from Scotland is discounted from 2019/20 onwards (as is corresponding expenditure from operational requirements)
  - Drawdown from reserves is only assumed for 2017-18 as per agreed budget
  - TfL income and expenditure will be added for the next iteration to provide comprehensive detail. It is shown as a net zero in this iteration of the MTFP
- Operational requirement
  - Pay is assumed to increase at c2% per annum to allow for cost of living and spine point increases and allows for the apprenticeship levy
  - Non-pay is assumed to increase annually at RPI
  - Depreciation of fixed assets is expected to gradually reduce with classification of investment portfolio projects now split between capital and resource
  - These are netted against planned efficiency savings, shown as per plans presented to DfT. An assumption has been made for potential cost of change or restructure costs which may be required as a result of the efficiency savings being taken.



4.2 This drives the forecast budgeted I&E surplus or deficit incurred before accounting for additional requirements emerging. The forecast deficit of £0.6m equates to the current funding gap in the 17-18 budget previously communicated to Finance Committee. Driving efficiencies in how BTP delivers its policing and support functions is expected to deliver significant surplus in both 2019-20 and 2020-21. However these are reliant on achieving 100% of the cumulative savings targeted and before accounting for additional emerging requirements.

## 5 Additional requirements

- Overheads still incurred by BTP after assumed devolution of D Division into Police Scotland are shown at £7m in 19-20, reducing the 25% per annum.
- Delivering Regional Counter Terrorism hub(s) is forecast at £3m in 17-18, growing to £6m plus RPI in future years. These estimates are still in development and could range from £3m-£6m depending on level of resource deemed suitable in a future business case.
- Accounting for revenue implementation and post-implementation running costs for WAN/LAN and ESN. These are shown at net additional cost (or benefit) after accounting for savings made from current services discontinued. ESN revenue expenditure is inclusive of the 10 year recovery of development costs
- Forecast additional depreciation incurred on acquired ESN and WAN/LAN capital assets

The cost of these additional requirements is forecast to grow to a high of £22m by 2019-20. If no means of additional funding is found to cover these requirements, our projections show a significant anticipated deficit in each year from 2017-18 to 2019-20, with a return to a surplus forecast for 2020-21.

## 6 Projects

- A paper setting out the Force's planned projects portfolio for 17-18 has been additionally prepared for Finance Committee. This sets out forecast requirement of £14.5m required to deliver essential cyclical projects and commence delivery of WAN/LAN and ESN investments.
- The requirement to invest in WAN/LAN and ESN is expected to have a significant impact on available funding. Without additional funding, BTP would have to significantly reduce, if not stop completely, its cyclical investments (e.g. fleet replacement).



- Costs for cyclical projects in future years are forecast at a base of £8.5m capital and £2.0m revenue, both inflated by RPI. Delivery of WAN/LAN and ESN are presented as an additional cost over and above funding for cyclical requirements.

## 7 Risks and Pressures / Scenario Analysis

- Efficiency targets – the I&E forecast is based on achieving 100% of planned efficiency measures. In reality, it is unlikely we shall be able to achieve all of the targets. Whilst some measures are already being taken, others, such as FHQ relocation, will require a great deal further planning and consideration together with any offset costs of replacement. Achievement of 80% of the cumulative planned efficiencies in 19-20 and 20-21 for example would reduce any projected savings by c£6m.
- RPI – forecast PSA and EPSA income is based on current HMT projections for RPI at circa 3% per annum. However, if these projections are wrong and RPI was even 1% less per annum, there would be a corresponding decrease to projected income of c£2.3m per annum.
- Rent reviews – whilst BTP holds funding centrally in its annual budgets for the impact of rent reviews, this could prove insufficient depending on the size of any rent review increases and the number of rent reviews enacted.

### Cashflow Forecast

- A top level estimate of the impact on cashflow is depicted in section F. This assumes a balance brought forward from the end of 16-17 of £20m and accounts for the I&E balance after accounting for additional pressures, plus the assumed funding shortfall on the cost of portfolio projects over and above estimated annual depreciation.
- Consequently, without additional funding, there would not be sufficient cashflow to pay for the additional requirements and WAN/LAN & ESN investment.

### Funding Options

In order to fund the additional requirements presented in this paper, a number of solutions could be considered:

***Drawdown from reserves*** – would not require additional charges being made to



industry and enable BTP to be self-sufficient but it would deplete BTP's own savings available to mitigate any emerging unknown risks.

**Absorb Costs / Efficiency savings** – additional savings over and above those already targeted could be sought. This could be achievable dependent on the outcomes of the Target Operating Model. However, any additional efficiencies would likely be the most difficult to achieve and require significant change to the way BTP delivers its core policing. Partial funding towards Regional CT in 2017-18 could possibly be found from more realistic re-phasing of the FTE profiling for the build-up of existing CT growth. However this would not be sufficient to fully fund future years.

**Government funding** – to fund many of these government led initiatives, additional funding could be sought directly from DfT or additionally from the Home Office CT grant (specifically for Regional CT growth).

**PSA charge increases above RPI** – the cost of investing in how BTP delivers policing now and in the future could be charged directly to the industry that will benefit. This option may be particularly pertinent for funding the marginal costs incurred by BTP once D Division has devolved to Police Scotland. However, industry will be resistant to any price rises given pressures on recent fare increases and DfT promise for BTP to not charge above RPI rate increases.

## Next Steps

- With Finance Committee backing, possible funding solutions to meet the additional requirements set out in the paper will be discussed with DfT.
- Development of a robust MTFP is still in its infancy. Regular updates will be provided to Finance Committee on a quarterly basis.
  - The next update will fully incorporate the income and costs for TfL / LU.
  - We will seek to provide further analysis of our pay, non-pay and efficiencies, for example setting out anticipated police officer and staff numbers
- Market engagement will commence on the possible delivery options and associated costings for WAN/LAN and ESN
- We will undertake further work to determine what are cashable efficiency savings against the 17/18 delegated budget and beyond



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## Appendix A – 2017-18 Budget Paper Presented to Finance Committee

**Report to:** Finance Committee  
**Date:** 1 March 2017  
**Subject:** 2017-18 Budget  
**Sponsor:** BTP Finance Director  
**Author:** Deputy Director Decision Support  
**For:** Approval

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### **1. Purpose of Paper**

- 1.1 To provide an update to Finance Committee members on further undertaken to revise the detailed breakdown of the 2017-18 budget within control totals agreed previously by Finance Committee.

### **2. Progress with 2017-18 Budget Setting**

- 2.1 Finance Committee has previously been presented the proposed 2017-18 overground budget, which set out the costs and staffing levels by Chief Officer Group budget holder. The budget setting process required budget holders to detail their operational assumptions and headcounts which were validated and costed accordingly but effectively based on forecast 16-17 outturn and accounting for known changes. Front line strength and growth in public contact and special crime were prioritised for funding, with the Chief Officer Group identifying areas for compensating efficiencies and savings, to top up those efficiencies delivered via change programmes. Ideas were presented to the Chief Constable covering value saved and impact to activities delivered – being either agreed or rejected and then built into individual budgets via the 3% savings exercise.
- 2.2 The outline delegated budget represented a £0.6m funding gap. The Chief Constable tasked COG members with revisiting their budget assumptions in order to address the



budget gap with particular focus to be placed on the phasing of FTE growth assumptions. Appendix A provides the proposed delegated budget for each COG division, showing the changes made to the outline budget for each and the difference to the forecast 16-17 outturn (as was at period 7 which the budget was based on).

2.3 The key fundamental changes to the outline budget made after the Chief Constable's challenge have been:

- £5.3m reduction to Territorial Policing accounting for:
  - £3.2m remapping of Mayor's 50 income from being directly offset against B Division overground expenditure, instead transferred to corporate finance.
  - £2.1m central reduction to the total Territorial Policing budget to account for full value of 3% efficiency savings target. The detail of these savings is to be confirmed and will be devolved to the divisions in due course.
- £1.3m reduction to Crime & Investigations accounting for:
  - £0.9m for updated phasing of FTE requirements as part of the Crime review, with growth in the team expected to be phased across the first half of the financial year.
  - £0.4m returned to centrally held budget for 13 posts which had been planned for the Central Evaluations Team
- £2.2m reduction to Specialist Operations & Counter Terrorism, accounting for:
  - Purely for re-mapping of income for professional charges paid by London Underground for CT Wave 1, Brigading Dogs and Specialist Response Unit which is now classified as PSA income.
  - No changes have been made for planned expenditure. Despite this, it is expected that circa £0.5m could be made available through revised headcount profiling which could be used to part-fund Regional CT capability.



- £2.3m reduction to Justice, accounting for:
  - Similarly to Specialist Operations above, this is purely for remapping income from London Underground for professional charges, for the National Justice function, which are now to be treated as PSA income.
- £3.2m increase to corporate finance, accounting for:
  - Remapping of the income received for Mayor's 50 from B Division overground as explained above
- £4.5m increase to forecast PSA income, accounting for:
  - The professional charges paid by London Underground stripped out of net department budgets as detailed above for National Justice function (£2.3m) plus Specialist Operations & CT growth (£2.2m)

2.4 The net effect of these changes is an overall reduction to delegated budgets (after accounting for the £4.5m professional charges income) of £3.3m, effectively the reprofiling of Crime & Investigations headcount (£1.3m) plus accounting for the 3% Territorial Policing efficiency savings target (£2.1m).

2.5 This £3.3m can be offset against the £0.6m funding gap that previously existed and therefore creates a contingency of £2.7m that can be used to fund emerging requirements. Such emerging requirements could be:

- Faster recruitment of resource into the Crime & Investigation posts where savings have been offered
- Funding for Regional CT growth
- Funding of additional Project Scotland costs (an allowance for which has not yet been made in the budget)
- Additional project portfolio revenue expenditure – the budget allows for a charge of £0.6m, in line with policy to charge industry the revenue costs of the projects portfolio over a six year period





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- Revenue implementation costs of ESN and or WAN/LAN should they be proceeded with
  - Manage any other emerging risks such as any other organisational transformation projects

### **3. Centrally Held Budget**

3.1 It should also be noted that in addition to the £2.7m contingency that has been derived through the current challenge process, there is retained budget of £1.2m to cover:

- Mobile device periodic charges
- Provision for legal charges
- Rent review allocations
- Inflation of non-pay costs (such as cost of utilities)
- Restructure provisions

3.2 These are however offset by assumed savings and costs for:

- Allowance for £0.6m budget gap from 16/17
- Assumed force-wide vacancy gap
- Contract management savings

3.3 Any budget virements, notably those from centrally managed budget, shall be recommended to Force Executive Board for approval and notified to Finance Committee.

### **4. Underground**

4.1 An agreement has been reached with the Managing Director of London Underground for a budgetary expenditure limit of £74.7m for 2017/18 (see section 3). This is £3.6m higher than the original target proposed by TfL of £71.4m (early November). A separate paper has been prepared for Finance Committee which outlines this breakdown.



## 5. Projects Portfolio

5.1 A separate paper has been prepared for Finance Committee outlining the budget requirement for the projects portfolio. The outline forecast cost of planned investment in WAN/LAN and ESN place a significant strain on the available funding for cyclical investment (such as fleet replacement). Funding options are presented in this paper (and within the associated paper on the Medium Term Financial Plan) which discuss various proposals that members are recommended to consider, ranging from additional charges to industry through to seeking contributory funding from government.

## 6. Next Steps

6.1 Further work needs to be undertaken to confirm:

- Make-up and split by division of the £2.1m additional savings to be made across Territorial Policing to meet their 3% efficiency savings target.
- Confirmation of the expected saving to be made against the existing Specialist Operations & Counter Terrorism establishment profile that could be used to part-fund Regional CT capability.
- Required savings measures to align planned budgetary expenditure in line with £74.7m limit for underground.
- Letters of delegation will be prepared and issued. The next Chief's Strategic Brief will be used to articulate the delegated budgets, list of financial delegations and procurement delegations.

6.2 A lessons learned exercise will be undertaken to consider the positives from this planning round that can be built upon for the next round and areas for improvement. It is expected as part of the Finance Action Plan that a move towards activity based budgeting will be undertaken and planning will be extended to that of a multi-year budget in line with the Medium Term Financial Plan.



## **7. Recommendations**

- 7.1 Members are requested to approve these budgetary proposals, which will be adopted as the starting budget as of April 1<sup>st</sup> and delegation letters approved and issued as appropriate.

### **Appendices**

Appendix B below provides a breakdown of the 2017-18 budget for each division by category and comparison to the forecast 2016-17 outturn (as was at Period 7 – the starting point for the new budget).



**Appendix B – Breakdown of Expenditure by Category**

APPENDIX A - Consolidated Finance Report: Net Expenditure by Division		Pay	Non-Pay	Income	Non-Cash	Additional Efficiency Savings	Approved 2017-18 Net Budget	2016-17 Net Forecast @P7	Variance to Approved 17-18 Budget
<b>Expenditure (net)</b>									
	<b>Territorial Policing</b>								
	Territorial Policing - Force Headquarters	0.9m	0.2m			-2.5m	-1.4m	1.0m	-2.4m
	B Division Overground	42.7m	4.7m	-6.2m			41.3m	43.6m	-2.4m
	B Division Underground	52.8m	4.9m	-9.1m			48.6m	53.1m	-4.5m
	C Division	52.5m	7.0m	-2.2m			57.3m	53.9m	3.5m
	D Division	11.7m	1.0m	-0.2m			12.5m	12.1m	0.4m
	<b>Territorial Policing</b>	<b>160.6m</b>	<b>17.8m</b>	<b>-17.6m</b>		<b>-2.5m</b>	<b>158.3m</b>	<b>163.7m</b>	<b>-5.4m</b>
	<b>Finance &amp; Procurement</b>								
	Finance & Procurement	2.3m	0.1m				2.4m	3.3m	-0.9m
	<b>Finance &amp; Procurement</b>	<b>2.3m</b>	<b>0.1m</b>				<b>2.4m</b>	<b>3.3m</b>	<b>-0.9m</b>
	<b>Central Finance</b>								
	Force Contingency	0.0m	0.0m	0.0m	0.0m	2.4m	2.4m	0.0m	2.4m
	Corporate Finance including Centrally Held and Capital Charges (Internal)	-0.4m	2.4m	-1.1m	10.5m	0.0m	11.9m	3.8m	8.2m
	<b>Central Finance</b>	<b>-0.4m</b>	<b>2.4m</b>	<b>-1.1m</b>	<b>10.5m</b>	<b>2.4m</b>	<b>14.3m</b>	<b>3.8m</b>	<b>10.5m</b>
	<b>Capability &amp; Resources</b>								
	Capability & Resources	17.3m	20.8m	-0.5m			37.5m	39.5m	-2.0m
	<b>Public Contact &amp; Specialist Crime</b>								
	Crime & Investigations	16.2m	3.0m	-0.6m			18.6m	16.8m	1.8m
	Contact Centres	11.2m	0.1m				11.2m	10.8m	0.5m
	National Justice	7.5m	0.6m				8.1m	7.7m	0.4m
	<b>Public Contact &amp; Specialist Crime</b>	<b>34.9m</b>	<b>3.7m</b>	<b>-0.6m</b>	<b>0.0m</b>	<b>0.0m</b>	<b>37.9m</b>	<b>35.3m</b>	<b>2.6m</b>
	<b>Specialist Operations &amp; Counter Terrorism</b>								
	Specialist Operations	16.3m	1.8m	0.0m			18.0m	16.5m	1.5m
	<b>Specialist Operations &amp; Counter Terrorism</b>	<b>16.3m</b>	<b>1.8m</b>	<b>0.0m</b>	<b>0.0m</b>	<b>0.0m</b>	<b>18.0m</b>	<b>16.5m</b>	<b>1.5m</b>
	<b>Deputy Chief Constable</b>								
	Deputy Chief Constable	6.2m	1.4m				7.6m	7.8m	-0.2m
	<b>BTP Consolidated Overground &amp; Underground Core Revenue Expenditure (net)</b>	<b>237.1m</b>	<b>48.0m</b>	<b>-19.9m</b>	<b>10.5m</b>	<b>-0.1m</b>	<b>276.1m</b>	<b>269.9m</b>	<b>6.2m</b>
	<b>Projects: Revenue</b>		0.6m				0.6m	1.7m	-1.2m
	<b>Projects: Capital</b>		8.4m				8.4m	8.7m	-0.3m
	<b>Projects: Revenue and Capital</b>	<b>0.0m</b>	<b>9.0m</b>	<b>0.0m</b>	<b>0.0m</b>	<b>0.0m</b>	<b>9.0m</b>	<b>10.5m</b>	<b>-1.5m</b>
	<b>PSA Income</b>			-226.2m			-226.2m	-208.6m	-17.6m
	<b>Professional Charges</b>			-4.5m			-4.5m	-4.5m	0.0m
	<b>TfL Income</b>			-48.6m			-48.6m	-53.1m	4.5m
	<b>2016-17 wash-up charge</b>			1.8m			1.8m	0.0m	1.8m
	<b>BTPA Expenditure</b>	1.2m	0.8m				2.0m	2.0m	0.0m
	<b>Capitalisation</b>		-8.4m				-8.4m	-8.7m	0.3m
	<b>Transfer to / from Reserves</b>			-1.2m			-1.2m	-1.1m	-0.1m
	<b>I&amp;E Trial Balance</b>	<b>238.3m</b>	<b>49.3m</b>	<b>-298.6m</b>	<b>10.5m</b>	<b>-0.1m</b>	<b>0.0m</b>	<b>6.4m</b>	<b>-6.4m</b>