



## March 2018 Authority Meeting – MTFP rebase

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# Introduction



- The MTFP presented to the December Authority meeting modelled cost pressures for a number of major initiatives, namely Regional CT hub implementation, Scottish devolution and the Emergency Service Network implementation. Even with RPI increases on charges and significant efficiencies (incrementing to an annualised £30m by 2020-21), large I&E deficits were forecast in 2018-19 and 2019-20. The Authority decided to utilise reserves to finance the 2018-19 deficit as well as an increased capital requirement in 2018-19.
- There have been a number of developments since then, most notably:
  - (i) the deferral of Scottish devolution, assumed to be by 2 years;
  - (ii) the receipt of £2m capital grant for 2017-18 with a likely further £7m to flow in future years linked to CT hubs and ESN implementation.
- Based on these opportunities, the proposals in this paper would deliver £30m of efficiency in a more sensibly phased way over four years rather than three, while also improving the I&E and cash flow positions across the MTFP timeline. It would involve an increase in the 2018-19 deficit by £2.5m.
- This slide pack starts with the changes to the 2018-19 numbers and then broadens out to the rest of the MTFP period.

# Recommendations



- For members to note the key changes to MTFP assumptions since the December Authority meeting, linked in particular to the deferral of Scottish devolution and the progress with DFT on a capital grant.
- For approval to be given to the reprofiling of the £30m efficiency over four years rather than three, which:
  - (a) enables a higher confidence level to be attached to delivery; and,
  - (b) still provides for an improved I&E and cash flow position across the MTFP period compared with the previous MTFP. Within this, the 2018-19 deficit increases from £6.5m to £9m, and requires an additional draw down from reserves, which would be more than covered by the DFT capital grant anticipated in 2018-19.
- For approval to be given to revised revenue and capital budget delegations for the Force in 2018-19 based on the figures in this new MTFP. The Authority budget would remain as approved in the December meeting.
- For members to note the nearer and longer-term risks and opportunities set out in this slide pack.

# Changes to the MTFP

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# Changes to 2018-19 – BAU



Category	Approved MTFP	TFL Agreement	ESN	Efficiencies	Regional CT	Revised MTFP	Note
PSA Income	236,178,835					236,178,835	No change
Scottish TOC PSA Income Lost	0					0	No change
TfL Core / EPSA / Other Income	70,323,014	-2,558,111				67,764,904	Note below
Transfer from Reserves	0					0	No change
Pay	-242,009,885	2,154,947				-239,854,937	Note below
Non-Pay	-49,136,691	403,163				-48,733,527	Note below
Depreciation	-11,380,000					-11,380,000	No change
Cyclical / Smaller Ad-Hoc Projects	-1,700,421					-1,700,421	No change
BTPA	-2,550,794					-2,539,594	Immaterial change
Income/(Expenditure) before Pressures & Efficiencies	-275,940	0	0	0	0	-264,740	

## Note

The changes to income and expenditure are all linked to the TFL budgetary settlement. The MTFP presented to the December Authority meeting assumed an RPI increase to the TFL 2017-18 budget figures. Since then it has become apparent that the average salaries for TFL-based officers were too high – in part due to significant levels of officer recruitment at lower salaries and in part due to the TFL average salary increase for officers in 2017-18 being set at 5%. This has now been adjusted to be consistent with the treatment for overground, which is based on exact salaries for the current workforce by budgetary area being increased by 3% (1% for the average effect of spine point progression offset by recycling, 1% for the annual pay rise, 1% for an assumed continuation of the non-consolidated bonus).

We have also made reductions to TFL non-pay spend, given an inherent level of underspend within current year non-pay figures for TFL.

The key remaining element in being able to settle the budget with TFL (subject to Authority approval) is an agreement on the number of PCSOs to be budgeted.

Overall, the business as usual budget for 2018-19 is close to break-even (small deficit), based on the costing of full establishment for officers and PCSOs.

# Changes to 2018-19 – Pressures & Efficiencies



Category	Approved MTFP	Scotland	TFL Agreement	ESN	Efficiencies	Regional CT	Revised MTFP	Note
Cumulative Efficiencies	9,088,667				-5,000,000		4,088,667	Note 1
<b>Cost of Change / TOM</b>								
- Delivery Partner costs	-1,550,000				400,000		-1,150,000	Note 2
- Redundancy costs	-700,000						-700,000	No change
- Programme Management costs	-1,300,000						-1,300,000	No change
- IT Strategy	-1,500,000						-1,500,000	No change
Outsourced Service Charges	0						0	No change
Regional CT	-7,110,726					777,726	-6,333,000	Note 3
ESN	-1,138,587			638,587			-500,000	Note 4
NNS	-1,113,475						-1,113,475	No change
Additional Depreciation on projects	-400,000			10,996		378,000	-11,004	Note 5
Project Scotland	-500,000	250,000					-250,000	Note 6
Pressures and Efficiencies	-6,224,121	250,000	0	649,583	-4,600,000	1,155,726	-8,768,813	
Income/(Expenditure) after Pressures and Efficiencies	-6,500,062	250,000	0	649,583	-4,600,000	1,155,726	-9,033,553	

## Notes

Note 1: The £5m reduction is linked to the proposal to re-profile efficiencies in a more sensible way over four years rather than three.

Note 2: Revised to assume a ¾ year effect of delivery partner costs.

Note 3: Cost reduction due to re-phasing of operational ramp up of mainly Northern CT hub.

Note 4: Halving of programme costs due to ESN slippage.

Note 5: Capital grant (£2m in 2017-18 and £3.6m in 2018-19 for CT hubs) reduces the amount of 'chargeable' depreciation.

Note 6: Halving of programme costs due to Scotland deferral.

Overall, this increases the 2018-19 deficit (and reserves drawdown requirement) by £2.5m. However this in the context of a much improved position in future years.

# Changes to 2019-20 and beyond - BAU



Category	2019/20	2020/21	2021/22	Note
PSA Income	0	0	-2,983,435	Note 1
Scottish TOC PSA Income Lost	22,884,551	23,456,665	0	Note 2
TfL Core / EPSA / Other Income	-2,626,019	-2,691,585	-3,617,229	Note 3
Transfer from Reserves	0	0	0	
Pay	-18,155,280	-18,609,247	2,307,436	Note 4
Non-Pay	-2,103,252	-2,155,833	437,981	Note 5
Depreciation	0	0	0	
Cyclical / Smaller Ad-Hoc Projects	0	0	0	
BTPA	-257,262	-350,000	-87,500	Note 6
Income/(Expenditure) before Pressures and Efficiencies	-257,262	-350,000	-3,942,747	

## Notes

Note 1: PSA income reduced in 2021-22 due to assumption of change to CPI from that year.

Note 2: Reduction in income from Scottish TOCs deferred by 2 years.

Note 3: Reduction in TFL income linked to 2018-19 reduction (see slide 5). Compounded in 2021-22 by assumed move to CPI.

Note 4: Increase in pay due to deferral of Scottish devolution by 2 years, offset slightly by reduction in TFL pay costs.

Note 5: Increase in non-pay due to deferral of Scottish devolution by 2 years, offset slightly by reduction in TFL non-pay costs.

Note 6: BTPA costs have increased in line with the paper to the Authority in December '17, linked primarily to Scotland.

# Changes to 2019-20 and beyond – Pressures & Efficiencies



Category	2019/20	2020/21	2021/22	Note
Cumulative Efficiencies	-12,000,000	-7,000,000	0	Note 1
<u>Cost of Change / TOM</u>				
- Delivery Partner costs	0	-400,000	0	Note 2
- Redundancy costs				
- Programme Management costs				
- IT Strategy	0	0	1,500,000	Note 2
Outsourced Service Charges	2,721,550	0	0	Note 3
Regional CT	-73,462	-74,931	-76,430	Note 4
ESN	2,966,859	-771,097	704,417	Note 5
NNS	0	0	0	
Additional Depreciation on projects	2,061,430	2,397,513	2,531,531	Note 6
Project Scotland	9,888,503	10,136,990	0	
Pressures and Efficiencies	5,564,879	4,288,474	4,659,517	
Income/(Expenditure) after Pressures and Efficiencies	5,307,617	3,938,474	716,770	

## Notes

Note 1: Proposed re-profiling of efficiency to get to £30m over 4 years rather than 3.

Note 2: Re-phasing of £0.4m of delivery partner costs from 2018-19 to 2020-21. Elimination of IT strategy costs in 2021-22 – now aligns with BTP 2021 3-year programme.

Note 3: Assumes half-year impact of outsourced service charges in 2019-20.

Note 4: Marginal change to Regional CT costs based on updated cost model.

Note 5: Significant saving due to ESN slippage, offset from 2020-21 by assumed additional £4m cost of extended Airwave contract plus loss of subsidy.

Note 6: Capital grant (£9m for or CT hubs and ESN) reduces the amount of 'chargeable' depreciation.

Project Scotland: Deferral by 2 years of loss of contribution to overheads from Scottish TOCs



# Rebased MTFP & Cash Flow

Slides 10 - 13

# Rebased MTFP - BAU



Category	2018/19	2019/20	2020/21	2021/22
PSA Income	-236,178,835	-242,555,664	-248,619,556	-253,591,947
Scottish TOC PSA Income Lost				24,207,278
TfL Core / EPSA / Other Income	-67,764,904	-69,445,875	-71,176,142	-72,599,665
Transfer from Reserves				
Pay	239,854,937	244,638,112	249,519,899	232,970,912
Non-Pay	48,733,527	50,049,333	51,300,566	50,279,383
Depreciation	11,380,000	10,810,441	10,269,899	9,712,935
Cyclical / Smaller Ad-Hoc Projects	1,700,421	916,080	2,000,000	2,000,000
BTPA	2,539,594	2,598,713	2,654,931	2,466,188
(Income)/Expenditure before Pressures and Efficiencies	264,740	-2,988,861	-4,050,403	-4,554,915

**Key point** - RPI increases and switch to CPI would be more than sufficient to cover like-for-like BAU costs across this period (excluding 2018-19), based on full establishment of officers and PCSOs. The need for maximum increases within the price promise, efficiency and use of reserves is very much driven by new pressures (slide 11).

# Rebased MTFP – Pressures & Efficiencies



Category	2018/19	2019/20	2020/21	2021/22
Cumulative Efficiencies	-4,088,667	-13,178,000	-23,378,000	-30,378,000
<u>Cost of Change / TOM</u>				
- Delivery Partner costs	1,150,000	1,500,000	1,900,000	
- Redundancy costs	700,000	700,000	700,000	
- Programme Maintenance costs	1,300,000	1,300,000	1,300,000	
- IT Strategy	1,500,000	1,500,000	1,500,000	
Outsourced Service Charges		2,721,550	5,579,178	5,757,711
Regional CT	6,333,000	8,947,462	9,126,411	9,308,940
ESN	500,000	500,000	4,738,587	3,466,859
NNS	1,113,475	526,778	526,778	526,778
Additional Depreciation on projects	11,004	1,512,738	1,512,738	1,903,729
Project Scotland	250,000	255,000	260,100	10,729,797
Pressures and Efficiencies	8,768,813	6,285,528	3,765,793	1,315,814
(Income)/Expenditure after Pressures and Efficiencies	9,033,553	3,296,668	-284,611	-3,239,101

## Key points:

- Proposed re-profiling of cumulative efficiencies to £30m by year 4 (2021-22) rather than year 3 (2020-21).
- In parallel with this, savings linked mainly to Scotland deferral mean the I&E position is much improved over the MTFP presented to the December 2017 Authority meeting.
- Cost of change assumptions are in line with the TOM business case, including average redundancy costs of £13k per individual which is based on previous BTP experience.

# Capital Spend



Category	2018/19	2019/20	2020/21	2021/22
Capital Expenditure	17,378,436	11,259,363	14,835,125	11,763,797
Capital Grant Income	-3,557,000	0	-3,834,671	-411,329

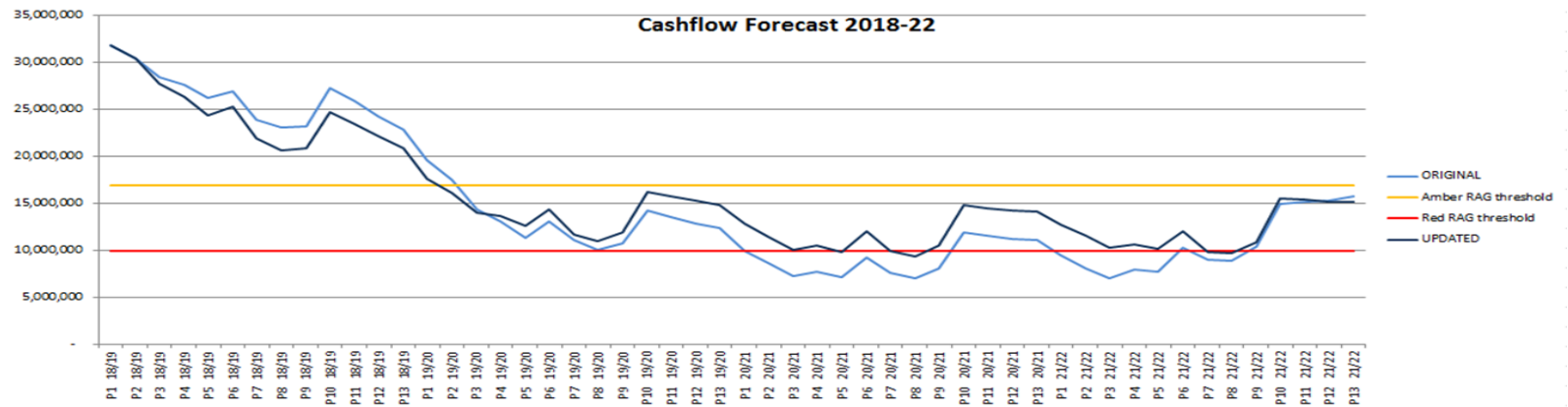
## Key points:

- Capital has reduced by £2.3m in 2018-19, mainly linked to slippage of ESN.
- £3.6m of capital grant has been matched to CT hubs capital spend in 2018-19.
- ESN capital spend reprofiled into 2020-21 along with that element of the capital grant.

# Cashflow – Rebased vs. Original MTFP Forecast

ORIGINAL	2018/19	2019/20	2020/21	2021/22
Cash @ 01 April	31,806,000	19,568,026	10,011,135	9,484,683
Cash @ lowest level in-year	18,175,586	6,590,953	2,064,725	2,441,943
Cash @ 31 March	19,568,026	10,011,135	9,484,683	14,859,907
Amber RAG threshold	17,000,000	17,000,000	17,000,000	17,000,000
Red RAG threshold	10,000,000	10,000,000	10,000,000	10,000,000

UPDATED	2018/19	2019/20	2020/21	2021/22
Cash @ 01 April	31,806,000	17,617,763	12,844,356	12,779,323
Cash @ lowest level in-year	16,276,800	7,780,909	4,896,504	5,101,809
Cash @ 31 March	17,617,763	12,844,356	12,779,323	13,489,078
Amber RAG threshold	17,000,000	17,000,000	17,000,000	17,000,000
Red RAG threshold	10,000,000	10,000,000	10,000,000	10,000,000



- The above graph sets out the forecast cash balances at the beginning of each period to the end of 2022.
- The table highlights the lowest weekly cash balance in each financial year.

## General assumptions:

- Weekly peaks and troughs based on 17/18 updated cashflow forecast
- Income and expenditure figures based on MTFP figures in this pack
- Capital and revenue spend per MTFP workings in this pack
- Timing of grant funding matched to capital expenditure
- 3 month time delay between capital/revenue project spend and cash outflow

# Risks & Opportunities – Near term



## Risks

- Main impact of near-term budgetary reductions or efficiencies is on police staff numbers, which may become unsustainable without systemic change.
- EPSA income assumed to hold up.
- DFT capital grant not yet formally in place beyond 2017-18.
- Redundancy costs are assumed at a smooth £0.7m pa. In practice, the need to provide for such costs once key initiatives have been consulted on (which may be long before full implementation) may bring costs forward.
- BTP2021 programme costs assume that 50% of programme team are internally sourced without backfill.
- IT cost increases, particularly for Microsoft licences.
- Rent review outcomes in excess of provision being made.
- Likely need to refresh Airwave infrastructure in light of ESN delay.

## Opportunities

- Unintended vacancy levels occurring for officers and PCSOs.
- Rent review outcomes less than provision.
- Level of use of Delivery Partner.

# Risks & Opportunities – Longer term



## Risks

- Assumes full delivery of £30m efficiency programme and that all other costs are controllable within RPI increases.
- Change in threat levels that require continuing increases in CT or other areas of growth.
- New lines or passenger growth require increases in capacity.
- Potential move to CPI in 2021-22, which is approximately 1% lower than RPI. Could have a significant impact beyond the current MTFP period.
- TFL income assumed as RPI increase on re-based 2018-19 budget. In practice TFL likely to require continuing reductions, although if agreed these would have to be met by bearing down on resourcing levels.
- EPSA income is assumed to hold up.
- Potential higher costs of ESN dual running, and 'data' before 'voice' implementation.
- Continuing growth in IT / digital costs.
- Having to apply investments to Scotland near to devolution date.

## Opportunities

- Place-based policing enabling BTP to operate more efficiently, targeting fewer resources in the highest impact areas.
- Digital strategy enables more efficient interaction with public, industry and internally, reducing demand and refocusing it into highest value areas.