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To: BTP Authority

Subject: Medium Term Financial Plan Briefing

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1. Executive Summary

The Medium Term Financial Plan presented in this paper covers the five-year period 19/20 to 23/24 and is based on planning assumptions agreed by the Strategy & Planning Committee, and tabled at the Joint Strategy & Planning Committee and Performance & Delivery Committee 28th November 2018. The plan also incorporates results for the current financial year to facilitate understanding of the broader financial position given that BTP2021 commenced in 18/19 and that the Authority had previously approved drawdown of reserves in 18/19. Appendix A details the MTFP.

The key headlines from the plan are:

- Delivers a net surplus of £11.5m across the 5 years (19/20 – 23/24).
- Delivers a net surplus of £5.3m when incorporating 18/19 (6 year results).
- Requests a "temporary" increase in reserve drawdown of £2.1m (£560k 19/20 and £1.56m 20/21). £12.3m approved March 2018.
- Delivers a recurrent or steady state surplus of £5.3m after full delivery of BTP2021.
- Delivers the BTP2021 Efficiency programme in accordance with the agreed Strategy, achieving recurrent efficiencies of £30m from 22/23.
- Embeds CPI from 21/22 in line with the agreed strategy.
- Improvement in cash reserves through revised invoicing arrangements with Transport for London (approved at ARAC approval 28/11/18).
- Funds planned capital and revenue projects to support BTP2021 and ongoing cyclical requirements.

2. Overview of the Cost Base

Income

Total Income across the 5 year period is £1.639Bn, an increase of £9.1m against the previous MTFP. In line with the agreed strategy, CPI has been used from 21/22 at an average of 2% per annum in accordance with Office of Budget Responsibility indices. Moving away from RPI in the latter three years has reduced income by approximately £15.3m, a reduction in RPI – CPI of 1% year on year.

EPSA income and expenditure has been reduced where formal notice has been received by the Force; namely Transport for London EPSA relating to MTA Crossrail. Risk to income is discussed later in section 5 (Risk & Opportunities).

Expenditure

Total expenditure across the 5 year period is £1.627Bn, generating a net surplus of £11.5m across the 5 period. The plan is representative of the cost base; whilst embedding efficiencies and cost control measures that embed stretch to drive improvements regarding resource allocation.

Pay (£1.272Bn across 5 years, 78.2% of cost base)

Previous MTFPs have been costed using average salary rates whereby this plan has been built up from a zero base on a post by post basis. This will allow greater granularity when identifying posts to be removed from the Establishment as part BTP2021. Efficiencies taken in 18/19 have been embedded, and efficiencies from 19/20 onwards will be allocated against the "Efficiency" line in the plan once specific posts have been identified and finalised through consultation.

Officer, PCSO and Police Staff pay has been funded to incorporate the national consolidated 2% pay award. The Appointments and Remuneration Committee have agreed the award commencing July 2018 with the MTFP rolling this expectation forward. This issue continues to attract national debate at National Police Chief's Council (NPCC) level and the expectation is this will be maintained at the current level (as a minimum). Spine point increases have been funded, although offset to recognise "churn" of leavers and joiners commencing at lower pay levels.

Assumptions for pensions and allowances have been maintained. No assumptions have been made for the new pension arrangements currently being procured; although this may well provide an opportunity given this is moving to a Defined Contribution scheme (from the current Defined Benefit scheme), it is considered a little early to recognise in the MTFP at this stage.

Overtime is being maintained at 18/19 levels and will represent an implied efficiency against the current year forecast outturn of approximately 1m.

Non-Pay (£270.2m across 5 years, 16.6% of cost base)
Non-Pay expenditure covers a range of infrastructure costs for maintaining premises, technology and fleet as well as Force administration costs for travel and supplies.

The underlying change in the MTFP between the 18/19 budget and planned budget for 19/20 is £2.4m (5%) has been the recognition of emerging cost pressures in 18/19, relating to estates and legal provisions, IT licenses and emerging estates issues. Efficiencies taken in 18/19 have been embedded into the plan.

The MTFP incorporates provision for contingency at £2m per year, representing 0.6% income, allowing for variations to the plan, emerging issues and unplanned events. Stringent criteria will be developed to drawdown contingency, to be approved by COG.

Project Investment - Capital & Revenue (£71.2m, 4.4% of cost base)
The plan incorporates investment to support BTP2021 projects as well as more ad-hoc and cyclical replacement, for both capital and revenue. As the BTP2021 programmes & service redesigns have matured, so too has the investment requirement against that approved in the last MTFP. As a result, the requirement has increased in 19/20 and 20/21 by £6.2m largely recognising investment in Digital, Systems and the IT Target Operating Model. Prior to any commitment of funding, full business cases will be scrutinised by the Portfolio Change Investment Board (PCIB) with full benefits assessment. Notwithstanding the above, there is more work needed to further refine requirements, costs and profile, which will mature over coming weeks and months in line with programme plans.

The Department for Transport (DfT) approved £9m capital grant in the last MTFP funding Regional CT and ESN. Given the current uncertainty of the ESN programme, and through discussions with DfT, a revised grant has been submitted replacing ESN with NNS, the Force's upgrade to its IT infrastructure. The total grant now is £10.6m. This is subject to Departmental approval, but initial soundings from DfT have been favourable.

BTP2021 / Cost of Change (£32.3m, 2.0% of cost base)
This relates to the costs of delivering BTP2021 and incorporates additional costs over that previously approved, largely as a result of improved knowledge as the programme has matured. The plan seeks to secure expertise from a delivery partner to augment internal programme resources. Furthermore, additional resource is incorporated to reflect key

programmes to support development of digital policing and shared services. In total, £4.8m is included is each of 19/20 and 20/21. Given over half of the efficiency target spans these two years at £19m coupled with the complex in nature of programmes in this phase (Digital, Shared Services, 3Ci), the Force considers it prudent to bolster capacity and capability in order to assure delivery.

The contract for the Delivery Partner is planned to commence in Q4 18/19, on a two year basis; from three years originally planned. The funding released from this has been used to fund digital policing requirements referenced above. The contract includes provision to develop and upskill the internal programme team to build a sustainable change capability. This has been funded at £1m per year, and represents new investment over that previously planned.

The provision for redundancy has been maintained at £2.1m although the profile may change as programme delivery crystallises. Stringent workforce controls are in place to minimise redundancies, including redeployment, re-training, temporary employment contracts, and vacancy management. Further testing of the total quantum is in hand to ascertain the level of inherent risk, particularly associated with Axis House relocation and outsourcing Shared Services, and whether this can be managed within overall funding or additional funding is necessary. If the latter, further DfT approval will be required.

The programme costs relating to outsourcing shared services remains unchanged as this programme is still in its infancy, and will be refreshed as the business case is matured, with support from the Delivery Partner. Savings planned from 20/21.

Other Programme / Policy Costs (£16.4m, 1.0% of cost base)
The previous MTFP provided for two significant cost pressures relating to the implementation of Emergency Services Network (ESN) which included the loss of Subsidy for Airwave and the devolution of Policing to Scotland.

The ESN programme has suffered significant delays and cost overruns at a national level, which is a continuing feature. The plan includes additional programme resource at £75k per annum to maintain links to the national programme. The revenue and capital programme costs remain unchanged from that previously approved.

The previous MTFP included pressures as a result of policy to devolve policing to Scotland with effect April 2020 estimated £10.7m to fund remaining indirect and overhead costs. New policy seeks to defer devolution to 2026, outside the planning horizon of this MTFP. Previous income reduction has been reinstated and offsets against spend, resulting in a cost neutral position. Project resource has been reviewed and downscaled to one project manager at £75k upto March 2021 to support requisite negotiations.

Counter Terrorism (£45.6m, 2.8% of cost base)
The previous plan approved the establishment of CT capability and seeks to build up to full capability of 140 Officers and Staff by April 2020.

BTPA Costs (£13.9m, 0.9% of cost base)
BTPA Base (Executive and Members) increased by £1.2m over the 5 year period. The Executive's £507k increase is due to a review of the business needs by the new CEO and CFO (the BTPA budget paper will have more detail). The member's increase of £657k is driven by budgeting the £500k of consultancy in the cost centre rather than in year projects and an additional £105k on travel due to holding Authority meetings outside of London and the recruitment of a more geographical dispersed membership.

Scotland has increased by £714k due to the change in assumption of the project coming to an end in 19/20 to continuing throughout the period albeit at a lower level of spend than currently incurred. It should be noted that the Scotland Project is funded via reserves throughout the period but this could change depending on the outcome of the on-going discussions.

Transport for London
The MTFP includes figures for TfL which represents a significant proportion of the plan. The service has been costed using current assumptions and reflects the removal of resources supporting MTR Crossrail. Ordinarily, the Authority would consider the TfL budget. There are a number of points currently being considered before final budget can be agreed; relating to EPSA resources, overhead charges, and treatment of efficiencies. Joint planning is underway between senior members of TfL, BTPA and BTP to agree service priorities so that a budget may be set for 19/20.

3. Efficiency

Efficiency Delivery
The strategy seeks to embed recurrent efficiency savings of £30m by 31st March 2022, representing 10% of the cost base. In total, this represents £130m across the 6 years under consideration in this MTFP. This is of course, in addition to £17.4m delivered recurrently in 16/17 and 17/18. The efficiencies will be progressively delivered commencing with £4m (18/19), £9m (19/20), £10m (20/21) and the final £7m (21/22).

The Force has undertaken extensive consultation with staff over the past 9 months which has in essence, been invaluable to involve staff in service redesign as well as strengthening buy-in. Although in practice this has slowed the pace of the programme, BTP has endeavoured to maintain delivery of the planned efficiency profile. Plans are in place to deliver 18/19 through a combination of vacancy management, service redesign (Strategic Centre, Custody and Organisational Support), as well as consolidating facilities management contracts in to a single supplier. Custody and the Strategic Centre have been brought forward from 19/20 to mitigate any shortfall against the £4m target.

Planning and service redesign is well underway for 19/20; with currently £5.3m programmes rated as high confidence. A further £4.2m is rated as medium confidence. Applying sensitivity, this reduces to £2.5m with £1.7m at risk to recognise extended time for implementation. Mitigation is in hand through development of further internal measures and further opportunities from securing a Delivery Partner, once contracted.

Efficiency Tracking
A paper outlining the methodology to track delivery of efficiencies, attached at Appendix B for reference. This has been reviewed by GIAA alongside discussions with Dyan Crowther and Andrew Pollins.

4. Cashflow

Cashflow has been remodelled using the proposed capital and revenue plans outlined. The level of cash reserves in the previously approved MTFP fell to £10m (12 days cash) at the lowest point, and has been subject to discussions internally on how best to mitigate this and access cash from DfT under "lender of last resort". A paper has been tabled at the Audit & Risk Assurance Committee outlining options but seeks approval to accept an offer made by TfL to invoice quarterly in advance. The proposed MTFP models cash on this basis; thereby negating the need to arrange "lender of last resort" facility as timescales involved are considered to be too unwieldy. The lowest level of cash across the 5 year period is £18.5m (20 days cash) in 2021 which is a significant improvement and de-risks the position.

5. Risk & Opportunities

The key risks and opportunities are considered below; some will have material impact, others have been included to provide a fuller narrative for discussion. Although mitigations have been identified, the scale, materiality and complexity will shape further mitigating responses. This may involve the need to revisit service levels, income assumptions regarding CPI, as well as consideration of more fundamental approaches to charging and funding mechanisms. Of course, the Force will continue to assess and evaluate risks and opportunities maintaining value for Stakeholders.

***Risk 1 -* Efficiency pass through to TfL**	
Description	The charging methodology for TfL is based on pass-through costs and thereby, any savings made attributable to TfL are passed directly to them, thereby, preventing BTP from being able to “access” this funding for re-investment.
Mitigation	1 - Retain TfL savings to re-invest, which needs intervention in the charging / invoicing process ***OR*** 2 - Charge investment separately to TfL
Proximity	From 19/20
Value	Quantification once new service redesigns agreed.

Risk 2 - Loss of EPSA Income, in particular TfL and HS1	
Description	Decisions by EPSA Holders to revisit service levels as a result of financial pressures may undermine the principle of a ***single-integrated network of policing*** and impact balance of resources required between EPSA and Core PSA. Could result in defraying costs through the charging model or significant service impact. • TfL – service variation received relating to 142 FTE • HS1 – ongoing dialogue regarding levels of dedicated resourcing
Mitigation	1 - Full 12-month notice period to be invoked to allow time to reallocate and adjust resource levels. 2 - Joint development of options to mitigate financial risk with TfL; options being modelled 50-142 FTE 3 – Ongoing dialogue with HS1
Proximity	From 20/21 (assuming 12 month notice)
Value	TfL 50-142 FTE → Upto £9.5m HS1 → Upto £2m

***Risk 3 – Single Control Room (*Axis House / FHQ Dependencies)**	
Description	Development of Single Control Room requiring “***decision in principle***” for revised estates footprint at Axis House and lease renewal for FHQ, not yet needed until 2025. Risk of additional cost for remedial works at FHQ to meet EPC standards.
Mitigation	1 - Negotiation with FHQ Landlord re clarification of liabilities 2 – Proximity allows sufficient time to develop options
Proximity	From 19/20
Value	Assessment has been commissioned, not yet known

Risk 4 / Opportunity 1 – Reform of BTP Pay and Pensions	
Description	General narrative regarding pay and pensions. Pay structures may impact ability to attract and retain talent and skills against London market. Actuarial valuation of pension fund may impact employee and employer contributions.
Mitigation	1 - Programme in place to review pay structures and benchmark against industry. 2 - New Police Staff pension being procured. 3 – Estates strategy reviewing locations of administrative locations to mitigate cost and improve attraction and retention. 4 – External support will be sought for Pension

Opportunity 2 – Delivery Partner	
Description	Opportunity to leverage expertise from appointing a delivery partner to develop in house capability, identify further efficiencies and crystallise benefits.
Proximity	From 19/20
Value	To be defined post contract award

Risk 5 / Opportunity 3 – Police Degree Apprenticeships	
Description	The College of Policing are seeking to introduce new routes of entry into the Service, through overhauling Probationer and Initial Training moving to Degree Apprenticeships provided by Higher Education Institutes. Risk - Initial modelling by National Policing Chief's Council suggests this will result in an increase in resources and costs. Opportunity - To move to a more modern, technology based training provision.
Mitigation	Will be considered as part of future training provision under BTP2021.
Proximity	From 20/21
Value	Assessment being undertake; to be considered at FEB in December 2018

6. In Year Financial Management 18/19

The MTFP has been built using 18/19 Period 8 results to establish reserves drawdown for 19/20 onwards. Although forecasting accuracy has improved over the year, there is a high likelihood that elements of the forecast will fall away upto year end. Work is underway to "Fix" P9 / P10 which is expected to release further headroom – predominately in standing up CT Hubs, Officer Pay and Supplies & Services. Any headroom identified will improve 19/20 position and reduce the level of drawdown required.

7. Recommendation

The Authority is invited to discuss and approve the Medium Term Financial Plan.

Appendices:

A MTFP Revenue, Capital, and Cashflow
B Benefits & Efficiency Guidance