

Meeting	SPA Resources Committee
Date	05 August 2021
Location	Video Conference
Title of Paper	2022/23 Budget Strategy – Interim Update
Presented By	Lynn Brown, Interim Strategic Financial Planning and Budgeting Lead
Recommendation to Members	For Discussion
Appendix Attached	Appendix A - 2022/23 Budget Strategy

PURPOSE

The purpose of this report is to provide Members with details of the 2022/23 budget strategy for consideration.

Members are invited to discuss the contents of this paper.

1. BACKGROUND

- 1.1 The SPA has a statutory duty to agree its annual budget for the coming financial year (2022/23) before the end of the current financial year (31 March 2022).
- 1.2 The Scottish Government's draft budget for 21/22 confirmed an additional £60m of core funding for policing allowing the SPA to set a balanced budget and eliminate the structural deficit without the requirement for significant workforce reductions. A balanced budget must be maintained for next financial year.

2. FURTHER DETAIL ON THE REPORT TOPIC

- 2.1 The budget strategy sets out the framework for the annual budget setting exercise. This is the key document to inform Board Members of the overarching approach and initial proposals which will inform the development of the detailed budget.
- 2.2 The approach to the 2022/23 budget setting strategy remains similar to the previous financial year, with a focus on zero based budgets, matrix budgeting and further exploration of priority based budgeting.
- 2.3 The ongoing impact of COVID-19 on revenue budgets, both costs and savings, will be considered carefully as there is unlikely to be a full return to previous levels of income and spend.
- 2.4 Capital investment and reform bids will be reviewed, challenged and prioritised by the Capital Investment Group later in the year.
- 2.5 The proposed 2022/23 Budget Strategy document is attached at appendix A.
- 2.6 Detailed work will now progress on the development of the 2022/23 budgets and financial plan.

3. FINANCIAL IMPLICATIONS

- 3.1 The financial implications are set out in detail within the report.

4. PERSONNEL IMPLICATIONS

- 4.1 There are no direct personnel implication associated with this paper.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implication associated with this paper.

6. REPUTATIONAL IMPLICATIONS

6.1 There are no direct reputational implication associated with this paper.

7. SOCIAL IMPLICATIONS

7.1 There are no direct social implication associated with this paper.

8. COMMUNITY IMPACT

8.1 There are no community implications associated with this paper.

9. EQUALITIES IMPLICATIONS

9.1 There are no direct equality implications associated with this paper.

10. ENVIRONMENT IMPLICATIONS

10.1 There are no direct environmental implications associated with this paper.

RECOMMENDATIONS

Members are invited to discuss the 2022/23 Budget Strategy.



POLICE
SCOTLAND
POILEAS ALBA

SCOTTISH POLICE
AUTHORITY

FINANCE

2022/23

Budget Strategy

Corporate Finance and People Board
6 July 2021

Executive summary

1. Scope

This report aims to set out the budget setting strategy for 2022/23, with a focus on:

- A **strategic approach** to budget setting
- The framework to be followed by budget holders and the finance function
- approach taken to **maintain a balanced budget position**, both this year and longer term

2. Background

- 21/22 SG confirmed an **additional £60m** of core funding for policing
- SPA able to set a **balanced budget** and eliminate the structural deficit.
- Key factors to maintaining a balanced budget:
 - managing the **workforce size and mix**
 - receive **funding increases** in line with unavoidable pay pressures (real terms protection)
 - **manage non-pay pressures** with compensating savings across the organisation.
- The **ongoing impact of COVID-19** continues to place significant challenges on public finances
- An additional **£15m of one-off funding** received in 2021/22 to support the in-year impact of COVID

3. Budget setting strategy

- focus on further **enhancing the zero-based budgeting** approach
- **matrix budgeting** method expanded
- pay budget setting enhanced,
- recurring costs and savings from **COVID-19** incorporated
- Focus on the **impact on income** and how this can be managed
- A **risk based** budgeting approach will be adopted
- The spending review has indicated flat cash for **capital and reform** for 2022/23
- Continue to explore aspects of **priority based budgeting** with the expectation this will be expanded in future years.

Introduction and scope

Scope of Budget Strategy

Scope

- The budget strategy sets out our strategic approach to budgeting, ensuring that budget planning is aligned to operational and strategic plans.
- It provides the framework for setting the 2022/23 budget and is reviewed on an annual basis.
- The key aim of the 2022/23 budget strategy, and all future medium and longer term planning documents, is to ensure that the revenue budget is aligned to the overall principle of maintaining financial balance. This strategy is also supplemented by detailed budget setting guidelines which provide detail of our budget setting approach, including timetables and responsibilities.
- A separate document will be developed to cover the approach for capital investment and reform which will be taken through the Capital Investment Group.

Budget setting approach – in scope

- ✓ Zero-based budgeting approach, where possible.
- ✓ Refine & build on experience from 2021/22.
- ✓ Incorporate developments in key supporting strategies.
- ✓ Link budget setting to medium and long term financial planning, including bringing together all known factors and balancing financial objectives

KEY MESSAGES

- As a minimum, budget holders should seek to hold their budget requirement flat across the DCC/DCO portfolio. Where an overall budget pressure has been identified from the zero base build, budget holders should in the first instance consider rebalancing existing budgets within their own area to fully or partially absorb the pressure before presenting for consideration across the ACC or DCC portfolio.
- Given the current financial position, it is highly likely that further savings options will be required but this can only be determined once the initial phase of the budget is complete and the funding allocation is announced by Scottish Government. The level of savings required will, as a minimum, correspond to any increase in the overall budget requirement above the funding available.
- In preparation for this, budget holders should seek to identify further savings and efficiency options during the budget review process. Options could include:
 - identify opportunities for new efficiency savings;
 - challenge current methods of service delivery and identify alternative ways of providing services;
 - challenge existing policies and service levels so a complete range of service reductions are identified;
 - consider the minimum statutory requirements to provide the service, provide it at the minimum level, or whether the service is actually discretionary; and
 - explicitly consider if there is scope for efficiencies via closer working with other partner bodies.

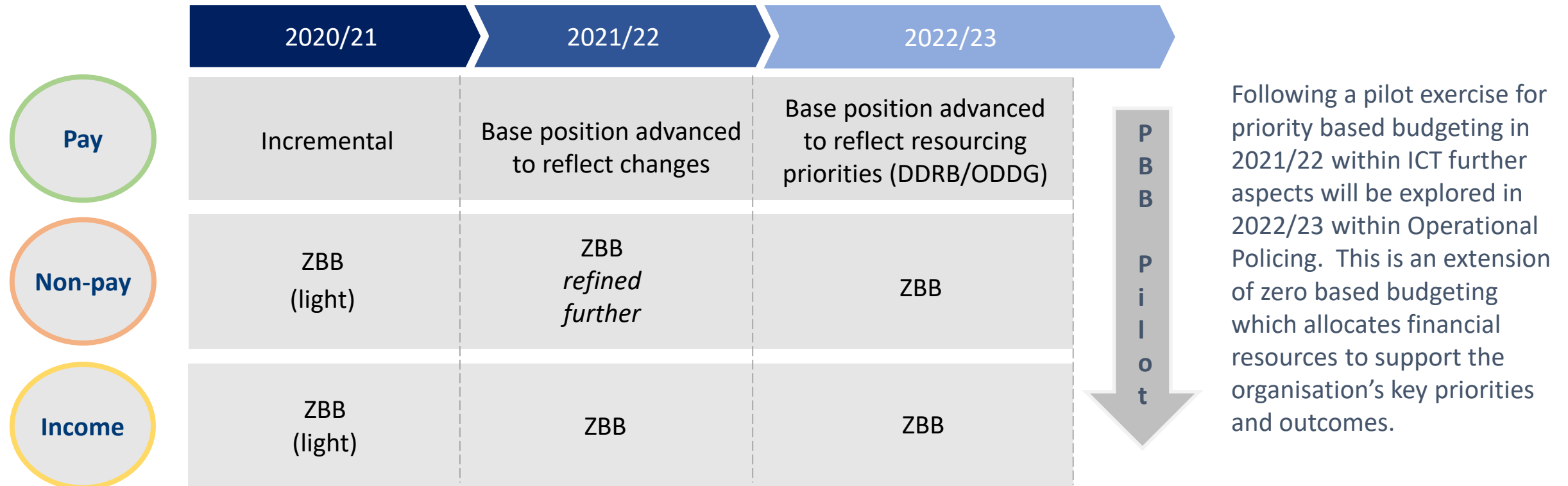
Budget setting approach (2022/23)

Budget approach

- The budget setting approach continues to evolve and build on developments from previous years.
 - In 2022/23, budget developments will focus on enhancing the budgeting of pay related costs.
 - Pilot priority based budgeting exercise will take place.
- The budget strategy for 2022/23 will continue to enhance the zero-based budgeting approach introduced in 2020/21.
 - This approach requires each budget holder to assess, prioritise and plan the budget requirements for their business area to provide an estimated cost of the current level of service to agreed standards.
 - As resources are not allocated in accordance with previous patterns of spend, expenditure has to be fully justified by the benefits expected each budget cycle.
 - A risk impact assessment is also required as part of the initial budget build. This exercise is fundamental in ensuring that budgets are allocated to strategic risks in accordance with the risk appetite of the organisation.
 - To date, the zero-based budgeting approach has mainly focused on non-pay expenditure. The approach will continue to be refined, taking account the learning from the 2021/22 budget setting exercise.
 - Budgeting for pay costs continues to be based on a baseline position using actual payroll data, supplemented with any changes reflecting future workforce reorganisation, strategic priorities and/or skills mix.
 - The current budgeting approach is part of a journey towards full priority based budgeting (PBB). PBB is an extension of zero-based budgeting which allocates financial resources to support the organisation's key priorities and outcomes.
 - Specific aspects of PBB will continue to be explored as part of the 2022/23 budget exercise. Taking some learning from a recent piece of work completed by the National Police Chief's Council, a pilot exercise will be completed within the organisation covering all aspects of the revenue budget.
 - The full benefits of this approach will be realised when it can be applied to the whole revenue budget across organisation (pay and non-pay).
 - We will continue to develop the budgeting approach as more demand and workforce data becomes available to allowing revenue budgets to be further aligned to strategic priorities.
 - Budget planning work will be minimal in November as the organisation will be focussed on the successful policing of COP26. Budget timelines have been brought forward/moved back to accommodate this.
 - Consider the equalities impact of budget proposals where appropriate.

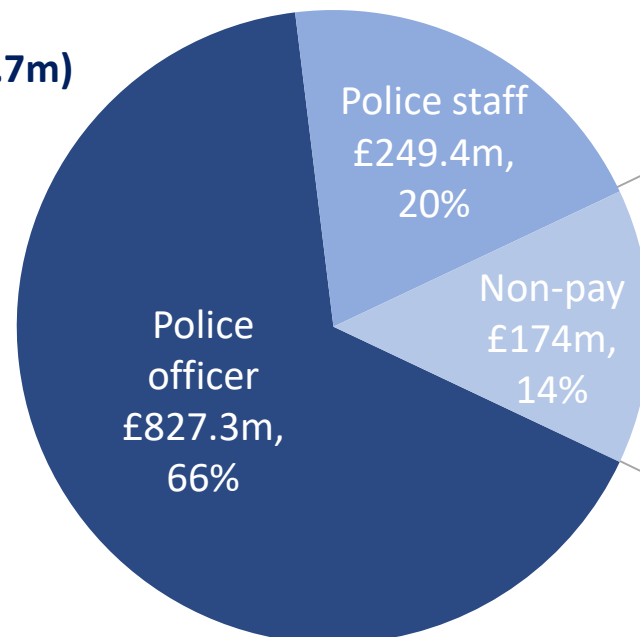
Budget setting approach

Summary and evolution of budgeting approach



Gross expenditure budget 2021/22 (£1,250.7m)

- The chart and table to the right highlight the breakdown of the budget allocated for FY 2021/22
- The majority of the spend relates to Police Officer and Police Staff (86% combined), with the remaining 14% required for non pay expenditure such as premises costs, ICT costs and supplies and services



Non-pay Budget			
Other employee		£2.5m	0.2%
Premises		£53.4m	4.3%
Transport		£20.1m	1.6%
Supplies & services		£42.2m	3.4%
ICT		£30.6m	2.4%
Admin		£7.6m	0.6%
Third party payments		£13.1m	1.0%
Capital financing		£5.5m	0.4%
Other costs		£-1.0m	-0.1%
Total non-pay budget		£174.0m	

Budget setting principles

There are six key principles that underpin the budget setting exercise

01

Strategic alignment

- Financial resources should align to the organisation's strategic priorities as far as possible.
- The financial plan should focus on the allocation of appropriate level resource to achieve these priorities over the planning horizon concerned (annual, three or ten year plan timeframes).

02

Financial sustainability

- Key focus on maintaining financial sustainability with a balanced budget.

03

Realistic budgets

- Budget holders will start the year with an income and expenditure budget that allows them to deliver against agreed service objectives.
- The usefulness of budgets as a tool for both monitoring and managing performance is diluted if budgets do not accurately reflect spending plans. However, this aim is often constrained by the requirement to submit a balanced budget.

04

Appropriate devolvement and accountability

- One of the aims of budget setting is to ensure that budget holders are accountable for an income and expenditure target that is consistent with the planned activity levels.
- Budget holders have realistic targets and can be held to account for performance against those targets. Accountability does not sit with Finance.

05

No central pots

- Budget holders cannot anticipate further budget allocations in the course of the year and are required to manage within the parameters of their total budget allocation, as far as possible.
- Where pressures cannot be managed this should be considered in the context of the wider service areas budget allocation before being forecast as an unmanageable pressure.
- It is not good practice for unidentified savings to be included within the budget. Specific savings plans should be developed and in place to ensure they can be delivered in year.

06

Budget adjustments to be minimised

- Once the budget is approved and allocated across the organisation, budget adjustments will be restricted as far as possible.
- Budget adjustments often serve to make meaningful analysis of the financial position more difficult.

Budgeting approach: pay

Officers and staff costs represent by a significant margin the greatest cost of the SPA. Our approach to budgeting for pay costs will build on the base payroll data and reflect key variables as outlined below.

Strategic resource allocation

- Augment base budgets with DDRB resourcing decisions.
- Reallocation of capacity creation (linked to 7 below).

Pay awards

- 2021/22 pay award discussions still ongoing.
- PSPP for 2022/23 unknown.

Increments and SPRM

- Officer increments assumed to be self-funded.
- Staff – SPRM progression built into budgets. Recurring impact will be reflected in budgets.

Change programmes

- Reform funded posts moving to BAU.
- Productivity savings (reallocated through DDRB)

Capital Investment

- Capitalisation of staff costs.

Officer numbers

- Assumed attrition and intakes to be modelled working with P&D to estimate.

Overtime

- Officers – core overtime to distributed based on DCC’s agreed allocation model and non-core overtime based on zero-based build associated with income.
- Staff – zero-based budget build.



Budgeting approach: non-pay

- Non-pay budgets will continue to be developed using a zero-based budgeting approach with lessons learned from the previous year's exercise including expanding the use of the matrix budgeting method.
- Whilst this is a zero-based build, budgets should reflect only what is required to deliver current services to agreed standards.

Background

- Non-pay costs represent 14% of the current gross expenditure budget, a large proportion of which are relatively fixed in the short term.
- These budgets continue to be developed using the approved zero-based budgeting approach.
- The core non-pay budget has been fairly consistent in the last two years following the £17m uplift received in 2020/21 to address historic under-investment and high operational risk.

Matrix budgeting approach

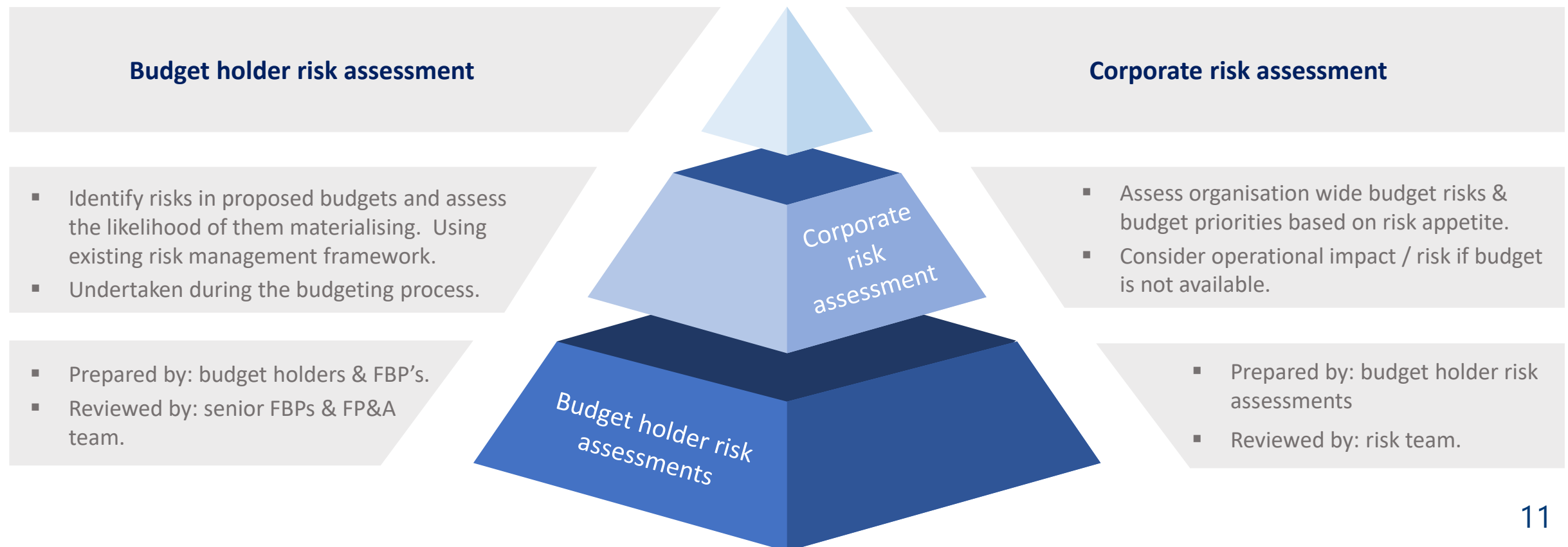
- A matrix approach will be taken for budget lines that are common across the organisation, for example fuel and stationery. Although these budgets are fully devolved to budget holders, one member of finance staff will take responsibility for leading on the budget build across the organisation.
- Local finance business partners still have overall responsibility for liaison with budget holders, but they will work with a finance lead who will develop a detailed understanding of that particular expenditure area.
- This approach ensures that budgets are prepared on a consistent basis and avoids duplication of work across finance teams.

Requirements

- A zero-based approach will be used to determine the budget requirement. It is the responsibility of each of budget holder to assess, prioritise and plan the budget requirements for their area.
- The zero-based build should provide an estimate of the cost of providing the current level of service to agreed standards. This process is not a vehicle to seek growth or enhanced service levels.
- Furthermore it is expected that the recurring impact of COVID-19 is considered as part of the build. It is expected that recurring savings and costs will be reflected in the zero-based build.
- Budget lines should be constructed in sufficient detail to allow a complete understanding of the overall cost base. This includes rationale for each budget and the operational impact if the proposed budget is not approved. A de minimus limit is of £50,000 has been set for providing detailed explanations.
- Finance staff from the business partnering and business intelligence teams will work closely with budget holders and other key contacts to understand the overall cost base and any issues that may have an impact on the assessment of the budgetary requirement with a matrix approach taken for many budget lines.

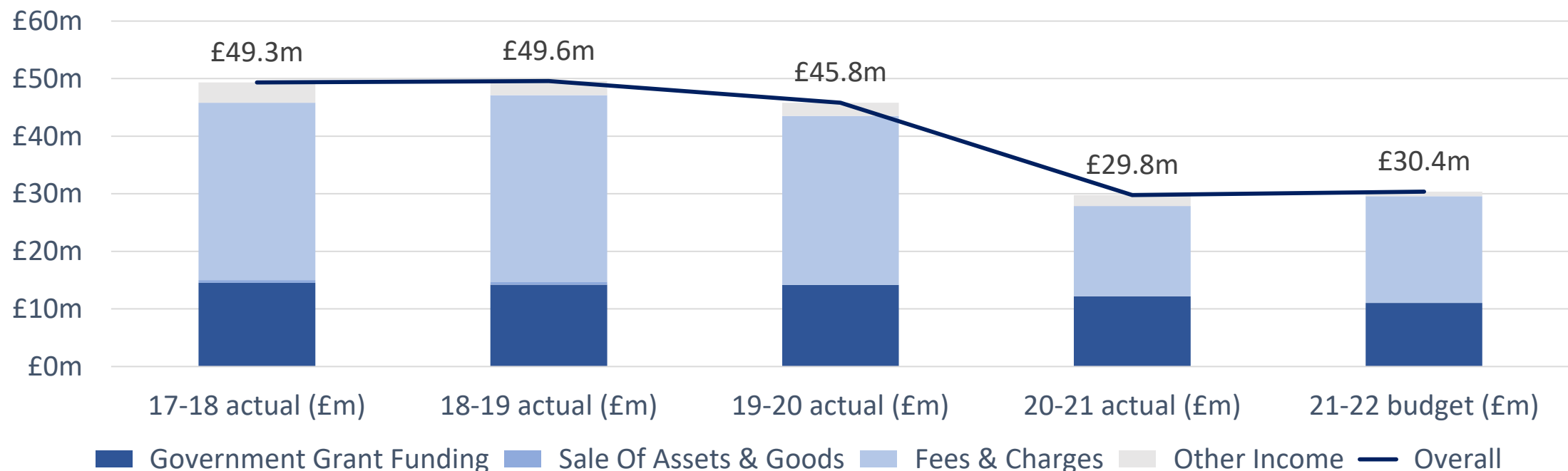
Risk assessment

- In addition to service areas budget submission a risk assessment should be provided for all budget areas. This seeks to capture budget risk which will include changes to budget assumptions and the potential for additional unbudgeted costs.
 - Budget holder risk assessments will be used to inform a service wide corporate risk assessment, independently reviewed by the risk team. This will outline the operational consequences if the requested budget is not provided and used to inform decision making.
- Budget assumptions applied in the budget process must be as relevant and accurate as possible at the time the budget is set. In addition to preparing detailed zero-based budgets risk assessments will be undertaken to test the robustness of proposals and to identify key factors which may impact on proposed budgets.
 - There is an element of risk attached to all budgets and the service must accept a degree of risk its approved budget which is managed throughout the financial year.
 - The purpose of identifying these risks is to assess the likelihood of them materialising and the consequent impact. From these assessments, plans can be developed to manage or mitigate. The operational risk assessment can also be used to inform how budgets are allocated or prioritised where there is finite funding available.



Budgeting approach: *income*

- There are likely to be continuing pressures across income budgets due to COVID-19 restrictions or the financial challenges being experienced by partner bodies.
 - A zero-based budgeting approach will be adopted and developments will continue to be closely monitored throughout the process.
- Income represents 2.4% of the total budget, £30.4m in 2021/22 – there has been a significant reduction in expected income due to COVID-19 across the last 2 financial years.
 - In 2022/23 significant uncertainties are expected in income budgets: other public bodies, including councils, are under their own significant financial pressures; event income, including sports events, could remain uncertain given COVID-19 restrictions; and airports income is expected to be suppressed for a number of years.
 - Finance will continue to adopt a zero-based approach to setting income budgets linking income budgets with the associated direct costs.
 - It may take some years for income to return to pre COVID-19 levels, if at all. Where there is uncertainty over the continuation of an existing income stream but no confirmation of a change in income the budget should be retained but a risk or threat should be highlighted. As the budget setting process progresses and COVID-19 restrictions evolve, income budgets will be regularly reviewed. Discussions with Government will continue, with any income challenges highlighted.
 - Any new income streams identified that have no associated expenditure will be considered at a corporate level, to offset the highest priority pressures across the organisation.



Forensics & SPA corporate

- Finance will support the budget setting process across Police Scotland, Forensic Services and the SPA's corporate body.
- Further considerations relating to Forensics and SPA transformation will be considered

Forensics services

- The forensic services 2026 strategy outlines a phased approach to improve the service.
- An initial business case has been presented to the July 2020 SPA Forensic Services Committee and work continues on the full business case.
- Whilst the FBC is under development, it is expected to seek an option that will require capital and reform investment to deliver an enhanced operating model.
- All options will be considered and reflected in the budgets as appropriate – it is unlikely there will be a significant financial impact on revenue in FY 2022/23

SPA corporate

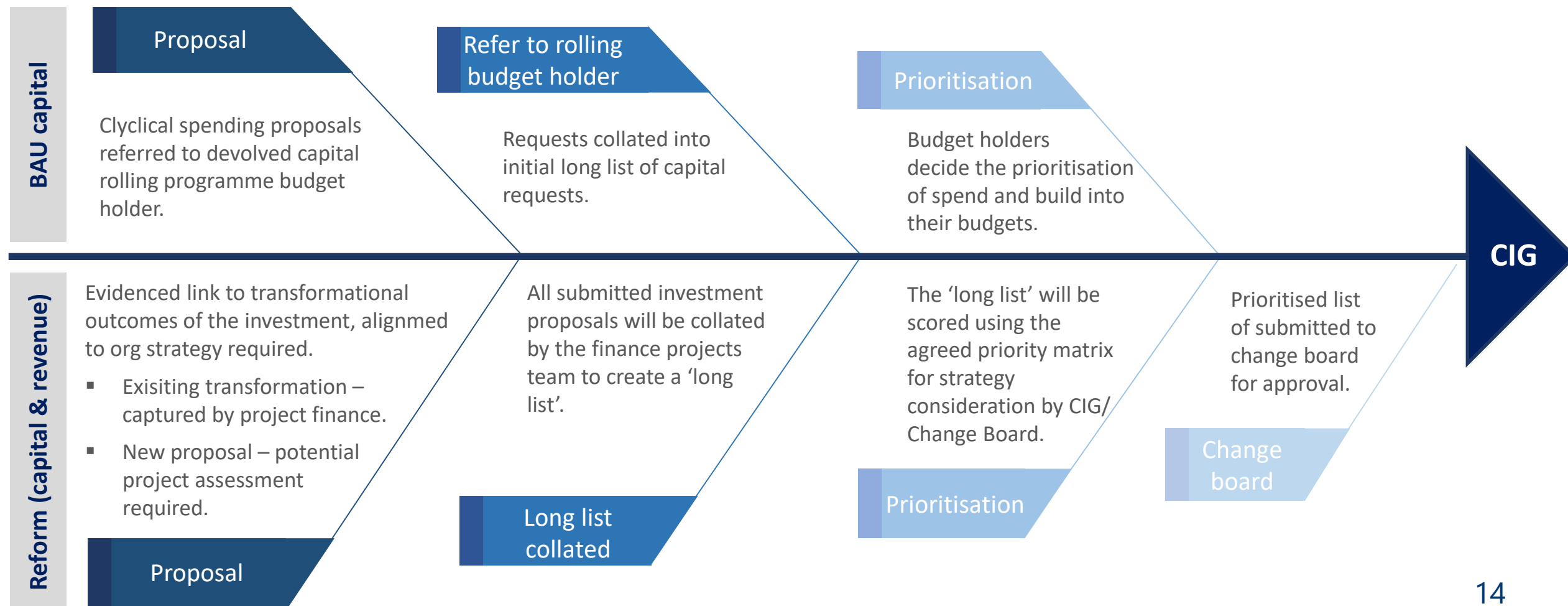
- Work to establish a strategic, assertive and outward facing SPA structure has been ongoing for a number of months and a proposal for a new structure, was supported by the Board in May 2020.
- A new SPA staffing structure was completed last financial year and no further changes are expected.
- Whilst this change led to an increase in staff numbers, this was effectively filling current vacancies or roles currently filled by temporary appointments and secondments.

Budget setting approach

Budget setting for forensic services and the SPA will follow the same approach, process and timeline Police Scotland, as described in previous slides with only a few small, specific considerations.

Capital & reform approach

- The investment budgeting approach considers the BAU capital requirements and transformational reform budgets requirements.
 - Historically business cases have exceeded the available capital and reform funding and proposals will be scrutinised and prioritised within the available funding.
- As part of the Scottish Government spending review, a requirement for £470m capital funding over the next 5 years has been highlighted, with the outcome that funding of £49.6m has been indicated to be received each year. Funding for reform has yet to be confirmed. As a result of the ongoing COVID-19 pandemic the investment priorities of the SG are likely to change.
 - The following diagram summarise our investment budgeting approach for 2022/23. Both capital and reform proposals will be presented to the Capital Investment Group for consideration, challenge and approval. The revenue consequences of capital investment decision will also be outlined and incorporated in revenue budget proposals. This prioritisation and approval process is in advance of final internal and SPA approval process.



Ownership & accountability

High level responsibility

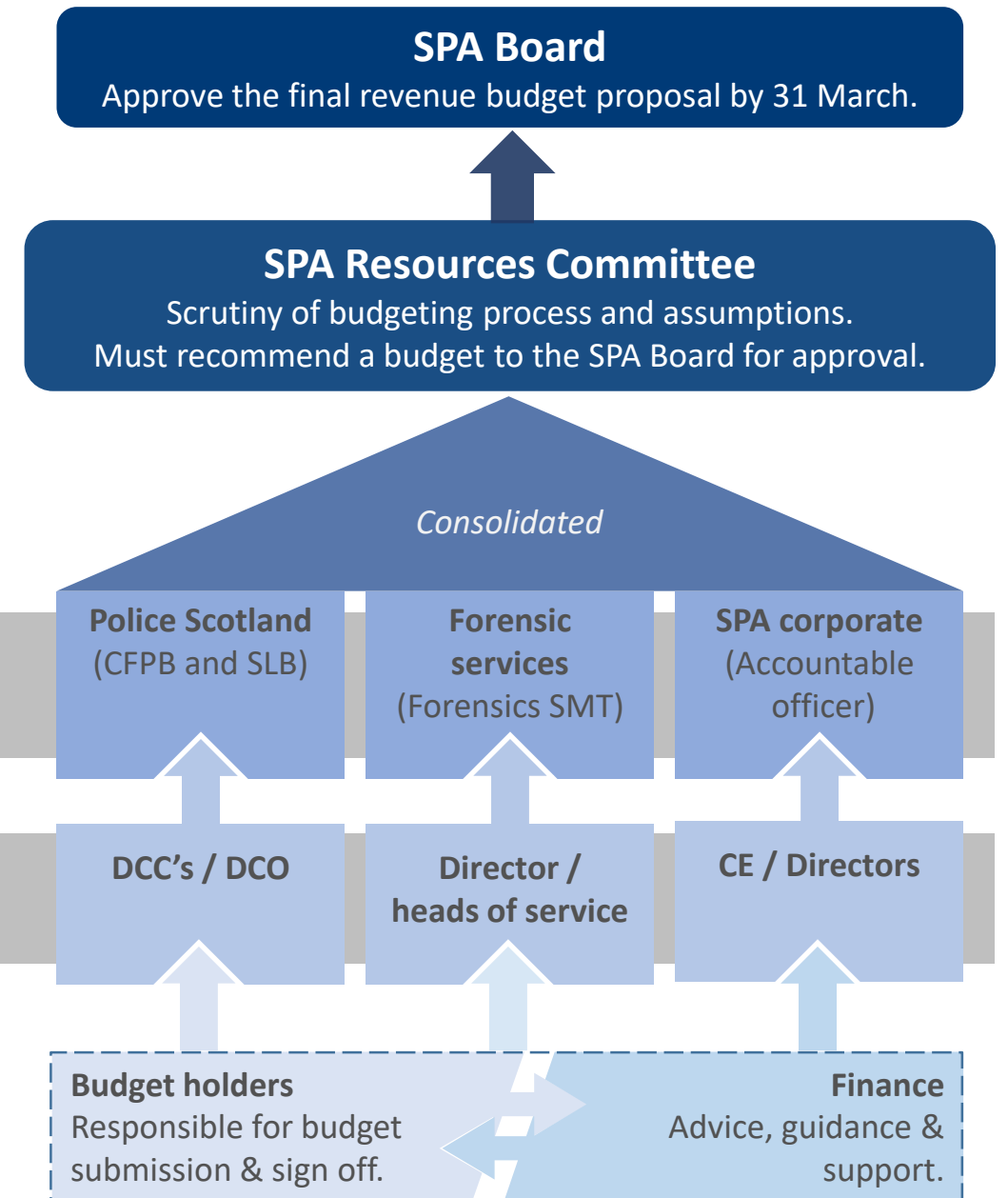
- The SPA Board sets the overall annual budget and holds management to account for delivery.
- Responsibility for developing the budget lies with the Chief Constable, Director of Forensic Services and Accountable Officer. This responsibility is delegated to the Deputy Chief Constables, Deputy Chief Officer and Heads of Service/ Function for the purposes of delivering policing, forensics and support services across the country.
- The organisation operates devolved budget management which places responsibility for the management of resources on those who have control over spending decisions. This means that budget holders are the responsible owners of the budget. Further detail is included in the appendix.

Detailed budgets

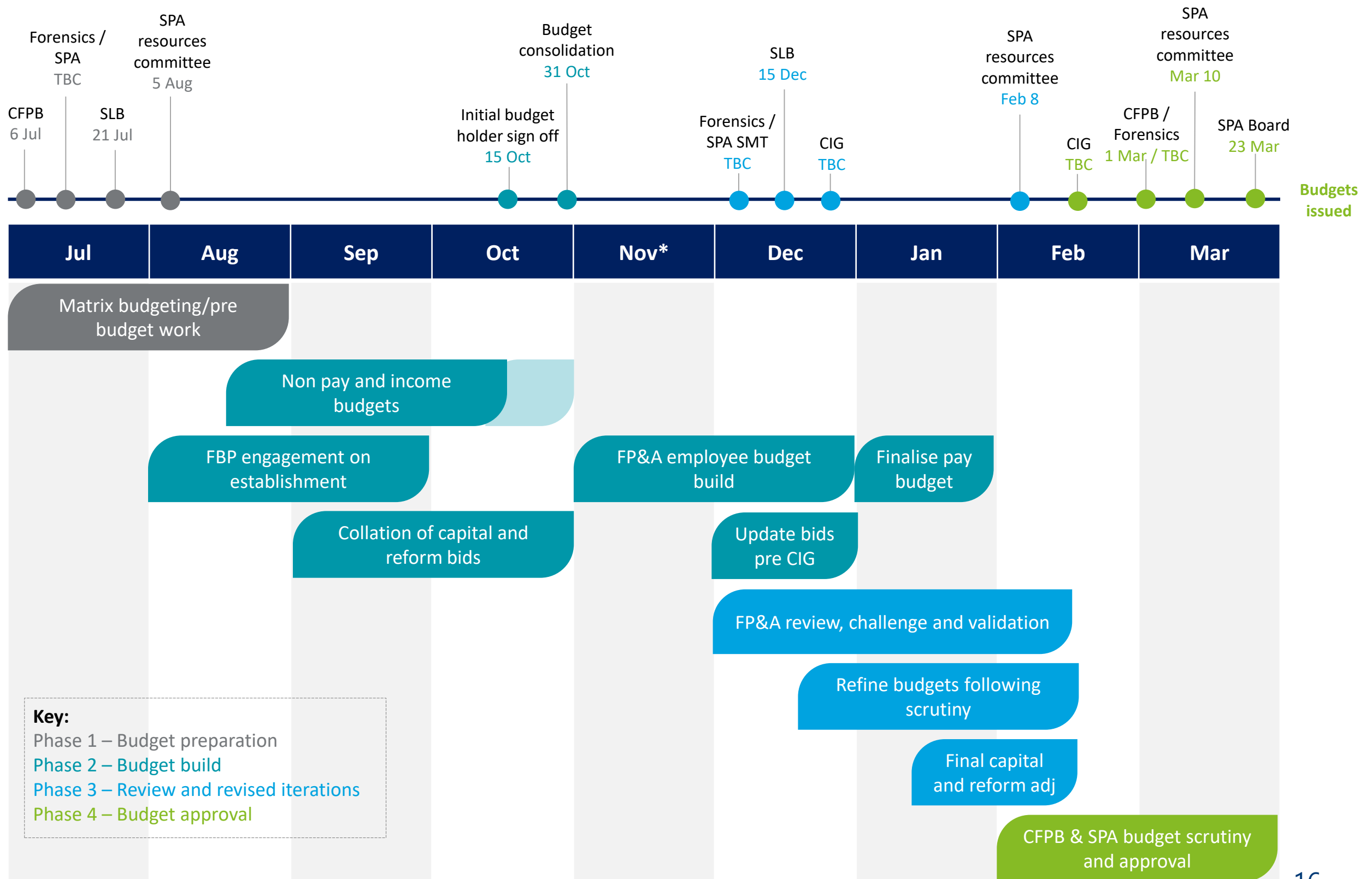
- Detailed budgets are prepared by finance working collaboratively with budget holders.
- Whilst finance staff provide challenge, advice, guidance and support to budget holder they are ultimately responsible for their budget submission and are required to **formally sign-off on the budget proposal**.
- Further detail is included in the appendix.

Budget monitoring

- The approved budget will be monitored throughout the financial year with regular financial monitoring reports presented to all budget holders and committees charged with financial management.
- The services budget management guidelines provide further detail on the system of budget monitoring and control.



Budgeting approach: timeline



*COP26 – majority of budget work will pause for the month of November

Appendices

Roles & responsibilities

Role	Responsibility in budgeting process
Budget Holder	<ul style="list-style-type: none"> ● Read and understand the budget strategy and budget setting guidelines (this will be supported by Finance Business Partners).
	<ul style="list-style-type: none"> ● As budget holder, take responsibility for the budget submission with regard to their accountable business area(s), working collaboratively with Finance through the budget planning process. It is the sole responsibility of budget holders for budget submission. The role of finance is to provide advice, guidance and support to budget holders.
	<ul style="list-style-type: none"> ● Agree proposed budget allocation through the formal budget sign off process.
Supporting strategies – executive lead	<ul style="list-style-type: none"> ● Leading on the entire financial planning process including providing advice, guidance and support to finance staff, budget holders and the SPA.
	<ul style="list-style-type: none"> ● Preparation of the detailed and flexible financial planning tool to underpin all financial plans.
	<ul style="list-style-type: none"> ● Understand and shape the development of supporting strategies ensuring they are integrated into financial planning.
	<ul style="list-style-type: none"> ● Conduct financial modelling based on assessed risks and sensitivities.
	<ul style="list-style-type: none"> ● Ensure that medium and longer term financial planning is closely linked to short term financial plans and operational objectives.
	<ul style="list-style-type: none"> ● Ensure that the financial strategy complies with Scottish Government requirements, Best Value and audit recommendations as appropriate
	<ul style="list-style-type: none"> ● Ensure that key stakeholder are kept informed with the process. ● Ensure an approach of positive challenge is taken and that value for money is being considered throughout.
Finance Business Partners, with support from Business Intelligence.	<ul style="list-style-type: none"> ● Issue guidelines and timetable which set the requirements for the budget setting process.
	<ul style="list-style-type: none"> ● Provide challenge, advice, guidance and support to budget holders in: <ul style="list-style-type: none"> ● developing budget plans;
	<ul style="list-style-type: none"> <ul style="list-style-type: none"> ● quantifying budget pressures and growth;
	<ul style="list-style-type: none"> <ul style="list-style-type: none"> ● formulating savings proposals, and
	<ul style="list-style-type: none"> <ul style="list-style-type: none"> ● budget phasing.
	<ul style="list-style-type: none"> ● Deliver a structured programme in respect of the budget setting process.
	<ul style="list-style-type: none"> ● Provide financial information to assist budget holders in developing their budgetary requirements throughout the budget setting process.
<ul style="list-style-type: none"> ● Ensure an approach of positive challenge is taken and that value for money is being considered throughout. 	
<ul style="list-style-type: none"> ● Bring a corporate approach to the exercise, continually raising awareness of the extent of the budget challenge. 	
<ul style="list-style-type: none"> ● Business Partners to be satisfied with the final budget submissions and to ensure final sign-off by the budget holders. 	

Roles & responsibilities *(continued)*

Role	Responsibility in budgeting process
DCC/ DCO	<ul style="list-style-type: none"> ● As ultimate budget holders approve all budget submissions. ● Take ownership for the budget for his/her portfolio by signing off the final proposed budget allocation
Chief Financial Officer	<ul style="list-style-type: none"> ● Ensure structured, controlled framework is in place for developing the budget ● Provide advice on developing and managing a budget within available resources ● Issue timely and relevant reports to SPA Resources Committee and Board on the robustness of the budget estimates ● Set out the financial risks pertaining to the budget ● Ensure that the budget complies with statute, accounting standards/codes of practice, Scottish Government requirements, Best Value and audit recommendations as appropriate
CFPB (Police Scotland), Forensics SMT and SPA Chief Executive	<ul style="list-style-type: none"> ● Consider and approve as appropriate: <ul style="list-style-type: none"> ● budget approach and timetable; ● budget assumptions; ● proposed budgets; and ● budget reports to SLB and SPA. ● Recommend the budget to SLB.
Chief Constable/SLB	<ul style="list-style-type: none"> ● Consider and approve as appropriate: budget assumptions; proposed budgets; and budget reports to SPA. ● Recommend a budget to the SPA Resources Committee for approval.
SPA Accountable Officer	<ul style="list-style-type: none"> ● responsible for the propriety and regularity of the public finances and ensuring that the resources of the body are used economically, efficiently and effectively ● ensure that arrangements have been made to secure Best Value as set out in the Scottish Public Finance Manual
SPA Resources Committee	<ul style="list-style-type: none"> ● Approval of budgeting assumptions. ● Scrutiny of the budgeting process and budget assumptions. ● Review and consideration of budget reports throughout the process. ● Must recommend a budget to the SPA Board for approval.
SPA Board	<ul style="list-style-type: none"> ● Approve the final proposed revenue budget as appropriate. ● Ensure the process is complete by 31 March.
Scottish Government	<ul style="list-style-type: none"> ● Advise of grant funding for financial year. ● Review and consider budget reports as appropriate throughout the budget setting process. ● Agree / underwrite the proposed deficit.