

Meeting	Authority Meeting
Date	30 September 2020
Location	Video Conference
Title of Paper	Spending Review Developments
Presented By	James Gray, Chief Financial Officer
Recommendation to Members	For Discussion
Appendix Attached	Yes Appendix A - Achieving Financial Sustainability

PURPOSE

The purpose of this report is to provide Members with detail of the financial sustainability challenge.

Members are invited to discuss the contents of this paper.

1. BACKGROUND

- 1.1 This report provides background to the financial and operational successes of the police reform process since the creation of Police Scotland and the Scottish Police Authority.
- 1.2 Context of the core and acute operational demands on policing is outlined in addition to the previous deficit reductions plans.

2 FURTHER DETAIL ON THE REPORT TOPIC

- 2.1 The document set out the financial sustainability challenge over the years to 2024/25 and provides an illustrative projection of the deficit if there are no further changes made to the workforce or funding.
- 2.2 The full report is attached at appendix A.

3. FINANCIAL IMPLICATIONS

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

4. PERSONNEL IMPLICATIONS

- 4.1 Any potential changes to workforce size or mix will be driven by the strategic workforce plan, transformation portfolio and the Chief Constable's appetite for risk in light of major events.

5. LEGAL IMPLICATIONS

- 5.1 There are no legal implications associated with this paper.

6 REPUTATIONAL IMPLICATIONS

- 6.1 There are ongoing reputational implications if the service continues to operate with a large deficit.

7. SOCIAL IMPLICATIONS

- 7.1 There are no social implications 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 equality implications associated with this paper.

10. ENVIRONMENT IMPLICATIONS

10.1 There are no environmental implications associated with this paper.

RECOMMENDATIONS

Members are invited to discuss the spending review developments report.

OFFICIAL



POLICE
SCOTLAND
POILEAS ALBA

FINANCE

Financial Planning & Analysis (FP&A)

Achieving financial sustainability

30 SEPTEMBER 2020

Headlines

01

Reform savings

- Police reform has achieved savings of **£200m pa.**
- Cumulative savings expected - **£2.2bn by 2026**; double the outline business case (OBC) target (£1.1bn).

02

Service improvements

- Whilst achieving savings, police reform has also delivered wide reaching operational service improvements.
- Transformational change projects are now being undertaken to make Scottish policing fit for the 21st century and adapt to meet the challenges of a changing society. This requires investment funding to realise further efficiency gains and financial benefits.

03

Deficit reduction plans

- Previous financial strategies have outlined plans to eliminate the deficit which have all required officer and staff reductions, including 750 officer reductions in the previous plan.
- It is not considered viable to materially reduce non-pay budgets further, so funding increases or workforce reductions are the only options available to balance the budget.

04

Demand

- Acute demands on officer resources have postponed any reductions in officers. These demands include: Brexit, COP26 and the COVID-19 pandemic.
- Work is progressing on the strategic workforce plan that will set out the officer and staff resources required.

05

Financial sustainability

- To achieve financial sustainability real terms protection alone is insufficient to close the budget gap. Without a structural correction to revenue funding, workforce reductions would be required, enabled by transformation.
- Requires ~£50m additional funding or a circa 5% workforce reduction, plus funding increases in line with pay.
- With no changes in funding or workforce the deficit could grow to £200m by 2024/25, depending on pay inflation.

Executive summary

Conclusion - Policing faces significant: financial challenges, increasing demand, and acute operational pressures in the short to medium term. A broader public discussion is required on the police service Scotland wants, needs, and can afford.

Police reform

- Reform of policing in Scotland in 2013 was essential to protect and improve local services against a context of UK-wide austerity, with a business case objective of delivering £1.1 billion of savings by 2026.
- Policing is now on track to deliver total savings of £2.2 billion by 2026 – double the outline business case (OBC). More than £200 million has been removed from the annual cost base of policing compared to legacy arrangements – more than the combined budgets of four legacy services.
- Despite this, the service continues to operate with a significant revenue deficit; a budget deficit of £44 million (inclusive of net £8 million COVID-19 costs) was set for 2020-21.

Deficit reduction plans

- Financial sustainability has been the primary objective of the various financial strategies developed since 2016. Each plan proposed significant workforce reductions, enabled by transformation. However, no plans have been executed in full, due to factors including: insufficient funding for investment and increasing operational demand (e.g. Brexit, COP26).
- Maintaining officer numbers while removing £200m from the cost base resulted in non-pay costs accounting for 14% of the budget (86% pay); compared to a UK police service average of 22%. A zero-based budget setting approach to non-pay was used in 2020/21 which highlighted the operational risk of reducing non-pay budgets further that is outside the organisation's risk appetite.
- To achieve financial sustainability real terms protection alone is insufficient to close the budget gap and, without a structural correction to revenue funding, workforce reductions would be required.

Service improvement / change programmes

- Reform has transformed the way policing in Scotland responds to major incidents and national threats, how we investigate rape and other sexual crimes, and improved our approach to investigating murders and unexplained deaths.
- Transformational change projects have sought to develop a modern, flexible, and sustainable service fit for the 21st century. Progress to date includes: the roll-out of mobile devices; transformation of contact centres and enhanced approach to assessing calls.
- Further investment in the SPA/ Police Scotland will help close the gap between police funding and our costs which also supports other partners for the benefit of the public as a whole and to prevent harm early.

Demand / workforce

- The previously approved financial strategy included 750 officer reductions as capacity and productivity benefits are achieved. These benefits have been realised, however, in consultation with the Scottish Government officer numbers have been maintained with agreement to extend the deficit.
- While overall crime levels in Scotland have reduced, the harm caused by criminality has increased as the most vulnerable in our community are targeted increasing demand on the police workforce.
- The Strategic Workforce Plan will help to identify the officer and staff profile and skills policing in Scotland needs and will help to develop more efficient and equitable ways to meet our dynamic and complex demand.
- It is clear that, as an organisation where pay is by far the most significant cost, against current funding our workforce size and profile is not sustainable.

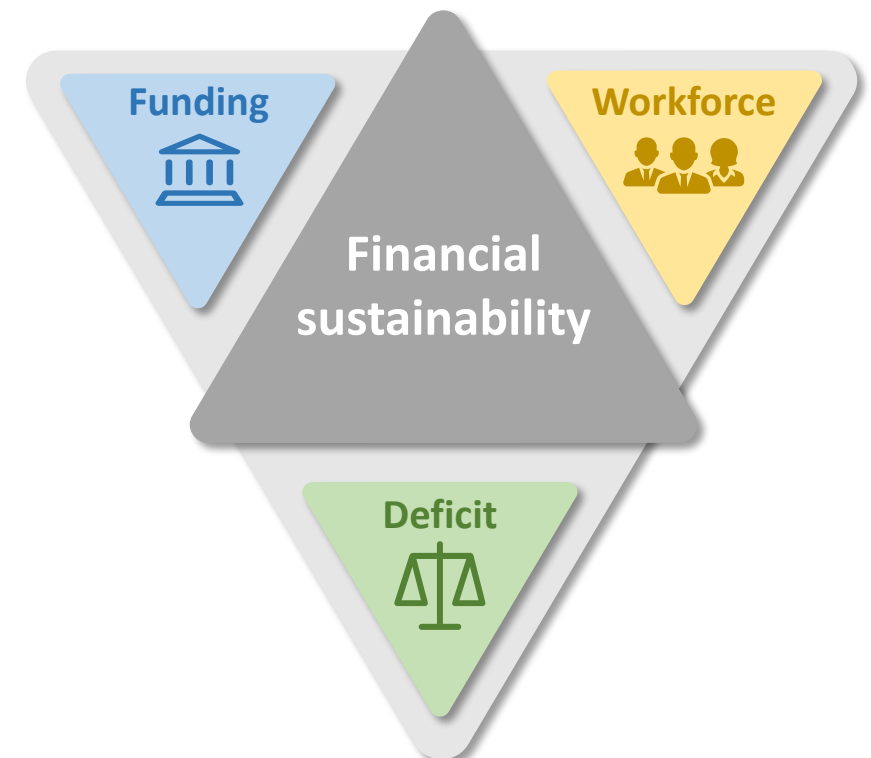
Background

Origin of the operating deficit

- The objective of the outline business case (OBC) for police reform was to compare a number of restructuring options, including the creation of a single national force. As is normal for a business case, the financial modelling was simplified and identified options showing the expected costs, savings and return on investment as well as non-financial benefits based on how well options delivered against policing outcomes.
- In the first few years of the SPA/ Police Scotland, year-on-year reductions to revenue funding were derived from the savings implied by the “single force” option in the OBC. This did not account for a significant number of other (mostly uncontrollable) variables, such as pay increments, pay awards, general inflation and changes to national insurance.
- ‘Real terms protection’ was implemented from 2016/17 but was never in itself sufficient to close the gap. Additionally, in some recent years Public Sector Pay Policy (PSP) has been higher than the GDP metric used to define real terms protection.
- As a result, **despite achieving annual savings of double those targeted in the OBC, the budgeted deficit in 2020/21 is £44m.**

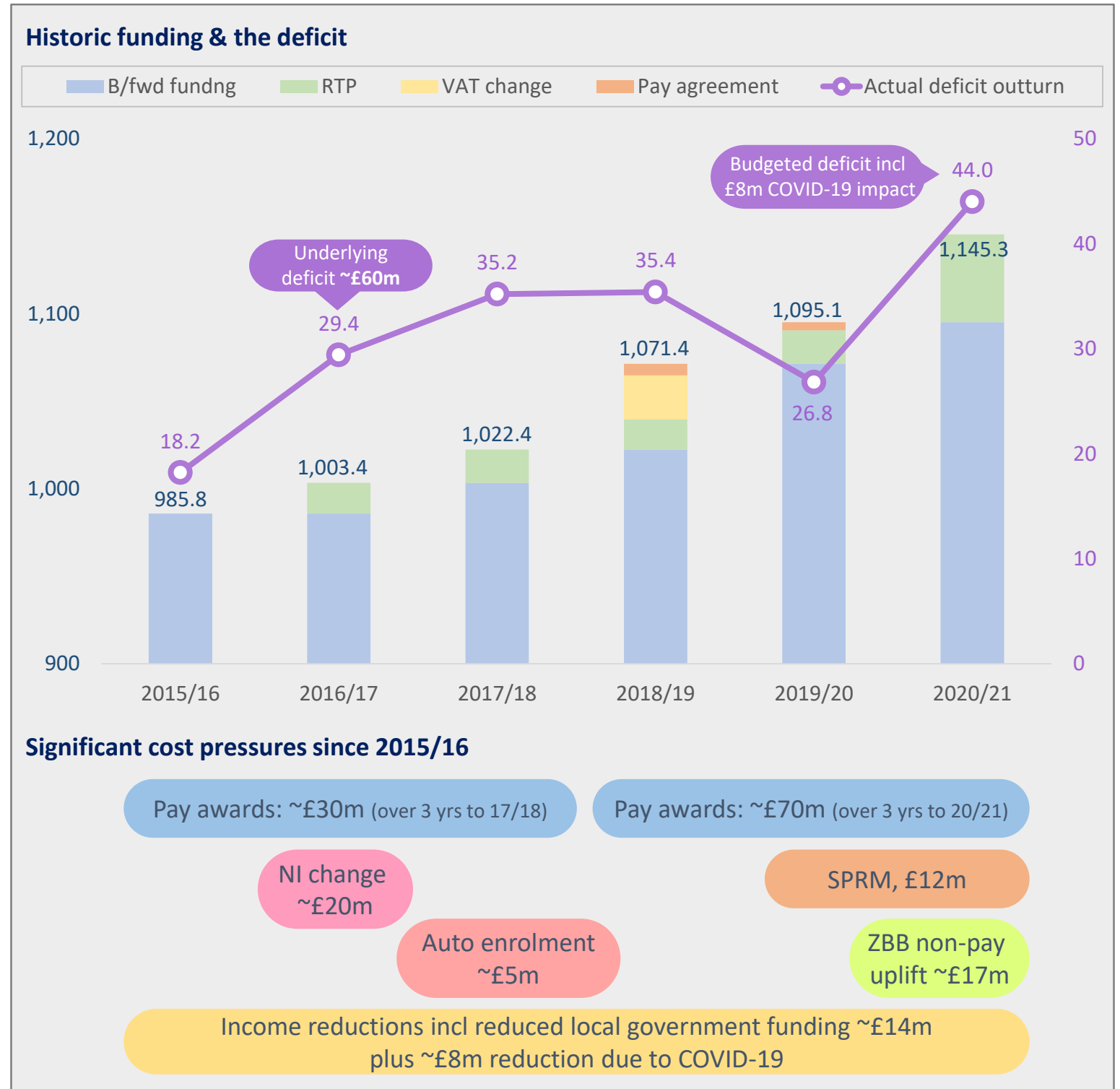
Financial planning options

- Financial modelling demonstrates that without a structural correction to revenue funding, significant workforce reductions are required to close the budget gap.
- Previous plans did include a reduction in officer numbers as capacity and productivity benefits have and continue to be achieved through transformation. However, the Chief Constable has stated it would be imprudent to reduce officer numbers while acute operational demands persist, including preparations for Brexit, the United Nations 26th Session of the Conference of the Parties (COP26) climate change summit and the ongoing policing response to COVID-19.
- As a result of these acute operational pressures, and the funding allocation available, a budget deficit of £44 million (inclusive of net £8 million COVID-19 costs) was set for 2020-21.
- Our approach to medium and long-term financial planning is limited to flexing a combination of three variables: SG funding, workforce size/mix and the operating deficit.



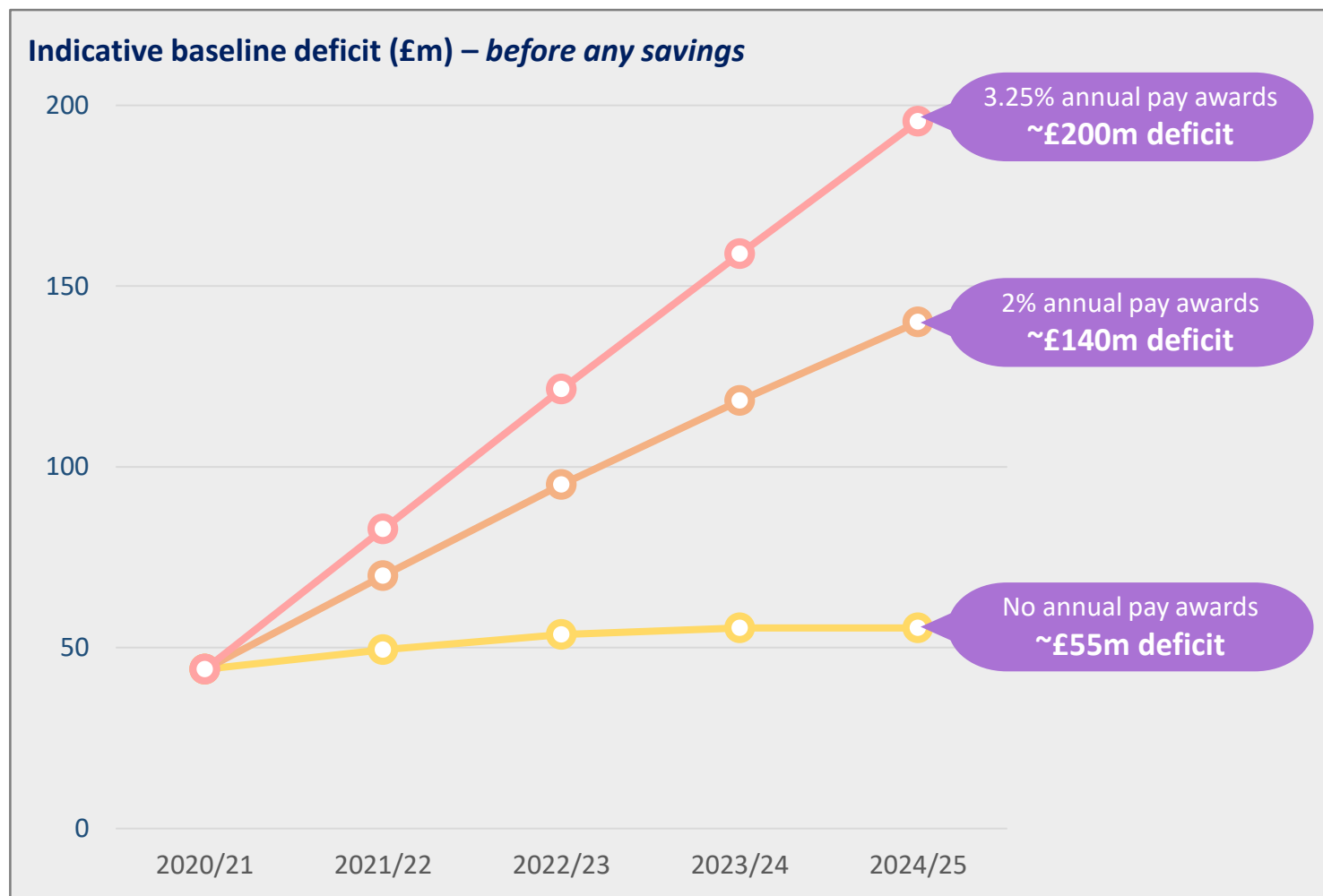
Funding and the deficit

- As part of the initial reduction to police funding, the full savings in the outline business case were passed to the SPA/ PS by 2015/16.
- From this funding low point the Scottish Government committed to “protecting the revenue budget in real terms for the lifetime of the current Parliament – a boost of £100m over five years”. The bar chart shows the funding increases provided.
- Over the last five years **£123m** of additional funding has been provided, **exceeding the SG’s commitment**. Further incremental increases specifically related to changes in VAT funding and pay agreements have also been agreed.
- The line graph shows the final deficit outturn, however, the underlying deficit in the earlier years was significantly higher. The underlying structural deficit in 2016/17 was estimated at ~£60m which was masked by one-off benefits including: i6 compensation, high value asset sales and accrual releases.
- Increases in funding combined with savings have broadly contained the deficit but have not addressed the structural nature of the deficit. In addition, the gap has grown in 2020/21 due to the need to invest in non-pay to address the operational impact of several years of reductions e.g. the poor conditions of buildings and vehicles.
- To achieve financial sustainability the **underlying deficit must be addressed** and **ongoing pay inflation must be linked to funding increases**.



The financial sustainability challenge

- The indicative baseline deficit in 2021/22, before any cost pressures or pay awards has been estimated at £50m. This is based on the current £44m deficit, adjusted for one-off items and known pressures.
- There are many variables impacting on the deficit including non-pay costs, however, these are not expected to fundamentally change the route to financial balance. The zero-based work carried out for the 2020/21 budget on non-pay costs clearly shows this is not an area that can deliver savings of the extent required to achieve financial balance, hence the focus on workforce (~86% of total costs).
- The **chart below is illustrative only** and shows a projected baseline deficit **if no further changes were made to the workforce or funding**. Without additional funding or cost reductions the deficit would continue at around £50m and the effect of providing annual pay awards without a corresponding funding increase sees the deficit grow annually.



Baseline assumptions

Officer numbers	17,234 throughout (no change)
Staff numbers	Remain at current levels
Pay award	Modelling annual pay increases for officers and staff of: 0%, 2% and 3.25% , based on a range previous awards
Non-pay	No general inflationary increases or material reductions expected
Income	COVID-19 impact and other fiscal pressures result in some loss of income
Funding	No increase in revenue funding ie flat cash . Ongoing requirement for ~£25m reform funding to deliver change programmes

Capital & reform

- Capital and ongoing reform investment is vital to fund the changes required to modernise the service and respond to changing demands. The “Joint Strategy for Policing”, outlined how the service intends to rise to these challenges by maximising the impact of our existing resources and investing in technology to enable further transformation..
- In March 2020 we submitted a strategic business case for investment to the SG for the next three to five years. The case outlines the need for **£459.6m investment over five years**, updated as below (£464m), to fund the plans outlined in the joint strategy. Without this level of investment, capital plans will be prioritised on business as usual / health and safety requirements at the expense of transformation activities.
- In addition to this funding there is an ongoing need for continuation of ~£25m of reform funding to deliver ongoing change that realises operational and financial benefits.
- We are ready with plans and well developed business cases that are aligned to SG’s national performance framework, for example:
 - The DDICT outline business case is prepared and ready for investment.
 - Our estates strategy is already focused on collaboration and reducing our estates footprint. The learning from COVID-19 may warrant progressing this beyond the current expected reductions.
 - Our fleet strategy has ambitions to move to electric and ultra-low emission vehicles.

Capital cost	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m	Sources of financial information:
DDICT	45.2	64.9	39.0	12.1	8.0	169.2	<i>Original DDICT business case (not approved by SPA).</i>
Fleet	9.0	12.7	11.3	11.0	18.1	62.1	<i>Fleet dept estimate and procurement exercise aligned to fleet strategy.</i>
Estates	21.1	31.1	58.1	43.7	24.8	178.8	<i>Estates dept estimate, aligned to estates strategy.</i>
Annual replacement programmes	8.6	11.7	14.2	10.2	9.2	53.9	<i>Based on individual depts. analysis.</i>
Total	83.9	120.4	122.6	77.0	60.1	464.0	
<i>Cumulative CO2 reduction (tonnes)</i>	<i>2,949</i>	<i>7,537</i>	<i>14,419</i>	<i>23,595</i>	<i>35,815</i>	<i>-</i>	

The key area where there will be revenue consequences of capital spend is within DDICT and in particular: TCSS, mobility phase two and body worn video.