SCOTTISH POLICE AUTHORITY

Agenda Item 2.1

Meeting	**SPA Resources Committee**
Date	**11 November 2021**
Location	**Video Conference**
Title of Paper	**Q2 Financial Monitoring Report**
Presented By	**Lynn Brown, Strategic Financial Planning and Budgeting Lead**
Recommendation to Members	**For Discussion**
Appendix Attached	**Yes** **Appendix A – Quarter Two Finance Report**

PURPOSE

The purpose of this report is to provide Members with an update on the financial position of the SPA and Police Scotland for quarter two (six months ending 30 September 2021) of the financial year 2021/22, as well as forecasting the full outturn to 31 March 2022.

Members are invited to discuss the content of this report.

1. BACKGROUND

1.1 The SPA Board approved the revenue and capital budget for 2021/22 on 24 March 2021. The Scottish Government provided a £60m uplift in core revenue funding, as well as an additional £15m of one-off funding to support the impact of COVID-19. When combined, the total funding allowed the SPA to set with a **balanced revenue budget** with **no operating deficit**.

1.2 The SPA's funding allocation for capital and reform was set at flat cash for 2021/22, with the exception of an additional £0.5m to support Body Worn Video. When combined with disposal proceeds, the total funding available is £53.7m for capital and £25.0m for reform budgets.

2. FURTHER DETAIL ON THE REPORT TOPIC

2.1 Appendix A provides the detailed finance report.

Revenue

- Q2 net expenditure forecast has reduced by £6.6m from Q1 forecast, due to income further exceeding budget (£2.6m), reduction in ill-health and injury pensions costs (£2.3m), cleaning costs budgeted specific to COVID-19 not as high as anticipated (£2.0m) and a reduction in post mortem toxicology costs (£0.6m) offset by other items (£0.9m net).
- In recognition of the year to date underspend of £7.0m against budget and based on the Q2 net expenditure forecast reductions above, the Police Authority is in a position to propose returning £6.2m of COVID-19 funding (income £4.2m and cleaning £2.0m) out of the £15m which had been provided by the Scottish Government to cover these specific items impacted.
- After the above changes to both net expenditure and funding, Q2 revenue break even position remains in line with budget and Q1 forecast.
- A number of threats and opportunities are being monitored, some of which may crystallise in the Q3 forecast.

Capital

- The capital forecast at Q2 is £58.8m, £5.1m above the budget position of £53.7m.

- This forecast overspend is fully funded and primarily compensated by additional forecast grant-in-aid funding (£4.6m) committed by the Scottish Government to support transitional capital costs (laboratory fit out and instruments) for the transfer of post mortem toxicology services to the Police Authority.
- The Q2 forecast recognises other capital grants receivable (£1.3m) offset by a reduction in capital receipts due to a delay in property sale (£0.8m).
- The year to date actual position versus budget is an underspend of £5.8m.
- A unique combination of internal and external factors in the current year are impacting on the deliverability of capital expenditure. These can be summarised as follows:
  - **COP26** is impacting on the availability of resources to support the delivery of the capital plan across the organisation, both within the business areas with Capital budgets and within the procurement team.
  - **On-boarding new resource** – There are several issues impacting on the ability to bring in resources key to delivering the capital plan:
    - Recruitment and vetting timelines are longer than in previous years with priority given to COP26 resources.
    - The current job market for key resources in areas such as ICT, Project Management and Procurement are buoyant, creating difficulties in securing and retaining staff.
    - Persistent issue of fixed term contracts (via Reform) not being desirable.
  - **Supply chain** issues impacting a number key industries, such as the new car market and the availability of building materials are under constant monitoring. Whilst confidence remains good with existing suppliers, lead times are longer than in previous years. Procurement exercises have yet to be concluded for approximately £7m of the remaining capital budget, where the supplier is yet to be determined.
  - **Increased levels of capital funding** - Our capital budget has increased from circa £34m in 17/18 to around £59m in 21/22. An increase of this significance requires an uplift in resources to deliver. Due to the historic back-loading to Q4 of capital expenditure dating back over 5 years, Business

areas which deliver high levels of expenditure in Q4 of one financial year require time in Q1 of the following financial year to commission the equipment purchased in Q4. With budgets increasing each year, this has become an extremely difficult cycle to break, with business areas struggling to increase resources levels sufficiently to support delivery of larger budgets. A piece of work has been commissioned by the DCO to look at options and requirements to break the cycle.

- As a result of the above issues, and considering the year to date underspend and full-year forecast position, the Corporate Finance and People Board (CFPB) recommended at its November meeting, the reallocation of £4.7m investment across capital programmes where successful delivery and business need were both deemed high.
- The deliverability risk will be mitigated by bringing the budget position to £3.5m over-allocated, which will be monitored and managed down over the course of Q3 and Q4.

Reform

- The reform forecast at Q2 is £23.1m, £1.9m under the budget position of £25.0m, due primarily to slippage and delays in recruiting Change and ICT resource (Transformation Resource), Enabling Policing for the Future (EPF) programme and Estates transformation.
- The year to date actual position versus budget is an underspend of £0.1m.
- Deliverability of reform expenditure, in line with the available current funding, is at risk, which can be attributed largely to the challenges in recruitment, both in terms of timeline to on-board (with priority going to COP26 resources in recruitment and vetting) and the buoyancy of the market for desired resource types, e.g. project managers and ICT specialisms.
- As a result of the above risk, and considering the full-year forecast position, the Corporate Finance and People Board (CFPB) recommended, at its November meeting, the reallocation of £1.5m investment across other capital projects, with £2.0m remaining unallocated at Q2.

3. FINANCIAL IMPLICATIONS

3.1 The financial implications are set out in detail within this paper.

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 year to date and forecast financial position for the SPA and Police Scotland.

POLICE SCOTLAND
POILEAS ALBA

SCOTTISH POLICE AUTHORITY

Finance

FP&A - Financial planning & analysis team

Appendix A
Finance report

Quarter 2 2021/22

Finance dashboard

Q2 2021/22

Year to Sept 2021

Revenue

A	A	A
Jul	Aug	Q2

- YTD £7.0m under budget
- FY Q2 FC break even position in line with budget

Capital

A	A	A
Jul	Aug	Q2

- YTD £5.8m under budget
- FY Q2 forecast £5.1m over budget (fully funded)

Reform

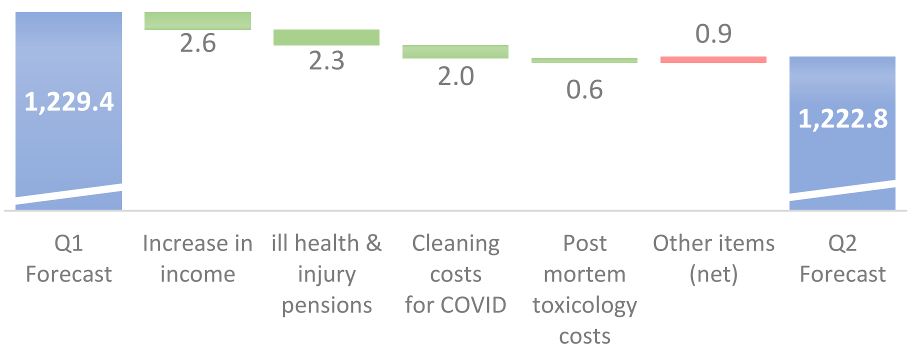
G	G	A
Jul	Aug	Q2

- YTD £0.1m under budget
- FY Q2 forecast £1.9m under budget

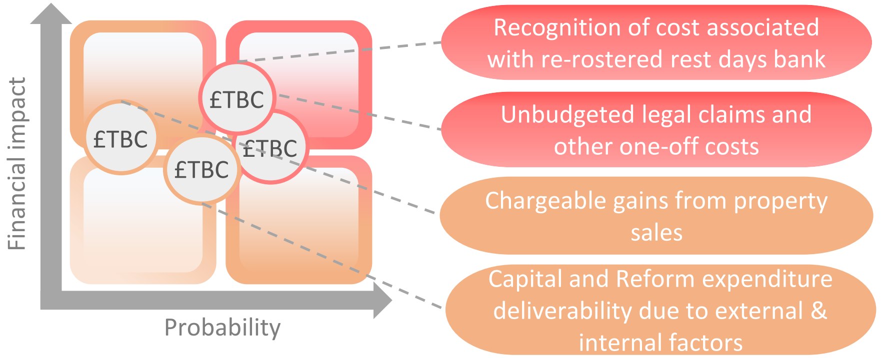
Revenue variance (£m)

	YTD actual v budget	FY Q2 FC v Budget
Police Scotland	5.9	-2.9
Forensic Services	0.6	-0.3
SPA corporate	0.5	0.7
Total	**7.0**	**-2.5**

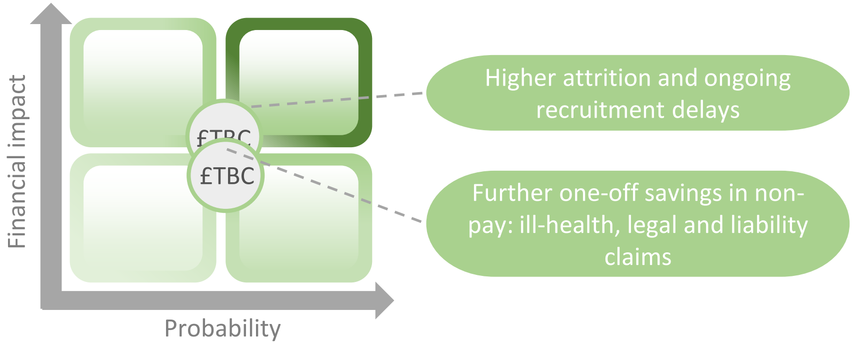
Revenue: full year costs reduced from Q1 FC (£6.6m)



Threats

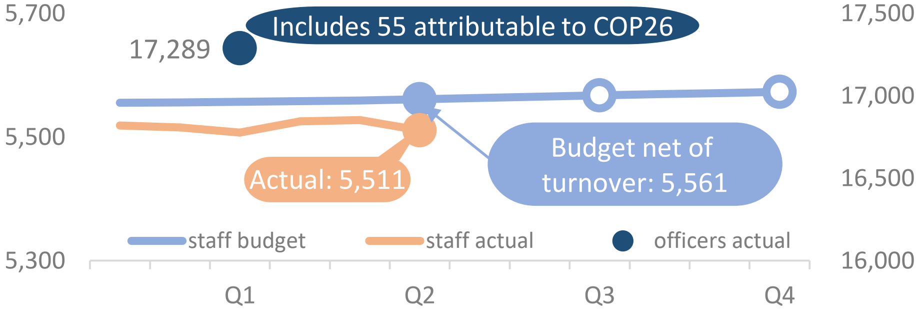


Opportunities



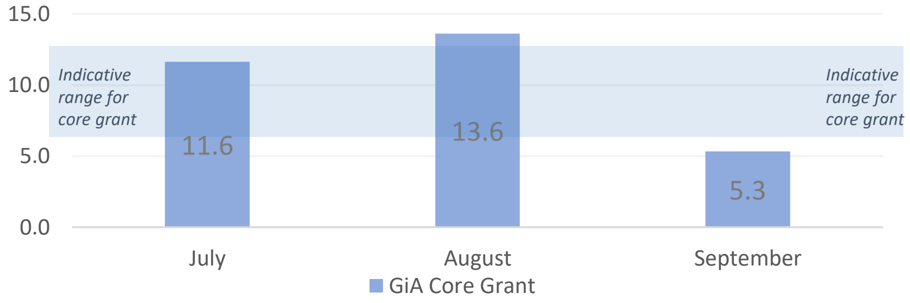
People numbers (FTE) – Revenue Budget

Staff headcount currently running under budgeting assumptions at P6



Cash flow management (£m)

Maintaining cash balances at a moderate level demonstrates effective cash management



Operation Talla

(Policing response to COVID-19)

2021/22 year to date:

- Revenue: £1.0m
- Capital: £0.0m
- Total: £1.0m

2021/22 forecast:

- Revenue: £3.0m
- Capital: £0.0m
- Total: £3.0m

Revenue forecast (£m)

	Year to date £m	2021/22 Q2 FY FC £m
PPE	0.4	2.1
Overtime	0.5	0.7
Other	0.1	0.2
Total	**1.0**	**3.0**

Capital forecast (£m)

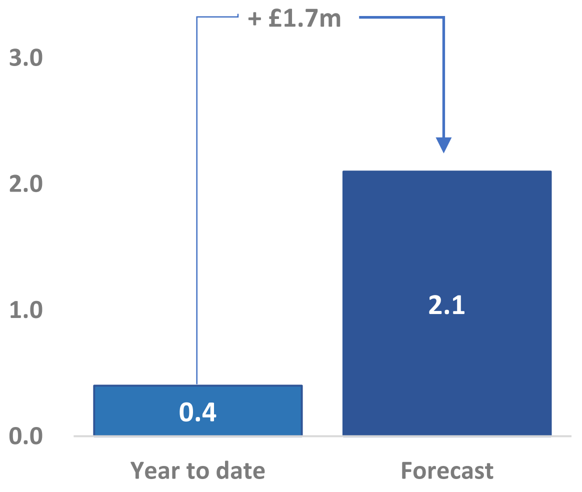
	Year to date £m	2021/22 Q2 FY FC £m
Laptops	0.0	0.0
Video comms solution	0.0	0.0
Total	**0.0**	**0.0**

2019/20 - 2021/22 costs (£m)

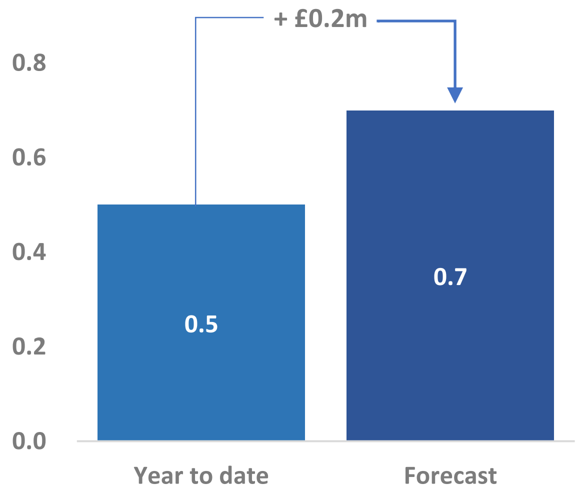
	Revenue £m	Capital £m
2019/20	1.3	0.1
2020/21	7.7	2.4
2021/22 YTD	1.6	0.0
Total	**10.6**	**2.5**

	Revenue £m	Capital £m
2019/20	1.3	0.1
2020/21	7.7	2.4
2021/22 Forecast	3.0	0.0
Total	**12.0**	**2.5**

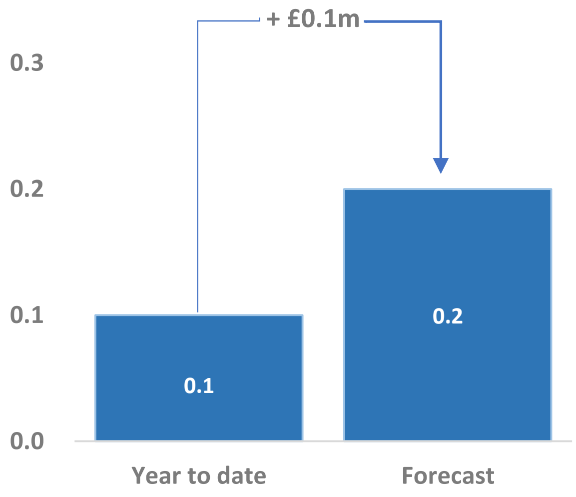
Revenue: PPE & cleaning (£m)



Revenue: overtime (£m)



Revenue: other costs (£m)



OFFICIAL

Revenue

(service area)

Q2 net expenditure forecast £2.5m over FY budget (fully funded) and £6.6m under Q1 forecast

Scottish Government COVID-19 funding – proposed reduction £6.2m

FY break even position remains in line with budget and Q1 FC

Budget deliverability status remains at amber

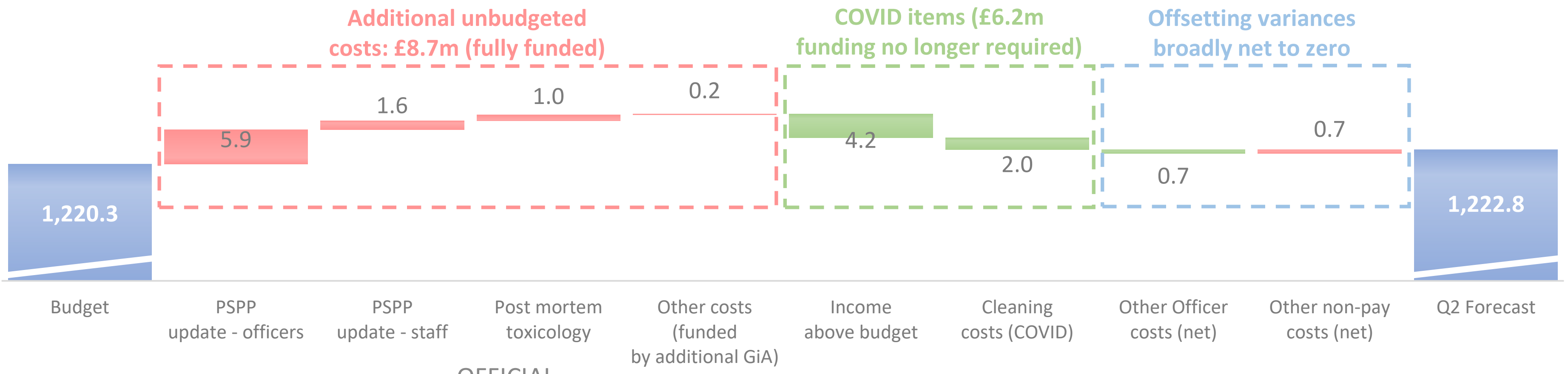
Total expenditure £2.5m over budget (fully funded)

- Q2 net expenditure forecast has reduced by £6.6m from Q1 forecast, due to income further exceeding budget (£2.6m), reduction in ill-health and injury pensions costs (£2.3m), cleaning costs budgeted specific to COVID-19 not as high as anticipated (£2.0m) and a reduction in post mortem toxicology costs (£0.6m) offset by other items (£0.9m net).
- In recognition of the year to date underspend of £7.0m and based on the Q2 net expenditure forecast reductions above, the Authority is in a position to propose returning £6.2m of COVID-19 funding (income £4.2m and cleaning £2.0m) out of the £15m which had been provided by the Scottish Government to cover these specific items impacted.
- After the above changes to both net expenditure and funding, Q2 revenue break even position remains in line with budget and Q1 forecast.
- A number of threats and opportunities are being monitored, some of which may crystallise in the Q3 forecast.

Detailed revenue variance (£m)

	Year to date			Full year		
	Budget £m	Actual £m	Var. £m	Budget £m	Q2 FC £m	Var. £m
Police Scotland	583.2	577.3	5.9	1,178.8	1,181.7	-2.9
Forensic Services	18.3	17.7	0.6	36.6	36.9	-0.3
SPA Corporate	2.5	2.0	0.5	4.9	4.2	0.7
Total	**604.0**	**597.0**	**7.0**	**1,220.3**	**1,222.8**	**-2.5**
Funding						
GIA (Core)				1,205.3	1,212.8	-7.5
GIA (other)				0.0	1.2	-1.2
COVID funding				15.0	8.8	6.2
Total				**1,220.3**	**1,222.8**	**-2.5**

Detailed budget to FY Q2 forecast (£m)



Revenue
(spend type)

Q2 forecast assumes £3m of direct Operation Talla costs which is £2m under budget (COVID funding adjusted to reflect underspend)

Revenue variance by spend type - budget v Q2 FC (£m)

	Year to date				Full year			
	Budget £m	Actual £m	Var. £m	%	Budget £m	FC £m	Var. £m	%
Police officers	411.2	412.4	-1.2	-0.3%	827.3	832.5	-5.2	-0.6%
Police staff	124.5	122.7	+1.8	+1.4%	249.4	251.4	-2.0	-0.8%
Non-pay	84.5	80.1	+4.4	+5.2%	174.0	173.5	+0.5	+0.3%
Income	-16.2	-18.2	+2.0	+12.3%	-30.4	-34.6	+4.2	+13.8%
Total	**604.0**	**597.0**	**+7.0**	**+1.2%**	**1,220.3**	**1,222.8**	**-2.5**	**-0.2%**

Movement: YTD variance to FY FC variance (£m)

Pay

- Police officers - forecast overspend relates to additional cost of PSPP funded by SG (£5.9m), core overtime (£3.5m), other officer costs (£0.4m) offset by underspends in ill health pension costs (£3.0m) and injury pension costs (£1.6m).
- Police staff - forecast overspend relates to additional cost of PSPP funded by SG (£1.6m) and resource cost for post mortem toxicology (£0.4m). It is anticipated that the year to date underspend driven by both current recruitment delays and higher than expected attrition (full year effect estimated at £3.0m) will be utilised by the Design, Demand and Resource Board (DDRB).

Non-pay

- Transport costs (£1.8m over) - overspend mainly as a result of higher fuel prices above budgeted assumptions used (£0.7m),service and maintenance costs (£0.9m) and other costs (£0.2m).
- Premises costs (£1.8m under) - cleaning costs specific to COVID-19 lower than anticipated, additional NDR rebates offset by higher utility costs.
- Other non-pay costs (£1.1m under) – primarily underspend supplies and services and other offsetting variances netting to zero.
- Post mortem toxicology (£0.6m over) - transitional costs for lease, short term outsourcing and project management fees.

Income

- Forecast anticipates an increase (£4.2m) mainly due to G7 mutual aid (£2.6m) and other income (£1.6m).
- Budget included a reduction of £10.0m to capture the current impact of COVID-19, compensated by additional SG funding.
- The Police Authority are now in a position to return the equivalent amount of funding received to the Scottish Government in relation to the expected over-recovery of income (£4.2m).

Revenue

(further business area detail)

1 *Police officer numbers were 17,289 FTE as per last externally reported quarter end 30 June 2021. 55 FTE is directly attributable to COP26 and reported separately.*
Q2 FC 17,263.3 FTE is made up of 17,234 FTE for police officers and 29.3 FTE for police staff supernumerary.

2 *Portfolios budget and Q2 forecast numbers updated for movement of People (DOPD) to DCO from DCC Professionalism and Digital and Transformation (DOIT & DOC) to DCC Professionalism from DCO.*

3 *Q2 FC has been updated for move of 117.1 FTE from APU to SCD from 01/11/21, without a reciprocal budget virement.*

DCC Local Policing

- Overspends in officers overtime (£2.5m), PPE and cleaning costs incurred budgeted in DCCCOS (£0.9m), transport costs (£0.4m) due to increased fuel prices and other items net (£0.5m) offset by underspend in staff costs (£0.5m).

	£m	FTE
Budget	124.0	2,597.7
Q2 Forecast	127.8	2,610.4
FY variance	**-3.8**	**-12.7**
YTD variance	*-1.6*	*-5.4*

3 DCC Crime & Op Support

- Over recovery on income (£2.7m), PPE and cleaning costs budgeted in DCCCOS but incurred by DCCLP (£0.9m), underspend in other supplies and services (£1.3m), other police staff costs (£0.3m) offset by costs for APU staff not budgeted in DCCCOS but under DCO (£1.8m), overspends in police officer OT (£1.2m), transport costs (£0.5m) and ICT related costs (£0.6m).

	£m	FTE
Budget	51.9	593.3
Q2 Forecast	50.8	642.4
FY variance	**1.1**	**-49.1**
YTD variance	*2.5*	*2.7*

2 DCC Professionalism, Digital & Transformation

- Underspends in telecoms expenditure (£1.1m) and ICT related costs (£0.3m), legal liability claims (£0.5m), police staff costs (£0.5m) and over recovery of income due to external agency secondments (£0.3m).

	£m	FTE
Budget	83.2	738.8
Q2 Forecast	80.5	742.3
FY variance	**2.7**	**-3.5**
YTD variance	*1.9*	*18.1*

2 3 DCO Corporate services, People & Strategy

- Underspends in ill health pensions (£3.0m) due to delays in OHS approvals, APU staff costs budgeted in DCO but to be incurred by DCCCOS (£1.8m), estates costs (£1.7m - net), other police staff costs (£0.8m), over recovery of income (£0.9m), other non-pay costs (£0.2m) offset by fleet service and maintenance costs (£0.9m).

	£m	FTE
Budget	114.6	1,020.9
Q2 Forecast	107.1	953.9
FY variance	**7.5**	**67.0**
YTD variance	*3.6*	*18.5*

Corporate centre

- Additional PSPP costs for officers and staff (£7.5m) and other items net (£2.3m).
- Police officer costs - excluding additional PSPP costs, overspend (£0.6m) mainly relates to allowances and additional overtime on-costs for G7, compensated by additional mutual aid.

	£m	FTE
Budget	805.1	17,265.2
Q2 Forecast	815.5	1 17,263.3
FY variance	**-10.4**	**1.9**
YTD variance	*-0.5*	*3.5*

Forensic services & SPA corporate

- Forensic Services (£0.3m over) - overspend due to Post mortem toxicology transitional costs (£0.7m) offset by underspend in other items (£0.4m).
- SPA Corporate (£0.7m under) - underspend in police staff costs (£0.2m) and non-pay costs (£0.5m).

	£m	FTE
Budget	41.5	581.1
Q2 Forecast	41.1	574.2
FY variance	**0.4**	**6.9**
YTD variance	*1.1*	*6.4*

Capital

FY Q2 forecast £5.1m over budget (fully funded)

*Corporate Finance & People Board (CFPB) agreed to re-allocate investment £4.7m across other capital projects:

- Electric Fleet Vehicles £3.0m
- ICT airwave devices £0.8m
- ICT laptops and monitors £0.5m
- CJSD (Addt'l custody works & safe scan pilot) £0.4m

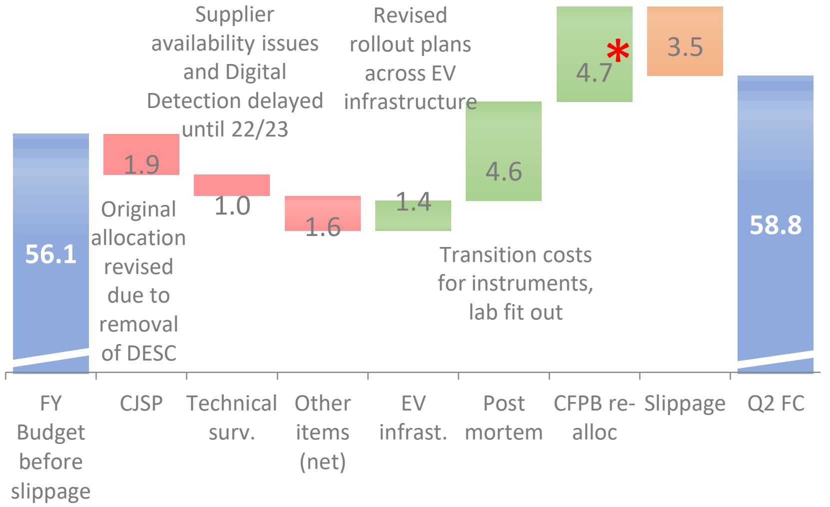
Slippage has been included at £3.5m to help mitigate against deliverability risk identified and quantified within the Q2 FC

Budget deliverability remains at amber post CFPB agreed actions

Year to date under budget by £5.8m

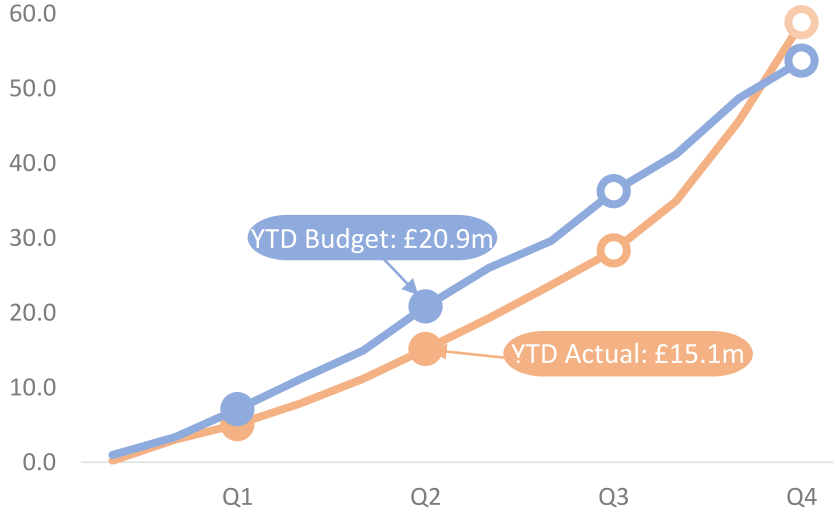
* Capital Investment Group postponed on 27 October with reallocation proposals moved to CFPB on 2 November

Forecast: movement budget to Q2 (£m)



Capital spend profile (£m)

Actual YTD spend running under budget at P6



Capital variance by programme (£m)

	Year to date			Full year		
	Budget £m	Actual £m	Var. £m	Budget £m	FC £m	Var. £m
Estates	5.4	3.7	1.7	8.2	8.0	0.2
Fleet	2.5	0.5	2.0	8.5	11.8	-3.3
EV Infrastructure	1.4	2.2	-0.8	3.2	4.6	-1.4
ICT	0.9	0.9	0.0	7.0	8.7	-1.7
SPE	1.9	0.7	1.2	3.6	3.5	0.1
Weaponry	0.8	0.6	0.2	3.2	3.2	0.0
Forensics	0.7	0.1	0.6	1.6	1.6	0.0
Change: legislative & inflight						
CJ service programme	1.6	0.6	1.0	3.6	2.1	1.5
Post mortem Toxicology	0.0	0.1	-0.1	0.0	4.6	-4.6
Data drives digital (DDD)	0.7	0.0	0.7	3.1	1.8	1.3
DEPP	1.7	3.2	-1.5	3.5	4.8	-1.3
ICT	0.9	1.0	-0.1	3.1	2.5	0.6
LPP - NEDIP	1.3	1.2	0.1	1.5	1.5	0.0
Estates transformation	0.8	0.3	0.5	2.5	1.9	0.6
RJLP	0.4	0.0	0.4	1.1	0.3	0.8
Technical surveillance	0.5	0.0	0.5	1.8	0.8	1.0
Cyber capabilities	0.2	0.0	0.2	0.5	0.3	0.2
Other	0.1	0.0	0.1	0.1	0.3	-0.2
Slippage	-0.9	0.0	-0.9	-2.4	-3.5	1.1
Total	**20.9**	**15.1**	**5.8**	**53.7**	**58.8**	**-5.1**
Funding						
GIA				45.5	50.1	4.6
Reform				4.6	4.6	0.0
Cap receipts				3.6	2.8	-0.8
Other grants				0.0	1.3	1.3
Total				**53.7**	**58.8**	**5.1**

Reform

FY Q2 forecast £1.9m under budget

*Corporate Finance & People Board (CFPB) agreed to re-allocate investment £1.5m across other reform projects:

- Transformation resource £0.8m
- Cyber strategy implementation planning £0.5m
- Capital planning review £0.2m

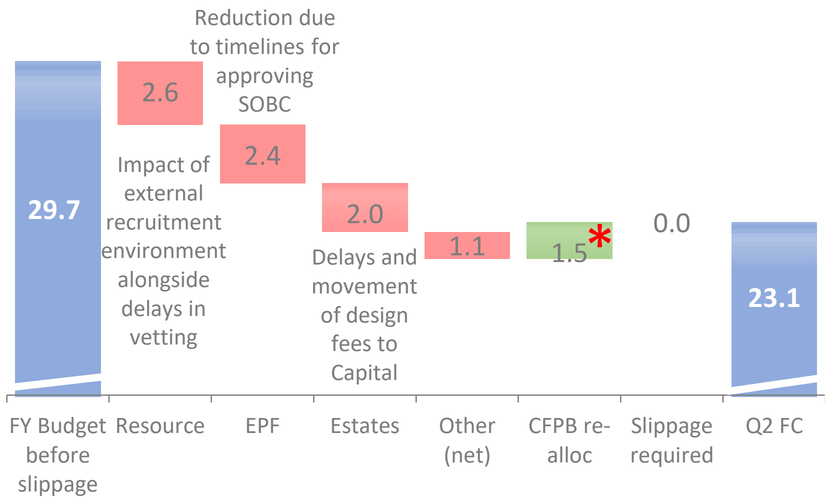
Unallocated funding at Q2 FC £2.0m

Budget deliverability status has changed to amber as no slippage remains to mitigate against risks identified and quantified within the Q2 FC

Year to date under budget by £0.1m

* Capital Investment Group postponed on 27 October with reallocation proposals moved to CFPB on 2 November

Forecast: movement budget to Q2 (£m)



Reform variance by work stream (£m)

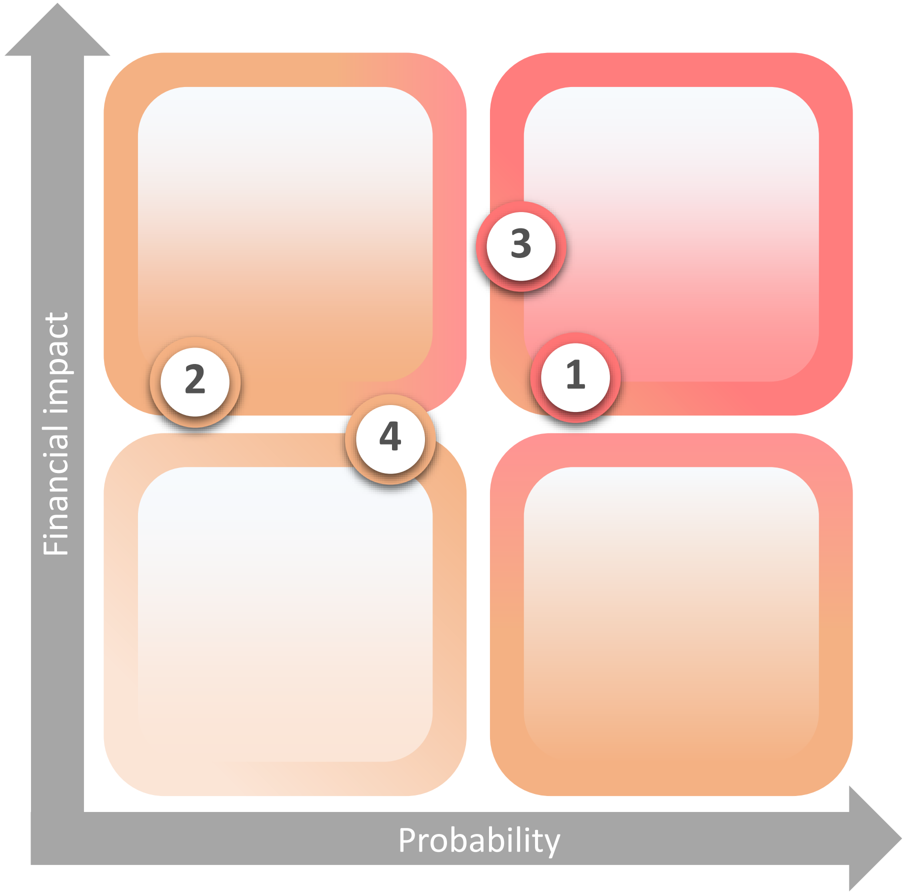
	Year to date Budget £m	Year to date Actual £m	Year to date Var. £m	Full year Budget £m	Full year FC £m	Full year Var. £m
Transformation resource	5.3	4.5	0.8	12.1	10.3	1.8
SPRM	1.1	1.4	-0.3	2.2	2.5	-0.3
Data drives digital	0.1	0.2	-0.1	0.9	0.7	0.2
DEPP	0.6	0.4	0.2	1.2	1.2	0.0
Corp. change (incl. EPF)	0.3	0.0	0.3	3.8	1.4	2.4
Estates transformation	0.3	0.1	0.2	2.6	0.6	2.0
NEDIP	0.6	0.5	0.1	1.1	1.0	0.1
CJ service programme	0.1	0.0	0.1	0.3	0.2	0.1
P&D programme	0.3	0.1	0.2	1.4	0.7	0.7
RJLP	0.1	0.0	0.1	0.4	0.0	0.4
VR VER	0.8	1.2	-0.4	2.8	2.2	0.6
Cyber capabilities	0.2	0.0	0.2	0.5	0.4	0.1
Cyber strategy	0.0	0.0	0.0	0.0	0.5	-0.5
Other	0.2	0.1	0.1	0.4	1.4	-1.0
Slippage mgt	-1.4	0.0	-1.4	-4.7	0.0	-4.7
Total	**8.6**	**8.5**	**0.1**	**25.0**	**23.1**	**1.9**
Funding						
GIA				25.0	25.0	0.0
Other grants				0.0	0.1	0.1
Total				**25.0**	**25.1**	**-0.1**

Risk analysis

The revenue and capital budget is carrying further risks that may materialise.

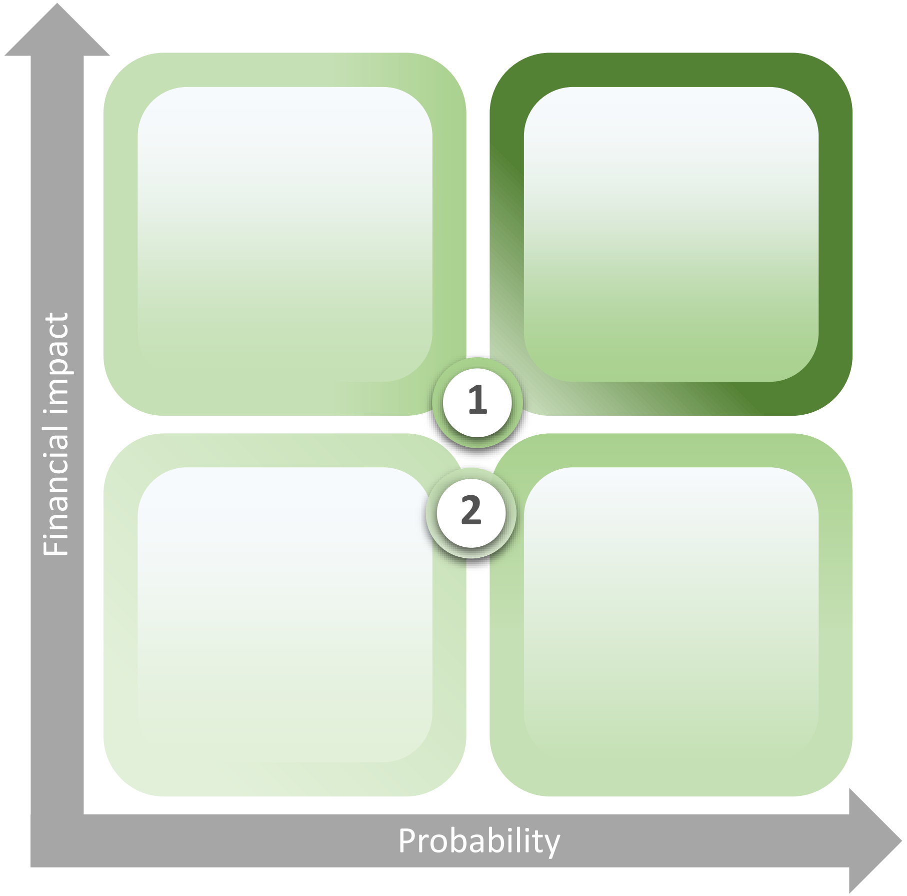
Threats and opportunities risks will continue to be monitored in Q3.

Threats



1. Potential unbudgeted legal claims and other one-off costs.
2. Work is ongoing to understand the potential impact of expenses to be offset against chargeable gains from property sales.
3. Recognition of cost associated with the number of days officers have accumulated as re-rostered rest days is currently being considered by Finance in conjunction with P&D.
4. Deliverability of capital and reform expenditure, in line with the available current funding, is at risk, which can be attributed to a combination of external factors (supply chain issues) and internal factors (recruitment delays for delivery resources and capacity restraints within procurement).

Opportunities



1. If the employment market increases and attrition starts to overtake recruitment and delays in recruitment continue, then the budget pressure accommodated in the 2021/22 staff budget may reduce creating capacity to reinvest in the organisation.
2. Any prolonged impact of COVID could result in some further one-off savings in the non-pay budget, i.e. delays in the health system, delays in the justice system and delays in training. This will be closely monitored throughout the remaining part of the year.