

Meeting	SPA Authority Meeting
Date	29 September 2021
Location	Video Conference
Title of Paper	5 Year Financial Plan
Presented By	James Gray, Chief Financial Officer
Recommendation to Members	For Approval
Appendix Attached	Appendix A – Five year financial planning

PURPOSE

This paper presents Members with the five year financial planning document covering the period 2022/23 – 2026/27.

The purpose of this document is to reset the baseline financial position and to set out the key financial parameters that need to be considered for maintaining financial sustainability over the medium term.

The 5 year revenue/funding profile has been modelled based on:

- the total cost of the existing workforce, adjusted for unavoidable pay pressures;
- the revenue impact of our current investment plans; and
- a significant reduction in income, mainly as a result of COVID-19.

There are number of new services and legislation changes that will have a financial consequence for the organisation from 2021/22 and beyond. However, these changes including, post mortem toxicology services, drug driving legislation, digital evidence sharing capability and the emergency services mobile communications programme, have **not been** included in the 5 year revenue or funding profile as the full financial impact has yet to be quantified.

Although these new services have been excluded from the 5 year revenue/funding profile, it is assumed that the financial implications of such changes will be funded in full by Scottish Government.

The medium term financial plan is an iterative document that will be refreshed on a regular basis to ensure that these new services and any other significant changes are reflected when confirmed.

This paper is submitted to Members for approval.

1. BACKGROUND

- 1.1 The May 2018 three year financial strategy provided a route to balancing the SPA budget by 2020/21 through significant officer and staff reductions enabled by capital investment in transformational change.
- 1.2 Officer capacity and productivity benefits have been achieved, however, policing numbers have been retained in response to acute operational demands, including Brexit, COP 26 and latterly the operational response to COVID-19. This delayed the achievement of financial balance into future years.
- 1.3 The Scottish Government's 2021/22 budget included a significant uplift to core policing funding allowing the Authority to eliminate the structural deficit without the requirement for significant workforce reductions.
- 1.4 The purpose of this document is to reset the baseline financial position in the context of a balanced budget ahead of the Scottish Government Spending Review, and to set out the broad financial parameters that need to be considered to maintain financial balance over the longer term.
- 1.5 A detailed financial strategy over a longer term horizon (circa 10 years) will continue to be developed in line with the capital strategy and other key strategic inputs.

2. FURTHER DETAIL ON THE REPORT TOPIC

- 2.1 This document set outs three high level funding scenarios to provide an illustrative revenue/funding profile over the medium term, and to set out the broad financial parameters that need to be considered to maintain financial balance.
- 2.2 The revenue/funding profile has been modelled based on: the total cost of the existing workforce adjusted for unavoidable pay pressures; the revenue impact of our current investment plans; and a significant reduction in income, mainly as a result of COVID-19.
- 2.3 A balanced budget can be sustained assuming that:
 - Scottish Government funding keeps pace with unavoidable pay pressures, including wage inflation, national insurance increases, SPRM and lost income;

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- the organisation managed the workforce size and mix within current pay budgets; and
 - cost pressures beyond SG funding are met from compensating savings from across the organisation.
- 2.4 It is also assumed that additional funding will be provided to support the transfer of services and any key legislation changes.
- 2.5 The 5 year view of the capital investment requirement shows that the major investment areas will continue to be furthering the DDICT strategy, consolidating and improving the Estate and modernising the Fleet through embracing greener technologies.
- 2.6 This investment would improve conditions and equipment for the wellbeing of officers and staff, enable a better service to be provided to the public and create time saving efficiencies through the use of newer technologies. However, the Scottish Government's recent capital spending review suggests a level of funding that is significantly short of the requirements to deliver against all the ambitions of the organisation.
- 2.7 The Authority will continue to make a strong case for additional funding to Scottish Government, including the proposal of additional routes to funding such as borrowing, or up front funding for long term disposals as explained in the Capital Strategy.
- 2.8 The full report is attached at Appendix A.
- 2.9 This paper was presented to the SPA Resources Committee on 14 September 2021 where members made a recommendation to the Authority to approve its contents.

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 resourcing priorities determined through the Demand, Design & Resource Board (DDRB).

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications associated with this paper. There may be such implications as a result of underlying plans or projects, these will be considered in relation to each project as appropriate.

6. REPUTATIONAL IMPLICATIONS

6.1 There are no direct reputational implications associated with this paper. There may be such implications as a result of underlying plans or projects, these will be considered in relation to each project as appropriate.

7. SOCIAL IMPLICATIONS

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

8. COMMUNITY IMPACT

8.1 There is no direct community impact associated with this paper.

9. EQUALITIES IMPLICATIONS

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

10. ENVIRONMENT IMPLICATIONS

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

RECOMMENDATIONS

Members are asked to **approve** the five year financial planning document included at Appendix A.



**POLICE
SCOTLAND**
POILEAS ALBA

SCOTTISH POLICE
AUTHORITY

Finance

Five year financial planning

September 2021



Highlights

01

Scottish Government funding

A balanced budget can be sustained assuming that Scottish Government funding keeps pace with unavoidable pay pressures, including wage inflation, national insurance increases, SPRM and lost income. It is also assumed that additional funding will be provided to support key legislation changes.

02

Workforce size and mix

In order to meet changing demand, the organisation must manage the workforce size and mix within current pay budgets.

03

Savings requirements

Any cost pressures beyond Scottish Government funding to be offset by compensating savings across the organisation. This is critical to sustaining financial balance into the future.

04

Developing capability

Significant additional investment is required to implement key investment strategies and transformation programmes, including DDICT, the estates strategy and the transition to 100% electric fleet.

05

Creating capacity

Capital and revenue investment in areas such as DDICT is a key enabler in creating capacity across the organisation. The organisation must continue to develop its processes to ensure that this capacity is released and reinvested in priority areas of policing.

06

Alignment with strategic planning

A balanced budget allows a refocus on strategic planning without the requirement for net workforce reductions. The financial strategy will continue to be developed in line with the strategic business planning cycle.

Operational context

Responsive and accessible local policing lies at the heart of Police Scotland's purpose and identity.

It is the strong relationship of trust policing in Scotland has with our fellow citizens from which we draw our legitimacy.

We know communities and their policing needs are always changing and we are committed to constant improvement to protect the people of Scotland from threat, harm and risk in the public, private and virtual spaces.

Upholding the law, protecting victims of crime and bringing offenders to justice is critical to maintaining the respect with which policing is held in Scotland.

While overall recorded crime has reduced in recent years, increasingly complex offences require time and expertise to investigate while incidents, particularly those involving vulnerability, demand a co-ordinated, multi-partner response which upholds everyone's human rights.

Policing must continue to enhance our capacity and capability to ensure we can respond fully to the changing nature of crime as well as changing community needs, public expectations and legislative requirements. Additionally, we have an important role in supporting major events in Scotland, the UK, and beyond, as demonstrated by the COP26 climate change summit.

Our response to the pandemic has underlined the broad remit of policing, as enshrined in the Police and Fire Reform Act 2012, to maintain wellbeing and support communities, going far beyond only law enforcement. Along with other critical incidents, our response to coronavirus has demonstrated the pivotal role of a national policing service in the planning, co-ordination and support of multi-agency responses.

It is the challenge of all public services to ensure that, in a rapidly changing world, when people need help, they get it at the right time from the right people and, where required, on an ongoing basis.

Our strategic ambition, covering how we develop our buildings, fleet, technology, response to cyber threats and our workforce can help to ensure this is achieved in a modern, flexible and collaborative way which supports value to the public. Reform of policing in Scotland has transformed the way we respond to serious crime and major incidents while at the same time policing in Scotland returns significant savings to the public purse every year compared to legacy arrangements.

It is vital that where efficiencies and benefits are achieved, we consider how they can be invested into supporting the safety and wellbeing of our people and enabling them to improve the lives of our communities as set out in our strategic objectives and in support of the Scottish Government's national outcomes.

Policing, so often the service of last resort, will not step away from people in crisis where they have nowhere else to turn.

The police service is and will always be there for our fellow citizens.

Summary

Executive summary

1. Background

- The Scottish Police Authority and Police Scotland (SPA/PS) were established in 2012 with a remit to:
 - protect and improve local services despite financial cuts, by stopping duplication of support services;
 - create more equal access to specialist support and national capacity; and
 - strengthen the connection between services and communities.
- Since its creation the SPA has undergone significant change, delivering financial and operational benefits of police reform.
- Despite all that has been achieved to date, significant additional investment is needed to enable the implementation of investment strategies which will progress the transformation programmes.
- There are plans for an ambitious multi-year investment portfolio, enhancing our ICT capabilities, transforming and simplifying our property estate, and ‘greening’ our fleet of vehicles. This investment is closely aligned with Scotland’s National Performance Framework.
- However, the Scottish Government’s recent capital investment review suggests a level of funding that is significantly short of the requirements to deliver a police service for the 21st century.

2. Financial sustainability

- The May 2018 three year financial strategy provided a route to balancing the SPA budget by 2020/21 through significant officer and staff reductions enabled by capital investment in transformational change.
- Officer capacity and productivity benefits have been achieved, however, policing numbers have been retained in response to acute operational demands, including Brexit, COP 26 and latterly the operational response to COVID-19. This delayed the achievement of financial balance into future years.
- The Scottish Government’s 2021/22 budget included a significant uplift to core policing funding allowing the Authority to eliminate the structural deficit without the requirement for significant workforce reductions.
- Maintaining the current levels of policing, whilst continuing to achieve financial balance over the longer term, is dependent on a number of key factors including:
 - managing the workforce size and mix within current pay budgets;
 - receiving funding increases in line with unavoidable pay pressures (real terms protection);
 - managing non-pay pressures with corresponding savings across the org; and
 - receiving compensatory funding to support lost income as a result of COVID-19.

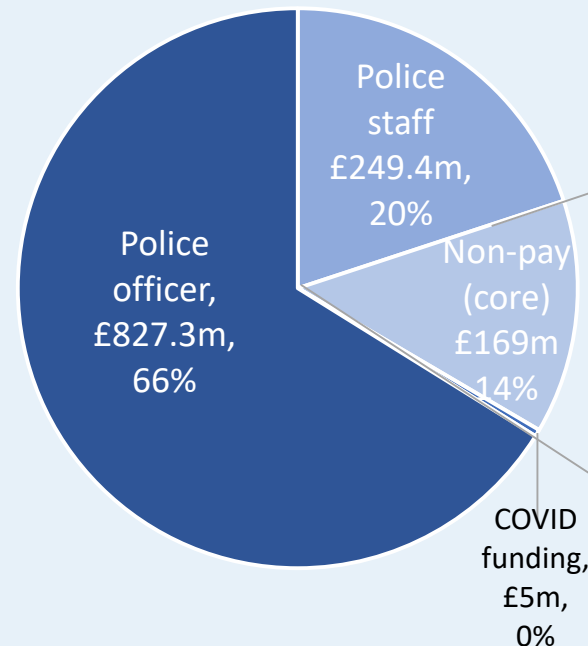
3. Financial planning

- Development of a robust financial strategy is highly dependent on a number of key strategic outputs which will continue to evolve as part of the strategic business planning cycle.
- The aim of this document is to reset the baseline financial position in the context of a balanced budget ahead of the Scottish Government Spending Review, and to set out the broad financial parameters that need to be considered to maintain financial sustainability over the longer term.
- The Scottish Government published “Scotland’s Fiscal Outlook: The Scottish Government’s Medium Term Financial Strategy” in January 2021 which set out three illustrative scenarios for available funding in future Scottish budgets.
- A similar approach has been taken for SPA/Police Scotland to create an illustrative 5 year revenue profile, along with a view on capital investment and reform over the same period.
- The financial strategy will continue to be developed in line with the business planning cycle to bring together the financial implications of strategic objectives and priorities, demand and resource forecasts and the impact on wider service delivery, allowing decisions to be taken on longer term funding implications.

Baseline budget

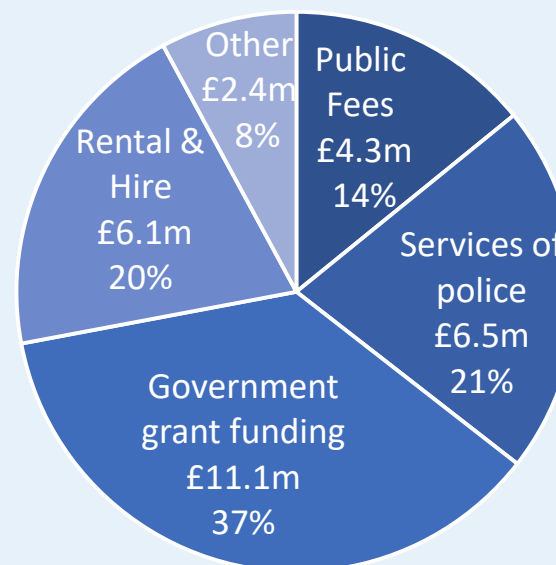
- The 2021/22 revenue budget approved by the SPA Board on 24 March 2021 is the baseline budget for the purposes of this report.
- Approximately 97% of annual spending is undertaken by Police Scotland with the remainder incurred by forensic services (3.0%) and the SPA corporate body (0.4%).
- The net budget requirement is £1,220.3m, consisting of £1,250.7m gross expenditure and £30.4m income.
- The majority of the revenue budget relates to Police Officer and Police Staff costs (86% combined).
- The Scottish Government’s 2021-22 budget included a significant uplift to police funding allowing the Authority to set a balanced budget whilst maintaining the current level of policing (17,234 officers and ~5,563 staff).
- Non-pay costs represent 14% of the current gross expenditure budget, a large proportion of which are relatively fixed in the short term. The level of non-pay has remained fairly consistent with the previous year following a £17m uplift to address historic under-investment and high operational risk.
- There has been a significant reduction in income due to the ongoing impact of operating in a COVID-19 environment. Future uncertainties include: income from other public bodies; events income which remains uncertain given ongoing restrictions; and airport income which is expected to be suppressed for a number of years.
- Income and expenditure pressures have been considered as part of the illustrative revenue profiles at page 16.

Gross expenditure by type - £1,250.7m



Non-pay Budget*	
Other employee	£2.5m
Premises	£51.4m
Transport	£20.1m
Supplies & services	£39.2m
ICT	£30.6m
Admin	£7.6m
Third party payments	£13.1m
Capital financing	£5.5m
Other costs	£-1.0m
Total non-pay budget	£169.0m
Additional COVID funding*	£5.0m

Income by type - £30.4m*



Services of police income budget	
Events & concerts	£2.6m
Sporting events	£1.7m
Airports	£1.3m
Other	£0.9m
Total service of police	£6.5m

Government grant income budget	
Local authority	£3.0m
Safety camera p/ship	£4.0m
VRU	£1.1m
Other specific grants	£3.0m
Total gov't grants	£11.1m

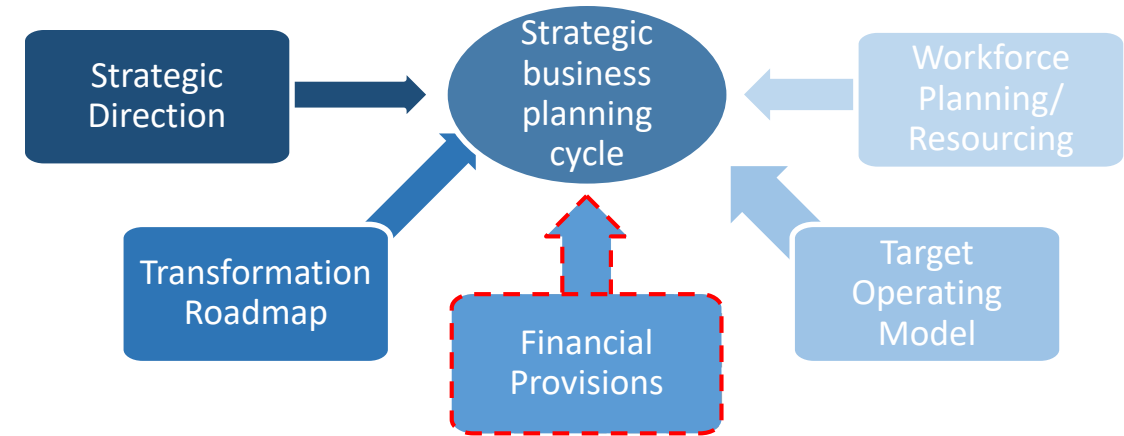
*Budget includes £15m of one-off COVID funding - £5.0m to support additional non-pay expenditure and £10m to support lost income.

Strategic direction and objectives

Strategic direction and priorities

Financial alignment with strategic planning

- The purpose of this document is to reset the baseline financial position and to set out the key financial parameters for maintaining financial sustainability over the medium term.
- Development of a detailed financial strategy is dependent on a number of key inputs which will continue to evolve as part of the strategic business planning cycle. A detailed financial strategy is best sequenced towards the end of this planning cycle when all key inputs are known.



Police Scotland

- The Joint Strategy for Policing (2020) - policing for a safe, protected and resilient Scotland - is the overarching strategy setting out the strategic direction and associated outcomes for policing in Scotland.
- Policing must continue to enhance capacity and capability to ensure that Police Scotland can respond fully to the changing nature of crime as well as changing community needs, public expectations and legislative requirements.
- Investment in new technology which will enable the organisation to become more efficient and create greater capacity to meet these changing demands.
- There are plans for an ambitious multi-year investment portfolio to enhance our ICT capabilities, transform and simplify our property estate, and to 'green' our fleet of vehicles.
- This investment is closely aligned with Scotland's National Performance Framework and delivers environmental and digital benefits for both the service and wider Scottish economy.
- It is vital that where efficiencies and benefits are achieved, consideration is given to how they can be invested to support the strategic policing priorities and Scottish Government's national outcomes.

Forensics services

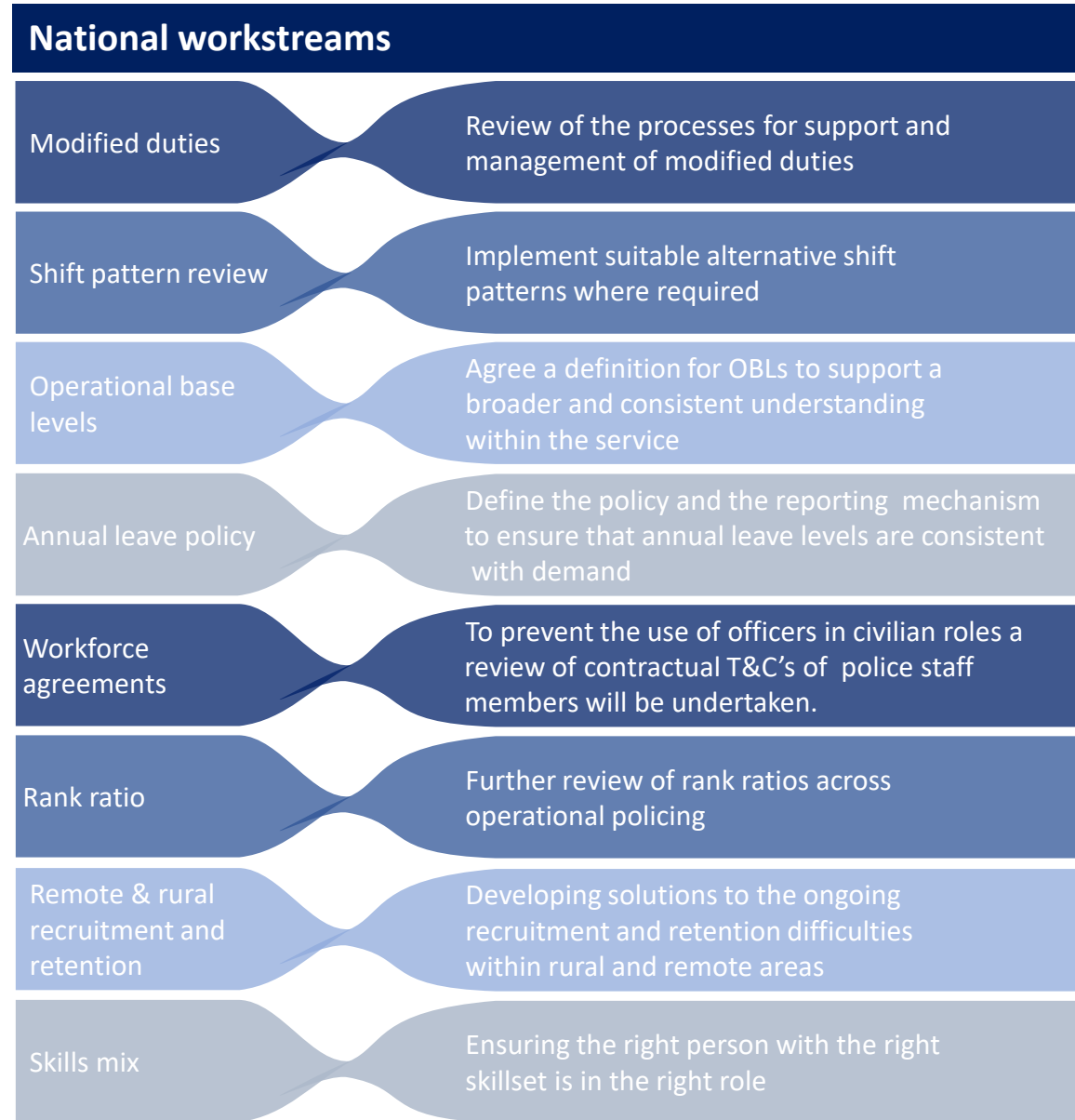
- The forensic services 2026 strategy outlines a phased approach to improve the service. An initial business case was presented to the July 2020 SPA Forensic Services Committee and work continues on the full business case. Whilst the FBC is under development, it is expected to seek an option that will require capital and reform investment to deliver an enhanced operating model with an estimated additional cost of ~£3.0m per annum from 2023/24 onwards.
- All options will be considered and reflected in future budgets as appropriate, however, any increase in the overall budget requirement would require to be met from compensating savings elsewhere in the organisation.

SPA corporate

- The proposal to establish a strategic, assertive and outward facing SPA structure was supported by the Board in May 2020. The new 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.

Strategic workforce planning

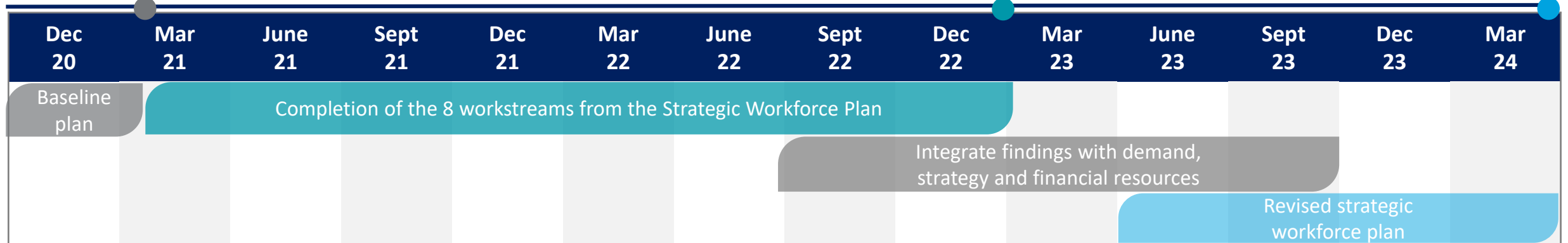
- Our people continue to be the most important driver of success for the service representing 86% of gross expenditure.
- The Strategic Workforce Plan (SWP) covering the period 2021 – 2024 was formally adopted by the Scottish Police Authority at its meeting on 22 January 2021.
- Local Functional Area Plans were developed across every business to underpin the final SWP. The plan highlights that there is a significantly higher level of demand than the financial resources available.
- Through the development of the SWP, eight workstreams have been identified to be taken forward within a three year period. This is a key focus of the workforce planning team and wider services over the immediate term.
- Maintaining financial balance over the medium is dependent on a number of key factors, including managing the workforce size and mix within current pay budgets. To facilitate this, the SWP methodology will be utilised to assist in prioritising the significant demand for additional resource that exists across the organisation.
- The newly established Demand, Design & Resources Board (DDRB) will be the key mechanism for approving the reallocation of Police Scotland resources in line with strategic priorities and objectives.
- Capital and revenue investment in areas such as DDICT is a key enabler in creating capacity across the organisation. In order to fully benefit from this investment, the organisation must continue to develop its processes to ensure that this capacity is released and reinvested in priority areas of policing.



Authority meeting 22 Jan 2021

Workstreams completed 31 December 2022

Authority meeting TBC



Government funding

Core funding

Scottish Government funding

- SPA/PS receives Scottish Government funding from three main sources, revenue, capital and reform. In terms of the allocation and monitoring of costs, there is clear distinction between each of these funding streams to ensure full transparency in reporting and budget monitoring.

Revenue

- The Scottish Government's 2021/22 revenue budget confirmed an additional £60m recurring funding for policing, allowing the Authority to set a balanced budget and eliminate the structural deficit without the requirement for significant workforce reductions.
- The SNP 2021 Election manifesto provides a commitment to "Protect the police resource budget in real terms for the entirety of the next parliament". Our understanding of "real terms protection" is that funding will increase in line with unavoidable pay pressures as a minimum. This includes pay award, national insurance, SPRM and reduced income directly related to funded officers. It is also assumed that the financial implications of key legislation changes will be funded in full.
- In addition to this, a case will be made to Scottish Government for future in-year support to cover lost income as a result of operating in a COVID-19 environment.
- Three funding scenarios have been considered to provide an **illustrative** 5 year financial outlook for the purposes of this report, i.e. funding increases in line with:
 - unavoidable pay pressures only;
 - unavoidable pay pressures plus lost income; and
 - unavoidable pay pressures, lost income and revenue impact of investment.

Revenue represents budget for current expenditure such as staff costs and goods and services. The revenue cost of police officers employers pensions contributions are not included in the funding allocation. This budget is held and managed by the SG separately. The SPA is required to meet the cost of officers' ill health retirement and injury pensions only.

Capital represents budget for new investment. The SPA is also permitted, subject to SG approval, to use disposal proceeds (NBV) to reinvest in further capital expenditure.

Reform funding is available to support transformational change. Total revenue funding of up to £25m and capital funding of £4.6m is available to the Authority and there are proposals to fully utilise this funding.

Capital

- The Scottish Government spending review indicates a flat cash settlement for capital investment over the next 5 years. This is significantly less than the £471m capital requirement identified in our original spending review submission. Although flat cash allows key investments to be progressed, the pace of delivery is limited within the funding available. The full implications of this are detailed at page 22.

Reform

- Our spending review submission assumed the continuation of £25m revenue funding and £4.6m capital funding over the next 5 years. If the reform funding is not available it will significantly impact the organisation's ability to deliver key transformation strategies.

Additional funding: new services and legislation

- There are a number of programmes and areas of legislation that will have a significant financial consequence for the organisation from 2021/22 and beyond. We will continue to work closely with Scottish Government to define the operational and financial implications.
- These areas have been excluded from the base financial modelling on the assumption that, once confirmed, any financial implications will be funded in full by Scottish Government.

<p>POST MORTEM TOXICOLOGY SERVICES</p>	<ul style="list-style-type: none"> Post mortem toxicology services to transfer to SPA in 2022. Work is underway to ensure appropriate funding and planning arrangements are in place. Operational and financial implications of service delivery to be defined to understand the additional funding requirements from Scottish Government to mitigate the impact on the SPA budget.
<p>DIGITAL EVIDENCE SHARING CAPABILITY (DESC)</p>	<ul style="list-style-type: none"> Scottish Government is responsible for funding the delivery of Digital Evidence Sharing Capability (DESC) for Scotland DESC will help to streamline the process of capturing; storing and sharing digital evidence and facilitate the faster resolution of cases. Additional funding will be provided to SPA to deliver the overall programme as lead delivery partner.
<p>EMERGENCY SERVICES MOBILE COMMUNICATIONS PROGRAMME (ESMCP)</p>	<ul style="list-style-type: none"> ESMCP commissioned by the Home Office in 2011 - MOU signed in 2016 on the condition that ESMCP would meet the operational requirements of Police Scotland. Business case was revisited in May 2021. Emergency Services Network (ESN) is not affordable for Police Scotland unless Scottish Government fund the significant non-core costs associated with the programme.
<p>AGE OF CRIMINAL RESPONSIBILITY (SCOTLAND) 2019 ACT</p>	<ul style="list-style-type: none"> The ACRA is scheduled to be implemented in October 2021, raising the age of criminal responsibility from eight to twelve years old. The majority of the additional costs associated with this act is proposed within capital and reform. Minimal ongoing revenue impact.
<p>DRUG DRIVING LEGISLATION</p>	<ul style="list-style-type: none"> New drug driving legislation went live on 21 October 2019. Some funding already provided by SG. Current indications highlight an ongoing revenue cost pressure of £1.3m from 2022/23 onwards. Discussions are ongoing with Scottish Government to explore various options with the aim of securing additional revenue funding.
<p>OTHER BILLS</p>	<ul style="list-style-type: none"> Biometrics, domestic abuse protective orders and hate crime bills will also have a future financial impact on the organisation. The estimated additional costs associated with these bills is unknown at this time. The financial implications will continue to be monitored as new information becomes available. The impact of legislation changes and new bills will be considered in future iterations of the financial plan.
<p>IFRS16 LEASES</p>	<ul style="list-style-type: none"> IFRS16 due to be adopted from 1 April 2022. Operating lease payments are currently charged to revenue, however, from the implementation of IFRS16, the expectation is that an asset and liability will be recognised for most ongoing and new lease agreements. We are awaiting final budget guidance to determine the overall impact on capital and revenue.

Medium term financial planning

Financial planning parameters

Pay

- The pay budget for 2021/22 is **£1,076m** (PS £1,042m)
- Demand, Design & Resource Board (DDRB) – chaired by Chief Constable - will decide Police Scotland resource allocation
- New demand to be funded from current budget allocation
- Finance will provide data to decision makers on what can be afforded within funding parameters
- Work with SG annually to ensure funding increases reflect unavoidable pay pressures and key legislation changes.

Non Pay

- The **core** non-pay budget for 2021/22 is **£169m** (PS £161m)
- Includes impact of a significant uplift in 2020/21 to reverse previous years' cuts and address operational risk
- Non-pay should only change due to a change in operating model or contractual price increases
 - As a general rule, non-pay budget should not be used to expand pay budget
 - Annually, any unavoidable pressures on non pay will require an equal level of compensating savings across the organisation

Capacity creation

- As a result of being in balanced budget position, and a commitment by SG to protect the police workforce at the current time, all capacity created in policing can be re-invested in policing
- This could mean creating new roles or it could mean enhancing pay and allowances
- There may be more of an incentive to realise capacity as it enables investment in new areas
- Police officer numbers will be retained but efficient working practices should still be encouraged

Developing capabilities

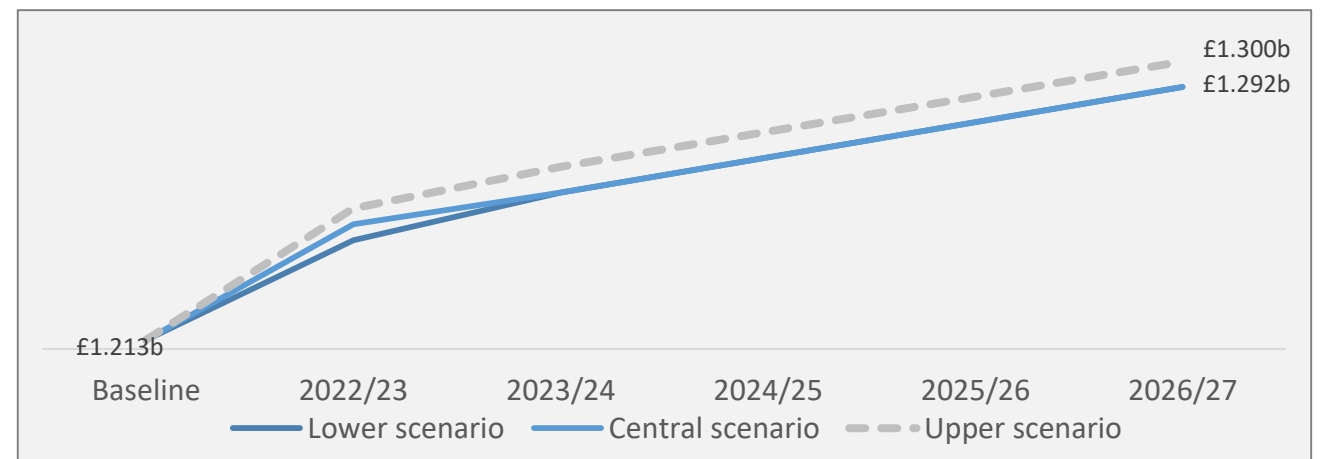
- There is a focus on developing capabilities to provide an even better service to the public, and to be fit for purpose as the nature of threat, harm and risk evolves over time
- DDICT is a key enabler for this. As a result capital investment is allocated on a do-minimum basis to the existing asset base to maximise investment available for new change projects
- If capital funding continues to be smaller than required, the organisation would continue to meet statutory and legislative health and safety requirements, however estates and fleet would not meet the standards the organisation aspires to.



Maintaining financial balance

- Maintaining financial balance over the longer term is dependent on: managing the workforce size and mix within current pay budgets; receiving funding increases in line with unavoidable pay pressures; managing non-pay pressures with corresponding savings across the organisation; and receiving additional funding to support lost income as a result of operating in a COVID-19 environment.
- Three funding scenarios have been considered to provide an **illustrative** 5 year financial outlook:
 - Lower scenario - funding increases in line with unavoidable pay pressures only.
 - Central scenario - funding increases in line with unavoidable pay pressures and lost income (non-recurring).
 - Upper scenario - funding increases in line with unavoidable pay pressures, lost income (non-recurring) and the revenue impact of investment.
- It is also assumed that the financial implications of key legislation changes will be funded in full.
- The detailed financial modelling on page 16 is based on a very specific set of financial assumptions. These assumptions are detailed on the table to the right, with the revenue outcome summarised below.
- Any changes to the base assumptions will have an impact on the future revenue profile. For example:
 - a 1% pay award has been applied for illustrative purposes only - **each additional 1% will require an additional ~£11m of government funding.**
 - each additional £1.0m of income will result in a reduction in the overall funding or net savings requirement
 - a reduced capital allocation will impact quantum of new ongoing costs/savings
 - new demand or budget growth which requires to be absorbed within existing budgets.

Baseline financial assumptions	
Financial balance	Financial balance sustained - no budget will be set with an operating deficit
	Current staffing and service levels
Funding	Funding increases in line with unavoidable pay pressures as a minimum (real terms protection)
	SG funding increase in line with the appropriate revenue scenario
Workforce	Total cost of current workforce maintained
	Workforce size/mix to be funded within current pay budgets, adjusted for pay award and increments
Pay award	PSPP applied in 2021/22 and illustrative 1% thereafter
	Each additional 1% will require an additional ~£11m of government funding to maintain financial balance.
Non-pay	Revenue impact of investment to be met by compensating savings or additional funding.
	Reduced capital allocation will impact quantum of new ongoing costs/savings:
	DDICT generally creates new revenue costs as new technology is introduced
	Estates and Fleet programmes deliver savings via property consolidation, vehicle maintenance and fuel
	Cost pressures beyond SG funding to be offset by compensating savings from elsewhere in the organisation.
Income	Minimum income recovery following COVID-19 (non-recurring pressure)
	Reduction in Local Authority funding (recurring pressure)
Out of Scope – fully funded by SG	Post mortem toxicology services
	DESC
	ESMCP
	Impact of new legislation



Illustrative 5 year revenue profiles

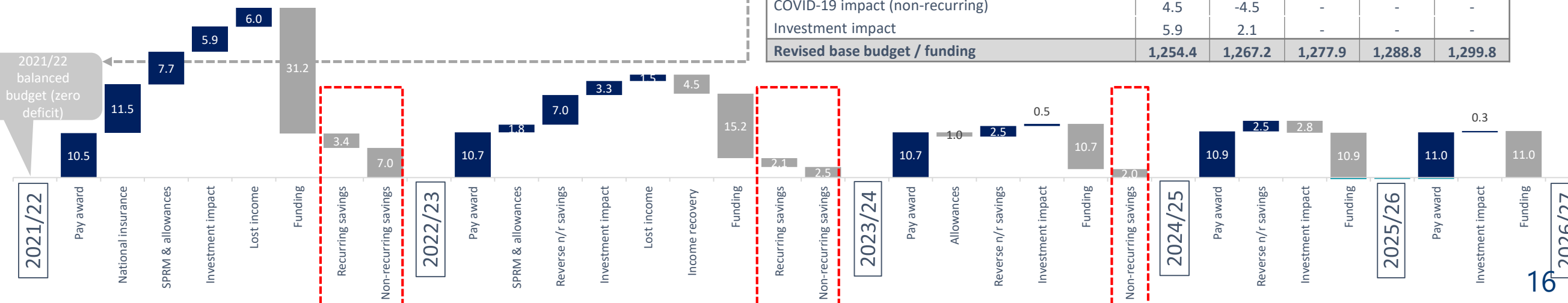
- The 5 year revenue profile has been modelled based on the total cost of the existing workforce, adjusted for pay award and SPRM, the revenue impact of our current investment plans and a significant reduction in income, mainly as a result of COVID-19.
- To maintain financial balance over the medium term, all pressures beyond Scottish Government funding require to be offset by compensating savings from across the wider organisation.
- The lower funding scenario assumes that the cost base will increase by unavoidable pay pressures only, equating to ~£79m over the next 5 years. This includes provision for pay award, national insurance increases, SPRM and a reduction in the local authority income which is directly linked to funding police officers.
- In the lower funding scenario, the revenue profile shows that £5.5m (0.5%) of recurring savings will be required between years 1 and 2, with an additional non-recurring savings requirement between years 1 and 3 (£7.0m in year 1, reducing to £2.5m and £2.0m in years 2 and 3 respectively). This is further detailed below.
- The non-recurring savings requirement includes a significant reduction in income as a direct consequence of operating in a COVID-19 environment, where it is anticipated that income will continue to be suppressed for a number of years. This will be highlighted to Scottish Government with a view of seeking one-off additional funding in line with the central funding scenario.
- The upper funding scenario assumes that pay, income and investment pressures are fully funded and indicates a net increase of ~£87m in the revenue cost base over the next 5 years.
- The funding requirements for each scenario is detailed on page 17.

Lower funding scenario	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Base budget / funding	1,212.8	1,244.0	1,259.2	1,269.9	1,280.8
Pay award	10.5	10.7	10.7	10.9	11
National insurance increase	11.5	-	-	-	-
SPRM increments and appeals	7.7	3	-	-	-
Reduction in LA funding	1.5	1.5	-	-	-
Revised base budget / funding	1,244.0	1,259.2	1,269.9	1,280.8	1,291.8
Recurring savings requirement	-3.4	-2.1	-	-	-
Non-recurring savings requirement*	-7.0	-2.5	-2.0	-	-
Total savings requirement	-10.4	-4.6	-2.0	0.0	0.0

*Includes impact of COVID-19

Central funding scenario	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Base budget / funding	1,212.8	1,248.5	1,259.2	1,269.9	1,280.8
Pay award	10.5	10.7	10.7	10.9	11.0
National insurance increase	11.5	-	-	-	-
SPRM increments and appeals	7.7	3.0	-	-	-
Reduction in LA funding	1.5	1.5	-	-	-
COVID-19 impact (non-recurring)	4.5	-4.5	-	-	-
Revised base budget / funding	1,248.5	1,259.2	1,269.9	1,280.8	1,291.8
Recurring savings requirement	-3.4	-2.1	-	-	-
Non-recurring savings requirement	-2.5	-2.5	-2.0	-	-
Total savings requirement	-5.9	-4.6	-2.0	0.0	0.0

Upper funding scenario	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Base budget / funding	1,212.8	1,254.4	1,267.2	1,277.9	1,288.8
Pay award funding	10.5	10.7	10.7	10.9	11.0
National insurance increase	11.5	-	-	-	-
SPRM increments and appeals	7.7	3.0	-	-	-
Reduction in LA funding	1.5	1.5	-	-	-
COVID-19 impact (non-recurring)	4.5	-4.5	-	-	-
Investment impact	5.9	2.1	-	-	-
Revised base budget / funding	1,254.4	1,267.2	1,277.9	1,288.8	1,299.8



Illustrative 5 year funding scenarios

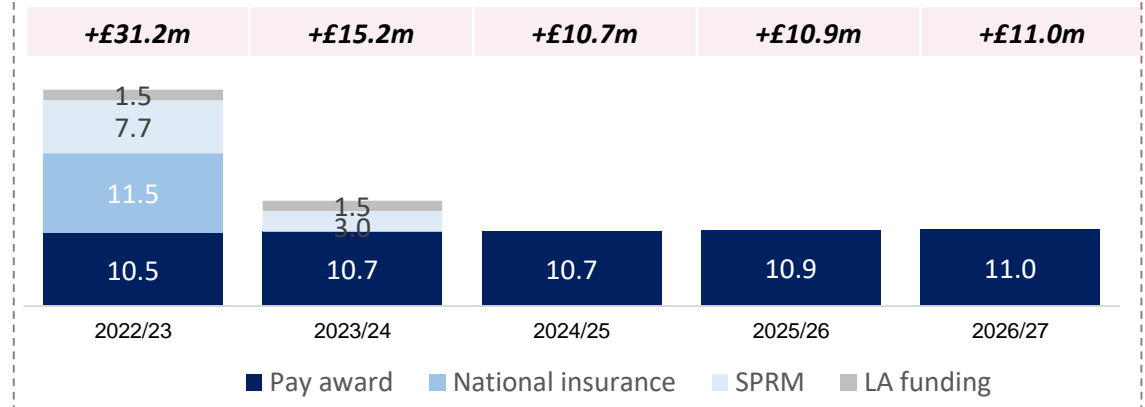
- Each funding scenario assumes that core revenue funding will increase in line with pay award¹, national insurance increases², SPRM costs and any income reduction directly linked to funded officers. **This represents the minimum funding requirement to maintain current levels of policing.**

Note 1: a 1% pay award has been applied for illustrative purposes - **each additional 1% will require an additional ~£11m of government funding.**

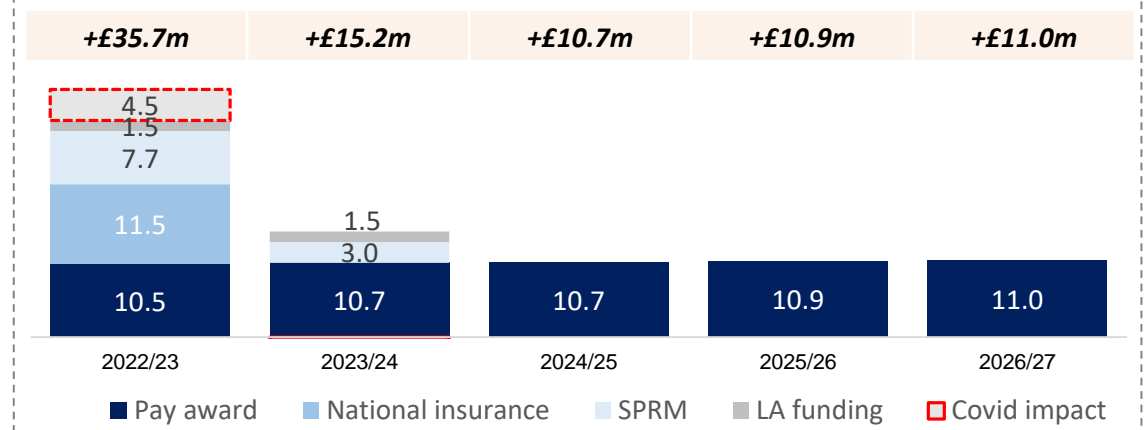
Note 2: a 1.25% increase national insurance increase was announced on 7 September 2021.

- The minimum requirement is represented by the lower funding scenario. This shows that the funding required in years 1 and 2 is significantly higher than subsequent years due to the inclusion of increased national insurance costs, SPRM and anticipated lost income.
- The central funding scenario includes an additional £4.5m of non-recurring funding to support the ongoing impact COVID-19. Future uncertainties include events and airport income which are expected to be suppressed for a number of years following the pandemic.
- Specific COVID funding was provided in 2020/21 and 2021/22 as it was recognised that these additional pressures could not be absorbed within the core revenue budget. We will continue to work closely with Scottish Government to quantify the ongoing financial impact of COVID and monitor the impact on the future revenue budget.
- In addition to the above, the upper funding scenario also includes the revenue impact of investment. DDICT generally creates additional revenue costs as new technology is introduced, however this is a key enabler in creating capacity across the organisation to meet new and changing demand.
- There are number of new services and legislation changes that will have a significant financial consequence for the organisation from 2021/22 and beyond. These changes have not been included in the 5 year revenue or funding profiles as the full financial impact has yet to be quantified. However, it is assumed that the financial implications of such changes will be funded in full by Scottish Government.

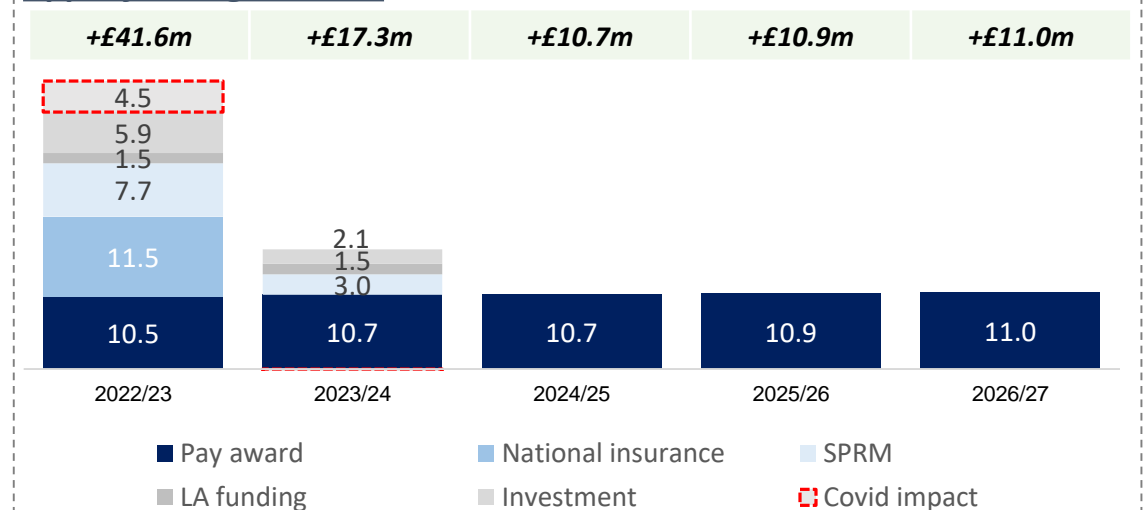
Lower funding scenario



Central funding scenario



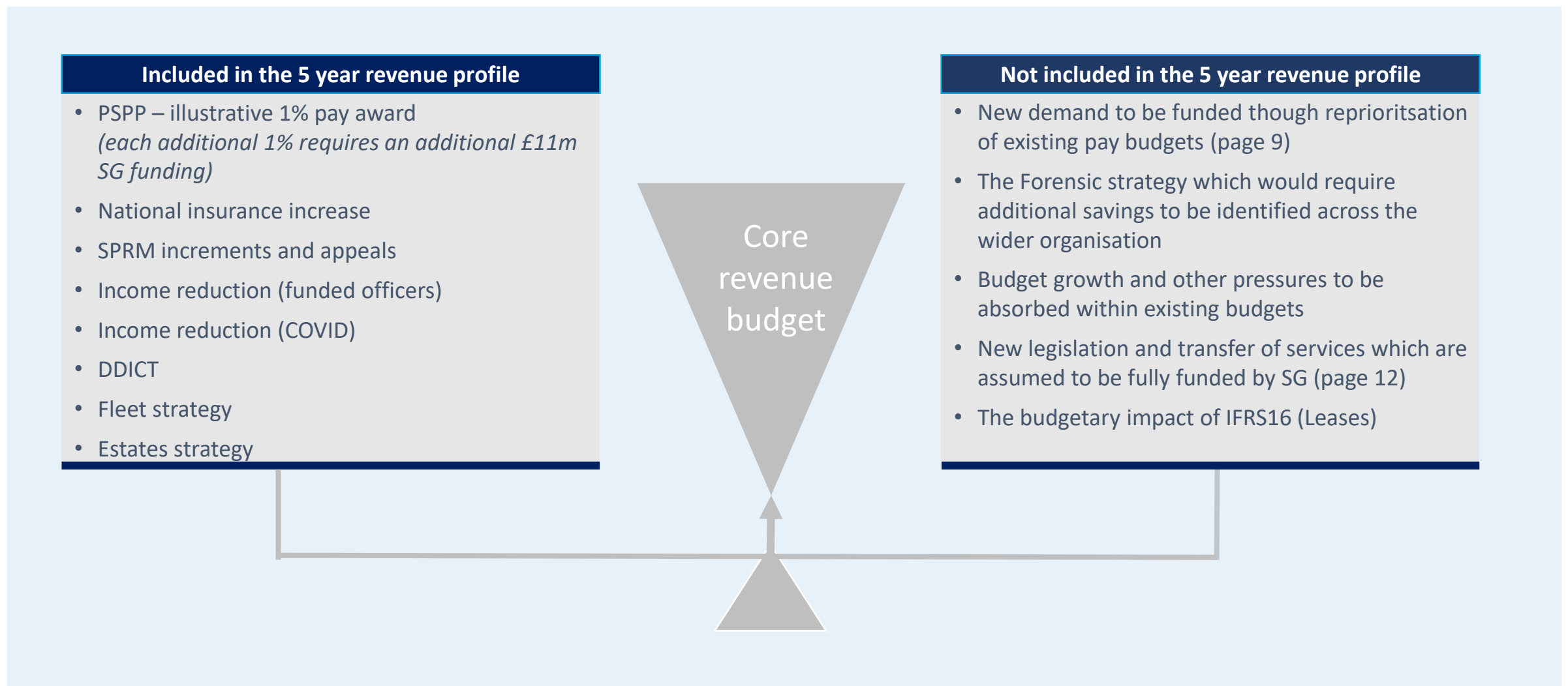
Upper funding scenario



COVID impact – non-recurring

New demand and budget growth

- The financial modelling on page 16 provides an illustrative view of the next 5 years' revenue costs based on the existing workforce, the revenue impact of investment and a reduction in income.
- In addition, there are a number of proposals for increased headcount and improved service levels that have **not** been included in the financial modelling. These proposals require consideration **within the context of the organisation's strategic priorities** and if approved, they require to be funded through reallocation of existing budgets to avoid creating an unfunded pressure for the organisation.



Capital investment

Investment outcomes to date

- The investment portfolio can improve conditions and equipment for the wellbeing of officers and staff, can enable a better service to be provided to the public and can create time saving efficiencies through the use of newer technologies.
- Through the delivery of major change projects in the past 3 years, we have a single national network, have consolidated and integrated legacy policing applications, instituted a new contact assessment model and rolled out mobile technology to front line officers. In addition to the practical benefits to staff and improved outcomes for the public, this has also resulted in efficiencies of 1,424 officer FTEs and 209 staff FTEs being identified, realised and reprioritised.

Forward-look on Investment Portfolio

- The 5 year view of the capital investment requirement is set out on page 20. It shows, like in previous years, the major investment areas for the SPA will continue to be furthering the DDICT strategy, consolidating and improving the Estate and modernising the Fleet through embracing greener technologies.
- **DDICT** – The strategy was published in April 2018, with major successes achieved including the roll out of mobile devices to officers and the introduction of a national network. In the short term, key projects in focus will be the roll out of body-worn video and investment in our data and digital capabilities. A review and update of the DDICT strategy and implementation plan is expected to be concluded in Autumn 2021.
- **Fleet** – The roll out of electric vehicles with accompanying infrastructure has ramped up significantly, with the expectation that 40% of the infrastructure required across the estate will be installed by the end of 21/22, with 18% of the Fleet transitioned to Ultra low emission vehicles. Further incremental roll out of infrastructure and vehicles is proposed in the coming 5 years, moving towards the 2030 target for full transition as set out in the Fleet Strategy.
- **Estates** – A core ambition of the Estate strategy is to have a smaller and smarter footprint and to seek co-location opportunities with partner organisations as the preferred solution. Supported by funding, the next 5 years would see major collaboration projects (e.g. North East Division Integration, Project Quest), strategic solutions for areas most in need (e.g. Ayr, Oban), small co-locations (e.g. Maybole) and the disposal of aging and not fit-for-purpose properties.
- **Emerging strategies** – Implementation plans are in development for emerging strategies including Cyber, Public Contact, Environmental and Energy, which will feed into future capital planning.

Capital breakdown

The table below shows the detail of the 5 year capital requirement.

			22/23	23/24	24/25	24/25	26/27
DDICT	Mobile Working	Roll out of 4,500 devices to operational police officers as Phase 2, following the roll out of 10,000 in Phase 1.	4.8	0.0	1.1	1.7	0.0
	Body Worn Video	Roll out of BWV to front line police officers.	3.4	0.3	0.0	0.0	0.0
	Core Infrastructure	Rolling replacement of infrastructure, consolidation of legacy applications and replacement of major systems that are now outdated.	22.9	42.1	20.1	14.2	10.3
	Digital & Data	A series of projects focused on data storage, compliance and use of data as an intelligence tool.	12.2	3.3	1.4	0.0	0.0
	External Partnering	Collaborative projects including Digital Evidence Sharing Capability	8.1	3.3	0.0	0.0	0.0
	Cyber Strategy	Projects relating to maintaining cyber security and tackling cybe crime.	4.6	4.5	2.8	0.0	0.0
	Corporate Services Transformation	Projects relating to creating efficiencies in corporate services and improving technology used.	0.0	0.0	0.0	0.0	0.0
Fleet	Electric cars	Continuation of electric fleet roll out across Scotland	6.3	6.9	16.8	11.0	14.1
	EV infrastructure	Continuation of roll out of EV infrastructure across Scotland	6.5	8.0	7.5	0.0	0.0
	Diesel cars	Investment in diesel cars - this will slowly decrease as electric roll out continues	5.0	2.0	1.5	1.0	2.0
Estates	Co-location	Large scale co-location projects with other public sector bodies, may include new builds	1.9	8.3	16.0	9.4	4.0
	New Build	Major new build investment projects, including Project Eagle	0.1	4.3	32.7	18.1	24.6
	Refurb	Refurbishments of existing facilities	5.5	6.1	3.4	9.4	11.1
	Various	Other small projects including the housing strategy	0.6	3.1	3.1	0.2	0.0
Rolling replacement	Forensic services	Rolling replacement of equipment and investment upgrades including Core Operating System	5.7	9.2	5.2	4.2	4.2
	Specialist policing equipment	Rolling replacement of equipment to support operational and strategic policing	3.5	3.5	3.5	3.5	3.5
	Weaponry & officer safety	Rolling replacement of equipment such as body armour accelerated rollout and firearms equipment	2.5	1.5	1.5	1.5	1.5
TOTAL			93.6	106.4	116.6	74.2	75.3

£466.1m

Capital investment – scenario analysis

Funding

- The Scottish government published their 5 year capital spending review in February 2021. This noted funding of c.£49.6m proposed for the SPA. This will not be sufficient to deliver against all the ambitions of the organisation.
- The SPA will continue to make a strong case for additional funding to Scottish Government, including the proposal of additional routes to funding such as borrowing, or up front funding for long term disposals as explained in the Capital Strategy.

Scenario Analysis

- We have set out the impact of three funding scenarios in the subsequent slides:
 - Scenario 1 – Base Level Funding (in line with Capital Spending Review)
 - Scenario 2 – Upfront funding for long term disposal income
 - Scenario 3 – Upfront funding for long term disposal income, plus additional grant-in-aid

Scenario 1 – base level funding

The following scenario models the impact over the next 5 financial years if the SPA is granted a capital budget equivalent to that set out in the Scottish Government Capital Spending Review. The table below gives a high level outline of how this capital budget would be allocated.

	22/23	23/24	24/25	25/26	26/27	Total
DDICT	23.6	23.6	23.6	23.6	23.6	118.0
Fleet	7.0	7.0	7.0	7.0	7.0	35.0
Fleet Diesel	2.5	2.5	3.0	3.0	3.0	14.0
Estates	9.0	9.0	9.0	9.0	9.0	45.0
Forensic services	2.0	2.0	2.0	2.0	2.0	10.0
Specialist policing equipment	3.5	3.5	3.5	3.5	3.5	17.5
Weaponry & officer safety	2.0	2.0	1.5	1.5	1.5	8.5
TOTAL	49.6	49.6	49.6	49.6	49.6	248.0
<u>Funding</u>						
Core GIA + Reform	49.6	49.6	49.6	49.6	49.6	248.0
TOTAL	49.6	49.6	49.6	49.6	49.6	248.0

Impact:

- Prioritisation would be given to meeting health and safety needs, legislative requirements and replacement of core equipment (Weaponry, SPE and Forensics would all receive an allocation which would be the minimum required to maintain these business/asset areas effectively).
- Estates – Estates would be allocated funding to meet health and safety requirements and basic repairs and maintenance. No funding would be available for estates transformation or co-location projects.
- Fleet – The Fleet strategy would progress at a slow pace, topping out at a maximum of 1400 vehicles (40%) transitioned to ULEV as funding would be insufficient to progress with Phases 2 and 3 of the infrastructure roll out. Investment in diesel vehicles would persist.
- DDICT projects would be prioritised by the organisation, however this would still be short of the overall requirement.

Scenario 2 – upfront funding for long term receipts

As note in previous spending review submissions, future disposal proceeds in the region of £100m could be generated as an outcome of a fully funded Estate Strategy. The table below sets out what impact this would have on the ability to meet capital requirements, should the government provide upfront funding in advance of longer term receipts.

	22/23	23/24	24/25	24/25	26/27	TOTAL
DDICT	23.6	23.6	23.6	23.6	23.6	118.0
Fleet	12.8	12.8	12.8	12.8	12.8	64.0
Fleet Diesel	5.0	5.0	3.0	3.0	3.0	19.0
Estates	8.1	21.8	55.2	37.1	39.7	161.9
Forensic services	5.7	5.7	5.7	5.7	5.7	28.5
Specialist policing equipment	3.5	3.5	3.5	3.5	3.5	17.5
Weaponry & officer safety	2.5	2.5	1.5	1.5	1.5	9.5
TOTAL	61.2	74.9	105.3	87.2	89.8	418.4
Funding						
Core GIA	49.6	49.6	49.6	49.6	49.6	248.0
Additional upfront for future capital receipts ¹	0.0	15.0	35.0	25.0	25.0	100.0
Funding Gap to complete estates work ²	11.6	10.3	20.7	12.6	15.2	70.4
TOTAL	61.2	74.9	105.3	87.2	89.8	418.4

¹ An estimated £100m could be achieved through the sale of existing buildings and moving to partner co-locations. Providing this funding to Police Scotland upfront, with SG receiving the proceeds on sale would mean a net zero impact over the period.

² In order to generate approximately £100m in property sales, all Estates projects would need to be funded. This line shows the remaining gap in each year to fund all estates projects.

Scenario 3 – upfront funding for long term receipts, plus additional funding

As per the previous slide, future disposal proceeds in the region of £100m could be generated as an outcome of a fully funded Estate Strategy. The table below sets out what the funding gap would be in order to deliver the full programme of capital investments.

	22/23	23/24	24/25	24/25	26/27	TOTAL
DDICT	56.0	53.5	25.4	15.9	10.3	161.1
Fleet	12.8	14.9	24.3	11.0	14.1	77.1
Fleet Diesel	5.0	2.0	1.5	1.0	2.0	11.5
Estates	8.1	21.8	55.2	37.1	39.7	161.9
Forensic services	5.7	9.2	5.2	4.2	4.2	28.5
Specialist policing equipment	3.5	3.5	3.5	3.5	3.5	17.5
Weaponry & officer safety	2.5	1.5	1.5	1.5	1.5	8.5
TOTAL	93.6	106.4	116.6	74.2	75.3	466.1
<u>Funding</u>						
Core GIA	49.6	49.6	49.6	49.6	49.6	248.0
Additional upfront for future capital receipts ¹	30.0	22.7	30.0	5.8	7.8	96.3
Funding Gap ²	14.0	34.1	37.0	18.8	17.9	121.8
TOTAL	93.6	106.4	116.6	74.2	75.3	466.1

¹ An estimated £100m could be achieved through the sale of existing buildings and moving to partner co-locations. Providing this funding to Police Scotland upfront, with SG receiving the proceeds on sale would mean a net zero impact over the period.

² In order to generate approximately £100m in property sales, all Estates projects would need to be funded. This line shows the remaining gap in each year to fund all estates projects, plus the remaining broader investment programme.

Next steps

Financial planning: timeline



Immediate next steps:

Date	Meeting / Board	Decision
Formal governance		
31/08/21	Corporate Finance & People Board	For approval
08/09/21	Strategic Leadership Board	For approval
14/09/21	SPA Resources Committee	For approval
29/09/21	SPA Board	For approval