

<b>Meeting</b>	<b>SPA Board Meeting Public Session</b>
<b>Date</b>	<b>Tuesday 28<sup>th</sup> November 2017</b>
<b>Location</b>	<b>Stirling Court Hotel, University of Stirling FK9 4AE</b>
<b>Title of Paper</b>	<b>Financial Performance Report Quarter 2 2017/18</b>
<b>Item No</b>	<b>7</b>
<b>Presented by</b>	<b>James Gray, Chief Financial Officer</b>
<b>Recommendation to members</b>	<b>For Noting</b>
<b>Appendix Attached</b>	<b>Yes</b>

**PURPOSE**

The purpose of this report is to provide an update on the financial position as at 30 September 2017 and the projected outturn position for the financial year.

## 1. BACKGROUND

- 1.1 This report presents the year to date and forecast outturn financial position as at 30 September 2017 (Quarter 2).
- 1.2 The detailed financial performance report and supporting appendices are attached to this report.

## 2. FURTHER DETAIL ON REPORT TOPIC

- 2.1 The financial position in relation to revenue, capital and reform is summarised below.
- 2.2 The full year forecast is as follows:
  - **Revenue** – an underspend against budget of £10.6m. The overall SPA budget was set with a deficit of £47.2m and so this projected underspend reduces that deficit to £36.6m.
  - **Capital** – an overspend of £1.2m is forecast against the revised funding, which reflects an optimism bias. This has been included to acknowledge slippage in recent capital plans and the organisation will continue to actively manage the capital plan. Should there be no slippage in year, budgets will be actively managed to meet the forecast out turn position.
  - **Reform** – The underspend for the year is forecast at £5.2m.
- 2.3 Further detail on the year to date and forecast outturn positions are contained within the monitoring report and supporting appendices attached to this report.

## 3. FINANCIAL IMPLICATIONS

- 3.1 The financial position for financial year 2017/18 is set out in this report.

## 4. PERSONNEL IMPLICATIONS

- 4.1 There are no direct personnel implications associated with this report.

## 5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications associated with this report.

## 6. REPUTATIONAL IMPLICATIONS

- 6.1 There are no direct reputational implications arising from with report.

## 7. SOCIAL IMPLICATIONS

- 7.1 There are no social implications directly associated with this report.

**8. COMMUNITY IMPACT**

8.1 There are no community impact implications directly associated with this report.

**9. EQUALITIES IMPLICATIONS**

9.1 There are no equalities implications directly associated with this report.

**10 ENVIRONMENTAL IMPLICATION**

10.1 There are no environmental implications associated with this report.

**RECOMMENDATIONS**

Members are requested to:

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

SCOTTISH POLICE  
**AUTHORITY**



# Financial Review

## 2017-18

## Quarter 2

For presentation to  
SPA Board  
28<sup>th</sup> November 2017

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**Appendices**

- A Police Scotland Revenue Budget Non Pay Variance Analysis
- B(1)-(5) Police Scotland Revenue Budget by Business Area
- C Forensics Budget Analysis

## 1. Executive Summary

- 1.1 This reports set out the financial performance of SPA and Police Scotland for Quarter 2 (the 6 months to 30 September 2017) of financial year 2017/18, as well as forecasting the full year outturn to 31 March 2018.

The overall SPA budget was set with a revenue deficit of £47.2m. The projected £10.6m underspend set out below reduces that in year deficit to £36.6m. The current underspend has arisen due to a number of savings and one-off cost reduction proposals following a detailed financial review at Quarter 2.

On a recurring basis, after taking account of one-off cost reductions and efficiencies, the deficit stands at £45.6m.

The revised revenue forecast at the end of the first quarter (as re-presented to the SPA at its Board meeting on 28 September) was a deficit of £47.3m (an overspend of £0.1m against budget).

### Revenue Budget

- 1.2 The table below sets out the year to date and forecast outturn position for the 2017-18 revenue budget (excluding VAT) against an approved budget is £1,069.6m.

Revenue	Year to Date			Full Year Forecast		
	Budget	Actual	Variance (Over) / Underspend	Budget	Forecast	Variance (Over) / Underspend
	£m	£m	£m	£m	£m	£m
Police Scotland	512.6	504.5	8.1	1,039.1	1,028.7	10.4
Forensics	13.7	13.7	0.0	26.8	26.8	0.0
SPA Corporate	1.9	1.8	0.1	3.7	3.5	0.2
<b>Total Expenditure (excl VAT)</b>	<b>528.2</b>	<b>520.0</b>	<b>8.2</b>	<b>1,069.6</b>	<b>1,059.0</b>	<b>10.6</b>

1.3 **Projected Financial Outturn** (Forecast underspend of £10.6m, representing an increase in underspend against budget from Quarter 1 of £10.7m).

In undertaking the detailed financial review as at Quarter 2, the key objective has been to develop a robust forecast outturn for revenue, bringing in non-recurring items, declaring cost pressures no longer required and incorporating the results of the target savings exercise.

Police Scotland

- Forecast Underspend of £10.4m, representing an increase in underspend against budget from Quarter 1 of £10.2m.
- Across Police Scotland, reviews took place to identify savings and cost reduction options. The first review was business led and related to identifying efficiency proposals that would contribute to the unidentified savings target within the budget. Savings from this exercise totalled £3.8m (of which £3.2m were previously reported underspends and so do not change the overall forecast outturn position). The second was Finance led and looked to review the balance sheet, funding streams and the potential to transfer costs from revenue, as well as an assessment of budgeted cost pressures. Net cost reductions of £9.2m were identified from this exercise, giving a total savings figure of £13m.
- In terms of the reduction in the Police Scotland deficit from Quarter 1, the movement is summarised in the table below.

<b>Police Scotland</b>	<b>Budget £m</b>	<b>Actual £m</b>	<b>Variance £m</b>
<b><i>Position Reported at Quarter 1</i></b>	<b><i>1,039.1</i></b>	<b><i>1,038.9</i></b>	<b><i>0.2</i></b>
Less: Movement Quarter 1 to Period 5	0	(0.4)	0.4
Less: Total Net Savings (identified at period 6)	0.0	(13.0)	13.0
Add Back: Savings previously reported as underspends at period 5	0.0	3.2	(3.2)
<b><i>Net Favourable Movement (from period 5 to period 6)</i></b>	<b><i>0.0</i></b>	<b><i>(10.2)</i></b>	<b><i>10.2</i></b>
<b>Position as at Period 6 – as per page 7 of this report</b>	<b>1,039.1</b>	<b>1,028.7</b>	<b>10.4</b>

- The overall forecast is a £10.4m underspend against budget. The key variances explained later in the report are Officers overtime (£0.9m over); Police Staff costs (£3.6m under); TOIL/annual leave costs (£1.0m over); non-pay costs (£7.1m under) and income (£1.6m favourable).

#### Forensics

There are no material variances and the forecast is a break even position.

#### SPA Corporate

There is a forecast underspend of £0.2m mainly due to gapping of vacant posts.



### **Capital Plan**

- 1.4 The year to date position on capital is expenditure of £3.6m (£3.1m excluding VAT).
- 1.5 Work has been carried out in August and September to identify other capital investment opportunities that may enable additional expenditure relating to Policing 2026 objectives to be progressed in year. This has resulted in a revised forecast spend on the Capital Programme of £37.8m (net of optimism bias of £1.2m); an increase of 2.9m from the previous forecast of £34.9m.
- 1.6 Within funding, capital receipts of £4.6m have been secured to date against a full year budget of £10.0m. The income to date mainly relates to a £3.2m receipt in respect of the sale of Chambers Street. The budgeted receipts will not be realised in full due to a delay in the disposal of the Pitt Street site. This means that the associated proceeds will now slip into financial year 2018/19 with the loss of the associated revenue savings.

### **Reform Budget**

- 1.7 The Scottish Government has allocated a total Reform budget to SPA of £59.5m. This is being provided through the Police Change and Transformation Fund (Reform) to support 'the delivery of a police service capable of meeting the changing demands of crime and society over the next ten years'.
- 1.8 The year to date position is total expenditure of £16.9m as at the end of quarter two. This spend comprises irrecoverable VAT of £10.0m and Corporate Services transformation costs of £6.9m (transformation resources and Policing 2026 costs). The full year forecast spend is £54.3m which represents a forecast underspend of £5.2m.

## 2. 2017-18 Budget Analysis

### 2.1 Police Scotland

Revenue - Police Scotland	Year to Date			Full Year Forecast			Prior Year	
	Budget £m	Actual £m	Variance (Over) / Underspend £m	Budget £m	Forecast £m	Variance (Over) / Underspend £m	Outturn £m	Variance (17/18 Projected less 16/17 Outturn) £m
Police Officer Costs	373.9	373.0	0.9	771.2	772.1	-0.9	754.4	17.7
Police Staff Costs	84.1	81.6	2.5	169.3	165.7	3.6	170.0	-4.3
TOIL & Annual Leave Costs	0.0	0.0	0.0	-1.0	0.0	-1.0	-3.7	3.7
Non-Pay Costs	83.3	79.8	3.5	163.0	155.9	7.1	173.6	-17.7
Income	-21.1	-22.3	1.2	-42.7	-44.3	1.6	-62.1	17.8
<b>Net Expenditure (incl VAT)</b>	<b>520.2</b>	<b>512.1</b>	<b>8.1</b>	<b>1,059.8</b>	<b>1,049.4</b>	<b>10.4</b>	<b>1,032.2</b>	<b>17.2</b>
Less: VAT (Reform Funded)	-7.6	-7.6	0.0	-20.7	-20.7	0.0	-19.9	-0.8
<b>Net Expenditure (excl VAT)</b>	<b>512.6</b>	<b>504.5</b>	<b>8.1</b>	<b>1,039.1</b>	<b>1,028.7</b>	<b>10.4</b>	<b>1,012.3</b>	<b>16.4</b>

## 2.2 **Police Officer Costs**

### **Full year projection (£0.9m overspend)**

This net overspend of £0.9m arises from underspends on salaries, on-costs and allowances of £0.6m as offset by an overspend on overtime costs of £1.5m.

#### ***Salaries, On-Costs & Allowances (Forecast underspend £0.6m)***

The forecast underspend is attributable to a number of factors as set out below.

- An underspend arising due to the timing of new recruit intakes which were assumed within the budget to take place at the beginning of the months of June, September and December. The recruits joined much later in the month (26 June 2017, 25 September 2017 and forecast 18 December 2017) resulting in reduced salary costs forecast of £1m.
- A net underspend of £0.5m is due to the cost of staff on service breaks as well as reduced maternity pay and reduced sick pay being lower than budgeted.
- A net additional cost of probationers salaries (£0.8m) due to an under budgeting of probationer increments. The budget was based on the entry point with an annual increment. However, increments are in fact due after 31 weeks of service.

#### ***Overtime Costs (Forecast overspend £1.5m)***

The main elements of this overspend are as follows:

- additional overtime incurred related to the increased threat level and the support provided following the incidents in Manchester and London (£1.1m). As described above, claims have been submitted to recover this additional overtime cost (although the anticipated income is not included in the forecast at this stage); and
- a recent legal ruling which found against the service in relation to a dispute over the requirement to pay 'held on reserve' overtime for Royal Court duties and other historic claims (£0.3m).

It should be noted that £1.2m of the total Officer overtime budget is held centrally and managed by the DCC Designate. At this stage, this budget is forecast to be fully utilised in the year. This position is being continually assessed given the requirement to balance service delivery with the unfavourable overarching financial position.

**Against prior year spend (£17.7m higher):** This is due to the effect of an increased pay base (due to the 1% pay award, increments and the introduction of the apprenticeship levy).

### 2.3 Police Staff Costs

#### **Full year projection (£3.6m underspend)**

There is a £5.7m forecast underspend on staff costs (salaries, on-costs and allowances) and a £0.2m underspend on staff overtime which is partially offset by the under-recovery of planned staff savings from VR VER of £2.3m.

#### ***Salaries, On-Costs & Allowances (Forecast underspend £5.7m)***

The total forecast underspend on staff costs of £5.7m is due to the level of budgeted staff vacancies. The forecast for staff costs is based on an estimate of when each vacant post will be filled. The forecast also assumes a general attrition rate based on the actual turnover rate for the year to date. It has also been assumed that it takes approximately three months from an employee leaving the organisation to a replacement new start joining. There has been a reduction in the forecast partly due to changes in forecast assumptions i.e. increased attrition and delaying in filling vacant posts. There is also a favourable variance of £1.4m arising from C3 dual running cost and other staff budget not required.

The impact of the downward trend in staff numbers on the forecast outturn has been reviewed in some detail at Quarter 2. Further reduction in FTE is forecast until November 2017. There is the expectation of a gradual climb in FTE from December onwards. However, although increasing, the forecast at this stage is that numbers will not rise to the level budgeted by the end of the year. As such, the level of underspend seen to date is forecast to continue, and at a higher rate, for in the coming quarter, FTE begin to rise with the effect of reducing the level of underspend.

The reason for the forecast underspend can be explained by the following factors:

<b>Explanation</b>	<b>£m</b>
Forecast level of vacancies generating savings of £7.0m (turnover saving of 4.9%) significantly exceeding the budgeted 2.3% vacancy factor	3.7
Dual running costs (non-recurring) budgeted as part of the C3 restructuring in the North not required (new operating model now in place) and budgetary provision for posts where staff left the service between the budget build exercise and the finalisation of budgets	1.4
Greater number of staff on half or nil pay than level budgeted (i.e. nil or half pay whilst on maternity, paternity or sick leave)	1.2
Additional agency expenditure	(0.3)
Reduction in capitalisation of ICT staff costs	(0.3)
<b>Total</b>	<b>5.7</b>

This forecast assumes a forward recruitment plan as advised by finance business partners working with in collaboration with budget holders. Should the staff recruitment strategy change, this will impact the turnover rate which will, in turn, alter the forecast outturn position.

#### Supernumery Pool

The supernumery budget was established based on those staff in the pool at the time the staff budget was set. The value of the annual budget in this regard is £0.7m. At 30 September 2017, there is no variance arising and the total year to date cost is £0.3m which is in line with the year to date budget.

#### **Against prior year spend (£4.3m lower)**

This is due to the effect of an increased pay base (due to the 1% pay award, increments and the introduction of the apprenticeship levy).

#### ***VR VER Savings***

The approved budget includes a full year saving of £3.0m from staff leaving on VR VER. As staff leave the service on VR VER, the associated salary budget is removed from the particular Division / Department and offset against the savings target. In the year to date, there have been 21.3 FTE leavers on VR VER, realising year to date savings of £0.3m. The full year impact of this is forecast savings of £0.7m.

At this stage there are no detailed plans in place around staff efficiencies that will enable the delivery of this saving in full. Work is on-going in this regard. The expectation at this stage is that these plans will enable the release of approximately 200 FTE by the end of the financial year. This means that a full year saving would be delivered in financial year 2018/19. Having the posts approved for release prior to 31 March 2018 will mean that the full extent of the associated release costs will be incurred in the current financial year. The overall financial impact in the 2017/18 revenue budget is an under achievement of £2.3m against the planned saving.

#### ***TOIL & Annual Leave Costs***

Annual leave or time off in lieu (TOIL) entitlement due but untaken at the end of the financial year must be accounted for in that year and so a financial value is attached to this for accounting purposes. This accounting requirement is contained within International Accounting Standards and means the organisation is required to accrue for costs associated with this leave entitlement.

Where the total untaken balance increases between one financial year end and the next, the accrual correspondingly increases representing a cost to revenue. However, where the balances decrease, the level of accrual reduces generating a credit (or benefit) to revenue in the year (assuming that the TOIL has been managed down through time off rather than payment).

In the 2017/18, the budget includes an assumption that the TOIL/annual leave balance at 31 March 2018 will be less than that at 31 March 2017 with an associated credit balance being released to revenue in the sum of £1m.

Annex 7 of Regulation 17 of the Police Service of Scotland Regulations 2013 allows Police Constables and Sergeants to elect to take any overtime as time off in lieu of payment. While there is no restriction to this election, the option to take time off is qualified by the provision whereby, subject to the exigencies of duty, any such time off should be granted "...within such time (not exceeding 3 months) after the week (in which the overtime was granted)". Therefore, to comply with Police Regulations, Police Officers electing to take TOIL are required to take that time off within a period no more than three months after the overtime was incurred. If TOIL is not taken within that timeframe, then this will convert to payment. A report is run on the first working day of the month to identify this and used to convert to payment TOIL that has not been in the preceding 90 days. This is effective only for TOIL claimed after the 1st of April 2015.

Therefore, pre April 2015 TOIL balances do not automatically convert to payment and although work has continued to manage this down by agreement between Officers, Supervisors and Resource Deployment Units (taking into account operational necessity) , the balance remains high. A proposal is currently being progressed to 'buy out' historic Officer TOIL balances held prior to the introduction of the Police Scotland management of TOIL procedures. The cost is estimated at approximately £1.5m. This will be funded from the release of the TOIL accrual held in the balance sheet and so, although this does not result in a cost to revenue, neither does it generate the budgeted saving.

There are currently no plans in place that enable a reduction in TOIL or annual leave balances to be forecast in order to achieve the savings target. Therefore the assumption at this stage is that this saving will not be realised. However, work is ongoing to review the accumulated annual leave balances. This will be kept under constant review to take account of any proposed changes arising from the work ongoing.

## 2.4 ***Non Pay Costs***

### **Full year projection (£7.1m underspend)**

The key variances within the full year projected underspend have mainly arisen from the detailed savings review, NDR rebates and a delay in the commencement of the hard facilities management contract.

### **Against prior year spend (£17.7m lower)**

The reduction in spend from the previous year is partly due to the new treatment of reform funding in the current year. Within 'Other Employee Costs', VR VER costs of £7.7m were incurred in financial year 2016/17. In the current financial year, this will be accounted for separately and will not be reported against the revenue budget (per paragraph 2.7). In addition, the 2017/18 forecast assumes that the £4.6m of efficiency savings targets. The current year forecast assumes that these savings will be delivered in full and so this reduces the cost base from that of the prior year.

## 2.5 *Income*

### **Full year projection (£1.6m underspend)**

The key variances within the full year projected underspend are as outlined below.

- Grant funding (£0.8m underspent). This relates to additional net grant income being received in Local Policing (£0.1m) and from the Home Office in relation to counter terrorism, negotiators and planning exercises (£0.7m).
- Public fees (£0.3m underspent). This relates to additional income from air weapons licences above the expected income level in respect of the new license requirements. No material additional income from these charges is expected for the remainder of the financial year.
- Seconded Officer income (£0.6m overspend) largely due to a £0.5m adverse forecast for CT network secondments.
- Mutual aid income (£0.5m underspent) relates to work being undertaken for the Police Service of Northern Ireland and the Metropolitan Police.
- Services of Police (£0.2m underspent). Additional income is forecast from various events not within the budget base such as football policing e.g. European football matches, concerts and filming events.
- Other Income (£0.4m underspent). This relates to the recognition of deferred income in relation to the C3 transformational works that have now been completed (£0.3m) plus an additional £0.1m related to cost recovery from the Crown Office in relation to the transport of deceased persons.

Against prior year spend (£18.9m lower):

Current year position is lower due to the i6 compensation received in the previous year.



Forensics & SPA Corporate

Revenue Forensics & SPA Corporate	Year to Date			Full Year Forecast			Prior Year	
	Budget	Actual	Variance (Over) / Underspend	Budget	Forecast	Variance (Over) / Underspend	Draft Outturn	Variance (17/18 Project less 16/17 Outturn)
	£m	£m	£m	£m	£m	£m	£m	£m
Forensics	14.0	14.0	0.0	27.8	27.8	0.0	27.7	0.1
SPA Corporate	1.9	1.8	0.1	4.0	3.8	0.2	10.6	-6.8
<b>Net Expenditure (incl VAT)</b>	<b>15.9</b>	<b>15.8</b>	<b>0.1</b>	<b>31.8</b>	<b>31.6</b>	<b>0.2</b>	<b>38.3</b>	<b>-6.7</b>
Less: Forensics VAT	-0.3	-0.3	0.0	-1.0	-1.0	0.0	-0.9	-0.1
Less: SPA Corporate VAT	0.0	0.0	0.0	-0.3	-0.3	0.0	-0.3	0.0
<b>Net Expenditure (excl VAT)</b>	<b>15.6</b>	<b>15.5</b>	<b>0.1</b>	<b>30.5</b>	<b>30.3</b>	<b>0.2</b>	<b>37.1</b>	<b>-6.8</b>

**2.6 Forensics**

Year to date and full year forecast (break-even) and against prior year (£0.1m higher)

There are no significant year to date issues to highlight. A more detailed breakdown is provided at Appendix C.

**2.7 SPA Corporate**

Year to date (£0.1m underspend); full year projection (£0.2m underspend) and against prior year (£6.8m lower)

The year to date underspend mainly reflects gapping of a number of senior posts. These posts will not be considered for recruitment until a conclusion is reached on the future SPA operating model. This saving is forecast to continue for the remainder of the year. The reduction in spend from the previous financial year is due to £6.8m of loan charges and PFI interest costs. The costs have been moved to the Police Scotland finance department in the current year.

## **Capital Plan**

- 2.8 The annual capital budget approved by the SPA Board on 22 March 2017 amounted to £42.4m. The funding to support this investment comprised £20m of capital grant from Scottish Government, capital receipts of £10m and an allocation from Reform in the sum of £12.4m (£6.4m to support irrecoverable VAT and £6m for transformational capital investment).
- 2.9 In line with Police Scotland's new investment governance framework, business cases are required to support capital investment and capital projects can only progress once the required approvals are in place. This has had an impact on spend being incurred in the year to date, with only minimal capital expenditure progressed to date.
- 2.10 The year to date position on capital is gross expenditure of £3.6m (£3.1m net of VAT) and has been incurred on ICT (£2.4m), Fleet (£0.7m), Estates (£0.4m) and other (£0.1m). In the year to date, total capital receipts of £4.6m have been secured (net of selling costs). This includes £3.2m in respect of the sale of the former police office in Chambers Street, Edinburgh.
- 2.11 The receipts level anticipated when the budget was set will now not be realised in full as the result of the delay in the disposal of the Pitt Street site. This means that the associated proceeds will now slip into financial year 2018/19 and loss of the associated revenue savings.
- 2.12 The forecast spend on the Capital Plan is shown in the following table at paragraph 2.15. Work has been carried out in August and September to identify other capital investment opportunities that may enable additional expenditure relating to Policing 2026 objectives to be progressed in year. This has resulted in the revised forecast spend on the Capital Programme of £37.8m; an increase of £2.9m from the previous forecast of £34.9m. This revised forecast results in an overspend of £1.2m against the revised forecast funding.
- 2.13 The forecast overspend on capital reflects an element of optimism bias. This has been included to acknowledge slippage in recent years on the capital plan and the organisation will continue to actively monitor and manage the capital plan. Should there be no slippage in year, budgets will be actively managed to meet the forecast out turn position.
- 2.14 The table at paragraph 2.16 presents the Capital Plan across alternative headings which will be used in future reports:
- Capital Reform – Projects to be funded from Reform.
  - Annual Programmes of Work – Approved BAU budgets to be managed by relevant professional department.
  - Approved Non Reform Projects – Approved Projects, not seeking Reform funding.
  - Anticipated Non Reform Projects - Anticipated Projects, not seeking Reform funding.

2.15 The following table shows the budget and forecast spend on the capital programme in the format provided in previous financial monitoring reports.

Capital Expenditure	Budget £m	Forecast £m	Variance £m	Further Detail	Para 2.22
Airwave Replacement	1.8	7.6	-5.8	Slippage in ESMCP requires additional devices to be purchased to support interim period.	3
Pegasus	0.2	0.2	0.0	Business Justification Case approved	3
Roadside Breath Screening Devices	0.1	0.1	0.0	Business Justification Case approved	3
Asset Maintenance Program	5.9	5.9	0.0	Business Justification Case approved	2
EDMRS	0.3	0.0	0.3	No longer in 2017/18 Capital Plan	n/a
<b>Total Category One – Statutory (A)</b>	<b>8.3</b>	<b>13.8</b>	<b>-5.5</b>		
Fleet Replacement	5.6	5.6	0.0	Business Justification Case approved	2
Infrastructure Modernisation (incl intranet/ Internet Capability)	12.6	7.8	4.8	Business Justification Case approved	1 / 3
National Intelligence System	0.5	0.0	0.5	No longer in 2017/18 Capital Plan	n/a
Child Protection Video Interview Equipment Replacement	0.6	0.0	0.6	Capital project completed in 2016/17, no 17/18 spend	n/a
Weaponry	0.0	0.8	-0.8	Reflecting a change in capitalisation policy to ensure consistent treatment of expenditure	2
<b>Total Category Two – Stay in Business (B)</b>	<b>19.3</b>	<b>14.2</b>	<b>5.1</b>		
Telematics	3.2	0.9	2.3	Business Justification Case approved	1
C3 / THRIVE	3.5	0.0	3.5	Business developing plans	n/a
Cybercrime	4.0	3.6	0.4	Approved	3
Cyber Defence	2.8	0.0	2.8	No longer in 2017/18 Capital Plan	n/a
Custody	0.5	0.0	0.5	No longer in 2017/18 Capital Plan	n/a
ANPR	0.0	1.2	-1.2	Initial Business Case approved	3
Unicorn	0.0	0.2	-0.2	Business Justification Case approved	3
Payroll	0.0	0.2	-0.2	Initial Business Case approved	1
Water Safety	0.0	0.2	-0.2	Business Justification Case approved	3
SEARCH	0.0	0.0	0.0	No longer in 2017/18 Capital Plan	n/a
DSU Vehicles	0.0	0.4	-0.4	Anticipated BAU project	4
400 Telephones - ACC Crime	0.0	0.1	-0.1	Anticipated BAU project	4
Tasers (X2)	0.0	0.2	-0.2	Reflecting a change in capitalisation policy	4
Priority Projects	0.0	2.1	-2.1	17 priority projects as identified through the Capital Bid process in August / September.	4
Armed Policing	0.0	0.1	-0.1	Business Justification Case progressing	1
Digital ICCS	0.0	0.4	-0.4	Business Justification Case progressing	1
Tasers (STOs)	0.0	0.3	-0.3	Business Justification Case progressing	1
<b>Total Category Three – Transformation/ Policing 2026/ BAU Improvements (C)</b>	<b>14.0</b>	<b>9.9</b>	<b>4.1</b>		
<b>Total Police Scotland (A) + (B)+ (C)</b>	<b>41.6</b>	<b>37.9</b>	<b>3.7</b>		
<b>Total SPA / Forensics</b>	<b>0.9</b>	<b>1.1</b>	<b>-0.2</b>		
<b>Total Expenditure</b>	<b>42.5</b>	<b>39.0</b>	<b>3.5</b>		
Scottish Government grant	20.0	20.0	0.0		
Capital receipts	10.0	5.4	4.6	Chambers St receipt of £3.2m, slippage on Pitt St into 2018/19.	
Reform - VAT	6.4	6.4	0.0		
<b>Reform - Transformational Capital</b>	<b>6.0</b>	<b>6.0</b>	<b>0.0</b>		
<b>Total Funding</b>	<b>42.4</b>	<b>37.8</b>	<b>4.6</b>	<b>Forecast £1.2m overspend</b>	
<b>Variance</b>		<b>1.2</b>		Optimism Bias - Whilst forecast expenditure is £37.8m, optimism bias is applied to reflect recent experience in the capital plan slipping.	

- 2.16 The table below presents the Capital Plan categorised between Capital Reform Projects, Annual Programmes of Work, Approved Non Reform Projects and Anticipated Non Reform Projects.

	2017/18 £m
<b>Capital Reform (1)</b>	
National Network	0.4
ADEL	3.2
Telematics	0.9
Payroll	0.3
Armed Policing	0.1
Digital ICCS	0.4
Tasers (STOs)	0.3
<b>Capital Reform Total</b>	<b>5.6</b>
<b>Annual Programmes of Work (2)</b>	
Fleet Replacement	5.6
Building Maintenance	5.9
Weaponry	0.8
<b>Annual Programmes of Work Total</b>	<b>12.3</b>
<b>Approved Non Reform Projects (3)</b>	
National Cyber Crime Unit	3.6
ICT Modernisation	3.0
Alliance	1.2
ANPR	1.2
Airwave Replacement	7.6
Minor Approved Business Justification Cases	0.6
<b>Approved Non Reform Projects Total</b>	<b>17.2</b>
<b>Anticipated Non Reform Projects (4)</b>	
DSU Vehicles	0.4
400 Telephones - ACC Crime	0.1
Tasers (X2)	0.2
Priority Projects	2.1
<b>Anticipated Non Reform Projects Total</b>	<b>2.8</b>
<b>SPA / Forensics</b>	<b>1.1</b>
<b>Total Proposed Capital Plan</b>	<b>39.0</b>
<b>Optimism Bias</b>	<b>(1.2)</b>
<b>Capital Plan</b>	<b>37.8</b>

**Reform Budget**

- 2.17 On 15 December 2016, the Cabinet Secretary for Finance & the Constitution presented the Scottish Government's Draft Budget for 2017/18 which included a Reform funding allocation of £34.5m to the SPA. In addition to this, a further £25m of funding was announced by the Scottish Government on 2 February 2017 bringing the total Reform budget to £59.5m. This is being provided through the Police Change and Transformation Fund (Reform) to support 'the delivery of a police service capable of meeting the changing demands of crime and society over the next ten years'.
- 2.18 In line with Police Scotland's new investment governance framework, business cases are required to support the investment sought and must demonstrate that it is reforming spend. Further to this, these business cases also require the approval of the SPA and then Scottish Government prior funding being released. The use of this funding is being separately monitored and reported as a distinct funding source (i.e. separate from the revenue and capital budgets).
- 2.19 A summary of the Reform budget as approved by the SPA at its Board meeting of 22 March 2017 is shown below.

	Capital £m	Revenue £m	Total £m
Initial allocation			34.5
Additional funding announced (02/02/17)			25.0
<b>Funding Available to the SPA</b>			<b>59.5</b>
Irrecoverable VAT	6.4	22.0	28.4
Corporate services transformation	0.0	10.0	10.0
Operational policing transformation	0.0	6.2	6.2
Other Transformational Expenditure	6.0	8.9	14.9
<b>Total Applied</b>	<b>12.4</b>	<b>47.1</b>	<b>59.5</b>

- 2.20 The year to date position is total expenditure of £16.9m as at the end of quarter two. This spend comprises irrecoverable VAT of £9.5m revenue, £0.5m capital and Corporate Services transformation costs of £6.9m (transformation resources, VR VER costs and Policing 2026 costs).

2.21 The full year forecast spend is shown in the following table. This forecast as presented recently to SPA Board showed that available Reform funding was unlikely to required, with a forecast underspend of £5.2m.

Reform Plan by Category	Budget £m	Forecast £m	Variance £m	Further Detail
<b>Capital</b>				
Irrecoverable VAT	6.4	6.4	0.0	Approved
Other Transformational Expenditure	6.0	5.6	0.4	As per capital plan
<b>Total Capital</b>	<b>12.4</b>	<b>12.0</b>	<b>0.4</b>	
<b>Revenue</b>				
Irrecoverable VAT	22.0	22.0	0.0	Approved
Corporate Services Transformation	10.0	5.8	4.2	Based on roles approved roles through Police Scotland's Transformation Resource Control Group.
Commercial Excellence Programme	0.0	1.1	-1.1	Full Business Case approved by CFIB, SPA & SG
<b>Sub-total</b>	<b>32.0</b>	<b>28.9</b>	<b>3.1</b>	
<i>Other Policing Transformation</i>				
C3 THRIVE/Mental Health Nursing Support	5.7	0.0	5.7	Plans in development - expected 2018/19
Armed policing uplift training requirement	0.1	0.0	0.1	Captured within 'Tasers'
National CCTV Capability Review	1.0	0.0	1.0	Under review
Tasers	0.0	0.4	-0.4	Business Justification Case in progress
Offset Required	-0.6	0.0	-0.6	Adjustment to match approved budget
<b>Total Other Policing Transformation</b>	<b>6.2</b>	<b>0.4</b>	<b>5.8</b>	
<i>Other Transformational Expenditure</i>				
VR/VER Leavers	8.5	8.5	0.0	Business Justification Case in progress
Professional services (Pay Harmonisation)	0.1	0.1	0.0	Support commissioned
Staff survey	0.1	0.1	0.0	Business Justification Case in progress
Recruitment project	0.2	0.2	0.0	Business Justification Case in progress
Wellbeing – small change fund	0.0	0.0	0.0	Business Justification Case in progress
Intranet / social media	0.0	0.2	-0.2	Business Justification Case in progress
Payroll	0.0	0.7	-0.7	Business Justification Case in progress
P2P	0.0	0.2	-0.2	Business Justification Case in progress
Professional services	0.0	3.0	-3.0	Business Justification Case in progress
<b>Total Other Transformational</b>	<b>8.9</b>	<b>13.0</b>	<b>-4.1</b>	
<b>Total Revenue</b>	<b>47.1</b>	<b>42.3</b>	<b>4.8</b>	
<b>Total Planned Expenditure</b>	<b>59.5</b>	<b>54.3</b>	<b>5.2</b>	<b>Forecast £5.2m underspend</b>

**Police Scotland Revenue Budget: Analysis of Non Pay Variances****Full year projection (£7.1m underspend)**

The key variances are detailed in the table below.

<b>Expenditure Category</b>	<b>Under Spend £m</b>	<b>Explanation</b>
Other Employee Costs	(0.2)	No material issues arising.
Premises	3.3	<p>This main elements of this underspend are a £1.3m underspend on non-domestic rates, £1.9m on property maintenance and £0.5m on utility costs.</p> <p>The non-domestic rates underspend is due to a non-recurring saving arising from a successful rates appeal plus additional savings from budget from vacant and rural property relief and an overestimate of West Lothian Civic centre costs reducing the actual cost in comparison to budgeted amount.</p> <p>The property maintenance underspend is due to delays in the mobilisation of the new contract associated with the vetting required for staff and sub-contractors. The rate of underspend is forecast to reduce as the delays in vetting have been mostly overcome and a fuller programme of work is able to be undertaken.</p> <p>The gas and electricity underspend follows a critical review of utilities costs by estates staff based on recent usage and price data.</p> <p>The underspend is partially offset by some non-material overspends across a number of lines.</p>
Transport	0.5	This primarily relates to a £0.4m forecast underspend in vehicle servicing and maintenance costs. The budget was increased due to increasing vehicle maintenance costs. However, the additional capital investment in fleet towards the end of last financial year means that this cost pressure will not materialise. In addition, a full year underspend is forecast on fuel (£0.4m). These underspends are partially offset by a projected overspend on accident damage repairs (£0.3m).
Supplies & Services	0.1	This position is primarily due to a number of non-material variances across a number of lines. Some underspends previously reported in this expenditure category have been captured as a saving and the budget correspondingly reduced.

ICT	1.8	This has arisen primarily following a comprehensive balance sheet review of accruals and prepayments. As a result, accounting adjustments have been identified which generate a non-recurring benefit of £2.1m. There are other non-material overspends of £0.3m.
Administration	0.6	The main area of underspend is in printing and stationery costs (£0.4m). Other areas of underspend previously reported (e.g. legal costs) have been proposed as permanent savings and so the budget has been correspondingly reduced.
Third Party	0.4	This is mainly due to a new underspend of £0.2m arising at period 6 in relation to the air weapons licensing project (destruction of air weapons following the amnesty).  The previously reported underspend arising from the Home Office credit has been recognised as a non-recurring saving, resulting in a reductions to the third party payments budget line and the unidentified savings line.
Other Costs	0.6	This is due to £1.1m in gain on disposal. This relates almost entirely to the sale of Chambers Street which resulted in a one-off accounting gain which is recognised as a benefit to the revenue budget.  Efficiency targets were allocated to individual budget holders and savings plans were received. Total approved savings of £4.6m have been identified against the £5.0m target. Therefore the unidentified element of £0.4m shows as an overspend. This partially offsets the underspend arising from the gain on asset disposals.
<b>Total</b>	<b>7.1</b>	

Against prior year spend (£17.7m lower)

The reduction in spend from the previous year is partly due to the new treatment of reform funding in the current year. Within 'Other Employee Costs', VR VER costs of £7.7m were incurred in financial year 2016/17. In the current financial year, this will be accounted for separately and will not be reported against the revenue budget (per paragraph 2.7). In addition, the 2017/18 forecast assumes that the £4.6m of efficiency savings targets. The current year forecast assumes that these savings will be delivered in full and so this reduces the cost base from that of the prior year.



**Police Scotland – Revenue Budget by Business Area**

This Appendix sets out the Police Scotland budget by DCC/ DCO business area.

Revenue Police Scotland	See Appendix	Year to Date			Full Year Forecast		
		Budget	Actual	Variance (Over) / Underspend	Budget	Forecast	Variance (Over) / Underspend
		£m	£m	£m	£m	£m	£m
DCC Local Policing	B(2)	28.2	26.3	1.9	59.4	57.0	2.4
DCC Crime & Operational Support	B(3)	33.2	31.6	1.6	73.9	71.8	2.1
Deputy Chief Officer	B(4)	100.6	96.4	4.2	188.2	183.2	5.0
DCC Designate (incl Officers salaries)	B(5)	359.1	358.0	1.1	739.9	739.5	0.4
Other Business Areas		-0.9	-0.2	-0.7	-1.6	-2.1	0.5
<b>Net Expenditure (incl VAT)</b>		<b>520.2</b>	<b>512.1</b>	<b>8.1</b>	<b>1,059.8</b>	<b>1,049.4</b>	<b>10.4</b>
Less: VAT (Reform Funded)		-7.6	-7.6	0.0	-20.7	-20.7	0.0
<b>Net Expenditure (excl VAT)</b>		<b>512.6</b>	<b>504.5</b>	<b>8.1</b>	<b>1,039.1</b>	<b>1,028.7</b>	<b>10.4</b>

**APPENDIX B(2)** Revenue – DCC Local Policing

	Year to Date				Full Year Forecast			
	Budget £m	Actual £m	Variance £m	Explanation	Budget £m	Forecast £m	Variance £m	Explanation
Police Officer Costs	3.7	3.7	0.0	No issues to highlight.	8.7	9.3	-0.6	Overtime overspend due to £0.1m re Operation Mantleline (counter terrorism activities) and £0.1m re Operation Engagement (Glasgow firearms). There are also overtime overspends in custody of £0.2m to provide essential cover.
Police Staff Costs	20.8	20.2	0.6	Due to vacant posts as explained earlier in the report	42.2	40.9	1.3	Due to vacant posts as explained earlier in the report
Non-pay Costs	8.5	7.8	0.7	Year to date underspend in fuel costs (£0.2m); stationery costs (£0.2m); timing of spend in relation to supplies and services (£0.2m) and third party payments (£0.1m).	17.6	16.8	0.8	Largely relates to the fuel underspend (£0.3m); printing & stationery underspend (£0.3m) and over net savings (£0.2m).
Income	-4.8	-5.4	0.6	Additional year to date income from football and other events (£0.5m) which is forecast to continue and income from transfer of deceased person from the Crown Office (£0.1m).	-9.1	-10.0	0.9	Additional income from football and other events (£0.5m). There is also additional forecast grant income (£0.3m) and income from transfer of deceased person from the Crown Office (£0.1m).
<b>Net Expenditure</b>	<b>28.2</b>	<b>26.3</b>	<b>1.9</b>		<b>59.4</b>	<b>57.0</b>	<b>2.4</b>	

**APPENDIX B(3)** Revenue – DCC Crime & Operational Support

	Year to Date				Full Year Forecast			
	Budget £m	Actual £m	Variance £m	Explanation	Budget £m	Forecast £m	Variance £m	Explanation
Police Officer Costs	2.7	3.4	-0.7	Overtime costs incurred assisting with the incidents in Manchester, London and the increased threat level (£0.9m). Offset by underspends in non-core grant or income funded overtime (£0.2m).	5.5	6.5	-1.0	Overtime costs incurred assisting with the incidents in Manchester, London and the increased threat level (£0.9m).
Police Staff Costs	31.3	30.0	1.3	Due to unfilled vacant posts with the majority related to C3.	62.7	60.5	2.2	Due to unfilled vacant posts with the majority related to C3. There is also a change to the C3 staff operating model.
Non-pay Costs	9.5	9.7	-0.2	Overspend in supplies and services (£0.2m).	26.0	25.8	0.2	Overspend on clothing and uniforms mainly related to specialist firearms and public order units (£0.4m). This is offset by a revenue underspend in firearms costs (£0.6m) as these costs will be funded from capital. Printing and stationery costs are forecast to be underspend by £0.1m. There is also an over-recovery against the DCC savings target of £0.2m.
Income	-10.3	-11.5	1.2	Additional grant income (£0.7m); fees and charges (£0.3m) and other income (£0.3m).	-20.3	-21.0	0.7	Additional income from: <ul style="list-style-type: none"> <li>grant income (£0.5m) mainly from the Home Office;</li> <li>public fees income of £0.3m from firearms licensing;</li> <li>mutual aid income (£0.5m) due to increased services requested; and</li> <li>other income sources (£0.3m).</li> </ul> This is offset by: <ul style="list-style-type: none"> <li>reduced seconded Officers income £0.7m from CT secondments; and</li> <li>services of police (£0.3m)</li> </ul>
<b>Net Exp</b>	<b>33.2</b>	<b>31.6</b>	<b>1.6</b>		<b>73.9</b>	<b>71.8</b>	<b>2.1</b>	

## APPENDIX B(4) Revenue – Deputy Chief Officer

	Year to Date				Full Year Forecast			
	Budget £m	Actual £m	Variance £m	Explanation	Budget £m	Forecast £m	Variance £m	Explanation
Police Officer Costs	10.3	9.4	0.9	Due to the timing of ill health payments. There was no SPA Board in July and it was expected that there would be an increased number in August / September which hasn't occurred to date.	20.6	20.6	0.0	No issues to highlight. The ill health budget is forecast to be fully spent by the end of the financial year.
Police Staff Costs	31.2	30.6	0.6	Underspend reflects savings on overtime (£0.1m); budgeted vacant posts (£0.1m) and addition year to date savings on VR VER (£0.3m).	62.6	62.4	0.2	Underspend on salaries and on costs (£2.5m) as previously described plus an underspend on overtime costs (£0.2m). This is offset by £2.3m of budgeted savings from VR VER that are forecast to not be achieved.
TOIL/AL	0.0	0.0	0.0		-1.0	0.0	-1.0	
Non-pay Costs	63.7	61.2	2.5		116.4	110.7	5.7	There was a budgeted £1m saving from the reduction in TOIL and annual leave accrued balances. There are no detailed plans in place for the reduction of TOIL or annual leave balances.
Income	-4.6	-4.8	0.2	a) Premises costs (£2.1m under). Due to and underspend in non-domestic rates (£1.0m under) and property repairs costs (£1.5m under) as previously explained. This is offset by an overspend in cleaning and domestic supplies (£0.3m over) b) Transport costs – no year to date issues. c) Supplies and services costs (£0.6m under). This relates to savings in the occupational health contract (£0.2m and telecoms (£0.2m under).	-10.4	-10.5	0.1	a) Premises costs (forecast £3.2m under). Due to £1.3m underspend in non-domestic rates, utilities costs (£0.4m under) and property repairs costs (£1.9m under) as previously explained. Lease dilapidation costs are under by £0.2m due to minimal dilapidations now forecast to occur in the current financial year. This is offset by an overspend in cleaning and domestic supplies (£0.3m over) b) Vehicle servicing and maintenance forecast underspent by £0.4m as a result of the purchase of new vehicles at the end of the last financial year. c) Supplies & services costs forecast underspend by £0.8m - £0.3m related to occupational health costs following a contractual review and underspends in telecoms following an ongoing reviews of the telecoms estates (£0.3m). Other forecast

				<p>d) ICT costs (£0.3m under), mainly related to ICT maintenance costs.</p> <p>e) Third party payments (£0.4m under). This is mainly related to a refund of a disputed Home Office invoice (£0.2m) and the timing of local authority payroll charges (£0.2m)</p> <p>f) Savings not achieved (£0.8m over)</p>				<p>underspends includes: other supplies and services (£0.1m); and health &amp; safety costs (£0.1m).</p> <p>d) ICT costs forecast (£1.9m underspent). This is primarily related to a non-recurring accounting adjustment of £2.1m offset by a £0.2m overspend in ICT maintenance.</p> <p>e) Third party payments – no forecast issue as the year to date underspend has been forecast against the savings target.</p> <p>g) Savings not achieved (£1.5m over).</p>
<b>Net Expenditure</b>	<b>100.6</b>	<b>96.4</b>	<b>4.2</b>		<b>188.2</b>	<b>183.2</b>	<b>5.0</b>	

**APPENDIX B(5)** Revenue – DCC Designate

	Year to Date				Full Year Forecast			
	Budget £m	Actual £m	Variance £m	Explanation	Budget £m	Forecast £m	Variance £m	Explanation
Police Officer Costs	357.3	356.2	1.1	<p>Under of £0.7m due to a full month budget for new recruits in June and September, however, these recruits joined towards the end of the month.</p> <p>A net underspend of £0.2m due to the cost of staff on: service breaks, suspensions, reduced maternity pay and reduced sick pay being lower than budgeted.</p> <p>A net additional cost of probationers salaries (£0.1m) due to an under budgeting of probationer increments. The budget was based on the entry point for a probationer and budgeted for an annual increment, however, the increment after 31 weeks of service was not budgeted for.</p>	736.3	735.7	0.6	<p>Underspend of approximately £1.0m due to a full month budget for new recruits in June, September and December, however, these recruits joined towards the end of the resulting in a reduced salary costs.</p> <p>A net underspend of £0.5m is due to the cost of staff on: service breaks, suspensions, reduced maternity pay and reduced sick pay being lower than budgeted.</p> <p>A net additional cost of probationers salaries (£0.8m) due to an under budgeting of probationer increments. The budget was based on the entry point for a probationer and budgeted for an annual increment, however, the increment after 31 weeks of service was not budgeted for.</p>
Police Staff Costs	0.7	0.8	-0.1	A small overspend is forecast due to additional unbudgeted legal staff required as a result of under-resourcing in the service.	1.5	1.6	-0.1	A small overspend is forecast due to additional unbudgeted legal staff required as a result of under-resourcing in the service.
Non-pay Costs	1.1	1.0	0.1	Timing variance, broadly on line with budget by end of the year	2.3	2.3	0.0	No issues to highlight.
Income	0.0	0.0	0.0	No issues to highlight.	-0.2	-0.1	-0.1	No issues to highlight.
<b>Net Expenditure</b>	<b>359.1</b>	<b>358.0</b>	<b>1.1</b>		<b>739.9</b>	<b>739.5</b>	<b>0.4</b>	

**APPENDIX C** Revenue Budget – Forensics

	Year to Date				Full Year Forecast			
	Budget £m	Actual £m	Variance £m	Explanation	Budget £m	Forecast £m	Variance £m	Explanation
Police Officer Costs	0.0	0.0	0.0	n/a	0.0	0.0	0.0	n/a
Police Staff Costs	11.3	11.3	0.0	There are savings in salaries and on-costs (£0.1m) due to vacant posts which is being offset by increased overtime costs (£0.1m).	22.6	22.6	0.0	There are savings in salaries and on-costs (£0.1m) due to vacancy and maternity leave management which is being offset by increased overtime costs (£0.2m). The additional overtime cost is also partly due to an increased workload in Biology and Scene Examination.
Non-pay Costs	2.8	2.8	0.0	There are no significant issues to highlight.	5.3	5.3	0.0	There are no significant issues to highlight.
Income	-0.1	-0.1	0.0	There are no significant issues to highlight.	-0.1	-0.1	0.0	There are no significant issues to highlight.
<b>Net Expenditure</b>	<b>14.0</b>	<b>14.0</b>	<b>0.0</b>		<b>27.8</b>	<b>27.8</b>	<b>0.0</b>	