

Meeting	SPA Board Meeting
Date	31st March 2015
Location	Tollcross International Swimming Centre, 350 Wellshot Road, Glasgow, G32 7QR
Title of Paper	SPA 2015/16 Revenue Budget Proposal
Item Number	8.1
Presented By	Janet Murray
For Approval / Information	FOR APPROVAL
Appendix Attached:	Yes

PURPOSE

The Scottish Police Authority has a statutory obligation, before the beginning of each financial year, to provide details of how it intends to allocate the financial resources it expects to have available.

This paper sets out the funds the Authority has available for 2015/16 and proposes how these should be allocated.

This paper was presented to the Finance and Investment Committee on 16 March 2015, who in line with the Scottish Police Authority / Police Scotland Scheme of Administration, Section 19, recommended approval of the 2015/16 revenue budget proposal.

This paper is presented in line with the Scottish Police Authority / Police Scotland Scheme of Administration, Section 19, and is submitted for approval to the Full Authority.

1 BACKGROUND

- 1.1 The Scottish Police Authority ('the Authority') is required to set an approved budget within the allocation provided by the Scottish Government and prior to the beginning of the financial year provide to the Chief Constable details of how it intends to allocate the financial resources it expects to have available in respect of that financial year.
- 1.2 In addition, the Authority is accountable to Scottish Ministers for the functions which the Authority is directly accountable for, this includes Forensic Services and Independent Custody Visiting.
- 1.3 The Chief Executive Officer of the Authority is also the Accountable Officer and is directly responsible to the Scottish Parliament for the budget and its allocation across SPA Corporate, Forensic Services and Police Scotland.

2 FURTHER DETAIL ON REPORT TOPIC

2.1 Police Reform Process

- 2.2 The creation of a single National Police Service and the Authority remains one of the largest mergers in the history of the public sector and was successfully delivered with no negative effect in terms of public service delivery.
- 2.3 The benefits of police reform were evident from Day One through the design and delivery of key organisational structures such as the Specialist Crime and Operational Support Divisions (SCD and OSD). Both SCD and OSD were created to ensure the effective and efficient delivery of specialist support across Scotland which are principles within the Police and Fire Reform (Scotland) Act 2012. At a strategic level, SCD also provides policy guidance and support on a variety of subject matters such as cyber-crime, mental health, Youth Justice, drugs, business crime, and engagement with minority and harder to reach communities. This can be delivered in isolation or as part of operational support provided by Major Investigations Teams or Counter Terrorism support.
- 2.4 Police Scotland has also developed enhanced national service delivery structures within local policing. The Licensing and Violence Reduction Division (LVRD) provides a national focus in a number of specific areas including domestic abuse, violence reduction and provision of specialist and targeted support to local policing through the deployment of specialist LVRD resources, or as part of national Campaign Against Violence (CAV) deployments.
- 2.5 Through our programme of Transforming the Service, significant steps have been taken to establish new structures within the organisation and the consolidation of process and procedures to redesign the Service. The Police Scotland Corporate Strategy continues to build upon this process under the four enabling strategic delivery plans:
- Our People;
 - Our Technology;
 - Our Organisational Support; and
 - Our Finances.
- 2.6 While undertaking significant structural change, the Service also successfully delivered the policing of high profile public events including a safe and secure Commonwealth Games, the Ryder Cup, and the Scottish Independence Referendum.
- 2.7 In addition to the delivery of change the maintenance of performance has been an important feature of the single Service and recorded crime has fallen by 36% since 2006/07 and is now at its lowest level since 1974.

2.8 Police Reform Savings

2.9 The Outline Business Case (OBC) for Police Reform indicated that cumulative savings of £108.7m would be achieved by the end of the financial year 2015/16 and that savings of £1.1 billion would be achieved by 2026. The Authority budget has been reduced to reflect these savings.

2.10 Cost reductions to the Authority budget have been achieved since the financial year 2012/13. The cost reductions secured to date are:

- 2012/13 - recurring cost reduction of £8.700m were secured from the legacy Forces' and Agency budgets;
- 2013/14 - the Authority secured further recurring cost reductions of £63.900m;
- 2014/15 - the Authority has secured further recurring cost reduction of £54.685m and non-recurring cost reductions of £13.535m. The total cost reduction is £68.220m.

2.11 However, against a flat cash budget settlement the impact of inflationary elements such as pay awards result in additional cost pressures which require to be met from the overall budget allocation. As such the Authority is required to achieve significantly higher savings than those required by the OBC in order to achieve a balanced budget.

2.12 For example in 2015/16 the OBC reform saving required is £20.5m with further funding adjustments of £5.3m, however, after considering cost pressures and non-recurring savings the total savings target for 2015/16 is £57.5m. This shows that in 2015/16 the Authority is required to achieve almost three times the OBC reform savings in order to achieve a balanced budget.

2.13 Recurring cost reductions are removed from the base budget and represent a saving to the public purse. Table one shows that cumulatively over the 15 years to 2025-26, the Authority is projected to save £1.622 billion in comparison to the £1.1 billion Police Reform target.

Year	2012/13 Cost Reduction £m	2013/14 Cost Reduction £m	2014/15 Cost Reduction £m	Total Cost Reduction £m	Cumulative Cost Reduction £m
15 2025-26	8.7	63.9	54.7	127.3	1,622.4
14 2024-25	8.7	63.9	54.7	127.3	1,495.1
13 2023-24	8.7	63.9	54.7	127.3	1,367.8
12 2022-23	8.7	63.9	54.7	127.3	1,240.5
11 2021-22	8.7	63.9	54.7	127.3	1,113.2
10 2020-21	8.7	63.9	54.7	127.3	985.9
9 2019-20	8.7	63.9	54.7	127.3	858.6
8 2018-19	8.7	63.9	54.7	127.3	731.3
7 2017-18	8.7	63.9	54.7	127.3	604.0
6 2016-17	8.7	63.9	54.7	127.3	476.7
5 2015-16	8.7	63.9	54.7	127.3	349.4
4 2014-15	8.7	63.9	68.2	140.8	222.1
3 2013-14	8.7	63.9	0.0	72.6	81.3
2 2012-13	8.7	0.0	0.0	8.7	8.7
1 2011-12	0.0	0.0	0.0	0.0	0.0
Total	121.8	830.7	669.9	1,622.4	-

Table 1: Cumulative effect of savings secured: 2012 – 2015

2.14 Since April 2013 considerable progress has been made to reform the Service and to secure cost reductions through a wide range of proposals.

2.15 In order that the Authority can continue to manage service delivery within expected resource availability over financial year and moving into the next Comprehensive Spending Review period, more fundamental proposals to reduce further the cost base are required to be brought forward. The Authority along with Police Scotland is committed to addressing this challenge.

2.16 Futures Programme

2.17 The objectives of reform continue to drive the Futures Programme, however transformation rather than change is required if we are to maintain service within our reducing budget and our services and operating model must be designed to meet a changing society and changes in crime trends. It is likely that any future operating model will look considerably different to today's model.

2.18 The overarching Futures Programme will consider the following areas:

a) New Workforce Model Programme

The workforce model will consist of work streams aimed at modernising the workforce, taking into consideration terms and conditions of employment, recruitment and approaches to training. The development of a strategic workforce plan will be critical to this, as will enabling ICT provision such as resource management and payroll systems.

b) Service Efficiency Programme

This programme will encompass: the broadening lean programme; reviewing process and efficiency; and waste as well as seeking to identify collaborative opportunities with partners. The third strand (Mobility) will review sourcing models for non-core services.

c) Mobility Programme

The third programme of activity is mobility which will: complete the roll out of i6; develop and deliver the future mobility programme and focus on flexibility elements which support a modern workforce including the alignment of the estate.

2.19 Funding Allocation

2.20 The financial year 2015/16 represents the final year of the current Scottish Government spending review. As such a draft funding allocation has been provided for 2015/16 only and therefore a one year only budget proposal is being presented. The Authority's funding for future years will be subject to the next comprehensive spending review which the Authority will be asked to comment on in due course.

2.21 The Authority was notified of the draft funding allocation for 2015-16 on 9 October 2014. The draft funding allocation for 2015-16 is shown in table two.

2015-16 Scottish Government Funding	£000
Revenue	985,800
Non Cash Revenue	50,000
Total Revenue	1,035,800
Capital	28,100
Total	1,063,900
Reform (up to)	68,700
Total Funding (up to)	1,132,600

Table 2: Scottish Government Funding (2015-16)

- 2.22 Revenue funding represents budget for current expenditure including wages and salaries and operating costs. There is an overall funding reduction of £25.8m since the last financial year, £20.5m of which relates to the previously announced funding reductions associated directly with Police Reform.
- 2.23 These figures exclude the impact of inflation and any other cost pressures associated with normal business.
- 2.24 There are also a number of other constraints on the Authority which will impact on the budget process principally the requirement to maintain Police officer numbers at 17,234.
- 2.25 Non-cash revenue funding represents ring-fenced funding for non-cash accounting charges and includes: depreciation, impairments and provisions. If actual depreciation, etc is greater than the budget set then the shortfall has to be met from the revenue cash funding. However, if the actual depreciation is lower than the budget set, any surplus cannot be transferred to another budget line.
- 2.26 Capital funding represents budget for new investment. The Authority is also permitted, subject to Scottish Government approval, to use disposal proceeds to reinvest in further capital expenditure currently until 31 March 2016.
- 2.27 A Police Reform Budget of up to £70m is available to meet the costs associated with the Police Reform programme such as VR/VER and investment in ICT. The Reform budget is also used to absorb the non-recoverable input VAT. The indicative allocation to the Authority is £68.7m. The use of this budget requires the approval of the Scottish Government prior to the release of funds and can be used to supplement either revenue or capital budgets. The Scottish Government will utilise the remaining £1.3m of the Reform Budget for their costs related to Police Reform.
- 2.28 In addition to the above funding the Authority also has specific funding for expenditure outside DEL (ODEL). This is specific funding for loan charges on borrowing by Local Authorities pre 2004-05. The value of funding has not been confirmed.

2.29 Budgeting Process

- 2.30 The funding available to the Authority is divided into three core elements: Revenue; Capital and Reform budgets.
- 2.31 The Authority is responsible for ensuring that service delivery is managed within overall budget availability and to manage the impact between competing revenue and capital budget pressures. In addition, with the Scottish Government, the Authority should agree the most effective application of available Reform resources.

2.32 Revenue Budget 2015/16

- 2.33 The 2015/16 Financial Plan has been developed in the context of reducing public sector budgets and the need for all public sector organisations across Scotland to look for efficiencies and new ways of undertaking their business. Public bodies such as the Authority need to ensure that they can continue to provide quality public services, secure Best Value and at the same time deliver upon the challenge of balancing the budget each year. The plan supports the Police Scotland Corporate Strategy over the period 2014 - 2016 and sets a foundation for future transformation of the service.
- 2.34 The Authority is required to consider in the short-term the 2015/16 budget allocation, the current assessment of which is detailed in Appendices One to Four.
- 2.35 In summary, a total cost reduction of £57.5m is required in 2015/16 against which opportunities to realise £46.5m of this requirement have been identified but it is significantly challenging in terms of delivery. These opportunities are outlined in Appendix Two and associated deliverability is outlined in terms of a RAG status. This leaves a gap of £10.994m.
- 2.36 In proposing the allocation of the total available resources of £985.8m per Appendix Three, the principal budget holders are required to deliver further cost reductions to realise the gap of £10.994m while ensuring effective service delivery within their overall allocation.
- 2.37 The delivery and timing of such cost reductions represents a considerable challenge to the Authority and Police Scotland in terms of the options available for service delivery. Any such proposals will therefore require significant effort, political willingness and support and appetite for change.
- 2.38 The Authority will continue to exercise appropriate governance over budget management through established accountability mechanisms.

2.39 Capital Budget

- 2.40 The Scottish Government funding for 2015/16 includes capital funding of £28.1m. The Authority potentially has at its disposal further anticipated capital receipts of £7.7m in 2015/16.
- 2.41 As part of the Capital Budget it is proposed that £5m will be drawn from the Reform budget to support specific investment in ICT.
- 2.42 A separate report has been prepared in respect of the Capital Budget proposals and is subject to separate consideration and approval.

2.43 Reform Budget

- 2.44 The Scottish Government holds a Police Reform budget which is intended to meet Police Reform related expenditure such as VR/VER costs and to fund associated investment particularly in relation to major ICT projects.

- 2.45 A further draw on the Reform budget will be required in order to meet the Authority's VAT liability.
- 2.46 The proposed application of this funding for 2015/16 is shown at Appendix Four. The proposals have been discussed with the Scottish Government sponsor department and formal application will be submitted at the beginning of the financial year. Further proposals from the Authority, Forensic Services and Police Scotland will be agreed internally and submitted to the Scottish Government for approval.
- 2.47 Members will note the proposed drawn down in 2015/16 which leaves further potential investment funding available to support ongoing process of reform.

3 FINANCIAL IMPLICATIONS

- 3.1 While significant cost reductions opportunities have already been identified for 2015/16 there remains a further cost reduction challenge which the principal budget holders will require to deliver while ensuring effective service delivery within their specific budget allocation.

4 PERSONNEL IMPLICATIONS

- 4.1 Full consultation through recognised consultation and engagement processes will be undertaken in connection with any personnel issues associated with the 2015/16 budget.

5 LEGAL IMPLICATIONS

- 5.1 Full consultation through recognised consultation and engagement processes will be undertaken in connection with any legal issues associated with the 2015/16 budget.

6 REPUTATIONAL IMPLICATIONS

- 6.1 Full consultation through recognised consultation and engagement processes will be undertaken in connection with any reputational issues associated with the 2015/16 budget.

7 SOCIAL IMPLICATIONS

- 7.1 Full consultation through recognised consultation and engagement processes will be undertaken in connection with any social issues associated with the 2015/16 budget.

8 EQUALITIES IMPLICATIONS

- 8.1 Full consultation through recognised consultation and engagement processes will be undertaken in connection with any equalities issues associated with the 2015/16 budget.

RECOMMENDATIONS

Members are requested to:

- (a) note the total budget allocation of £1,063.9m provided by the Scottish Government for 2015/16 of which £985.8m is revenue funding (resource DEL per paragraph 2.21);
- (b) note the capital funding (capital DEL) of £28.1m provided by the Scottish Government in 2015/16 (per paragraph 2.21);
- (c) note the availability of a Police Reform Budget held by Scottish Government (Appendix Four);
- (d) note the projected cost reduction requirement for 2015/16 of £57.5m of which opportunities to realise £46.5m has been identified (para 2.35). The balance of cost reductions (£10.994m para 2.36) will be allocated to principal budget holders for action and delivery; and
- (e) recommend the approval of the revenue budget allocation of £985.8m: to the Chief Constable (£957.811m), Chief Executive (£4.196m) and Director of Forensic Services (£23.793m) (Appendix Three). In making these allocations, the Authority is directing that the service budgets must be strictly constrained within these limits, and that plans and progress towards the achievement of this requirement are presented to the Finance and Investment Committee, the purpose of which will be to oversee the delivery of the 2015/16 budget and the required cost reductions.

Appendix 1 – Budget Needs Assessment and Cost Reductions

Budget Gap	£000
Budget Gap 2014/15	68,220
Less Recurring Cost Reductions Identified	54,685
Non Recurring Cost Reductions 2014/15	13,535
Resource Funding Available 2015/16	985,800
Funding Reductions 2015/16	25,800
New Cost Pressures 2015/16	18,169
Non Recurring Pressures 2014/15	13,535
Budget Need	1,043,304
Resource Funding Available	985,800
Budget Gap 2015/16	57,504

Cost Reductions	£000
People	26,114
Property	8,878
Procurement	11,518
Total Identified Cost Reductions	46,510
SPA Corporate	44
Forensic Services	242
Police Scotland	10,708
Total Unidentified Cost Reduction	10,994
Total Cost Reductions	57,504

Appendix 2

Appendix 2 – 2015/16 Revenue Cost Reductions

	RAG Status	SPA Corporate £000	Forensics £000	Police Scotland £000	Total £000
Full year organisation of departments	Green			4,292	4,292
Full year organisation of departments	Red			1,600	1,600
Ceasing cadets scheme	Green			50	50
Review of Police Officer supervisory ranks	Green			384	384
Reduced rent allowance requirement	Green			1,000	1,000
Transitional reform funding (non-recurring)	Green			11,738	11,738
Management of Ill Health Retirements	Amber			2,550	2,550
Further organisational restructure	Red			4,500	4,500
Total People		-	-	26,114	26,114
Reduction in properties	Green			4,380	4,380
Additional radio mast income	Green			200	200
Transitional reform funding (non-recurring)	Green			2,548	2,548
Further estates rationalisation	Amber			1,750	1,750
Total Property		-	-	8,878	8,878
Contract rationalisation	Green			2,862	2,862
Non-application of inflation	Green			1,293	1,293
3C ICT	Green			905	905
Corporate services efficiencies	Green			208	208
Utilities Consumption / Inflation / Fuel	Green			1,000	1,000
SPA Savings	Green	500			500
Budget Efficiencies - Devolved Non Staff Budgets	Amber			3,500	3,500
Further contract rationalisation cost reductions	Amber			1,250	1,250
Total Procurement		500	-	11,018	11,518
Total Identified Cost Reductions		500	-	46,010	46,510
Cost Reductions Allocated to Managers		44	242	10,708	10,994
Total Cost Reductions		544	242	56,718	57,504

Appendix 3– 2015/16 Revenue Budget Allocation

	SPA Corporate £000	Forensics £000	Police Scotland £000	Total £000
Employee Costs	2,777	20,117	922,422	945,316
Property Costs	1,199	51	54,345	55,595
Transport Costs	72	333	20,228	20,633
Supplies & Services	196	3,613	49,804	53,613
Administration Costs	364	197	5,305	5,866
Payments to Other Bodies	1,002	7	12,831	13,840
Capital Financing & Reserves	220	5	8,008	8,233
Total Revenue Expenditure	5,830	24,323	1,072,943	1,103,096
Income	-1,090	-288	-58,414	-59,792
Net Expenditure	4,740	24,035	1,014,529	1,043,304
Total Cost Reduction	-544	-242	-56,718	-57,504
Recommended Budget Allocation	4,196	23,793	957,811	985,800

Notes

Budget inflation assumptions:

- Pay inflation: 1% effective from 1 September 2015
- General non-pay inflation: 2%
- PFI contract: 2%
- Income: 2%

Appendix 4 – 2015/16 Police Reform Budget

	2013/14 £000	2014/15 £000	2015/16 £000
Available Funding (up to)	59,675	67,500	68,700
Expenditure			
VAT	24,000	25,500	25,500
VR / VER	27,983	4,224	8,748
Investment (Principally funding for ICT development programme)	1,442	16,694	10,518
Transition (Costs incurred to reform the Police service)	6,250	21,082	20,041
Total Reform Expenditure	59,675	67,500	64,807
Further Investment Resource	0	0	3,893