

Meeting	Public SPA Board Meeting
Date	22 June 2017
Location	Carlton Hotel, Edinburgh
Title of Paper	Draft Three Year Financial Plan Progress
Item Number	8.3
Presented By	James Gray
<b>Recommendation to Members</b>	For Noting
Appendix Attached:	Yes

**PURPOSE**

The purpose of this report is to provide Members with the draft Three Year Outline Financial Strategy.

## **1. BACKGROUND**

- 1.1 This report presents the draft of the high level Three Year Financial Strategy. It aligns to the Policing 2026 strategy and its underpinning draft 3-year plan.
- 1.2 At present the Strategy remains in the early stages of development. Whilst there is a robust financial model underpinning the report, what remains outstanding is the detail of the key projects that will be taken forward under the 2026 Strategy, and this is the key to articulating how the £47m operating deficit will be eradicated by the end of 2019-20. As such, given that this is a work in progress, Members are only asked to note the report at this time.
- 1.3 It is anticipated that significant work will be undertaken during the course of the Summer to scope out the 17 key projects that will form the 3 year implementation plan, which will allow for a more informed 3 year financial strategy to be presented back to the SPA Board for approval in September 2017. Having that stronger 3 year financial projection, will then become the basis for developing the 10 year financial strategy which will also be presented to the SPA Board in September 2017.
- 1.2 This draft Three Year Financial Strategy was presented to Finance Committee on 1 June 2017 for review and consideration.

## **2. FURTHER DETAIL ON REPORT TOPIC**

- 2.1 Appendix 1 sets out the high level Three Year Financial Strategy.
- 2.2 Further detail on the ten Year Strategy for Policing in Scotland, and the 3 year implementation plan is the subject of a separate paper and presentation to this Board meeting.

## **3. FINANCIAL IMPLICATIONS**

- 3.1 The high level draft Three Year Financial Strategy 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.

**RECOMMENDATION**

Members are requested to:

*Note the Draft Three Year Outline Financial Strategy.*

SCOTTISH POLICE  
AUTHORITY



# Scottish Police Authority Draft Three Year Outline Financial Strategy

June 2017

## Contents

1	Executive Summary .....	1
2	Introduction .....	4
3	The 2017/18 base .....	4
4	The recurring revenue gap .....	7
5	Supporting the Delivery of the Policing 2026 Strategy .....	8
6	Summary of Three Year Financial Forecast .....	12
7	Capital and Reform Budgets.....	14
8	Summary and Next Steps.....	16
	Appendix A – Assumptions .....	17
	Appendix B – Implementing Our Strategy – Draft 3-year plan for Consultation.....	18
	Appendix C – Financial Analysis.....	19

DRAFT

## 1 Executive Summary

This report sets out the draft high level Three Year Scottish Police Authority (SPA) Financial Plan from 2017/18, aligned to the Policing 2026 strategy and its underpinning draft 3-year plan for Consultation.

This is a live document which will be refreshed as the Policing 2026 strategy is formally approved and the implementation plan progresses, programmes are developed and fully defined. As such it does not provide a holistic and definitive position for the three year period but is based on best estimates and high level assumptions in line with current thinking. A revised, more detailed 3-Year Financial Plan will be presented to the SPA Board in September 2017.

The underlying revenue budget deficit for 2017-18 started at approximately £63m. The approved operating budget for 2017/18, inclusive of non-recurring items, is net expenditure of £1,091.6m. There are net non-recurring savings of £0.4m within this budget and the one-off nature of these means that they will represent a cost pressure in future years. Excluding these non-recurring items, the underlying revenue deficit after identified recurring savings in 2017/18 is £47.6m. The table below presents the forecast base position over the three year period under review, prior to the identified savings in 2018/19 and 2019/20 being applied.

**Table 1 – Revenue Deficit Before Recurring Savings in 2018/19 & 2019/20**

	2017/18 £m	2018/19 £m	2019/20 £m
<i>Expenditure</i>			
Police officer costs	767.9	776.0	783.9
Police staff costs	195.0	200.4	207.8
Non pay costs	172.4	177.1	180.5
<b>Gross Expenditure</b>	<b>1135.3</b>	<b>1153.6</b>	<b>1172.2</b>
Income	(43.7)	(41.5)	(39.5)
<b>Net Expenditure</b>	<b>1091.6</b>	<b>1112.0</b>	<b>1132.7</b>
<i>Funding</i>			
Core revenue grant	(1022.4)	(1042.8)	(1065.7)
Reform VAT Allocation	(22.0)	(22.6)	(23.0)
<b>Total Funding</b>	<b>(1044.4)</b>	<b>(1065.4)</b>	<b>(1088.7)</b>
<b>Budget (Surplus)/Deficit*</b>	<b>47.2</b>	<b>46.6</b>	<b>44.0</b>

\* Figure includes identified £16m of 2017/18 recurring savings documented in section

At this stage, the Policing 2026 portfolio consists of 17 priority programmes and projects. These are identified within the implementation plan and are at different stages of development. The majority are still in the scoping or the design and planning stage and as such robust financial analysis of projected costs and associated benefits has yet to be undertaken. It is therefore not possible to directly align the impact of these projects into this Draft Three Year Financial Plan at this stage.

The identified changes in the Officer and Staffing establishment from delivering the benefits aligned to Policing 2026 are estimated to be as follows:

- In the three year period to the end of 2019/20 the portfolio of projects will provide the equivalent of several hundred additional officers' time to be redeployed to more

productive operational policing activities even after allowing for cashable savings to be made from officer budgets.

- There will be a net reduction of over 100 Police Staff by the end of 2019-20, achieved sustainably by ensuring that there is appropriate investment in corporate service systems so that the efficiency gains required will be achieved to support this reduction in head-count.

The financial impact of the benefits documented at table above will deliver the savings shown in the table below (£30.2m by 2018/19 and £46.3m by 2019/20). This table also shows that in an overall context savings, the deficit reduces by £30.3m in 2018/19, and by £48.3m in 2019/20. The recurring deficit will be eliminated from 2020/21.

**Table 3 - Three Year Financial Forecast including Recurring Savings in 2018/19 & 2019/20**

	2017/18 £m	2018/19 £m	2019/20 £m
<b>Base Budget (Surplus)/Deficit before savings (A)</b>	<b>63.2</b>	<b>47.2</b>	<b>32.9</b>
<i>Savings</i>			
Police officer costs	-	(4.2)	(12.6)
Police staff costs	(3.0)	(6.0)	2.5
Non pay costs	(13.0)	(4.0)	(6.0)
<b>In Year Reduction in Deficit (B)</b>	<b>(16.0)</b>	<b>(14.2)</b>	<b>(16.1)</b>
Net Impact of Recurring Assumptions (Appendix A) (C)		(0.1)	(1.9)
<b>Total Reduction (B) + (C) = (D)</b>	<b>(16.0)</b>	<b>(14.3)</b>	<b>(18.0)</b>
<b>Forecast Budget (Surplus) / Deficit (A)+(D)</b>	<b>47.2</b>	<b>32.9</b>	<b>14.9</b>

As projects within the portfolio are still in the process of identifying the detailed levels of cost and associated benefits, along with the timeframes in which these will be realised, the alignment of these projects across the portfolio will be need to be refined by the business over the next three months. This greater level of detail will enable the finalisation and presentation to the SPA Board of the Three Year Financial Plan in September 2017.

### **The benefits that the 3 Year Financial Strategy will deliver**

The 3 Year Financial Strategy will support the delivery of the 3 Year Implementation Plan, which is the first phase of the 2026 Policing Strategy.

Whilst further work will be undertaken over the course of the summer, by the time the 3 Year Financial Strategy is presented to the SPA Board for approval in September it will deliver the following benefits:

- A financial strategy that is business led; Investment will be clearly targeted on the key projects that will deliver the first 3 years of the Policing 2026 Strategy in areas such as ICT, mobility and Corporate Services transformation;
- Investment in new policing technologies and systems will result in productivity gains that will be equivalent to having several hundred additional police officers on the front line by 2019-20;

- Investment in Corporate Services technology and systems will result in a higher quality support service to operational policing, and will require fewer people to do so;
- A significant focus will be on reducing non-pay costs through smarter procurement, increased control of expenditure, and reviewing service specifications, so that the amount of budget available to the Chief Constable for employees is maximised;
- The underlying budget deficit of over £60m will be eradicated by the end of 2019-20, and this will have been achieved in a strategic manner, resulting in an improved service at a lower cost.

This 3 Year Financial Strategy should be read in conjunction with the 3 Year Implementation Plan which will also be published in draft on 22 June 2017.

## **2 Introduction**

- 2.1 The SPA Board considered an initial outline Long Term Financial Strategy in March 2016. This was a draft document to present the financial context for the next ten years and provided some high level options as to how the organisation could secure financial sustainability into the future. It was agreed that this would be regularly refreshed to reflect ongoing development of the organisation strategy and financial commitments.
- 2.2 A significant amount of work has since been undertaken with regard to the development of the ten year organisation strategy. The 'Policing 2026' strategy is a collaboration between Police Scotland and SPA that will set out the long term vision and organisational blueprint for the next decade. Alongside the development of the strategy, the long term financial strategy is being developed to underpin delivery of the strategic aims and objectives whilst achieving financial sustainability.
- 2.3 The Audit Scotland Section 22 Report for 2015/16 included an accepted recommendation that a Long-term Financial Plan should be developed that supports the delivery of the Policing 2026 strategy. This will be developed and presented to the SPA Board in September following the development of sufficient plans for implementation of the three year strategy.
- 2.4 This report sets out the draft high level Three Year Scottish Police Authority (SPA) Financial Plan from 2017/18, aligned to the Policing 2026 strategy and its underpinning draft 3-year plan for Consultation.
- 2.5 This is a live document which will be refreshed as the Policing 2026 strategy is formally approved and the implementation plan progresses, programmes are developed and fully defined. As such it does not provide a holistic and definitive position for the three year period, it is based on best estimates and high level assumptions in line with current thinking.
- 2.6 The current expectation is that the business will have substantively completed the detailed scoping and planning activities for all priority Policing 2026 projects by August 2017, allowing Finance to ensure the detailed Three Year Financial Plan is completed and presented to the SPA Board in September 2017.
- 2.7 As such, this draft high level Three Year Financial Plan has been completed to accompany the draft 3-year plan for Consultation in June 2017.

## **3 The 2017/18 base**

- 3.1 The 2017/18 financial year is the first year of a three year plan to bring the SPA's budget into balance on a recurring basis.
- 3.2 The revenue budgeting approach for 2017/18 continued to be further developed and refined. For the first time, a zero based approach was used for the budgeting of Officer and Police Staff costs, with a move away from the previously used average salary calculations for determining Police Officer budgets. Across the whole employee base, the approach was to identify the actual pay costs for each individual employee and build the budget requirement on that more granular basis.
- 3.3 The Three Year Financial Plan adopts the 2017/18 budget as the baseline. Approximately 97% of the annual spending is undertaken by Police Scotland, with the remainder incurred by the Forensics Service (2.6%) and the SPA Corporate body (0.4%).
- 3.4 The underlying revenue budget deficit for 2017/18 started at approximately £63m. The approved operating budget for 2017/18, inclusive of non-recurring items, is net expenditure of £1,091.6m. There are net non-recurring savings of £0.4m within this budget and the one-off nature of these means that they will represent a cost pressure in future years. Excluding these non-recurring items, the underlying revenue gap after identified recurring savings in 2017/18 is £47.6m.
- 3.5 The service receives Scottish Government funding primarily from three main sources, revenue, capital and reform (the latter also known as 'Police Change & Transformation' funding). In terms of the allocation and monitoring of costs, there is greater distinction between each of these funding streams in 2017/18. Thus, in order to ensure greater transparency in reporting and budget monitoring, this paper presents each distinct funding stream separately.
- 3.6 The 2017/18 revenue budget includes a number of assumptions which are documented below:
- budgeting for 17,234 Police Officers in 2017/18;
  - a pay award for Police Officers and Staff from 1 September each year in line with recent public sector pay;
  - payment of pay progression (increments) in line with recent trends
  - maternity, paternity and sick pay costs consistent with the previous year;
  - savings from the anticipated release of Police Staff posts in 2017/18 (saving an estimated £3m in year). This is subject to further business case development and union consultation;
  - a general inflationary uplift of 2% in line with the medium and long term CPI forecast;
  - inclusion of the cost of irrecoverable VAT (funded from the Reform budget); and
  - the continuation of income received in 2016/17 by way of grant funding from local authorities and other partner organisations uplifted in line with the general inflation assumption.
- 3.7 The approved capital budget for 2017/18 is £42.4m. There is £30m of funding available from core Scottish Government grant and projected capital receipts. The balance of expenditure will be funded from the Police Reform / Change fund to support irrecoverable VAT and transformational investment (on presentation of business cases to Scottish Government

demonstrating the business change that will be delivered as a result of the capital investment requested).

- 3.8 The Police Reform / Change fund is available to fund the cost of VAT and transformational change in 2017/18. Total funding of up to £59.5m is available to the SPA and there are proposals to fully utilise this funding. However, a number of these are still to be fully developed.
- 3.9 The spending of both capital and reform funding will be closely scrutinised and, as such, any proposed spending must be transformational in nature and supported by a robust business case which clearly sets out the business need, costs and benefits. Business case submissions will be to Scottish Government for review and funding will be drawn down once approval has been granted. Further detail on both of these budgets is presented at section 7 of this report.
- 3.10 There are a number of wider economic considerations which could affect the underpinning financial environment in which Police Scotland operates. Continued uncertainty exists over the potential impact from the United Kingdom's exit from the European Union and any potential changes in Government priorities as a result of the 2017 General Election.
- 3.11 The Scottish Government has also put forward a proposal for an Independence Referendum. In the absence of any clarity on timescales and impact from these matters, no financial assumptions have been factored in to this Draft Three Year Outline Financial Strategy.
- 3.12 It has been assumed that the Scottish Government will honour the commitment made in its 2016 Scottish Election manifesto that funding would be protected in real terms over the lifetime of the current parliament, which equates to an increase of approximately £100m over 5 years.

#### 4 The recurring revenue gap

- 4.1 As documented at paragraph 3.4, the opening position for the 2017/18 budget was a deficit of approximately £63m. In year savings have been identified such that the in-year deficit is £47.2m (£47.6m recurring after the removal of non-recurring savings).
- 4.2 Table 4.2 below presents the projected position allowing for the assumptions documented at **Appendix A** and no inclusion of the benefits and savings identified in the delivery of Policing 2026.

	2017/18 £m	2018/19 £m	2019/20 £m
<i>Expenditure</i>			
Police officer costs	767.9	776.0	783.9
Police staff costs	195.0	200.4	207.8
Non pay costs	172.4	177.1	180.5
<b>Gross Expenditure</b>	<b>1135.3</b>	<b>1153.6</b>	<b>1172.2</b>
Income	(43.7)	(41.5)	(39.5)
<b>Net Expenditure</b>	<b>1091.6</b>	<b>1112.0</b>	<b>1132.7</b>
<i>Funding</i>			
Core revenue grant	(1022.4)	(1042.8)	(1065.7)
Reform VAT Allocation	(22.0)	(22.6)	(23.0)
<b>Total Funding</b>	<b>(1044.4)</b>	<b>(1065.4)</b>	<b>(1088.7)</b>
<b>Budget (Surplus)/Deficit*</b>	<b>47.2</b>	<b>46.6</b>	<b>44.0</b>

\*Figure includes identified £16m of 2017/18 recurring savings documented in section 5  
**Table 4.2 – Recurring Revenue Deficit**

- 4.3 This table highlights that whilst there is projected to be a minor narrowing of the budget deficit each year, a result of the assumptions documented in Appendix A, there would remain a recurring revenue deficit of £44.0m at the end of year three.
- 4.4 All measures possible will be taken throughout the year to minimise this deficit through seeking further non-recurring savings and additional income opportunities. The Scottish Government is aware of this budgetary position and supportive of efforts to minimise costs pressures and manage the gap down as far as possible whilst assisting in mitigating wholly unavoidable costs through management of budgets across Scottish Government.

## **5 Supporting the Delivery of the Policing 2026 Strategy**

- 5.1 Policing 2026 is a collaborative and strategic programme of work established in 2016 by the Scottish Police Authority (SPA) and Police Scotland to establish the long term strategy for policing in Scotland, to meet emerging and projected need and demand over the next decade.
- 5.2 Following extensive consultation, the strategy is now due finalised and approved on 22 June 2017. It identifies ways to develop the range of policing services and increase the operational capacity of policing to focus on prevention and protection in the public, private and virtual space.
- 5.3 It sets out how Police Scotland can build a flexible and adaptable workforce to address new and changing demands and to improve outcomes for people, communities and places.
- 5.4 Police Scotland's focus is now on implementation and it has published a draft of the 3-year implementation plan for Consultation.
- 5.5 The 2017/18 budget was aligned with the initial thinking of the Policing 2026 Strategy, with a focus on delivering corporate services transformation and cost reduction, which maintains 17,234 Police Officers in 2017-18, and has a strong emphasis on investment through capital and reform spending, which will support the delivery of the Policing 2026 strategy in later years. Whilst the 2017/18 budget set out the spending plans for the SPA and Police Scotland for the next financial year, it was not developed looking at the next financial year in isolation, rather it has been built in full 360° awareness of our current circumstances; learning from the experiences of the first four years, ensuring alignment to the future direction of travel, as well as addressing the immediate challenges in 2017/18.
- 5.6 At this stage, the Policing 2026 portfolio consists of 17 priority programmes and projects. These are identified within the implementation plan and are at different stages of development. The majority are still in the scoping or the design and planning stage and as such robust financial analysis of projected costs and associated benefits has yet to be undertaken. It is therefore not possible to directly align the impact of these projects into this Draft Three Year Financial Plan at this stage.
- 5.7 In May 2017, at the time of developing this report, only three of the identified projects are at the implementation stage where a full business case has been approved along with the associated spend.
- 5.8 The key benefits which projects are to deliver as part of Policing 2026 are outlined below:



Increase wellbeing and satisfaction levels among our people



A net increase in officer productivity by the equivalent of 500 full-time officers. The gross increase in productivity should be the equivalent of 900 full time officers, allowing non-replacement of 400 officers.



Free up 300 officers from corporate support duties to deploy into operational policing roles



Bring in new skills to operational policing to address changing demands with 170 more specialist staff



Create smaller Corporate services and business support units



Reduce the deficit to £47m during 2017/18 and remove it by the start of 2020/21.



Service Improvement

5.9 These high level benefits allows projects to ensure that in developing their business cases and preparing their financial analysis they consider the requirement to align to the need to deliver the six strategic objectives below:

- Improving public contact, engagement and service;
- Strengthen effective partnerships;
- Empower, enable and develop our people;
- Invest in our use of information and technology;
- Enhance cyber and forensic capability; and
- Transform corporate services.

5.10 The Policing 2026 team have identified a number of projects as priorities in 2017/18. These primarily include those projects which will delivery early benefits across a range of areas, including delivery of cashable savings, as well as those which are key enablers to projects due to commence from 2018/19 onward.

5.11 Figure 5.11 below presents the 17 projects against the benefit they have primarily been aligned to within the draft 3-year plan for Consultation along with whether they have been identified as a 2017/18 and their current status.

	Increase wellbeing and satisfaction levels among our people	Enhance officer productivity by the equivalent of 500 full-time officers	Free up 300 officers from corporate support duties to deploy into operational policing roles	Bring in new skills to operational policing to address changing demands with 170 more specialist staff	Create smaller Corporate services and business support units	Reduce the deficit to £47m during 2017/18 and remove it by 2020/21.	Service Improvement
2017/18 Priorities	Single National Network	THRIVE	Corporate Support Services Improvement	National Cybercrime Unit	National Payroll	Telematics	Building our Transformation Capability
	People and Leadership plan					Commercial Excellence Programme	
2018/19 Onward	Staff Pay and Reward Modernisation	Core Operational Policing Systems	Criminal Justice and Custody Remodel	Cyber Capability	New Corporate Service Model		Local Approaches to Policing
		Mobility					ANPR
<b>Key:</b>	Scoping Potential Project Assessment approved and further planning activities being undertaken. Design and Planning In the process of developing an Initial or Full Business Case. Implementation Full Business Case approved						

Figure 5.11 – Alignment of the Policing 2026 portfolio to key benefits

5.12 At this stage, only those 2017/18 priority projects at the Design and Planning Stage or Implementation have sufficient level of detail to be considered within the draft Three Year Financial Plan. THRIVE, which is currently reviewing its operational model and subsequent cost envelope is an exception, has not been captured as this work is not yet finalised.

5.13 It should be noted that the 'Building our Transformation Capacity' programme is currently fully funded through the Reform budget. A number of the roles approved within the Change Function are however permanent and therefore the costs associated (assumed to be £2.272m) with these posts will move into the recurring Revenue budget from 2019/20 onward.

5.14 Further detail on each of the projects detailed above is provided within *Implementing Our Strategy – Draft 3-year plan for Consultation*. A link to this document is provided Appendix B.

5.15 The identified changes in the Officer and Staffing establishment from delivering the benefits aligned to Policing 2026 are estimated to be as follows:

- In the three year period to the end of 2019/20 the portfolio of projects will provide the equivalent of several hundred additional officers’ time to be redeployed to more productive operational policing activities even after allowing for cashable savings to be made from officer budgets.
- There will be a net reduction of over 100 Police Staff by the end of 2019-20, achieved sustainably by ensuring that there is appropriate investment in corporate service systems so that the efficiency gains required will be achieved to support this reduction in head-count.

5.16 As documented above, projects within the portfolio are still in the process of identifying their committed levels of savings and the timeframes in which these will be realised. As such, the alignment of these targets across the portfolio will be refined over the next three months and further detail provided in the finalised version of the Three Year Financial Plan in September 2017.

5.17 The table below presents the recurring non-pay savings identified in the 2017/18 budget and along with the cumulative requirement in future years.

	2017/18	2018/19	2019/20
	£m	£m	£m
<i>Non-Pay Savings</i>			
Estates Strategy	(1.3)	(1.3)	(1.3)
Utilities	(1.2)	(1.2)	(1.2)
Telecoms	(1.0)	(1.0)	(1.0)
Clothing & uniform	(0.8)	(0.8)	(0.8)
Other Savings	(8.7)	(12.7)	(18.7)
<b>Total Non-Pay Savings</b>	<b>(13.0)</b>	<b>(17.0)</b>	<b>(23.0)</b>

Table 5.18 – Total Committed Non-Pay Savings

5.18 An efficiency target built into “Other Savings” in 2017/18 represents a 2.25% target applied to Non-Pay budgets for each Deputy Chief Constable and the Deputy Chief Officer and this will deliver a recurring saving of £3.8m. There is a further recurring savings target of £1.2m aligned to the Deputy Chief Officer for additional efficiencies within Corporate Services.

5.19 The “Other Savings” of £12.7m 2018/19 and a further £6m in 2019/20 will be supported in part by the projects identified below:

- Commercial Excellence – a reduction in spend through more efficient use of resources in areas including soft facilities management, improved procurement controls and the renegotiating of contract, delivering savings of between £1.1m and £3.1m per annum.

- Telematics – a reduction in vehicle numbers and associated spend and use of hire vehicles delivering savings between £1.5m and £3.6m per annum.

5.20 It is recognised that revenue expenditure associated with Policing 2026 projects will also be required and this will be monitored against the overall delivery of the net £4m-£6m recurring saving each year.

5.21 The cumulative financial impact of the benefits documented above will deliver the following levels of savings:

	2017/18	2018/19	2019/20
	£m	£m	£m
<i>Savings</i>			
Police officer costs	-	(4.2)	(16.8)
Police staff costs	(3.0)	(9.0)	(6.5)
Non pay costs	(13.0)	(17.0)	(23.0)
<b>Total Savings</b>	<b>(16.0)</b>	<b>(30.2)</b>	<b>(46.3)</b>

Table 5.22 – Total Committed Savings

## 6 Summary of Three Year Financial Forecast

6.1 The table below sets out the forecast position included at table 4.2, updated to include the impact of the benefits outlined above, presenting the revised position from the implementation of Policing 2026:

	2017/18 £m	2018/19 £m	2019/20 £m
<b>Base Budget (Surplus)/Deficit before in year savings (A)</b>	<b>63.2</b>	<b>47.2</b>	<b>32.9</b>
<i>Savings</i>			
Police officer costs	-	(4.2)	(12.6)
Police staff costs	(3.0)	(6.0)	2.5
Non pay costs	(13.0)	(4.0)	(6.0)
<b>In Year Reduction in Deficit (B)</b>	<b>(16.0)</b>	<b>(14.2)</b>	<b>(16.1)</b>
Net Impact of Recurring Assumptions (Appendix A) (C)		(0.1)	(1.9)
<b>Total Reduction (B) + (C) = (D)</b>	<b>(16.0)</b>	<b>(14.3)</b>	<b>(18.0)</b>
<b>Forecast Budget (Surplus) / Deficit (A)+(D)</b>	<b>47.2</b>	<b>32.9</b>	<b>14.9</b>

Table 6.1 - Summary Three Year Financial Forecast

- 6.2 Inclusion of the benefits aligned to Policing 2026 enable the deficit to substantially reduce over the three year period to 2019/20 and for the budget to be balanced in 2020/21. The financial impact of the benefits documented at table above will deliver the savings shown in the table below (£30.2m by 2018/19 and £46.3 by 2019/20). This table also shows that in an overall context savings, the deficit reduces by £30.3m in 2018/19, and by £48.3m in 2019/20. The recurring deficit will be eliminated from 2020/21.
- 6.3 These reductions, coupled with further efficiencies forecast in 2020/21, generated from productivity gains secured in 2019/20 remove the revenue gap and will allow Police Scotland to operate within its financial envelope whilst delivering the outcomes and strategic aims from Policing 2026.
- 6.4 It should be noted that whilst it is the current expectation that Policing 2026 activities will be funded through Capital and Reform, the funding of any cost associated with Pay Modernisation has not been agreed with Scottish Government.

## 7 Capital and Reform Budgets

- 7.1 The capital plan for 2017/18 was developed from the bottom up with business areas initially preparing business cases for capital spend. The total capital bids amounted to £42.4m in comparison to the £30m of available capital grant funding plus capital receipts. There will be an allocation from Reform in the sum of £12.4m (£6.4m to support irrecoverable VAT and £6m for transformational capital investment).
- 7.2 All bids were scrutinised by the Police Scotland Corporate Finance & Investment Board which has prioritised projects to be completed within the available funding. This provided an indicative position in the absence of detailed plans. Any capital spend will require approval in line with the recently approved Investment Governance Framework.

	2017/18 £m	2018/19 (Indicative) £m	2019/20 (Indicative) £m
<i>Capital</i>			
BAU	28.4	28.4	28.4
Transformation / Policing 2026	14.0	14.0	14.0
<b>Total Capital Budget</b>	<b>42.4</b>	<b>42.4</b>	<b>42.4</b>

Table 7.2 – Three Year Capital Budget

- 7.3 The Scottish Government has provided additional Police Reform / Change funding to be used to meet the costs of irrecoverable VAT and to continue to support a new phase of change and transformation for policing.
- 7.4 To support change and transformation Police Scotland has considered bids from business areas for investment aligned to the Policing 2026 programme that will deliver transformational change to the service. Table 7.4 below summarises the high level identification of this spending.

	2017/18 £m	2018/19 (Indicative) £m	2019/20 (Indicative) £m
<i>Reform</i>			
Irrecoverable VAT - Revenue	22.0	22.1	21.8
Irrecoverable VAT - Capital	6.4	6.4	6.4
Transformation	31.1	31.1	17.2
<b>Total Reform Budget</b>	<b>59.5</b>	<b>59.6</b>	<b>45.4</b>

Table 7.4- Three Year Reform Budget

- 7.5 Business cases will be required to be completed to justify the use of reform funding which will be considered internally by Police Scotland for approval and will ultimately also require the approval of the SPA and then Scottish Government prior to the release of funding. The use of this funding will be separately monitored as a distinct funding source from the revenue and capital budgets.
- 7.6 The capital and reform requirements documented above are in line with current expectations for the three year transformation period. Both will be reviewed in line with additional clarity over the scope and scale of individual projects in the coming months. A revised position will be presented in September 2017.

7.7 It should be noted that the Scottish Government has not yet committed to a capital and reform allocation for 2018-19 or 2019-20, but this will be considered as part of the current Spending Review.

## 8 Summary and Next Steps

- 8.1 The Three Year Financial Plan remains a live document and will continue to be updated as the organisation progresses with implementation of Policing 2026.
- 8.2 Work is ongoing to address the underlying recurring revenue gap of c. £47m and will continue through 2017/18, however the delivery of the benefits aligned to Policing 2026 are critical to bring the organisation into a balanced budget by 2020/21.
- 8.3 Finance will continue to work across the organisation and closely with the Policing 2026 team and PMO to ensure projects develop business cases in timely manner and meet the strategic objectives of the organisation. This will feed into the delivery of the final Three Year Financial Plan and Long Term Financial Strategy which considers the financial position of the organisation over a ten year period.
- 8.4 Table 8.4 below presents the timeline for delivery of the final Three Year Financial Plan and Long Term Financial Strategy.

Action	Owner	Timeline
Provision of Draft Outline Three Year Financial Strategy to SPA Board on 22 June 2017	2026 Project Team & Finance	1 June 2017
High level Three Year Implementation Plan for Policing 2026 finalised (prior to parliamentary recess)	2026 Project Team	22 June 2017
Presentation of the Draft Outline Three Year Financial Strategy to SPA	Finance	22 June 2017
Ongoing work to refine the Three Year Financial Strategy	2026 Project Team & Finance	June – August 2017
Extrapolate Three Year Strategy to inform the Long Term Financial Strategy	Finance	August 2017
SPA approve the Three Year Financial Strategy	SPA Board	September 2017
SPA approve the Long Term Financial Strategy	SPA Board	September 2017

## Appendix A – Assumptions

Area	Assumption
<b>Police Officer Pay Award</b>	1% pay award in line with Public Sector Pay Policy has been assumed from 2017/18 to 2019/20.
<b>Police Staff Pay Award</b>	1% pay award (£400 minimum) in line with Public Sector Pay Policy has been assumed from 2017/18 to 2019/20. This required a blended uplift of 1.42%. Further work is ongoing to assess how this may reduce in future years.
<b>Police Officer salary increments</b>	0% uplift per annum has been applied. This is in line with the pay model which included a £1.2m uplift in respect of the final year of uplifts for the additional 1,000 officers recruited in 2007/08. Now these recruits are at the top of the scale, salary increments are self-funding.
<b>Police Staff salary increments</b>	1.2% uplift per annum has been assumed in line with the average realised budget pressure over the past three years.
<b>Police Staff Pensions</b>	It is assumed that the employer contribution rate under the Local Government Pension Schemes will remain in line with the prevailing rates for the initial 3 year period.
<b>Police Officer and Staff Overtime</b>	Overtime budget lines have been increased for pay award and increments. There are no overtime reductions modelled at this time on the basis that these budgets are already as low as they can be.
<b>Police Officer and Staff Allowances</b>	There is a reduction in Housing Allowances each year (c. £1m) in line with the attrition modelled as employees with protected allowances reach retirement age. Work is ongoing to assess how other allowances will reduce in the coming years in line with assumed retiral dates.
<b>Police Staff Vacancy Factor</b>	It is assumed that the vacancy factor within the 2017/18 budget (c.2%) will continue, reflecting natural attrition and lead in time to recruit replacement staff.
<b>Injury and Ill Health Pension Costs</b>	Police Injury and Ill Health pension costs have been uplifted by 5% per annum in line with the average growth rate experienced in the past three years.
<b>VR/VER Costs</b>	Costs associated with any VR / VER as a result are assumed to be funded from the Reform budget for changing and transforming policing.
<b>Apprenticeship Levy</b>	Provision has been made for the UK Apprenticeship Levy within the Base Budget in 2017/18 and this uplifted in line with Officer and Staff uplifts in future years.
<b>Non Pay Costs</b>	There is a standard inflationary uplift on non-pay budget lines of c. 2% per annum, in line with HM Treasury's medium term forecast, with the exception of those noted below. The purpose of applying c.2% to each line is to calculate the total uplift but in practice the total will be allocated according to need and in the context of continuous review of these budgets. Work is underway to review all non-pay budget lines to identify savings.
<b>NDR</b>	Additional costs were recognised in the 2017/18 base budget to account for changes in poundage rates and rateable values. No further review is anticipated in the three year period captured by this three year plan.
<b>ICT Telecoms Review</b>	As part of the 2017/18 budget, an initial savings target has been applied to the ICT Telecoms Review. No further savings have been modelled at this time until the initial tranche of savings have been identified.
<b>Reform Funding of Transformation Roles</b>	A number of roles approved by the Transformation Resource Control Group which are to initially be funded from the Reform Budget are for permanent posts. As such, from 2019/20 the costs for these resources have been transferred from the Reform Budget into Police Staff. Amount calculated as £2.272m. (50% of roles the 142 identified at an average Staff cost of £32k)
<b>Pay Modernisation</b>	Work is ongoing to assess the potential one off and recurring costs to deliver Pay Modernisation. However, this could result in a cost pressure depending on the pay model agreed at a later date.
<b>ESCMP</b>	Costs are not known at this time. This will be captured within the Mobility project and presented in the final Financial Plan in September 2017.
<b>British Transport Police</b>	Costs are not known at this time. This will be developed following Ministerial guidance, due planning in the next three months and presented in the final Financial Plan in September 2017. The current planning assumption is that this will be cost neutral to Police Scotland.
<b>Revenue Impact from delivery of the Capital Plan</b>	The revenue impacts of delivering the capital plan are not included. BAU capital expenditure should require little to no revenue and revenue associated with Transformational Capital expenditure will be funded from Reform.
<b>Capital Financing Costs</b>	It has been assumed that there will be no new capital financing costs. Reductions in interest charges are aligned to the repayment schedules for existing loans.
<b>Income</b>	Total Income from Services of the Police / Local Government Grant income is assumed to reduce by 5% per annum (c. £2m). This recognises the net position after uplifting expected charges and acknowledging the potential for local government income to decrease in line with the reductions experienced in the past three years.
<b>Funding</b>	Core government grant has been increased in line with the Scottish Government Manifesto commitment until March 2021. It has been assumed that VAT will continue to be funded from Reform and this has been modelled in line with the assumed level of Non-Pay expenditure. No other funding from UK, Scottish or Local Government has been assumed at this stage.

## Appendix B – Implementing Our Strategy – Draft 3-year plan for Consultation

**DN: Link to be inserted to finalised Implementing Our Strategy - Draft 3-year plan for Consultation.**

## Appendix C – Financial Analysis

Financial position when including the savings documented in section 5 of this paper.

	2017/18 £m	2018/19 £m	2019/20 £m
Expenditure			
Police officer costs	767.93	771.83	767.10
Police staff costs	194.99	194.38	204.29
Non pay costs	172.41	173.13	170.50
Gross Expenditure	<b>1,135.33</b>	<b>1,139.35</b>	<b>1,141.88</b>
Income	(43.71)	(41.53)	(39.45)
Net Expenditure	<b>1,091.62</b>	<b>1,097.82</b>	<b>1,102.43</b>
Funding			
Core revenue grant	(1,022.40)	(1,042.80)	(1,065.70)
Reform VAT Allocation	(22.00)	(22.09)	(21.75)
Total Funding	<b>(1,044.40)</b>	<b>(1,064.89)</b>	<b>(1,087.45)</b>
Budget (Surplus)/Deficit*	<b>47.22</b>	<b>32.93</b>	<b>14.98</b>

### Reconciliation of Base Budget per section 4 of his paper to 2017/18 Budget

	February 2017 DRAFT Budget £m	2017/18 Approved Budget £m	Recurring Gap Section 4 £m
Revenue Gap Before Recurring Savings	62.70	63.62*	63.62*
Corporate Services - Staff Savings	(3.00)	(3.00)	(3.00)
<b>Revenue Gap Before Recurring Savings</b>	59.70	60.62	60.62
Recurring Non Pay Savings	(13.00)	(13.00)	(13.00)
<b>In year revenue deficit after recurring savings</b>	46.70	47.62	47.62

\*This figure includes the £0.4m of non-recurring savings captured within the 2017/18 budget, as referenced in the 2017/18 Budget paper presented to SPA on 22 March 2017.