SCOTTISH POLICE AUTHORITY

Agenda Item 10

Meeting	**SPA Board Meeting**
Date	**28 June 2018**
Location	**Rothes Halls, Glenrothes, Fife**
Title of Paper	**2017/18 Provisional End Year Outturn**
Item No	**B06.2018/25**
Presented by	**James Gray, Chief Financial Officer**
Recommendation to members	**For Noting**
Appendix Attached	**Yes** **Appendix A - Provisional Outturn Report 2017/18**

PURPOSE

The purpose of this report is to provide an update on the provisional 2017/18 financial outturn.

1. BACKGROUND

1.1 This report presents the provisional outturn position for financial year 2017/18. These figures are subject to external audit.

1.2 The high level position was presented in draft to the Board on 31 May. As year-end processes are continuing, a further update is provided in the attached, however these figures could be subject to change.

2. FURTHER DETAIL ON REPORT TOPIC

2.1 The provisional net outturn position in relation to revenue, capital and reform expenditure is set out in the table below.

	Revenue £m	Capital £m	Reform £m	Overall Position £m
Provisional Net Expenditure	**1,058.0**	**25.8**	**44.4**	**1,128.2**
Funding				
Grant-in aid	(1,022.4)	(20.0)		(1,042.4)
Capital receipts		(5.7)		(5.7)
Reform funding			(49.6)	(49.6)
Additional SG Funding	(0.4)			(0.4)
Total Funding	**(1,022.8)**	**(25.7)**	**(49.6)**	**(1,098.1)**
(Over) / Under	**35.2**	**0.1**	**(5.2)**	**30.1**

(Over) / Under - Period 10	**35.5**	**0.1**	**(13.7)**	**21.9**
Movement from P10	**(0.3)**	**0.0**	**8.5**	**8.2**

2.2 The reasons for the movements in comparison to the P10 forecast are as follows –

- **Revenue** – The overspend has decreased by £0.3m in comparison to the period 10 forecast. This is due to a number of movements. The key movements are in relation to: anticipated pay related cost pressures which have not materialised (£4m favourable); increased cost of the police staff pay award (£1.7m adverse) and property maintenance costs (£1.4m adverse).

- **Capital** – There are no material movements in the capital outturn from period 10.

- **Reform** – The reform underspend has decreased by £8.5m from period 10. The period 10 report included a total reform budget of £59.5m (representing the total available reform funding). The use of reform funding is subject to the completion of a business case to support the requested expenditure and requires the approval of the Scottish Government. The final drawdown approved by the Scottish Government was £49.6m based on approved business cases which is £9.9m lower than total available funding which was forecast at period 10.

2.3 The attached appendix details the variances between the provisional outturn and the 2017/18 budget.

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 information contained within this report.

APPENDIX A

Provisional Outturn Report

2017/18

SPA Board Meeting

28 June 2018

1. Executive Summary

1.1 This report sets out the provisional net outturn for SPA/ Police Scotland for the year to 31 March 2018. These figures are subject to external audit.

1.2 The table below shows final net expenditure and the funding available to the organisation in the year, split by the three budgetary streams: revenue, capital and reform.

	Revenue £m	Capital £m	Reform £m	Overall Position £m
Provisional Net Expenditure	**1,058.0**	**25.8**	**44.4**	**1,128.2**
Funding:				
Grant-in-aid	(1,022.4)	(20.0)		(1,042.4)
Capital receipts		(5.7)		(5.7)
Reforming funding			(49.6)	(49.6)
Additional Scottish Govt Funding	(0.4)			(0.4)
Total Funding	**(1,022.8)**	**(25.7)**	**(49.6)**	**(1,098.1)**
Over / (Under) Spend	**35.2**	**0.1**	**(5.2)**	**30.1**
Over / (Under) Forecast P10	***35.5***	***0.1***	***(13.7)***	***21.9***
Movement P10 to Outturn	***(0.3)***	***0.0***	***8.5***	***8.2***

- The revenue budget was set with an operating deficit of £47.2m. The revenue underspend against budget for the year is £11.6m which represents a £0.3m increase in the underspend from the period 10 forecast. This reduces the operating deficit to £35.6m and additional Scottish Government funding (£0.4m) reduces this deficit to £35.2m (as above).

- The capital budget was overspent by £0.1m. This is in line with the previous forecast and there are no significant issues to highlight.

- The reform budget was underspent by £5.2m. This is mainly due to a change in HMRC rules that allowed the SPA to reclaim VAT of £2.3m from

16 March 2018. In addition, there was a £1.5m underspend on VR VER costs. The overall variance has moved by £8.5m from the period 10 forecast due to the full reform funding not being allocated to the SPA.

2. Revenue budget

The table below sets out the revenue provisional outturn for 2017/18.

Revenue	2017/18: Provisional Outturn			2016/17: Actual	
	Budget £m	Outturn £m	Variance (over) / under £m	Actual £m	Variance 17-18 outturn vs. 16-17 actual £m
Police Officer Costs	771.2	769.5	1.7	754.4	15.1
Police Staff Costs	169.3	166.2	3.1	170.0	(3.8)
Holiday Pay Accrual	(1.0)	(0.1)	(0.9)	(3.7)	3.6
Non-pay Costs	163.0	158.6	4.4	173.4	(14.8)
Income	(42.7)	(47.7)	5.0	(62.6)	14.9
Total Police Scotland	**1,059.8**	**1,046.5**	**13.3**	**1,031.5**	**15.0**
Forensics	27.8	28.2	(0.4)	27.7	0.5
SPA Corporate	4.0	3.6	0.4	10.6	(7.0)
Net Expenditure	**1,091.6**	**1,078.3**	**13.3**	**1,069.8**	**8.5**
Less: VAT (Reform Funded)	(22.0)	(20.3)	(1.7)	(21.1)	0.8
Net Expenditure	**1,069.6**	**1,058.0**	**11.6**	**1,048.7**	**9.3**

Police Officer Costs

Full year provisional outturn (£1.7m underspend)

There were anticipated pay related cost pressures that have not been realised in the financial year (£4.0m under).

This underspend is offset by a £2.2m overspend on Officers overtime. This overspend is mainly due to support provided following the incidents in Manchester and London (£1.1m) and a 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 (£1.6m).

There are additional underspends related to injury and ill health costs (£0.3m) due to fewer ill health retirements cases compared with budget.

Against prior year spend (£15.1m higher)

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

Police Staff Costs

Full year provisional outturn (£3.1m underspend)

Within the Police Staff underspend, salaries, on-costs and allowances are under by £4.6m, as explained below:

Variance Explanation (salaries, on-costs and allowances)	£m
This represents a saving over and above the budgeted 2.3% vacancy factor.	3.9
One off dual running costs budgeted as part of the C3 restructuring in the North not required (new operating model now in place).	1.4
Greater number of staff on half or nil pay than budgeted (i.e. nil or half pay whilst on maternity, paternity or sick leave).	1.2
Reduction in capitalisation of ICT staff costs.	(0.2)
Additional pay award costs above the budgeting assumption.	(1.7)
Total	**4.6**

This is offset by the budgeted saving from staff leaving on VR VER not being fully achieved. The budgeted savings was £3.0m and in-year savings of £0.9m have been realised leading to a £2.1m adverse variance.

There are other underspends on overtime and special constables payments (total £0.6m).

Against prior year spend (£3.8m lower)

This is due to the full year savings from staff leaving on VR VER from the previous year offset by the effects of an increased pay base (due to the pay award, increments and the introduction of the apprenticeship levy).

Release of Holiday Pay Accrual

Full year provisional outturn (£0.9m adverse variance)

The budgeted reduction in untaken annual leave balances has not been realised in year. During the year a decision was approved to buy-out the pre April 2014 TOIL balances that had been accumulated under the previous TOIL management policy. This created a reduction in TOIL balances but at a cost to the organisation. This cost was fully funded by a reduction in the accrual, meaning there was no financial impact on the revenue outturn. Excluding the TOIL buy-out, the remaining untaken TOIL and annual leave balances at the end of 2017/18 are similar to the previous year's untaken balance.

Against prior year spend (£3.6m adverse)

A reduction in untaken TOIL and annual leave balances was achieved in 2016/17 and was not realised in 2017/18.

<u>Non-Pay Costs</u>

Full year provisional outturn (£4.4m under spend)

This underspend is related to:

- ICT costs (£2.8m under) - ICT maintenance costs are underspent by £2.7m and IT licences/subscriptions by £0.1m. As previously reported the main reason for the underspend within ICT maintenance was the result of a review and reassessment of budgets which included balance sheet release of previously held accruals.
- Admin costs (£0.8m under) - This position is due to underspends in printing, stationery and photocopiers costs (£0.7m). There are other non-material underspends of £0.1m.
- Other costs (£0.7m under) - The efficiency savings target of £5.0m was not fully realised. Savings of £4.5m have been achieved leaving an overspend of £0.5m. This is offset by a £1.6m gain on disposal which mainly relates to the sale of Chambers Street.
- Other net variances (£0.1m under).

Against prior year spend (£14.8m lower)

The lower spend relates to:

- Other employee costs (£7.4m lower) – This is mainly due to the presentation of VR VER costs. In the previous year revenue and reform costs for VR VER were combined and £6.7m was incurred. This spend is now entirely separate from revenue reporting.
- Premises costs (£1.6m lower) – There are additional costs of £2.2m due to PFI interest charges now being reported within Police Scotland. In the previous year these charges were part of the SPA Corporate segmental reporting. In the previous year the charge was £2.3m within SPA Corporate. This cost is offset by a £2.2m reduction in non-domestic rates and a reduction in £1.1m of lease dilapidations costs.

- ICT costs (£4.5m lower) – There is £2.2m lower spend on ICT maintenance as discussed in the outturn position. In addition, Home Office systems charges are £2.5m lower.
- Supplies and services (£2.9m lower) – Spend on consultants is £1.4m lower due to the treatment of reform spend; health and safety costs (£0.7m lower) and uniforms costs (£0.5m lower).
- Admin costs (£2.1m lower) – Legal costs reduced by £1.2m; other fees and charges (£0.5m lower) and photocopiers (£0.3m lower).
- Other costs (£2.1m lower) - Current year gain on disposal, compared with a loss the previous year (£2.3m movement).
- Capital financing costs (£4.0m higher within Police Scotland) – in the prior year loan charges were part of the SPA Corporate segmental reporting, for the current year this has moved to Police Scotland to better reflect the management of loan charges. In the previous year these charges were £4.5m within SPA Corporate and the charge in the current year is £4.0m within Police Scotland.
- Other net variances (£0.2m lower).

Income

Full year projection (£5.0m greater than budget)

- Grant funding (£2.1m favourable). Mainly related to additional income being received from the Home Office related to counter terrorism, negotiators and planning exercises (£1.1m). Additional intel grant funding (£0.3m) plus net additional grant income received within Local Policing (£0.5m).
- Fees & charges (£0.8m favourable). The key variances are in relation to: favourable variances on public fees (£0.7m); services of police (£0.5m) and rental income (£0.3m).
- Other income (£0.9m favourable). This relates to the recognition of deferred income in relation to the C3 transformational works that have now been completed (£0.3m). There is also additional income (£0.2m) related to cost recovery from the Crown Office in relation to the transportation of deceased persons and production disposals (£0.2m).

Against prior year spend (£14.9m lower)

- Mainly due to the ‘i6’ one-off compensation payment received in 16/17 (£13.6m).

Forensics & SPA Corporate

There are no material variances arising from the provisional outturn.

The SPA Corporate provisional outturn is £7.0m lower than the previous year. This is mainly due to PFI interest (£2.3m) and loan charge interest (£4.5m) previously being recognised as part of the SPA Corporate segmental reporting. In the current year this has moved to Police Scotland (£6.8m total) to better reflect the management of these charges.

3. Capital

The table sets out the forecast capital outturn position against the agreed plan.

Capital	Budget £m	Outturn £m	Variance £m
Airwave Replacement	1.8	5.4	-3.6
Pegasus	0.2	0.0	0.2
Roadside Breath Screening Devices	0.1	0.1	0.0
Asset Maintenance Program	5.9	5.8	0.1
EDMRS	0.3	0.0	0.3
Total Category One – Statutory (A)	**8.3**	**11.3**	**-3.0**
Fleet Replacement	5.6	6.8	-1.2
Infrastructure Modernisation	12.6	7.3	5.3
National Intelligence System	0.5	0.0	0.5
Video Interview Equipment	0.6	0.0	0.6
Weaponry	0.0	0.3	-0.3
Total Category Two – Stay in Business (B)	**19.3**	**14.4**	**4.9**
Telematics	3.2	0.5	2.7
C3 / THRIVE	3.5	0.7	2.8
Cybercrime	4.0	3.0	1.0
Cyber defence	2.8	0.0	2.8
Custody	0.5	0.0	0.5
ANPR	0.0	1.2	-1.2
Unicorn	0.0	0.1	-0.1
Payroll	0.0	0.4	-0.4
DSU Vehicles	0.0	0.4	-0.4
Priority Projects	0.0	1.6	-1.6
Armed Policing	0.0	0.1	-0.1
Digital ICCS	0.0	0.2	-0.2
Tasers (STOs)	0.0	0.3	-0.3
Total Category Three – Transformation / Policing 2026 / BAU Improvements (C)	**14.0**	**8.5**	**5.5**
Total Police Scotland (A) + (B) + (C)	**41.6**	**34.2**	**7.4**
Total SPA / Forensics	**0.9**	**1.1**	**-0.2**
VAT Adjustment *(16 - 31 March - to be allocated)*	0.0	-1.2	1.2
Total Expenditure	**42.5**	**34.1**	**8.4**
Scottish Government grant	20.0	20.0	0
Capital receipts	10.0	5.7	4.3
Reform – VAT	6.4	3.9	2.5
Reform – Transformational Capital	6.0	4.4	1.6
Direct Funding	0.0	0.1	-0.1
Total Funding	**42.4**	**34.1**	**8.3**
Variance	**-0.1**	**0.0**	**-0.1**

Reconciliation to Overall Outturn	
Total Capital Expenditure	34.1
Less: VAT (reform funded)	-3.9
Less: Other reform funded spend	-4.4
Total (per para 1.2)	**25.8**

Variance analysis

Airwave replacement (£3.6m overspend)
Due to slippage in the ESMCP programme, additional airwave devices were required to be purchased to support the service before ESMCP goes live.

Fleet replacement (£1.2m overspend)
Additional funding awarded in the year following identification of slippage elsewhere in the capital plan.

Infrastructure modernisation (£5.3m underspend)
Following the approval of the relevant business cases (ADEL, Alliance, National Network and Core Technology Refresh) the budgets were re-phased to reflect the planned multiyear profile, reducing the expenditure which would be incurred in year.

Telematics (£2.7m underspend)
The contracted price per the FBC was significantly less than that included within the initial budget, this was augmented by a delay to timelines to allow for further consultation with external stakeholders.

C3 / THRIVE (£2.8m underspend)
Reprioritisation of spend during the year in line with 2026 priorities resulted in the relocation of budget and the C3 / Thrive work being rolled into the LAP Programme.

Cybercrime (£1.0m underspend)
Next phase of the Cyber capability programme was approved and awarded £3.6m of capital budget. The project team were able to deliver the full project under budget.

ANPR (£1.2m overspend)
The full business case was approved by the Corporate Finance and Investment Board and the Finance Committee and was accommodated as an increase over budget following reprioritisation across the portfolio.

Priority Projects (£1.6m overspend)
During August 2017 an opportunity was identified to deliver alternative projects following some areas of slippage across the capital programme. A decision was taken to progress with alternative capital projects that could be quickly delivered.

Capital Receipts (£4.3m adverse)
There was slippage in the sale of properties during the year, with the disposal of Pitt Street being the single biggest component.

4. Reform

In line with Police Scotland's investment governance framework, business cases, which must demonstrate that the proposal is reforming in nature, are required to support the use of reform funding. Further to this, these business cases also required the approval of the SPA and the Scottish Government prior to funding being released.

The table below sets out the full year provisional outturn for capital and revenue reform spend.

Reform	Budget £m	Outturn £m	Variance £m
Capital			
Irrecoverable VAT	6.4	3.9	2.5
Other Transformational Expenditure	6.0	4.4	1.6
Total Capital	**12.4**	**8.3**	**4.1**
Revenue			
Irrecoverable VAT	22.0	20.4	1.6
Corporate Services Transformation	10.0	6.6	3.4
Commercial Excellence Programme	0.0	1.2	(1.2)
Policing Transformation Projects	6.2	0.0	6.2
VR/VER Leavers	8.5	5.0	3.5
Other Transformational Projects	0.4	2.9	(2.5)
Total Revenue	**47.1**	**36.1**	**11.0**
SPA	**0.0**	**0.0**	**0.0**
Total Reform Spend	**59.5**	**44.4**	**15.1**
Funding	**59.5**	**49.6**	**9.9**
Variance	**0.0**	**5.2**	**(5.2)**

The total reform funding available to the SPA for the year was up to £59.5m. The Scottish Government approved business bases throughout the year and allocated £49.6m of funding to the SPA – a reduction of £9.9m against the full budget.

Against the full year budget variances are described below:

- VAT – There is an underspend against capital and revenue VAT due to the change in VAT rules. The SPA is able to recover input VAT effective from 16 March 2018. This has generated reform budget savings of £1.1m revenue and £1.2m capital for spend incurred 16 to 31 March 2018.
- Corporate services transformation – underspend based on the roles approved by the Police Scotland Transformation Control Resource Group (TRCG) which have not been recruited.