

Meeting	Authority Meeting
Date	23 March 2022
Location	Video Conference
Title of Paper	Financial Planning Framework
Presented By	James Gray, Chief Financial Officer
Recommendation to Members	For Discussion
Appendix Attached	Appendix A – Draft Financial Planning Framework

PURPOSE

The purpose of this paper is to present Members with the draft Financial Planning Framework and recommend members discuss and note the content of this paper.

1. BACKGROUND

- 1.1 The purpose of the Financial Planning Framework is to set out the key principles that should be considered for revenue/capital funding and longer term financial planning.

2. FURTHER DETAIL ON THE REPORT TOPIC

- 2.1 The key principles are detailed within the body of the report at Appendix A. The key objectives are to ensure that current resources are used as efficiently and effectively as possible, and that an evidence based approach can be developed to inform funding discussions with Scottish Government ministers and officials.
- 2.2 The Scottish Government's Resource Spending Review Framework sets out the Government's ambition to publish a multi-year resource spending plan in May 2022. When considered alongside the Capital Spending Review that was published in 2021, these two outputs will provide a comprehensive picture of the likely funding available to policing over the next 5 year period.
- 2.3 The organisation's medium term financial plan will be updated in Autumn 2022 in line with the financial planning framework principles and to reflect the outcome of the capital and resource spending reviews.
- 2.4 The Financial Planning Framework is attached at appendix A.
- 2.5 This paper was presented to the SPA Resources Committee on 10 March 2022 where members made a recommendation to the Authority to note the contents of this paper.

3. FINANCIAL IMPLICATIONS

- 3.1 There are no direct financial implications associated with this paper.

4. PERSONNEL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. REPUTATIONAL IMPLICATIONS

6.1 There are no direct reputational implications associated with this paper.

7. SOCIAL IMPLICATIONS

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

8. COMMUNITY IMPACT

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

9. EQUALITIES IMPLICATIONS

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

10. ENVIRONMENT IMPLICATIONS

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

RECOMMENDATIONS

Members are invited to discuss and note the contents of this report.



SCOTTISH POLICE
AUTHORITY

Finance

Financial Planning Framework

March 2022



Financial planning framework

Purpose

- The purpose of the Financial Planning Framework is to set out the key principles that must be followed to develop an evidence based approach to inform the Scottish Government's financial planning cycle and ongoing spending review work.
- The Scottish Government's Resource Spending Review Framework sets out the ambition to publish a multi-year resource spending plan in May 2022. After this point, a detailed multi-year financial plan will be developed for the organisation in line with spending review outcomes and these financial framework principles.

Background

- Since 2013, Policing in Scotland has undergone significant change. By bringing together legacy organisations to create Police Scotland, the focus was on breaking down historic boundaries, delivering equal access to services and improving the safety and wellbeing of people and communities within Scotland.
- The business case for reform set the objective to secure £1.1bn recurring savings by 2026. However, more than £200 million has been removed from the annual cost base of policing compared to legacy arrangements, indicating that policing is now on track to deliver total cumulative savings of £2.2 billion by 2026 – double the outline business case (OBC).
- Despite these savings and a commitment from Scottish Government to protect the budget in real terms, the service continued to operate with a significant revenue deficit. Financial sustainability was therefore the primary objective of the various financial strategies developed over the past number of years. These strategies recognised that real terms protection alone was insufficient to achieve financial sustainability, and that without a structural revenue funding correction, significant workforce reductions would be required to close the budget gap.
- Following this, the Scottish Government's 2021/22 budget confirmed a significant revenue funding uplift for policing, providing the funding correction necessary for the Authority to address the structural deficit without the requirement for significant workforce reductions.
- An updated five year financial plan was developed in September 2021 and this highlighted that a balanced budget could be sustained into the future assuming that core revenue funding increases in line with Scottish Government's commitment to real terms protection. Our interpretation of real terms protection is that funding will keep pace with unavoidable pay pressures, including wage inflation, SPRM and lost income, and that additional funding will be provided to support key legislation or service changes.
- It is recognised that a balanced budget, along with the commitment to real terms protection, provides policing with a stable platform and a route to maintaining financial sustainability over the longer term whilst maintaining current levels of policing. However, as the demand for policing changes in response to new and emerging threats and risk, further work is required to ensure that the organisation is as efficient and effective as possible, and that operational and financial objectives can be achieved.

Financial planning framework

Capital Investment

- Capital and reform funding is required to modernise and transform the service, in addition to funding the rolling repair and replacement of assets.
- Transformational change projects are being undertaken to ensure that Scottish policing is fit for the 21st century and can adapt to meet the challenges of a changing society. However, the Scottish Government's recent capital investment review suggests a level of funding that is significantly short of the requirements to deliver our multi-year investment plans.
- The SPA will continue to make a strong case for additional funding to Scottish Government, including the proposal of additional routes to funding such as the use of bridging in advance of longer term disposal receipts.

Changing nature of costs

- IFRS16 is a new accounting standard which is due to be adopted by public sector bodies on the 1 April 2022.

Operating lease payments are currently charged to revenue but following the implementation of IFRS16, the expectation is that an asset and liability will be recognised for most ongoing and new lease agreements. Work is ongoing to establish the financial impact on capital and revenue budgets and in-year adjustments will be made as appropriate.

- Capital investment will deliver operational, financial and wider environmental benefits for the SPA / Police Scotland and public sector partners. Strategies have been developed to deliver collaboration, system change and public sector leading decarbonisation.

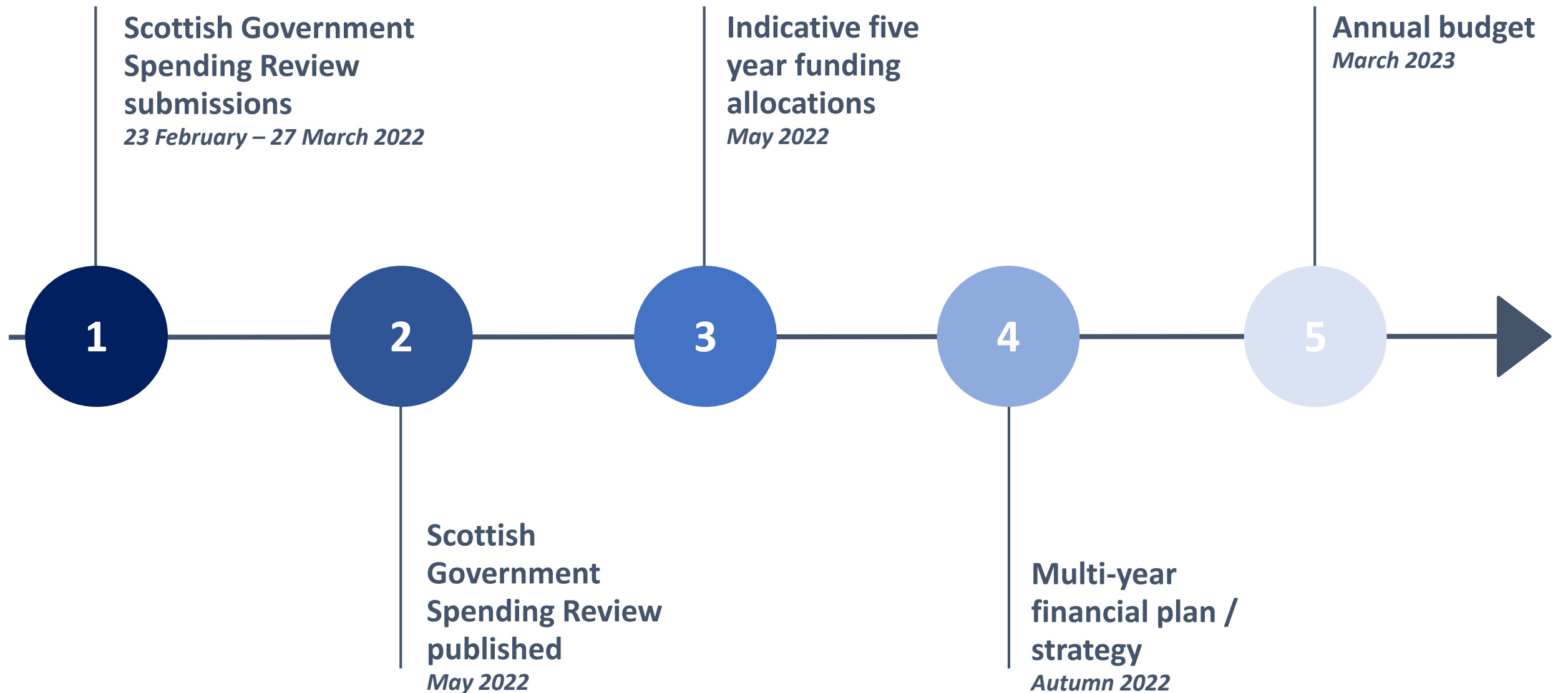
The DDICT strategy details the requirements to transform the service, enabling more efficient working practices and capacity creation for reinvestment into priority areas of policing. As newer technology is introduced and capacity is reinvested, DDICT will generally create additional revenue costs over the period.

The Estates strategy will deliver recurring cost savings via property consolidation and colocation, and the Fleet strategy will deliver savings in vehicle maintenance and fuel costs as we move to decarbonise the current fleet.

The pace at which these programmes can be accelerated is dependent on the capital funding available for investment.

- **Software as a service** – as more ICT applications move away from traditional hardware and software models, and towards online hosted packages, the organisation will incur an annual revenue subscription fee which will result in a shift from capital to revenue expenditure in future years.

Medium term financial planning



Scottish Government Resource Spending Review

- The Scottish Government’s Resource Spending Review framework was published on 9 December 2021 as part of a suite of financial publications. This framework sets out Scottish Government’s ambition to publish a multi-year resource plan covering the lifetime of the current parliament (2022/23 – 2026/27).
- This framework opened a period of consultation requesting a response to six key questions.
- Three priorities have been identified which will inform the Government’s decisions on funding allocations. These are: Child poverty; climate change; and economic transformation. Following discussions with the Cabinet, Scottish Government have now added a fourth priority – sustain, improve and reform public services. More detail on these priorities can be found below.
- As part of the overall process, SPA / Police Scotland are required to describe and evidence how the organisation contributes to these priority areas. A short life working group has been established to ensure that the operational policing response is a key feature in the spending review submission.

Timetable and key milestones	Timescales
Scottish Government Spending Review commission	23 February 2022
Police Scotland operational response to the spending review	02 March 2022
Spending review public consultation deadline	27 March 2022
UK Spring statement	Spring (TBC)
SG Internal allocations process	March / April 2022
Multi-year Resource Spending Review published	May 2022

01 Child poverty

The experience of poverty lies at the heart of many social and economic challenges we face as a nation, resulting in poorer outcomes over an individual’s lifetime and considerable investment to mitigate its negative impacts. SG will focus on increasing household incomes and reducing costs to lift more families out of poverty, and will work to mitigate the impacts of poverty for children ensuring they can fulfil their potential. In particular, there will be a focus on supporting priority families out of poverty. Plans developed through the Resource Spending Review will help set us on a critical path to reduce child poverty levels to less than 10% by 2030-31.

03 Economic transformation

The impact of COVID-19, combined with the effects of the UK’s exit from the European Union have created challenges for Scotland. The Scottish Government’s National Strategy for Economic Transformation will seek to transform the economy, setting us on a path towards a wellbeing economy for all. This will be an economy that is rooted in Fair Work. It will improve standards of living, enables businesses to grasp the opportunities of a green recovery, and secure the new jobs of the future. The ambition for a stronger, fairer, greener economy will consider how the investment of public funds will support each of these dimensions in tandem.

02 Climate change

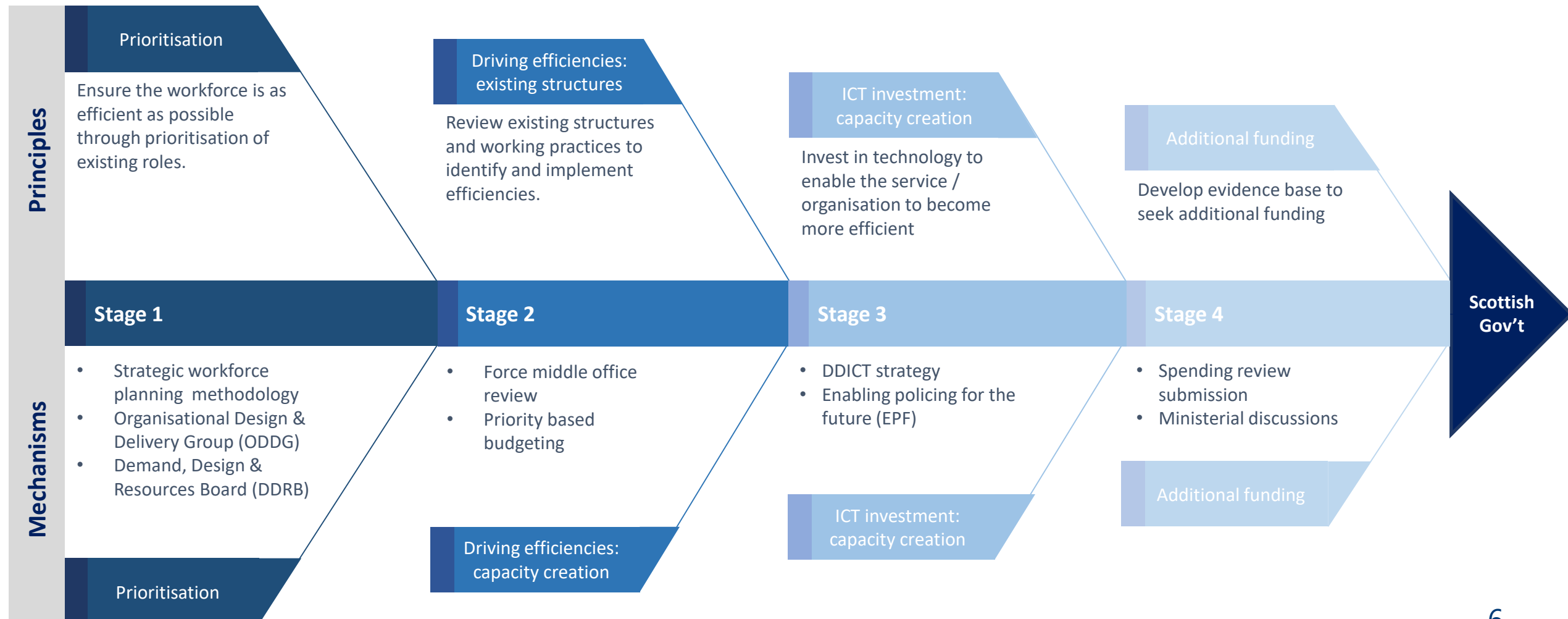
The global climate emergency is one of the gravest threats facing Scotland and the wider world. Experts agree that public spend on climate change can deliver future benefits that far outweigh the costs today. The Scottish Government will continue the momentum generated by Glasgow’s hosting of COP26 by investing in the protection and restoration of our natural environment, decarbonising our homes, industries and transport and leading the way in renewable energy and green technology. The Resource Spending Review will seek to support activities to meet our statutory commitments to reduce emissions to net zero by 2045, to secure a just transition that leaves no one behind, and to build resilience to climate impacts. We will also work towards climate justice, recognising that the impacts of climate change often deepen existing inequalities.

04 Sustain, improve & reform public services

Identifying reform opportunities to build stronger public services, i.e. how can we re-design and / or re-shape delivery to better deliver on outcomes. Example include the direction of travel for our reform budget and Criminal Justice transformation.

Revenue funding principles

- It is recognised that a balanced budget, along with the commitment to real terms protection, provides policing with a stable platform and a route to maintaining financial balance whilst maintaining current level of policing. However, the Strategic Workforce Plan (SWP) covering the period 2021 – 2024 which was formally adopted by the Scottish Police Authority at its meeting on 22 January 2021 highlights that there is a significantly higher level of demand than the financial resources available.
- The SWP methodology will assist in prioritising the significant demand for additional resource that exists across the organisation by ensuring the most efficient and effective use of resources. Investment in key areas such as DDICT is also a key enabler in creating capacity across the organisation to allow reinvestment into priority areas of policing.
- It is only after these means have been exhausted that an evidence based business case can be developed to demonstrate that new emerging threats and risks, and changing demand, cannot be accommodated within existing resources.
- The key revenue funding principles are summarised below:



Scottish Government Capital Spending Review

- The Scottish Government published its 5 year capital spending review in February 2021 which noted funding of c.£52.6m (including anticipated capital receipts) per annum for the SPA over the next five years. This level of funding is significantly short of the £463m capital required to deliver a policing service for the 21st century.
- The major investment areas for the SPA will continue to be the DDICT strategy, consolidating and improving the national Estate and modernising the range of Fleet. However, given the level of funding noted above, prioritisation would be required to meet health and safety needs, legislative requirements and replacement of essential core equipment.
- Although flat cash allows key investments to be progressed, the pace of delivery is limited within the funding available. The impact of this is summarised below:
 - Estates – Estates would be allocated funding to meet health and safety requirements and basic repairs and maintenance. No funding would be available for estates transformation or co-location projects.
 - Fleet – The Fleet strategy would progress at a slow pace, topping out at a maximum of 1400 vehicles (40%) transitioned to ULEV as funding would be insufficient to progress with Phases 2 and 3 of the infrastructure roll out. Investment in diesel vehicles would persist.
 - DDICT projects would be prioritised by the organisation, however this would still be short of the overall requirement.
- The Capital Strategy identified four funding sources as potential options to fund the gap:
 - Grant-in-aid – primary source of funding;
 - Capital reform – transformation projects;
 - Disposals income – sale of properties/surplus buildings; and
 - Borrowing – requires consent from Scottish Ministers.
- The Estates Strategy provides an opportunity to realise significant levels of capital receipts over the next 5-10 years, in the region of £80-£100m. In order to manage this position, our preference would be that upfront capital funding is provided by Scottish government to move to a smaller, modern, co-located footprint across our estate, with the proceeds from the disposal of sites being channelled back to central government into the longer term.
- The SPA will continue to make a strong case for additional funding to Scottish Government, including the proposal of additional funding routes such as up front funding in advance of long term disposal income (bridging finance).

Capital investment funding principles

- Since 2017, actions have been taken to improve the discipline, financial management and governance of capital investment, including the Investment Governance Framework, establishment of a Capital Investment Group, the development of dedicated business area strategies and, most recently, the development of a Capital Strategy. We are now looking to take this a step further by enabling business areas to plan ahead on a longer term time horizon.
- Police Scotland historically showed an underspend position in the early years with the main focus being on repairs and replacement. In more recent years this has moved to a more balanced approach between change projects and maintenance, whilst increasing the level of capital available through the production of better business cases and spending review submissions.
- Although the organisation now has a proven track record of executing expenditure in line with budget, the majority of capital expenditure typically falls towards the latter half of the financial year. This is mainly due to the restrictions imposed by an annual funding settlement and due to old or historic procurement patterns that continue each year.
- In order to break this cycle, an indicative 5 year capital view will be presented in March 2022 giving business areas the opportunity to plan ahead over the five year period. Generally it will be assumed that the expenditure will be in equal portions across the five year period but any specific phasing or requirements will be managed by finance as part of the overall financial position.

Indicative 5 year view of capital funding allocations	Rolling capital investment programmes	Investment outcomes	Asset disposals programme	Bridging finance – upfront long term receipts
<p>Capital Investment Group Indicative 5 year funding allocations to be presented alongside the 2022/23 draft budget in March</p>	<p>Business areas - Business areas to develop a rolling sustainable capital programme for continual investment - Procurement plans to be developed to ensure capital purchases are made throughout the year, rather than significant year-end purchases</p> <p>Finance Finance to manage the annual funding settlement and year-end financial position</p>	<p>Rolling replacement programmes and change - Improve conditions and equipment for the wellbeing of officers and staff - Enable a better service to be provided to the public - Create time saving efficiencies through the use of newer technologies</p>	<p>Estates - Previous indications were that disposal proceeds in the region of £100m could be generated as an outcome of a fully funded Estate Strategy - Firm up with a degree of confidence the plan for asset disposals and anticipated capital receipts over this period.</p>	<p>Finance Liaise with Scottish Government to provide upfront funding in advance of long term disposal income to provide the necessary bridging finance to support capital investment programmes</p> <p>Finance / Estates Develop with estates a compelling and detailed proposal to secure Government support for the above.</p>

Next steps

01

2022/23 Draft Budget

The annual budget will be presented at the Authority meeting on 23 March 2022 for approval. This will include the annual revenue, capital and reform budget for 2022/23 as well as indicative 5 year capital allocations.

02

Scottish Government Spending Review consultation

SPA/PS will respond to the Scottish Government Spending Review consultation document as well as respond to any other required commissions.

03

Spending Review Published

Scottish Government's ambition is to publish a multi-year spending review in May 2022, providing indicative funding allocations up until financial year 2026/27

04

Five year financial plan

The five year financial plan will be refreshed in light of the Scottish Government Spending Review (no. 3) and indicative five year capital allocations (no.1).

05

Developing capability

SPA will continue to liaise with Scottish Government around the significant additional investment required to implement key investment strategies and transformation programmes.

06

Alignment with strategic planning

A detailed financial strategy will continue to be developed in line with the strategic business planning cycle and key outputs.