



Meeting	Authority Meeting
Date	24 November 2022
Location	COSLA, Edinburgh
Title of Paper	Q2 Financial Monitoring Report
Presented By	James Gray, Chief Financial Officer
Recommendation to Members	For Discussion
Appendix Attached	Yes Appendix A – Quarter 2 Finance Report

PURPOSE

The purpose of this report is to provide Members with an update on the financial position of the SPA and Police Scotland for quarter two of the financial year 2022/23.

This paper is for discussion.

1. BACKGROUND

- 1.1 The SPA Board approved the revenue and capital budget for 2022/23 on 23 March 2022. The Authority's core revenue funding has increased by £40.5m (3.4%) in 2022/23. The budget also includes £6.6m of one-off additional funding to support the in-year impact of COVID – mainly to fund lost income and recovery of the Justice system.
- 1.2 In addition to the above, revenue funding will be provided in-year to support the transfer of post mortem toxicology services to the Authority and to support drug driving legislation. When combined with the core revenue funding and additional COVID support, this allows a **balanced revenue budget** to be set for financial year 2022/23. Despite setting a balanced budget, there are a number of significant challenges facing the service that will have a financial consequence for the organisation in financial year 2022/23.

2. FURTHER DETAIL ON THE REPORT TOPIC

- 2.1 Pay award budgeting was originally based on Public Sector Pay Policy (PSPP). Pay awards through negotiation at both Police Negotiating Board (PNB) and Trade Unions were agreed in August and October respectively. As part of the pay negotiations, the additional funding required (£37.0m) to support the process was underwritten by the Scottish Government.
- 2.2 Capital and reform funding allocations have been proposed as flat cash for 2022-23. Given the current impact of inflation, this represents a real terms reduction in funding. When combined with capital receipts, the capital allocation is £52.6m for 2022-23 which has been eroded by inflation and will now pay for significantly less. The Scottish Government continues to provide reform funding of £25m to support change and the transformation of policing.
- 2.3 IFRS 16 Leases is effective from 1 April 2022 in the public sector. The standard provides a single lessee accounting model and, under the latest Financial Reporting Manual (FRM) requirements, requires a lessee to recognise assets and liabilities for leases which last over 12 months, but not including low value leases. The standard will have the effect of largely eliminating the current "off-balance" sheet treatment of operating leases. Technical accounting adjustments during financial year 2022/23 are required that impacts both Resource Departmental Expenditure Limits (RDEL) and Capital Departmental Expenditure Limits (CDEL) budgets, which will see a

reduction in RDEL and an increase in CDEL but with minimal overall impact on funding.

- 2.4 Additional in-year funding and resource expenditure (revenue and reform) over a certain threshold is subject to approval through the Scottish Government's AO template process. The purpose of this template is to enable the Accountable Officer to document decision making and set out the relevant approvals required for material spend decisions. Finance and Procurement are working closely with the business to ensure that material spend decisions are documented as appropriate. However, there is a risk that approval for spend to be incurred may be delayed as part of this process.
- 2.5 The Chief Financial Officer provides the routine finance report which outlines the year to date and forecast position for the revenue, capital and reform budgets.
- 2.6 Appendix A provides the detailed quarter two (Q2) finance report.

Revenue

- The Q2 forecast break even position remains in line with budget.
- The net expenditure forecast is £1.9m under revised budget due mainly due to an over-recovery of airport income £2.8m offset by other funded pressures £0.9m. There are also a number of significant offsetting variances that form part of the Q2 forecast, with £28.9m of cost pressures funded by equivalent underspends of £28.9m.
- The £1.9m Q2 net expenditure forecast underspend is compensated by a corresponding movement in GiA funding, namely budgeted Covid recovery funding £2.8m offset by other additional GiA funding £0.9m to be agreed through Autumn Budget Revision (ABR) and Spring Budget Revision (SBR) transfers.
- A number of threats and opportunities are being monitored, some of which may crystallise in the Q3 forecast.
- The year to date actual position versus budget is an overspend of £2.5m.

- Estimated operational costs associated with the passing of Her Majesty the Queen (HMTQ) are highlighted separately in Appendix A. It is assumed that these costs will be funded. Work is ongoing to establish the full recovery cost on Resources utilised during the period including the impact of re-rostered rest days resulting from the Public Holiday.

Capital

- The capital forecast at Q2 is £61.4m, £3.6m above the revised budget position of £57.8m, mainly due to additional fleet investment to purchase cell vans £2.8m and other items £0.8m.
- This forecast overspend is fully funded and primarily compensated by an agreed reallocation of funding from Revenue Reform £2.8m, capital grants receivable £1.1m offset by a reduction in expected capital receipts £0.3m.
- The capital forecast at Q2 requires £16.6m of further slippage to be managed down over the remaining part of the year.
- The year to date actual position versus budget is an overspend of £0.4m.

Reform

- The reform forecast at Q2 of £22.2m is £2.8m under budget with funding re-directed to support capital expenditure investment.
- The quarter two reform forecast has resulted in the reduction of FY slippage of £3.4m, bringing the total slippage down to £3.1m from the budgeted amount of £6.5m.
- The year to date actual position versus budget is an overspend of £0.4m.
- In addition to the above AO template process, grant-in-aid funding for Revenue Reform costs is under review by Scottish Government with the aim of reducing this year's funding availability. This review by Scottish Government is to find savings to meet increased costs of public sector pay, while balancing public finances. This will have the impact on the deliverability of reform projects currently underway. Police

Authority are currently working internally and with Scottish Government to measure the impact of reduced funding.

3. FINANCIAL IMPLICATIONS

3.1 The financial implications are set out in detail within the report.

4. PERSONNEL IMPLICATIONS

4.1 There are no personnel implications in this report.

5. LEGAL IMPLICATIONS

5.1 There are no legal implications in this report.

6. REPUTATIONAL IMPLICATIONS

6.1 There are no reputational implications in this report.

7. SOCIAL IMPLICATIONS

7.1 There are no social implications in this report.

8. COMMUNITY IMPACT

8.1 There are no community implications in this report.

9. EQUALITIES IMPLICATIONS

9.1 There are no equality implications in this report.

10. ENVIRONMENT IMPLICATIONS

10.1 There are no environmental implications in this report.

RECOMMENDATIONS

Members are asked to discuss and note the year to date position and forecast position within the finance report.



**POLICE
SCOTLAND**
POILEAS ALBA



**SCOTTISH POLICE
AUTHORITY**
ÙGHDARRAS POILIS NA H-ALBA

Finance

FP&A - Financial
planning & analysis
team

Appendix A

Finance report

Quarter 2 2022/23



Finance dashboard

Q2 2022/23

Year to Sep 2022

Revenue

A	A/R	A
Jul	Aug	Q2

- YTD £2.5m over budget
- FY Q2 FC break even position in line with budget / funding

Capital

G	G	G
Jul	Aug	Q2

- YTD £0.4m over budget
- FY Q2 forecast £3.6m over budget (fully funded)

Reform

A	R	R
Jul	Aug	Q2

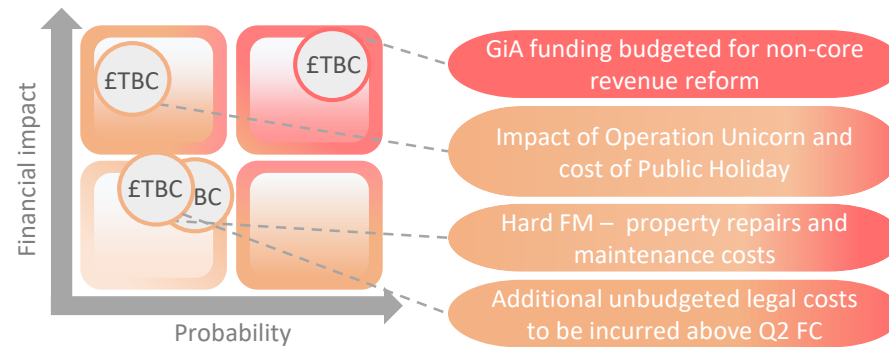
- YTD £0.4m over budget
- FY Q2 forecast £2.8m under budget

Revenue budget variance (£m)

	YTD actual v budget	FY Q2 FC v Budget
Police Scotland	-3.6	1.7
Forensic Services	1.1	0.2
SPA corporate	0.0	0.0
Total	-2.5	1.9
Funding		-1.9

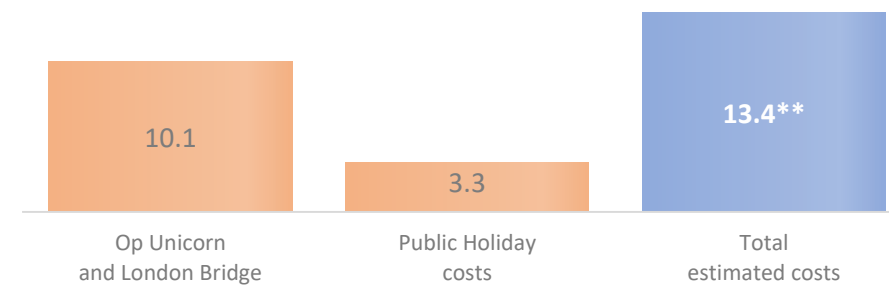
Break-even

Threats



Estimated costs assoc. with passing of HMTQ (£m)

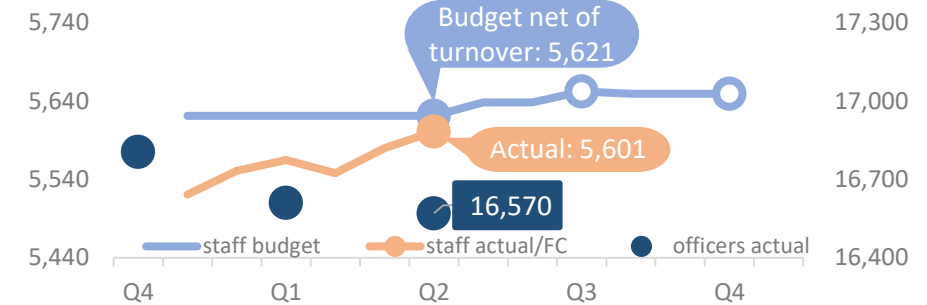
It is assumed that the costs below will be fully funded



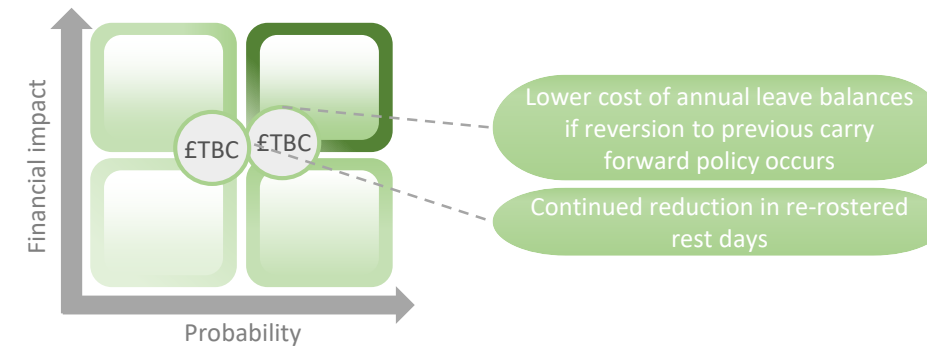
** Above estimated costs do not yet include either (i) the cost of re-rostered rest days as an impact of the Public Holiday or (ii) full recovery of Resource costs

People numbers (FTE) - Revenue Budget

Headcount currently running under budgeting assumptions at P6

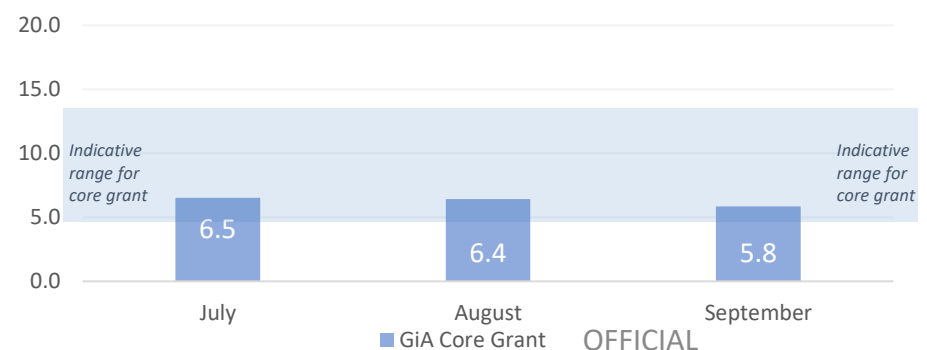


Opportunities



Cash flow management (£m)

Maintaining cash balances at a moderate level demonstrates effective cash management



Revenue

(service area)

Budget / Forecast deliverability status has changed back to amber after completion of Q2 FC

FY break even position remains in line with budget

Q2 net expenditure forecast £1.9m under FY budget

***Excludes Public Holiday, Operation Unicorn and Operation London Bridge estimated operational costs (£13.4m) associated with the passing of Her Majesty the Queen.*

SG GiA funding £1.9m (net movement):

- Budgeted Covid recovery funding £2.8m and offset by
- other GiA funding £0.9m expected through ABR/SBR transfers

Total expenditure £1.9m under budget

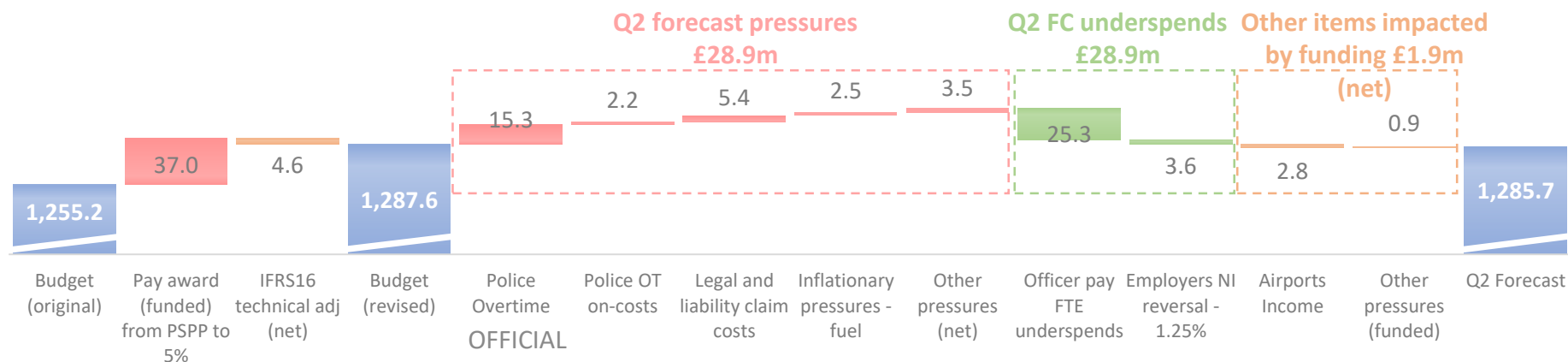
- Q2 revenue break even position in line with budget.
- There are a number of significant offsetting variances (see graph below) that form part of the Q2 forecast, £28.9m of cost pressures funded by equivalent underspends £28.9m.
- Q2 net expenditure is under the revised FY budget by £1.9m due to an over-recovery of airport income (£2.8m) offset by other funded pressures (£0.9m)
- A number of threats and opportunities are being monitored, some of which may crystallise in the Q2 forecast.
- Estimated operational costs associated with the passing of Her Majesty the Queen (HMTQ) are highlighted separately. It is assumed that these costs will be funded.

Detailed revenue variance (£m)

	Year to date			Full year		
	Bud £m	Act £m	Var. £m	Bud £m	Q2 FC £m	Var. £m
Police Scotland	618.7	622.3	-3.6	1,241.1	1,239.4	1.7
Forensic Services	20.5	19.4	1.1	41.7	41.5	0.2
SPA Corporate	2.4	2.4	0.0	4.8	4.8	0.0
Total	641.6	644.1	-2.5	1,287.6	1,285.7	1.9
Funding						
GIA - core				1,278.2	1,278.2	0.0
GiA - additional				9.4	7.5	1.9
Total				1,287.6	1,285.7	1.9
Est. costs assoc. with passing of HMTQ**						
	0.0	8.7	-8.7	0.0	13.4	-13.4

*** Above estimated costs do not yet include either (i) the cost of re-rostered rest days as an impact of the Public Holiday or (ii) full recovery of Resource costs*

Detailed budget to FY Q2 forecast (£m)



Revenue

(spend type)

Excludes Public Holiday, Operation Unicorn and Operation London Bridge estimated costs (£13.4m) associated with the passing of Her Majesty the Queen.

Internal rate of inflation has been estimated at ~10% based on review of relevant non-pay spend type categories. The main inflationary uplifts are:

- Utilities £3.5m
- Digital licences & subscriptions £2.6m
- Fuel £1.8m

Revenue variance by spend type - budget v Q1 FC (£m)

	Year to date				Full year			
	Bud £m	Act £m	Var. £m	%	Bud £m	Q2 FC £m	Var. £m	%
Police officers	436.7	438.0	-1.3	-0.3%	876.8	867.9	+8.9	+1.0%
Police staff	137.6	136.7	+0.9	+0.7%	276.1	276.4	-0.3	-0.1%
Non-pay	86.7	90.4	-3.7	-4.3%	173.0	183.1	-10.1	-5.8%
Income	-19.4	-21.0	+1.6	+8.2%	-38.3	-41.7	+3.4	+8.9%
Total	641.6	644.1	-2.5	-0.4%	1,287.6	1,285.7	+1.9	+0.1%

Pay

- Police officers - underspend in police officer pay costs (£25.3m) as FTE is expected to be on average 470 below budget assumptions, savings arising from 1.25% employers NI reversal (£2.9m) offset by overspends in core (£12.0m) and non-core (£3.3m) overtime together with associated on-costs (£2.2m); and officer pension costs (£1.8m).
- Police staff - actual FTE is currently lower than budgeted assumptions by 60FTE on a year to date basis, contributing to the underspend of (£1.9m) offset by overspend on overtime (£1.0m). The full year position relates to overspends on overtime (£1.8m) offset by savings arising from 1.25% employers NI reversal (£0.7m) and underspend on staff pay costs (£0.8m).

Non-pay

- Transport costs (£3.3m over) - overspend mainly as a result of higher fuel prices above budgeted assumptions used (£2.5m) and other items (£0.8m).
- Premises costs (£1.3m over) - overspends on utilities (£0.4m) due to inflationary pressures, cleaning & waste management (£0.4m) and other premises costs (£0.5m).
- Legal and liability claims - (£5.4m over)
- Other non-pay costs - (£0.1m over)

Income

- Full year budget includes a central income challenge of £4.0m. The forecast from divisions anticipates that this will now be over-achieved by £0.6m, mainly due to services of police (£1.6m), increase in mutual aid (£1.4m), seconded officers (£0.8m), specific grant funding (£0.5m) and other income (£0.3m).
- The forecast also anticipates an increase (£2.8m) for airport income above budgeting assumptions.
- One-off additional Grant-in-Aid funding (£4.6m) was budgeted to support lost income as a result of COVID. This will continue to be reviewed and will be measured against the final income position.

Movement: YTD variance to FY FC variance (£m)



Revenue

(further business area detail)

***Public Holiday, Operation Unicorn and Operation London Bridge estimated costs (£13.4m) associated with the passing of Her Majesty the Queen are excluded from the relevant business areas for reporting purposes.

DCC Local Policing***

- Overspends in officers core overtime (£13.6m) and non-core overtime (£2.0m); police staff pay costs (£1.6m) and police staff overtime (£1.5m); transport costs due to increased fuel prices (£1.8m) and casual car user costs (£0.4m); and other items net (£0.4m) offset by underspends in supplies & services (£0.7m) and over-recovery of income (£1.6m).

	£m	FTE
Budget	133.1	2,570.3
Q2 Forecast	152.1	2,608.7
FY variance	-19.0	-38.4
<i>YTD variance</i>	<i>-8.8</i>	<i>-28.6</i>

DCO Corporate services, People & Strategy

- Overspends in ill-health pensions (£0.8m); estate costs for utilities (£0.4m) due to inflationary pressures, cleaning & waste management (£0.4m) and other premises costs (£0.3m); offset by over-recovery of income for secondments (£0.5m) and other items net (£0.2m).

	£m	FTE
Budget	106.3	781.2
Q2 Forecast	107.5	766.7
FY variance	-1.2	14.5
<i>YTD variance</i>	<i>-1.0</i>	<i>27.0</i>

DCC Crime & Op Support***

- Over-recovery of airport income (£2.8m), mutual aid (£1.4m) and other income (£0.8m); underspends in police staff costs (£1.2m) and other items net (£0.5m) offset by overspends in officers non-core overtime (£1.3m) and core overtime (£0.6m); and transport costs (£0.9m) mainly due to increased fuel prices.

	£m	FTE
Budget	58.2	744.7
Q2 Forecast	54.3	723.8
FY variance	3.9	20.9
<i>YTD variance</i>	<i>1.3</i>	<i>23.0</i>

Corporate centre***

- Police officer costs (£26.0 under) - Pay costs (£25.6m) as FTE is expected to be on average 470 below budget assumptions, savings from 1.25% employers NI reversal (£2.6m) offset by on-costs (£2.2m) associated with increased OT costs.
- IFRS 16 lease adjustments (£4.6m over)
- Other costs (£0.8m over).

	£m	FTE
Budget	844.9	17,272.4
Q2 Forecast	824.3	16,795.4
FY variance	20.6	477.0
<i>YTD variance</i>	<i>5.2</i>	<i>349.2</i>

DCC Professionalism, Digital & Transformation

- Overspend in legal costs and liability claims (£3.8m net) and other items (£0.6m) offset by underspends in police staff costs (£1.2m) and ICT costs (£0.6m).

	£m	FTE
Budget	98.6	901.5
Q2 Forecast	101.2	878.2
FY variance	-2.6	23.3
<i>YTD variance</i>	<i>-0.3</i>	<i>22.9</i>

Forensics services & SPA corporate

- Forensic Services (£0.2m under) – Underspend in staff costs (£0.7m) offset by increase in outsourced drug driving costs (£0.4m) and other non-pay costs (£0.1m).
- SPA Corporate (in line with budget) - underspend in police staff costs (£0.1m) offset by overspend in non-pay items (£0.1m).

	£m	FTE
Budget	46.5	597.6
Q2 Forecast	46.3	606.8
FY variance	0.2	-9.2
<i>YTD variance</i>	<i>1.1</i>	<i>2.8</i>

Capital

Budget / Forecast deliverability status remains at green

Year to date over budget by £0.4m

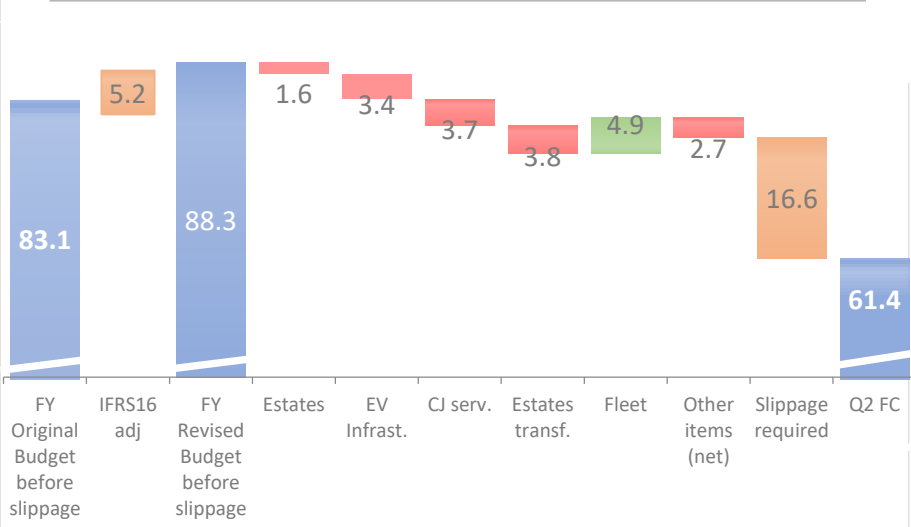
FY Q2 forecast £3.6m over budget (fully funded)

- Additional capex costs for fleet investment to be funded by reallocation of Revenue Reform £2.8m
- Other items £0.8m

FY forecast requires £16.6m slippage

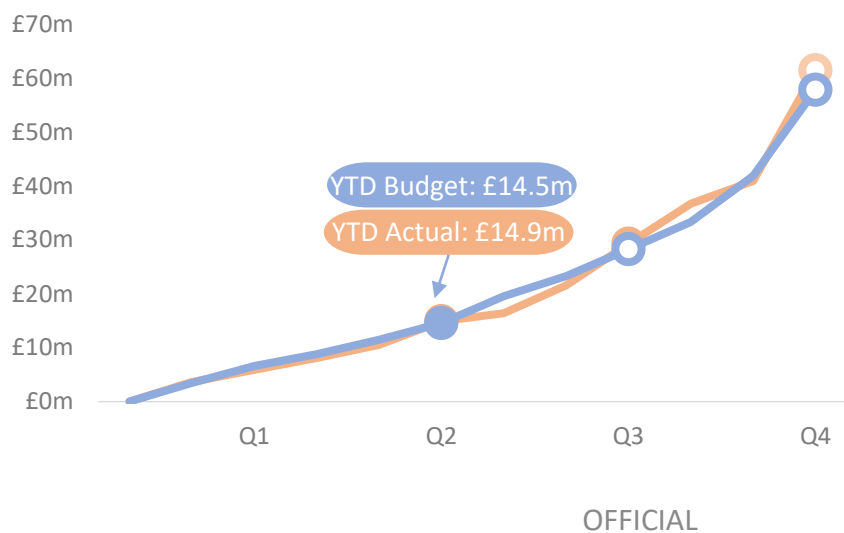
① DDD = Data Drives Digital
 ② DEPP = Digitally Enabled Policing Programme
 ③ MC&E = Modern Contact & Engagement
 ④ RJLP = Rights & Justice Legislative Programme

Forecast: movement budget to Q2 (£m)



Capital spend profile (£m)

Actual YTD spend running slightly above budget at P6



Capital variance by programme (£m)

	Year to date			Full year		
	Bud £m	Act £m	Var. £m	Bud £m	Q2 FC £m	Var. £m
Estates	4.3	2.3	2.0	14.2	12.6	1.6
Fleet	1.9	4.2	-2.3	11.2	16.1	-4.9
EV Infrastructure	1.8	0.5	1.3	6.2	2.8	3.4
Digital Division	1.4	1.9	-0.5	14.3	14.3	0.0
SPE	1.3	0.6	0.7	5.3	5.3	0.0
Weaponry	1.3	0.8	0.5	2.6	1.5	1.1
Forensics	0.2	0.1	0.1	1.4	1.2	0.2
<i>Change: legislative & inflight</i>						
CJ service programme	0.4	0.3	0.1	4.5	0.8	3.7
DDD ①	1.2	0.8	0.4	3.0	2.8	0.2
DEPP ②	2.1	0.8	1.3	4.3	3.0	1.3
Digital Division	0.4	0.2	0.2	0.8	0.5	0.3
MC&E ③	1.3	1.0	0.3	2.2	2.6	-0.4
Estates transformation	1.6	1.0	0.6	8.4	4.6	3.8
RJLP ④	0.2	0.1	0.1	0.4	0.7	-0.3
Technical surveillance	0.3	0.0	0.3	1.3	0.9	0.4
Policing in a digital world	0.1	0.0	0.1	2.4	2.4	0.0
Project weaver	0.0	0.3	-0.3	0.0	0.6	-0.6
Other	0.0	0.0	0.0	0.6	0.1	0.5
IFRS16 accounting adj.	0.0	0.0	0.0	5.2	5.2	0.0
Slippage	-5.3	0.0	-5.3	-30.5	-16.6	-13.9
Total	14.5	14.9	-0.4	57.8	61.4	-3.6
Funding						
GiA (Core)				45.5	45.5	0.0
GiA (from reform)				0.0	2.8	2.8
GiA (IFRS 16)				5.2	5.2	0.0
Reform				4.6	4.6	0.0
Cap receipts				2.5	2.2	-0.3
Other grants				0.0	1.1	1.1
Total				57.8	61.4	3.6

Reform

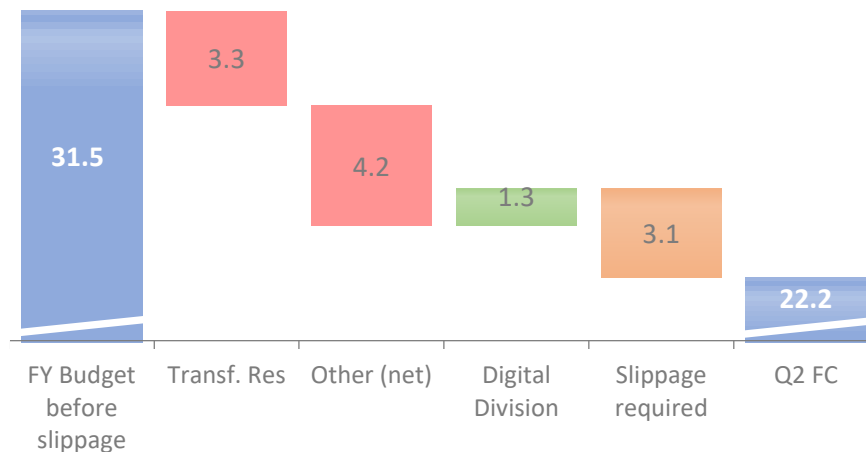
Budget / Forecast deliverability status remains at red as funding availability is under review by SG

Year to date over budget by £0.4m

FY Q2 forecast £2.8m under budget with funding re-directed to support capital expenditure

FY forecast requires slippage of £3.1m

Forecast: movement budget to Q2 (£m)



Reform variance by work stream (£m)

	Year to date			Full year		
	Bud £m	Act £m	Var. £m	Bud £m	Q2 FC £m	Var. £m
Transformation resource	5.9	5.4	0.5	14.4	11.1	3.3
Digital Division	0.0	0.5	-0.5	0.2	1.5	-1.3
DDD ①	0.2	0.2	0.0	0.9	1.0	-0.1
DEPP ②	0.0	0.4	-0.4	0.0	0.5	-0.5
Policing in a digital world	0.8	0.6	0.2	3.1	3.1	0.0
EPF ③ (incl. change)	0.0	0.4	-0.4	1.5	0.4	1.1
Estates transformation	0.2	0.1	0.1	1.0	0.8	0.2
MC&E ④	1.2	0.3	0.9	2.8	2.0	0.8
P&D programme	0.2	0.0	0.2	1.1	0.2	0.9
RJLP ⑤	0.0	0.0	0.0	0.6	0.0	0.6
VR VER	0.9	0.9	0.0	3.0	2.5	0.5
Other projects	0.6	0.4	0.2	2.9	2.2	0.7
Slippage	-1.2	0.0	-1.2	-6.5	-3.1	-3.4
Total	8.8	9.2	-0.4	25.0	22.2	2.8
Funding				25.0	22.2	-2.8

① DDD = Data Drives Digital

② DEPP = Digitally Enabled Policing Programme

③ EPF = Enabling Policing for the Future

④ MC&E = Modern Contact & Engagement

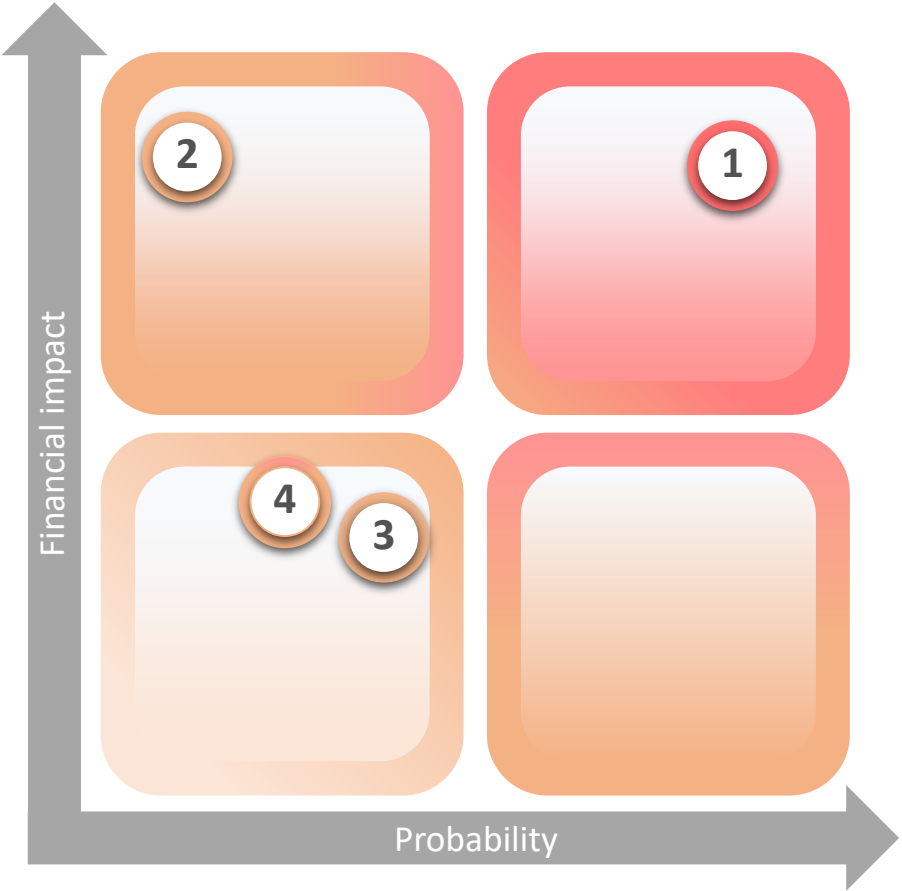
⑤ RJLP = Rights & Justice Legislative Programme

Risk analysis

The revenue budget is carrying further risks that may materialise.

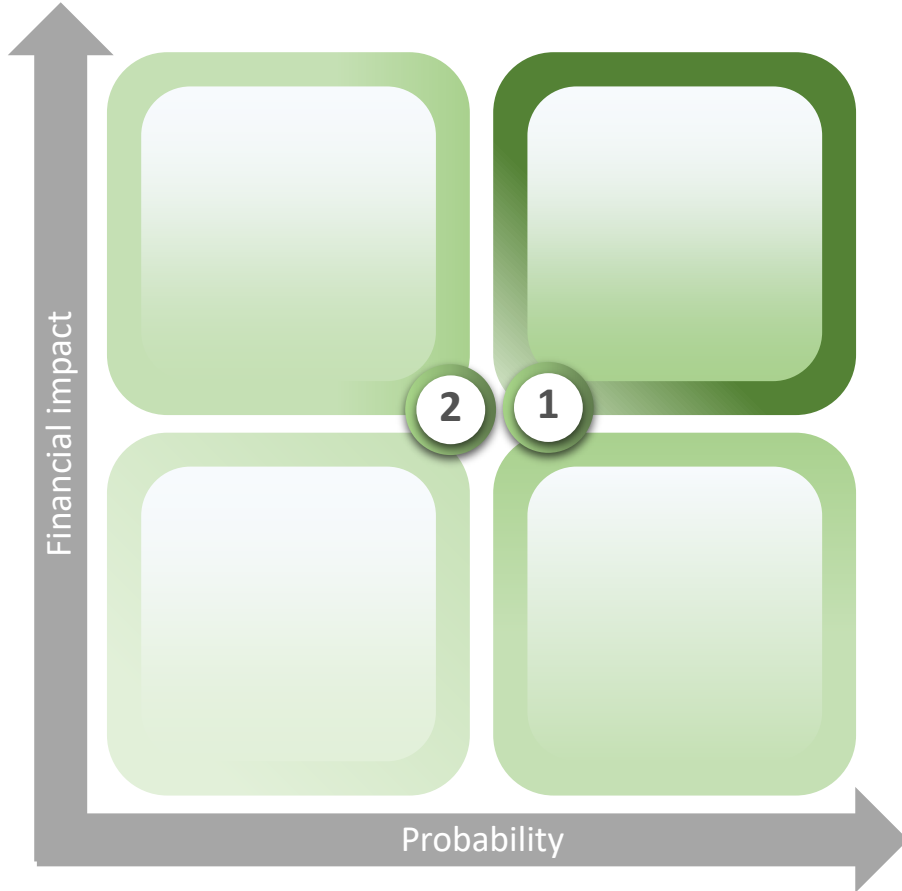
Threats and opportunities risks will continue to be monitored in Q3.

Threats



1. Grant-in-aid funding for Revenue Reform costs is under review by SG with the aim of reducing this years funding availability. This review by SG is to find savings to meet increased costs of public sector pay, while balancing public finances. This will have the impact on the deliverability of reform projects currently underway. Police Authority are currently working internally and with SG colleagues to measure the impact of reduced funding.
2. The cost of Operation Unicorn (policing response to the passing of Her Majesty The Queen) and the cost of the public holiday could have a significant impact on future months reporting and forecast deliverability. Discussions are ongoing with Scottish Government about funding availability to cover these exceptional and one-off costs.
3. New Hard FM contract –the cost of the new contract may continue to exceed the expected value dependent on run rates and service level. Steps have been taken to mitigate the impact of this risk.
4. Legal - potential additional unbudgeted legal costs and liability claims.

Opportunities



1. Annual leave - balances as at 31 March 2022 were accrued on the basis of a change in carry forward policy due to the unprecedented challenge of the Omicron COVID-19 virus. Reversion back to the original policy will result in an in-year benefit.
2. Re-rostered rest days (RRRDs) - current balances show a decrease against the balances accrued as at 31 March 2022. Maintenance of these balances at current levels or further reductions will result in an in-year benefit.