SCOTTISH POLICE AUTHORITY

POLICE SCOTLAND
Keeping people safe

Scottish Police Authority Three Year Financial Plan 2018/19 to 2020/21

May 2018

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Contents

Executive Summary

This Three Year Financial Plan has been produced to support the delivery of the Policing 2026 Three Year Implementation Plan as well as setting out how the Scottish Police Authority and Police Scotland can deliver a balanced budget by the beginning of 2020/21.

A prudent approach has been taken to the development of this plan; the assumptions made on future cost pressures are at the higher end of the scale, whilst the benefits assumed from the transformation work are cautious and at the lower end of the scale. Despite this, the Three Year Financial Plan sets out how the organisation will simultaneously eradicate its deficit over this period, whilst creating significant productivity gains that will increase the number of productive policing hours available for service delivery over the current levels in 2017/18.

Investment Driven

The Policing 2026 Three Year Implementation Plan requires significant capital and reform investment over the next 3 years in order to take forward the prioritised projects that will contribute towards the delivery of the Policing 2026 Strategy. This includes significant investment in core ICT systems, investing in cyber capability and re-designing the ways in which the public make contact with the Police.

Operational Capacity Gains

The investment made in these key projects will release the benefits set out in the business cases that have been prepared to clearly articulate the value of the transformation work that we will be undertaking over the next 3 years. These benefits include the reduction of risk, improving the public's and our employees' experiences, meeting the changing demands of the future and creating significant productivity gains which will improve operational policing capacity.

Realisation of Savings

The significant productivity gains generated through the key projects set out in the Policing 2026 Three Year Implementation Plan will provide a number of options. These options involve reinvesting in existing areas of the service, creating new capability by reinvesting in growing areas of demand, as well as converting these productivity gains into savings that will support the delivery of balancing the budget by 2020/21. We are confident that the productivity gains will be of a scale such that only an element of these will be required to be converted into savings to balance the books. This will mean that despite making these savings, there will be an enhancement to the operational effectiveness and impact of policing in Scotland over the coming years because of the key investments planned over the next three years.

1 Background

The Three Year Financial Plan is a crucial planning document that sets the financial context for Police Scotland and the Scottish Police Authority (SPA) in delivering the Policing 2026 Strategy and it's underpinning 3-year implementation plan as well as core operational policing and corporate strategies.

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's strategies and financial commitments.

Significant work was then undertaken through 2016 and early 2017 to develop the ten year organisation strategy, approved by the SPA Board on 22 June 2017. The 'Policing 2026' strategy sets out the long term vision and organisational blueprint for the next decade. To accompany the 'Policing 2026' strategy, a three year implementation plan – *Serving a Changing Scotland, Creating Capacity to Improve 2017-2020 (the 'Implementation Plan')*, was developed and approved by the SPA Board in December 2017. The Implementation Plan has been refreshed in March 2018, is fully aligned with this Three Year Financial Plan and provides greater clarity on the costs and benefits of the transformation portfolio.

The rolling Implementation Plan sets out how the organisation will begin to deliver on the ambition of the strategy in the first three years through a combination of programme and project activities designed to:

- **Enhance Capability** through the building of required transformation capacity and expertise to ensure delivery of the strategy;
- **Realise Operational Improvements** through bringing staff and stakeholders together to understand their experience of policing. Identification and implementation of improvements through lean methodology to reduce waste, failure demand and move policing expertise to the front line;
- **Deliver Early** in the transformation journey. A number of programmes have delivered tangible benefits within 2017/18 including Cyber, ICT, Leadership and Corporate Services;
- **Strategic Delivery** across Operational Policing, through the implementation of a set of core systems to enable Officers to spend more time in communities and on the front line rather than in the station fulfilling administrative tasks, and achieving significant efficiencies in Corporate Services through a move to a shared services model; and

- **Enable Sustainability** in the changes by ensuring they are aligned to training, development, governance and policies to reinforce the new ways of working.

Alongside the development of the strategy and its implementation plan, a Draft Three Year High Level Financial Plan was developed and presented to SPA in June 2017. This document highlighted the indicative level of investment required to deliver service improvements, the strategic aims and objectives of Policing 2026 and the levels of efficiency required to meet the commitment of the organisation to achieve financial sustainability by 1 April 2020.

In September 2017, a formal Three Year Financial Plan was presented to, and approved by, the SPA Board. This provided an updated high-level assessment of the financial resources required to deliver the organisation's strategic priorities and essential services over the next three years at the same time as eradicating the funding deficit to achieve a balanced budget.

This was signposted as a live document which will be refreshed as the Policing 2026 strategy and its supporting implementation plan continue to be developed, and as progress is made towards programmes being fully developed, defined and moved into implementation and delivery. As such the Three Year Financial Plan did not provide a holistic and definitive position for the three year period to 31 March 2020, it was based on the information available, best estimates and high level assumptions in line with current thinking at the time it was presented.

This document reflects the first refresh of the approved Three Year Financial Plan to accompany the 2018/19 budget, containing increased clarity on the transformation portfolio and wider organisation financial considerations and is to be presented to the SPA Board for approval in May 2018. The Plan will be refreshed on at least an annual basis thereafter.

This updated Three Year Financial Plan still cannot provide a holistic and definitive position for the three year period, now through to 31 March 2021, as it continues to be based on best estimates and high level assumptions in line with current thinking. It does however reflect the significant improvements in the level of information available and confidence in delivery of the required efficiencies through targeted transformation activity.

In addition to this Three Year Financial Plan, there is an overarching 10 Year Financial Strategy that builds on the first 3 years, and is more thematic in nature. It sets out a number of different scenarios and the financial levers available to respond to any future changes. The 10 Year Financial Strategy was developed in September 2017 and has been refreshed for consideration and approval by the SPA at its Board meeting on 2 May 2018. Given the limitations and exclusions documented at section 4 of this report, in particular the lack of sufficient corporate strategies, this has been a high level refresh to accompany this Three Year Financial Plan.

2 The 2018/19 Base Budget

In this Three Year Financial Plan, the SPA 2018/19 budget, as approved by the SPA Board on 29 March 2018, has been adopted 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%).

The 2018/19 financial year is the second year of a three year plan to bring the SPA budget into balance on a recurring basis. The Implementation Plan and this Three Year Financial Plan set out the details on the programmes and projects being undertaken to deliver the savings required to eradicate the current operating deficit.

The revenue budgeting approach has continued to be further developed. In 2017/18 a zero based approach was used for budgeting Officer and staff costs and this has been further refined in 2018/19, building on lessons learnt from the previous exercise. Across the whole employee base, the approach has been to identify the actual pay costs for each individual employee and build the budget requirement on a granular basis.

The underlying revenue budget deficit for 2017/18, at the outset of the three year commitment to achieve financial balance, started at approximately £63m. The approved revenue budget for 2017/18 was set with an operating deficit of £47.2m. Throughout the year, ongoing effort has been focused on reducing this level of deficit where possible. As a result, as at 31 December 2017, the organisation's forecast 2017/18 outturn was a deficit of £37.8m. However, this improved position against budget has been achieved largely through the identification of one-off non-recurring savings, such that the deficit on a recurring basis is forecast at £46.7m.

The draft 2018/19 budget is set with a deficit of £35.6m. This is in line with the forecast deficit per the approved Three Year Financial Plan (September 2017) of £35.6m. It should however be noted that there are non-recurring costs within this deficit for 2018/19, totalling £7.4m. This means that the recurring deficit is actually now ahead of plan, at £28.2m.

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 clear distinction between each of these funding streams in the 2018/19 draft budget to ensure full transparency in reporting and budget monitoring. This Financial Plan also presents each distinct funding stream separately.

The 2018/19 revenue budget included a number of key assumptions which are documented below:

- Budgeting for 17,134 Police Officers in 2018/19, a reduction of 100 from 2017/18, achieved through a slowdown in probationer recruitment in line with the Policing 2026 strategy through the release of Officers previously employed in back office corporate services roles;

- A pay award for Police Officers in line with public sector pay policy;
- A pay award for Staff in line with public sector pay policy;
- Payment of pay progression (increments) in line with recent trends for staff, no allowance has been factored in for pay progression (increments) for Officers as these have been evidenced as 'self-funding' through the modelling of Officer rank mix / progression;
- Maternity, paternity and sick pay costs consistent with recent experience and trends;
- Application of a vacancy factor saving to the Police Staff budget; this vacancy factor reflects the historic turnover within each Division / Department;
- Additional managed turnover has been incorporated to reflect the level of vacancies within the base budget;
- A number of permanent transformation posts recruited over the past twelve months and initially funded from reform, have moved to core revenue to reflect their permanent nature. Within the Three Year Financial Plan, these costs had previously been assumed to occur in 2019/20;
- Savings from the release of Police Staff posts in 2017/18 which will deliver recurring full year savings from 2018/19 onward;
- No general inflationary uplift, rather specific inflationary or demand pressures have been reflected in individual budget lines;
- Non-recurring elements of spend totalling £7.4m which will not have any corresponding spend in 2019/20 onward;
- Core revenue GiA from SG has increased beyond the level of real terms protection in 2018/19 by £22.0m to re-baseline previous amounts required to fund VAT separately;
- VAT on expenditure being fully recoverable in line with the section 33 VAT Act 1994; and
- The continuation of income received in the previous year by way of grant funding from local authorities and other partner organisations (unless formal notification has been received to advise otherwise).

For the first time, the capital budget was established through the Capital Investment Group. This group consider capital investment requirements across the whole organisation, covering both business as usual rolling programmes, statutory obligations and transformation requirements. The total request for capital exceeded £81.0m, comprising £9.7m of already committed expenditure and new service requests of more than £71.9m.

The approved capital budget for 2018/19 is £41.6m. There is £37m of funding available from core Scottish Government grants (£23m) and projected capital receipts (£14m). The balance of expenditure, £4.6m, will be funded from the Police Change & Transformation (reform) fund to support 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). The allocation of this budget is detailed in section 9.

The Police Change & Transformation (reform) fund is also available to fund the revenue cost associated with transformational change. Total funding of up to £29.6m (£25m revenue and £4.6m capital as documented above) is available to the SPA and there are a number of proposals to utilise this funding detailed further in section 10.

The spending of both capital and reform funding is closely scrutinised and, as such, any proposed reform 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 are made to Scottish Government for review and funding drawn down once approval has been granted.

The Recurring Operating Deficit

Table 1 below presents the projected financial position for the organisation if no change or transformational activity were to be undertaken to deliver significant improvements in productivity and capacity.

	2018/19 £m	2019/20 £m	2020/21 £m
Expenditure			
Police Officer costs	786.6	802.6	820.6
Police staff costs	177.9	185.3	194.9
Non pay costs	141.8	144.5	147.1
Income	(40.6)	(39.9)	(39.1)
Total Expenditure – Police Scotland	1,065.7	1,092.5	1,123.5
Forensics	30.6	29.5	30.3
SPA Corporate	4.1	4.2	4.3
Total Expenditure – Police Scotland/SPA	1,100.4	1,126.2	1,158.1
Funding			
Core revenue grant	1,064.8	1,087.7	1,112.2
Other	-	-	-
Total Funding	1,064.8	1,087.7	1,112.2
Budget (Surplus)/Deficit	35.6	38.5	45.9

Table 1 – Recurring Operating Deficit

This table highlights that without investment in transformation, the budget deficit would continue to grow each year, such that by 31 March 2021, the deficit would reach £45.9m. This emphasises that whilst the re-baselining of VAT and guaranteed increases from Scottish Government will increase the funds available, the impact of the revised public sector pay policy outstrips these increases.

3 Policing 2026 Strategic Context

Police Scotland and the SPA now have a long term strategy for policing in Scotland, to meet emerging needs and projected demands over the next decade. It is ambitious and will transform the organisation.

In February 2017 a widespread public consultation on the Draft 10 Year Strategy for Policing in Scotland was launched. The purpose was to meaningfully involve communities, the workforce and stakeholders in shaping the strategy. Following extensive consultation, this process closed on 8 May 2017, with an extended period for Local Authority responses until 29 May 2017. On 20 June 2017 the Strategy was submitted to Parliament and it was endorsed by the Cabinet Secretary for Justice. On 22 June 2017 it was approved by the SPA Board. It can be accessed at the following link.

http://www.scotland.police.uk/about-us/policing-2026/

The key elements of the Policing 2026 strategy are outlined in the diagram below.

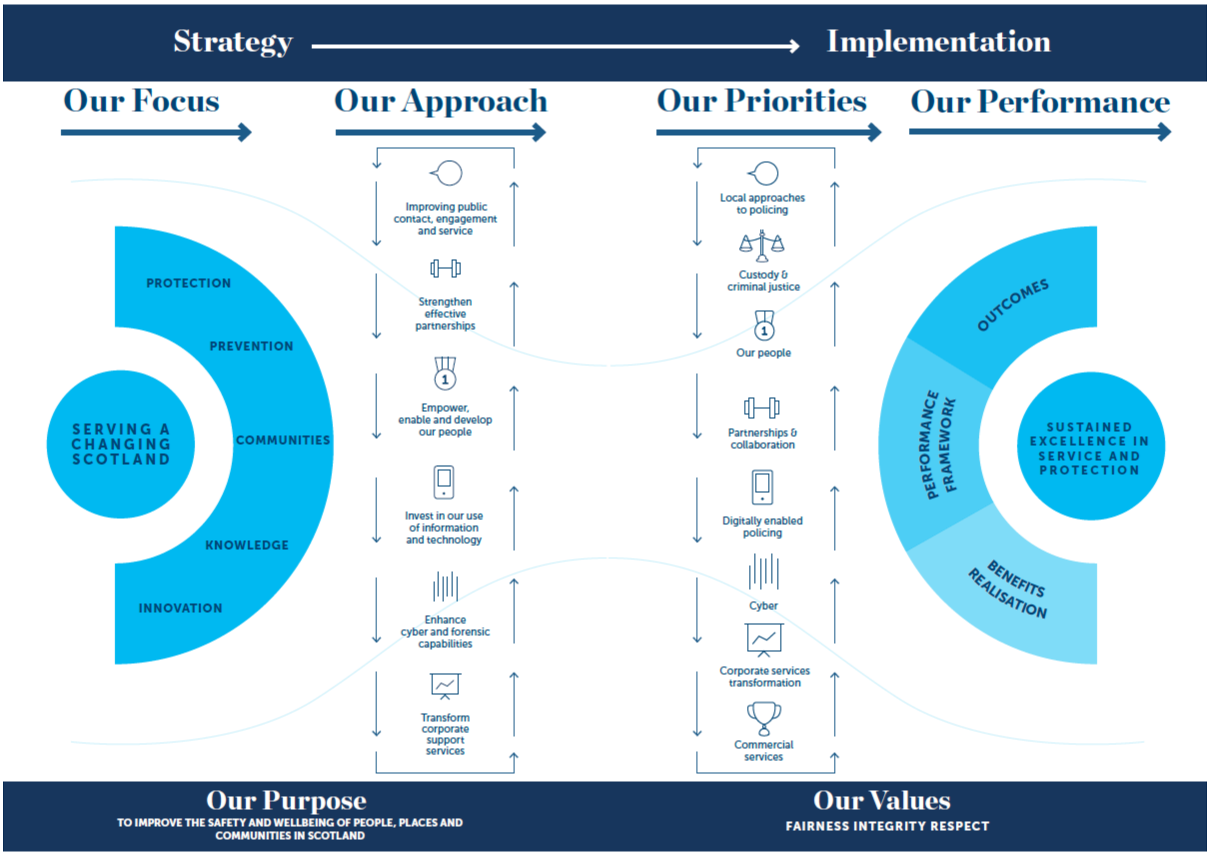

Diagram 1 – Key elements of Policing 2026

To set out how the ambition of Policing 2026 will be delivered, a Three Year Implementation Plan was developed and approved in December 2017. It is the first 3-year phase of a 10 year journey that will improve service delivery across Scotland. The Implementation Plan outlines how the organisation will implement the first phase of transformation to deliver Policing 2026, and aims to provide confidence that plans are realistic and will positively impact the experience of the organisation's people and the communities that are served. This first phase is focused on creating capacity, so that investment can be made in operational policing.

Genuine engagement is at the core of the adopted approach. Staff and stakeholders will be actively involved in the early stages to help define improvements. Engagement will be an ongoing activity, but a specific series of events and communications on a quarterly basis will be run to ensure people feel engaged and able to shape ongoing plans.

A robust performance framework will be used to measure progress, and robust governance and portfolio management will ensure progress is controlled and is transparent to stakeholders and communities.

4 Three Year Financial Plan Overview

This refreshed Three Year Financial Plan covers the period to 31 March 2021. It demonstrates how investment in change and transformational activity during this period will enable the organisation to deliver significant capacity gains. These capacity gains will be used primarily to enhance the operational effectiveness of the Police Service and will also assist the organisation to meet its commitment to Scottish Government to achieve financial balance within the revenue budget by 1 April 2020, as shown in the diagram below.

Diagram 2 – Three Year Financial Plan Overview

The investment in changes to systems, equipment and working practices will unlock the long-term capacity gains, efficiencies and enhanced capabilities to support the delivery the Policing 2026 Strategy. Per Section 2 - *The 2018/19 Base Budget*, the Scottish Government has made available up to £29.6m (£25m revenue; £4.6m capital) to support reform and transformation of the Service. This plan assumes continuing Scottish Government reform and transformation funding for the next 2 years, through to 31 March 2021. The draft budget allocation for 2019/20 is expected to be known in December 2018.

Over the coming 3 years, the Policing 2026 Implementation Plan and this Financial Plan are aligned to ensure delivery of our 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 support services.

Constructing the Three Year Financial Plan

Ongoing development and refinement of the Three Year Financial Plan has been undertaken within the wider context of reviewing the base budget, developing the Three Year Implementation Plan and developing the Ten Year Strategy. Diagram 3 provides a summary of the activities undertaken at each stage of development.

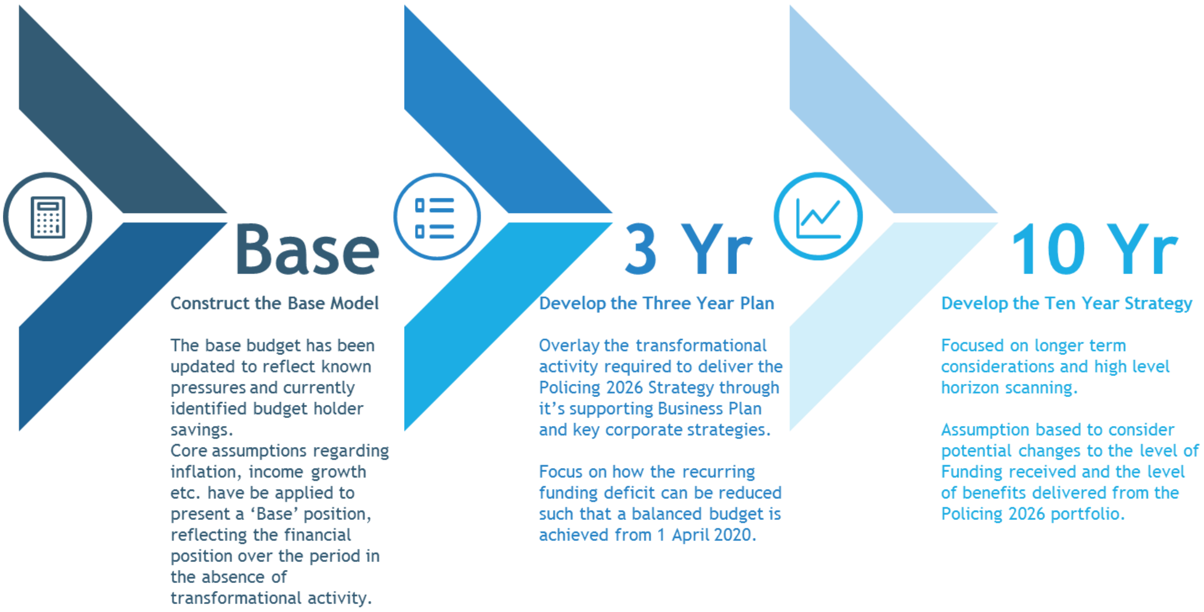

Diagram 3 – Development of the Three Year Financial Plan

The Three Year Financial Plan is tactical in nature, strives to be directional and, in order to be as robust as possible, should be directly founded on organisation business strategies. The diagram below summarises the key strategies required to deliver a robust financial plan:

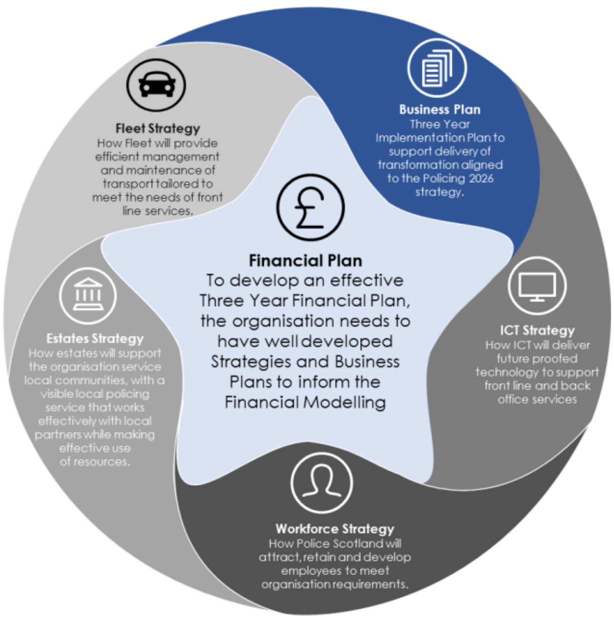

Diagram 4 – Key Strategies to inform the Financial Plan

At the initial writing (September 2017) of the first version of the Three Year Financial Plan only a draft high level 3 Year Business Plan was available. Other than the approved Three Year Implementation Plan (*Serving a Changing Scotland, Creating Capacity to Improve 2017-2020*), this remains the case in May 2018. The corporate strategies for Fleet, Estates and Workforce are currently at different stages of development and not yet in a position to fully inform the financial modelling underpinning this plan.

The Digital, Data & ICT Strategy is also currently in development. It will have two clear outputs that will support future financial planning, these are:

1. A Technology Target Operating Model (TToM)– providing an Integrated Vision, Strategy & 100 day delivery plans to define an optimal plan to deliver the strategic TToM necessary to support delivery of:
    - Full benefits of Police Reform; and the
    - 2026 Strategy; and
2. An 'Indicative' Strategic Outline Business Case (SOBC) – providing the outline costings of the options available to deliver the TToM.

At the time of writing (May 2018), the full financial impact of the Digital, Data & ICT Strategy is not available to be captured within the financial modelling. Initial indications are that the level of capital investment required over a five year period would be in the region of £206m. The strategic outline business case will be completed in late May 2018 and an initial business case will be completed by late summer 2018 which will provide greater certainty on the level of investment required. These business cases will be developed in line with the Investment Governance Framework before going through robust governance arrangements including the seeking of Scottish Government consideration and approval.

This Three Year Financial Plan will be refreshed again to support the setting of the 2019/20 budget in spring 2019. By the time of this second annual refresh of the Three Year Financial Plan, the core corporate strategies should be fully developed to allow full consideration of the associated financial implications.

In the absence of the detailed strategies at this time, the approach to developing the Plan has:

- Built the most robust financial position available;
- Tactically approached addressing the £35.6m budget deficit in 2018/19;
- Relied on emerging Business Plans to inform planned levels of expenditure;
- Embraced the most up to date benefits realisation plans across Directorates, Transformation teams and the Policing 2026 Portfolio;

- Been informed by best estimates and assumptions;
- Highlighted any exclusions where sufficient detail is not available to inform any financial planning, as documented at the 'Limitations / Exclusions' section of this paper;
- Been informed by detailed engagement with key budget holders;
- Reviewed best practice across the Scottish and UK Public Sector, as well as CIPFA and Audit Scotland Guidance; and
- Requested guidance from Scottish Government on suitable modelling scenarios.

Scope

The Three Year Financial Plan assesses the organisation's planned expenditure across the main funding areas, presented below, along with the associated funding level in 2018/19:

Diagram 5 – Police Scotland Funding 2018/19

The diagram shows that the capital plan is funded in part by Reform Funding (£4.6m) and core capital grant and capital receipts (£37m).

The core Police Scotland revenue budget is split across four senior budget holders, the DCC Designate, DCC Crime and Operations, DCC Local Policing and the Deputy Chief Officer. In addition to these core budgets, the portfolio of projects for Policing 2026 is overlaid on to the budget to capture the investment requirement and the benefits to be realised through the efficiency gains this investment must deliver.

Diagram 6 below presents 37 projects currently initiated and captured within the Policing 2026 Transformation portfolio as well as those projects not formally captured as 'transformational' but with a significant impact on the organisation. The diagram shows the level of financial information available for inclusion within this Plan across five categories:

- Core budgets;
- Full business case analysis;
- Initial business case financial analysis;
- Scoping and design work ongoing (not yet through appropriate governance); and
- Those with such limited financial analysis that they are not captured at this time.

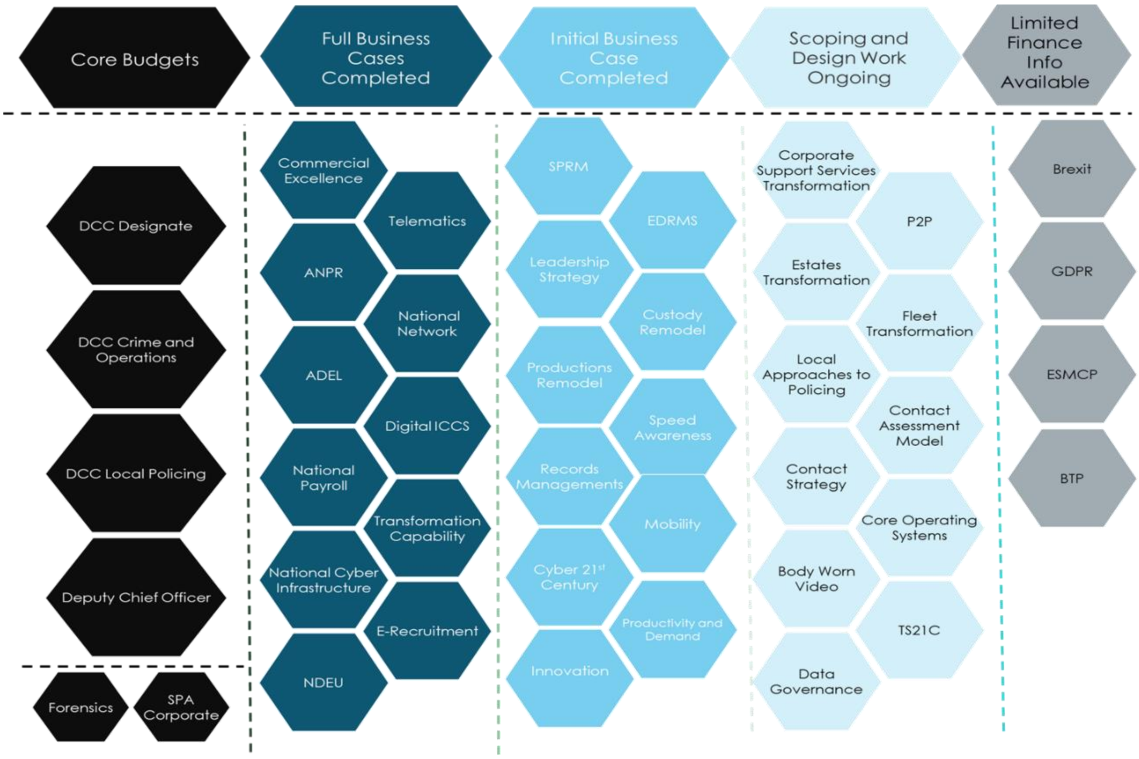

Diagram 6 – Core Business Units and Transformational Activities

The diagram highlights the wide ranging nature of the transformation programme and also presents the significant progress from the approved Three Year Financial Plan in September as more projects progress through the required levels of governance to develop their full business cases.

Limitations / Exclusions from the Financial Plan

Of the 37 projects identified within the plan, there are a number of projects which are still in the early stages of Design and Planning or Scoping. As such, with detailed options appraisal work still to be undertaken to identify the preferred option, confirmed, detailed financial analysis on both the costs and savings are included at this time as best they can be for the following projects:

- Contact Assessment Model;
- Local Approaches to Policing;
- Corporate Support Services Transformation;
- Procure to Pay (P2P);
- Core Operating Systems; and
- Body Worn Video.

There are also projects which are still being fully scoped and for which reliable figures are not yet available. As such the following projects have been excluded from the financial analysis underpinning the Three Year Financial Plan.

- Brexit;
- British Transport Police Integration;
- GDPR; and
- ESMCP.

Per section 4, '*Constructing the Three Year Financial Plan*', the current financial modelling that underpins this paper is not yet able to factor in the full impact of the emerging corporate strategies that will have a significant future of the organisations financial position. These outstanding strategies are:


Estates Strategy


Fleet Strategy


ICT Strategy


Workforce Strategy

5 Significant Developments Since the Previous Version

The Three Year Financial Plan approved by the SPA Board in September 2017, presented the means by which investment in changes to systems, equipment and working practices will unlock long-term capacity gains, efficiencies and enhanced capabilities to support the delivery the Policing 2026 Strategy and achieve a balanced budget from 1 April 2020.

Whilst the level of planning information on the means by which improvements in operational policing, operational and business support functions and non-pay budgets would enable the delivery of a balanced budget was available, it was not possible to directly link individual projects to allocated efficiency targets or projected budget amendments in future years. This version of the Three Year Financial Plan takes a significant step forward in aligning the delivery of efficiencies and capacity creation to individual projects, however it is recognised that further work is still required to fully map all efficiencies and capacity creation, along with clear benefit delivery and realisation plans across the three year period presented.

In addition to the substantial challenge of addressing the opening 2017/18 £63m budget deficit over three years, in the period since September 2017, two additional cost pressures have arisen which have placed further strain on the organisation's financial position, these are:

Staff Pay and Reward Modernisation (SPRM)

The approved Three Year Financial Plan included high level assumptions regarding both the initial and recurring costs of implementing SPRM. These have now been superseded by the SPRM Business Case which provides an updated forecast on the likely costs of implementation. These costs are greater than those factored in to the previous modelling and therefore present an additional cost pressure to be addressed in order to meet the commitment to achieve a balanced budget from 1 April 2020.

Public Sector Pay Policy (PSPP)

In February 2018 the Scottish Government confirmed a change to the terms of PSPP. Previously capped at 1%, PSPP now features a three tiered approach where those earning less than £36,500 have a 3% increase, whilst those earning above this will receive an increase of 2%. Anyone earning more than £80,000 will be limited to a pay award of £1,600. PSPP is set annually and so these rates may change in years beyond 2018/19. However, the financial plan assumes continuation over the planning horizon.

Indicative pay modelling suggests that the new policy will lead in future years to a 'blended' pay award for staff equivalent to 2.8% (increase of 1.8% against initial planning assumption) and of 2.3% (increase of 1.3% against initial planning assumption) for Officers. These two elements present a significant additional cost pressure to the organisation and increase the level of efficiencies required to achieve a balanced budget.

6 Key Assumptions

Outlined below are the additional key assumptions that have been adopted in developing the three year financial plan beyond those documented at section 2 – *'The 2018/19 Base Budget'*:

- It has been assumed that the Scottish Government will honour the commitment made in its 2016 Scottish Election manifesto that **funding would be protected** over the lifetime of the current parliament, which equates to an increase of £100m over 5 years. Per section 2, this increase is not sufficient to offset inflationary pressures and the cost of the revised public sector pay policy.

- **Pay awards** are calculated within the model in line with the revised public sector pay policy (PSPP). Although PSPP applies for 2018/19 only, for the purposes of the financial plan, the level of pay award in respect of 2018/19 has been assumed to continue through to 31 March 2021. Sensitivity analysis at section 8 has been undertaken to consider the impact of alternative levels of pay award on the budget and associated cost pressures.
- **Overtime** budget lines have been increased for pay awards and increments. There are no overtime reductions modelled at this time on the basis that these budgets are already deemed to be as prudent as possible.
- It is assumed that the **vacancy factor** within the 2018/19 budget will continue, reflecting natural attrition and lead-in time to recruit replacement staff.
- Costs associated with any **Voluntary Redundancy / Voluntary Early Retirement (VR/VER)** as a result of transformational activities are assumed to be funded from the reform budget for changing and transforming policing and so do not affect the revenue budget.
- No uplift for **Officer increments** has been applied, which is in line with recent pay modelling.
- **Staff increments** captured in line with the financial modelling undertaken as part of the Staff Pay & Reward Modernisation (SPRM) Business Case.
- **Pension Contribution** rate increase by 1% at each review cycle in line with recent trends.
- Continued **Scottish Government change & transformation funding** for the next 3 years, through to 31 March 2021.
- There is a standard inflationary uplift on **Non-pay Budget Lines** of 2% per annum. The purpose of applying 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.

- **Fees and Charges income** streams are assumed to experience a 2% reduction per annum on their current cash value in line with recent trends.
- **SPA and Forensics** are currently developing their strategy and financial plans. Currently these budgets have been uplifted in line with inflation, no further analysis has been undertaken at this time.

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, however there is no current indication of how this might impact service delivery or the funding of the organisation.

7 Current Iteration of the Plan

The result of overlaying the available information on Policing 2026, rolling forward existing budgets with known amendments, and applying the identified efficiencies and capacity creation activities documented on subsequent pages is presented below. This covers the period to 31 March 2021, figures are shown net of VAT.

	2017/18 Forecast Outturn £m	2018/19 £m	2019/20 £m	2020/21 £m
Opening Deficit	63.0	46.7**	28.2***	15.9
Expenditure				
Police Officer costs	772.3	786.6	790.0	808.0
Police staff costs	165.7	177.9	185.7	192.9
Non pay costs	155.6	141.8	142.5	147.5
Unallocated Savings*	-	-	(8.5)	(31.7)
Income	(44.8)	(40.6)	(39.8)	(39.1)
Total Expenditure – Police Scotland	1,048.8	1,065.7	1,069.9	1,077.6
Forensics	28.6	30.6	29.5	30.3
SPA Corporate	3.5	4.1	4.2	4.3
Total Police Scotland/SPA	1,080.9	1,100.4	1,103.6	1,112.2
Funding				
Core revenue grant	1,022.4	1,064.8	1,087.7	1,112.2
Other	20.7	-	-	-
Total Funding	1,043.1	1,064.8	1,087.7	1,112.2
(Surplus)/Deficit	37.8**	35.6***	15.9	0.0
Deficit Reduction (in-year)	16.3	11.1	19.7**	15.9
Cumulative Deficit Reduction	16.3	27.4	47.1	63.0

*Whilst the transformation portfolio has identified more than the required level of savings, work is still ongoing to prioritise and allocate these to individual projects from 2019/20 onwards. Therefore, these savings, representing less than 3% of the total Police Scotland / SPA expenditure in 2020/21, are shown as unallocated at this time.
**Includes non-recurring savings of £8.9m. Recurring deficit is £46.7m.
***Includes non-recurring costs of £7.4m. Recurring deficit is £28.2m.

Table 2 – Three Year Financial Position

The table shows that the organisation remains on track to deliver a balanced budget and eradicate the operating deficit by 1 April 2020, allowing the 2020/21 budget to be set with no deficit.

This will be achieved through the delivery of the identified efficiencies and translation of capacity gains to cashable savings through 2019/20 and 2020/21. Further details are provided below on the anticipated allocation of these savings across the three key budget areas.

Reducing the Operating Deficit

The opening operating deficit for 2017/18 was c. £63m. Figure 1 below presents the allocation of the savings required to achieve a balanced budget from 1 April 2020.

In order to achieve the planned reduction in the operating deficit, prudent budgetary changes have been identified across the three key budget areas in line with how investment in the Service will deliver corporate services and business support transformation, at the same time as delivering increased capacity to front line Officers. These activities are presented in figure 1 below, with additional detail provided on each of the areas in subsequent sections of this plan.

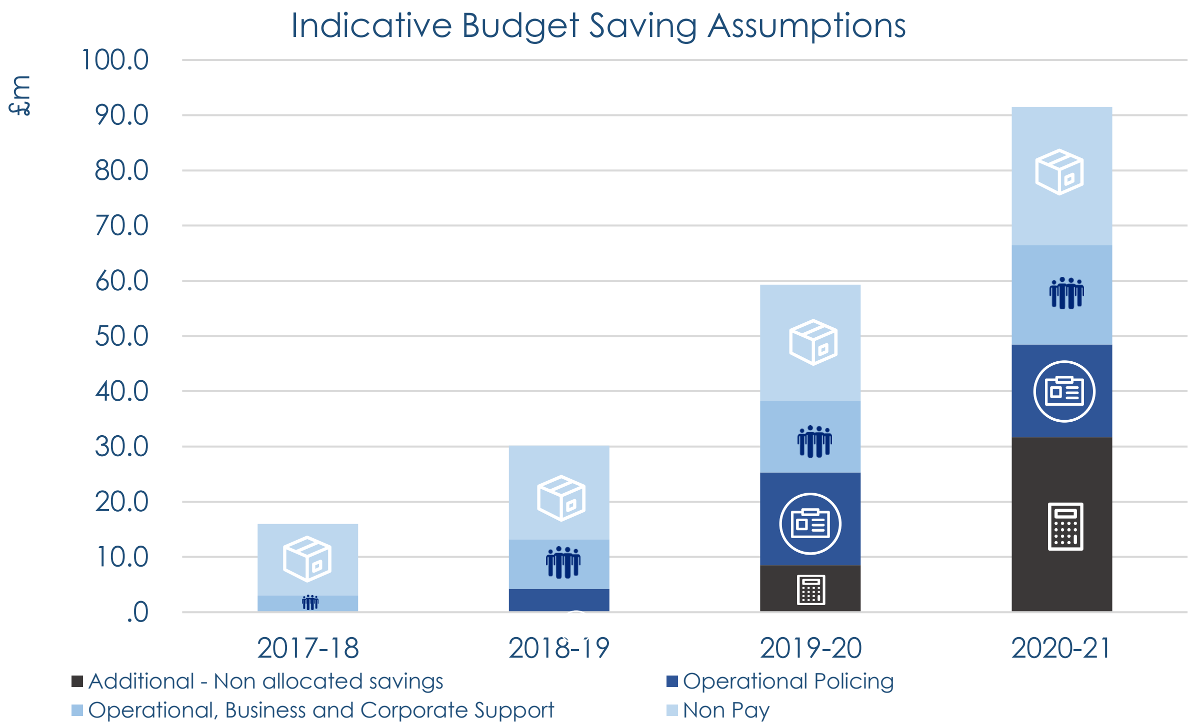

Figure 1– Cumulative Three Year Efficiency Delivery

Figure 1 shows an indicative profile of budget adjustments of c. £91m through to 31 March 2021. As plans become clearer, there may be changes as to how much each budget line will contribute to the delivery of the reduction in the operating deficit, but the requirement for a total reduction of at least £91m over this time frame remains. The allocation of savings will be agreed through the annual budget setting process.

Additional non-allocated savings are required to meet the further pressures documented at section 5. Whilst the transformation portfolio has identified more than the required additional savings, work is still ongoing to prioritise and allocate these to individual projects from 2019/20 onwards. Therefore, these savings are currently shown as unallocated at this time.

Operational Policing Capacity Creation

Capacity creation is essential within policing to allow the organisation to better utilise resources to meet the increasing demands and future threat, harm and risk that continue to emerge.

The most effective measurement of 'new capacity' is to consider the time created in terms of Officer Full Time Equivalents (FTEs).

The capacity created will be realised from the streamlining of processes, reductions in bureaucracy (e.g. rekeying of data into multiple systems) and introduction of enabling and mobile technology.

This financial plan assumes a reduction of 300 Officers from 1 April 2019 as a result of capacity creation. The scenarios below illustrate the projects which will enable the realisation of capacity creation equivalent to at least 300 Officers. Beyond the 300 reduction in 2019/20, capacity creation does not directly equate to a reduction in Officer numbers. Any proposals beyond 2019/20 will be subject to full consultation when the Policing 2026 Strategy is refreshed for 2020 onwards.

The level of efficiency and capacity creation identified to date through targeted investment in key transformation projects have been assumed at a prudent level based on initial scoping and planning activities. Work is ongoing to directly quantify the actual level that individual projects will deliver as each project moves through the governance process towards implementation.

The diagrams below present the level of efficiency identified for 2019/20 and 2020/21 through the latest budget planning exercise to assess the costs and benefit of each project undertaken to inform the 2018/19 budget.

Three scenarios are shown in figure 2, and these are explained further below:

- Low – Delivery of capacity creation equivalent to 300 Officers which will allow flexibility to slowdown recruitment to offset the increase in effective Police Officer hours and to balance the budget if required.
- Medium – Delivery of capacity creation equivalent to 478 Officers.
- High - Delivery of capacity creation equivalent to 657 Officers.

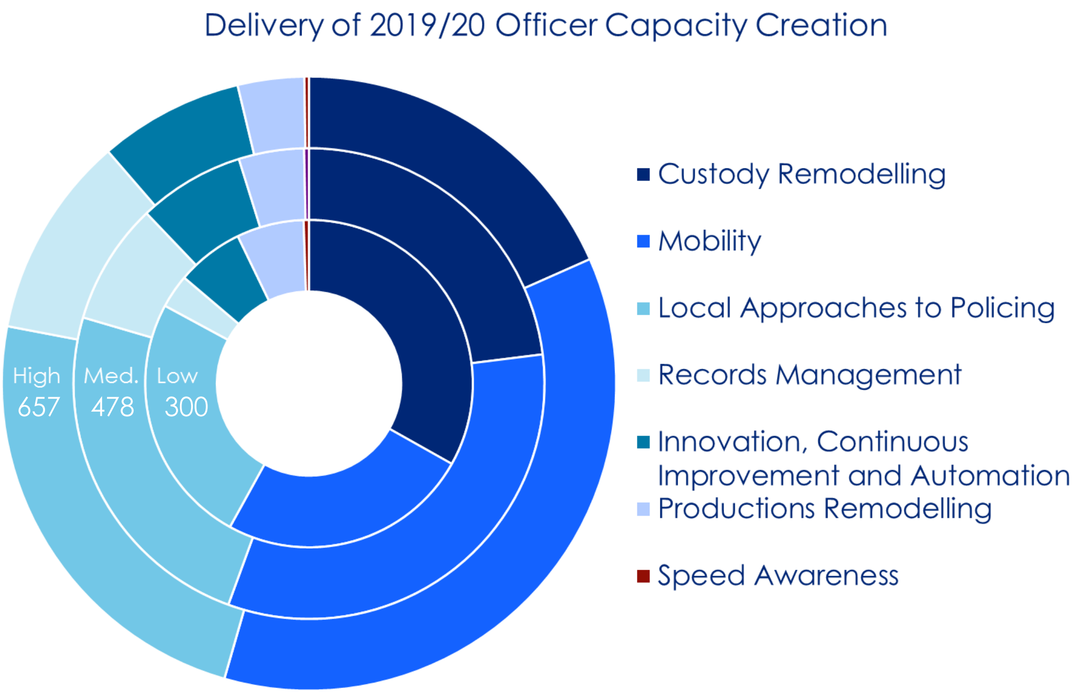

Figure 2– High / Medium / Low delivery of Officer Capacity Creation 2019/20

The same three scenarios are presented below in figure 3 for 2020/21, where the level of capacity creation could be as high as 1,176 Officers.

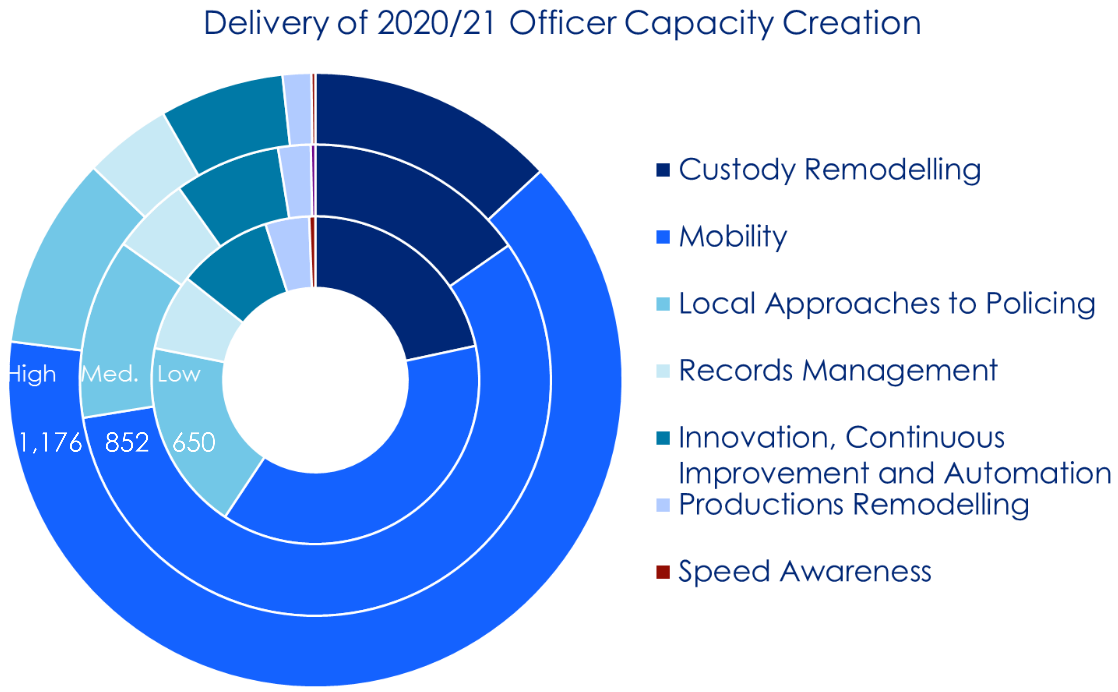

Figure 3– High / Medium / Low delivery of Officer Capacity Creation 2020/21

As with figure 2, three scenarios are presented in figure 3 above, these show:

- Low – Delivery of capacity creation equivalent to a cumulative 650 Officers.
- Medium – Delivery of capacity creation equivalent to 852 Officers.
- High - Delivery of capacity creation equivalent to 1,176 Officers.

The ongoing delivery of increased capacity from the projects highlighted above, as well as the realisation of projects still in the implementation period through 2021 are further documented within the Long Term Financial Strategy (Ten Year Financial Strategy).

The diagram below presents further detail on the proposed activities being undertaken within each programme in order to realise the levels of capacity creation documented in figures 2 and 3 above.

Custody Remodeling

More efficient Custody staffing models to reduce current levels of backfill. Currently reviewing both the size and location of the Custody estates, the staffing mix and shift pattern. Potential for significant Officer FTE being returned to operational roles from current 'backfill' activities.

Innovation

Ensuring all areas of Police Scotland can access support to re-design services and identify opportunities by providing tools and approaches to achieve savings including process re-engineering, long leap innovation and automation.

Local Approaches to Police Design

Effective approaches to local policing, identified through trials, will be rolled out across the country. This enhanced understanding of demands will allow for a review of resource allocation and aid in defining requirements for technology enablement.

Productions Remodelling

New productions staff will ensure that there is no longer a necessity for police officers to serve as temporary productions keepers and allow them to return to Local Policing.

Mobility

Use of mobile technology will allow officers to capture, assess and input information to core systems, improving productivity, effectiveness and reducing the time officers spend on administrative tasks.

Records Management

Release of Officer time from records branches to operational policing through consolidation of systems, functions and dedicated records management centres.

Diagram 7 – Officer Capacity Creation Narrative

Operational, Business and Corporate Support Efficiencies

From 2019/20, there are planned efficiencies across Operational, Business and Corporate Support budgets. The delivery of these efficiencies will enable investment in key priority areas and will help support the release of Officers to operational activities. Figure 4 presents the projected contribution by each key project to achieve the required level of efficiency. The allocation of the contribution for 2019/20 is presented below:

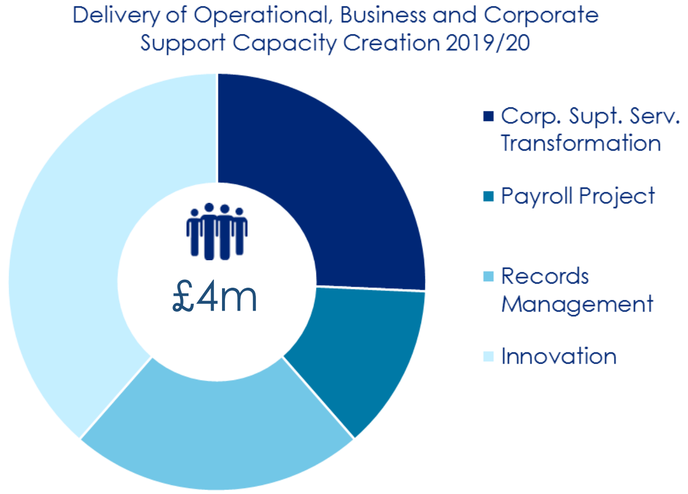

Figure 4 – 2019/20 Operational and Business Support Capacity Creation

Figure 5 below, presents the equivalent information for 2020/21.

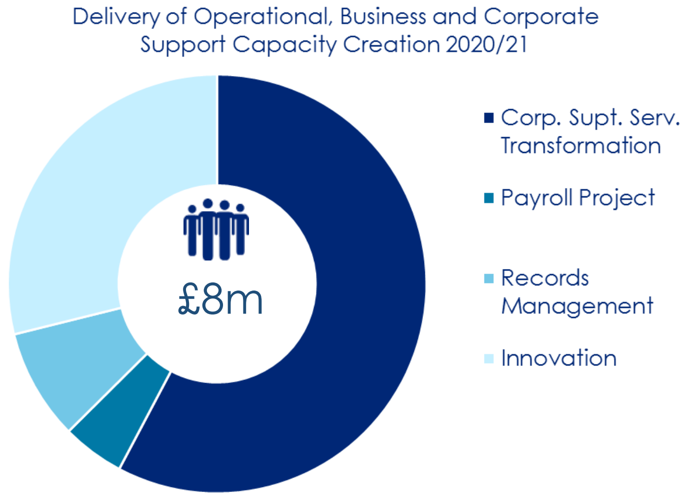

Figure 5 – 2020/21 Operational and Business Support Capacity Creation

It can be seen from figures 4 and 5 above that a significant proportion of the forecast efficiencies in Corporate and Business Support budgets are linked to key projects - Corporate Support Services Transformation and the Innovation, Continuous Improvement and Automation work stream.

Additional narrative on those projects included in the diagrams above, along with further initiatives that will increase capacity within Operational and Business Support budgets is provided in the diagram below.

More Efficient Corporate Services

Transformation of corporate support services will support a reduction in police staff in this area thereby releasing police officers back to operational policing activities.

National Payroll

Identification & implementation of a payroll solution that will consolidate payrolls onto a single application. This will address audit criticisms and deliver economies of scale at a level more typical for the organisation's size.

Increased Automation & Innovation

Increasing automation will allow for potential further reductions in corporate support roles which could be replaced with operational support roles.

Increased Civilianisation of Roles

Greater civilianisation of operational roles will result in opportunities for police officers to be returned to the front line, and supported by a greater number of specialist operational staff.

Staff pay & reward modernisation

A single pay and grading structure, coupled with a common people development policy will allow for streamlining of admin services in addition to allowing management to make informed decisions on resource requirements.

Records Management

Consolidation of systems, functions and dedicated records management centres. The reduction of common tasks through more efficient processes will allow for a more effective approach to records management.

Diagram 8 – Operational and Business Support Narrative

Non Pay Efficiencies

Key areas which will contribute towards the delivery of Non-Pay efficiencies include:

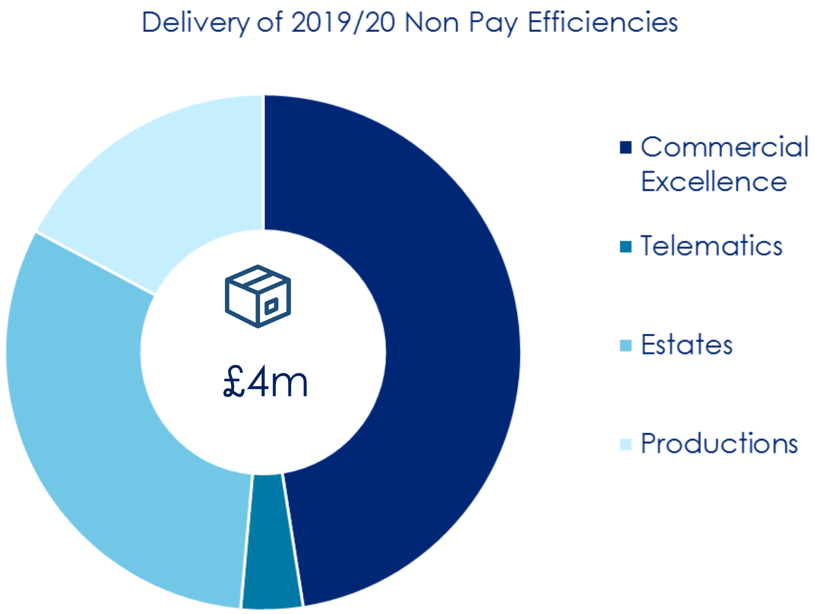

Figure 6– 2019/20 Non Pay Efficiency allocations

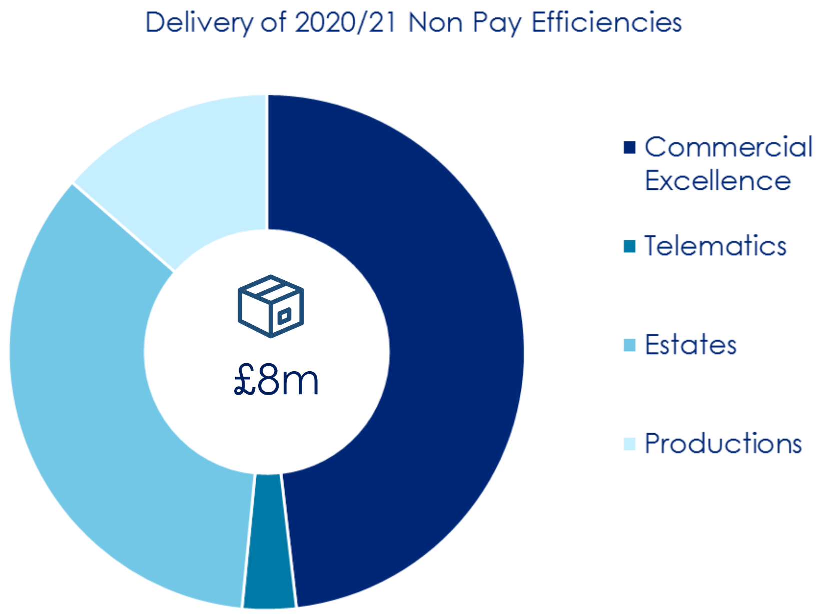

Figure 7– 2020/21 Non Pay Efficiency allocations

Additional narrative on those projects included in the diagrams above, along with further initiatives that will increase efficiency in non-pay budgets are provided in the diagram below.

More Efficient Corporate Services

We will deliver a shared service support function that consolidates and improves the support provided to our staff and officers and enables greater efficiency and standardisation. This will reduce duplication and ensure improvements in efficiency and effectiveness of support services.

Productions Storage

Reduce cost of storage through better management of the large number of productions received and stored. Reduce the current volume of productions, and identify better ways of capturing, managing and storing.

Commercial Excellence

Through development of a culture of commercial excellence the project will redefine the procurement process and management of all 3rd party goods and services, reducing the annual costs and improving standards of delivery.

ICT Support Costs

Reduction in ICT support costs through a more resilient and simplified ICT infrastructure. The new Wide Area Network will complement the existing high speed resilient core, with reduced single points of failure. It requires a simplified network management and support model.

Telematics

Implementation of a modern fleet management solution providing raw, real-time data to be analytically processed. This will identify fuel inefficient vehicles for replacement, reduce maintenance costs due to automated mileage control and allow for reduced fleet capacity whilst providing an uninterrupted service.

Estates

Aligning our estate to operational requirements which can support delivery of savings of rent, utilities, rates and also deliver capital receipts through sale of freehold properties.

Diagram 9 – Non Pay Efficiency Narrative

8 Sensitivity Analysis

Sensitivity analysis is a standard technique applied when undertaking financial planning and aims to highlight the financial impact of changes in key assumptions. Therefore, this has been undertaken to assess where the flexing of some of these assumptions impacts the financial model and would have a material effect on the overall financial position.

Three elements of sensitivity have been considered within this Three Year Financial Plan, these are:

- Pay Award;
- Costs of Staff Pay and Reward Modernisation; and
- Delivery of Transformation Benefits.

Pay Award

In the modelling for the 3 Year Financial Plan, it has been assumed that the Public Sector Pay Policy will remain at the same level as in 2018/19 for both 2019/20 and 2020/21. The potential impact of changes to this assumption is considered below. The base assumption within the financial model assumed the following pay award from 2019/20:

- 3.0% increase per annum for those earning less than £22k;
- 2.0% increase per annum for those earning between £22k and £36.5k; and
- 1.3% increase per annum for those earning above £36.5k.

The two scenarios modelled are:

1. Revert to 1% and £400
- 1% increase per annum over the entire budgetary period under review for Police Officers; and
- 1% increase per annum over the entire budgetary period for police staff, or for those staff paid under £22k, an annual £400 increase yearly, the effect of which diminishes over each period as the number of staff below this threshold reduces.

2. Adopt bandings at 1% less the amounts awarded in the 2018/19 pay award, in line with the below:
- 2.0% increase per annum for those earning less than £36.5k; and
- 1 % increase per annum for those earning over £36.5k.

The table below depicts the indicative cumulative impact on the overall pay pressure incurred over the base scenario for each sensitivity test.

	2018/19 £m	2019/20 £m	2020/21 £m
Base Deficit	35.6	15.9	0.0
Alleviated Pressure			
1. Revert to previous PSPP (1% - £400)		(12.5)	(25.4)
2. Adopt lower bandings (1% / 2%)		(9.4)	(19.1)

Table 3 – Pay Award Sensitivities

The table above shows the effect of modelling different levels of pay award when compared to the base assumption that the 2018/19 PSPP continues over the three year timeframe of the plan. The impact would be to reduce the employee cost base for Police Scotland. For instance, reverting to previous Pay Award levels could generate cost reductions of c. £25.4m by 31 March 2021.

SPRM

The implementation of SPRM enables the harmonisation of the varied legacy terms and conditions but it brings with it significant costs to the organisation. Whilst able to absorb the initial implementation costs in the base budget and through reform funding, the ongoing pressure as a result of increments brings a c. £4.5m pressure per annum from Year 2 onward.

Two scenarios are therefore considered below:

1. Freeze increments for two years (impacts 2020/21); and
2. Cap cumulative effect of increments and Pay Award at 4% (impacts 2020/21).

	2018/19 £m	2019/20 £m	2020/21 £m
Base Deficit	35.6	15.2	0.0
Alleviated Pressure			
1. Freeze Increments	-	-	(4.5)
2. 4% Cap on the cumulative Pay Pressure	-	-	(2.9)

Table 4 – SPRM Sensitivities

The table above highlights the indicative potential saving from seeking to freeze or cap the level of increments paid following the implementation of SPRM.

Delivery of Benefits

Section 7 details the level of capacity creation currently forecast from the transformation portfolio.

Should the delivery of these benefits start to slip, then the table below presents the impact required to address the funding shortfall.

	2018/19 £m	2019/20 £m	2020/21 £m
Base Deficit	35.6	15.9	0.0
Additional Pressure			
Delivery of 90%	-	2.6	6.0
Delivery of 80%	-	5.2	12.1
Delivery of 70%	-	7.8	18.1
Delivery of 60%	-	10.4	24.2
Delivery of 50%	-	13.0	30.2

Table 5 – Benefits Realisation Sensitivity

As expected, any slippage in the level of benefits derived from the transformation portfolio generates a significant further savings target to be realised. Whilst potential further efficiencies have been identified, these are intended to be reinvested in operational activities.

9 Indicative Capital Requirement

The capital plan has been developed through collaboration between the finance function, operational and commercial business areas, and the change function. A Capital Investment Group (CIG) was established in year to assess and prioritise capital bids in line with policing priorities and business need, and to agree a capital plan for 2018/19. The CIG will meet on a quarterly basis to review progress against the capital plan and assess changes to the capital priorities where necessary.

The decision was taken by the CIG to make a distinction between 'business as usual' investments and 'change' investments. Rolling capital programmes were identified and established for 'business as usual' investments in five key areas (Fleet, Estates, ICT, Specialist Policing Equipment and Weaponry), and a key business area lead was appointed as the responsible budget holder for each. Finance worked closely with the responsible budget holders to compile and assess priorities, and to produce capital bids for each of the five rolling programmes. Finance also worked in collaboration with programme and project managers within the change function to produce capital bids for transformation activities that form part of the Policing 2026 change portfolio.

Original capital bids received by the CIG for 2018/19 totalled £71.9m (£35.7m of 'business as usual' investments and £36.2m of 'change' investments). The bids were scrutinised by the CIG and a check and challenge process was undertaken with leads for the 'business as usual' and 'change' bids. This included assessing bids based on a number of key criteria, including:

- Strategic priority;
- Operational benefit;
- Operational risk;
- 2018/19 savings potential;
- Long term savings potential; and
- Deliverability in 2018/19.

The capital plan will be a key enabler to transforming the organisation as a number of projects within the portfolio require significant capital investment to unlock future efficiency gains.

	2018/19 £m	2019/20 £m	2020/21 £m
Capital (Annual Rolling Programmes)			
Estates	4.4	8.5	10.0
Fleet	5.0	11.2	12.0
ICT	6.3	10.1	10.1
Specialist Policing Equipment	2.9	4.0	4.0
Weaponry	1.4	1.9	1.5
Capital (Change Programmes)			
Corp. Sup. Serv. Transformation	0.5	3.5	3.5
Commercial Services	1.1	5.0	3.0
Custody / Criminal Justice Services	2.8	4.3	2.5
Digital Enabled Policing	6.4	19.6	15.0
Cybercrime Capability	0.5	4.0	2.5
Payroll	0.1	0.0	0.0
National Network	1.7	1.3	0.0
ADEL	4.7	1.3	0.0
Digital ICCS	2.5	1.3	0.0
ANPR	0.2	0.0	0.0
ICT – Data and Digital Review	TBC – Indicatively £206m over 5 years.		
ESMCP	TBC – Indicatively c£65m in 2020/21. Assumed to be funded by SG.		
Estates new build	Work ongoing to confirm value and timeframe		
SPA / Forensics	1.1	1.1	1.1
Total Indicative Capital Plan	**41.6**	**77.1**	**65.2**

Table 6 - Indicative Capital Budget

The indicative capital budget for future years has been established in line with the allocated budget for 2018/19.

Work is ongoing to deliver the ICT Data and Digital Strategy. Whilst significant amounts of capital are earmarked for ICT related BAU and Project spend in the table above, the specific level of investment required to implement the Strategy is not yet known and therefore only an indicative figure (c. £206m) is available at this time. The strategic outline business case will be completed in May 2018 and an outline business case will then be developed by late summer 2018 which will provide greater certainty on the level of investment required.

In the event that delivery of the capital plan is in line with proposals, additional bids will be made to Scottish Government in planning the budget for financial years 2019/20 and 2020/21 respectively with a view to securing the capital allocations to fund these projects.

10 Indicative Reform Requirement

The Scottish Government provides Police Scotland additional Police Change & Transformation funding to be used to support change and transformation for policing through the delivery of Policing 2026.

Police Scotland consider the funding requirements from business areas for investment aligned to the Policing 2026 programme that will directly deliver transformational change. Table 7 below summarises the high level identification of this spending for next three years.

Revenue Reform	2018/19 £m	2019/20 £m	2020/21 £m
Funding	**25.0**	**25.0**	**25.0**
Committed Expenditure			
Cost of TRCG resourcing	9.2	10.2	5.2
Planned Expenditure			
TRCG New	3.5	-	-
Professional Services	7.7	7.0	5.0
Digital & Efficiency Transformation	1.4	2.0	2.0
Corp Services Transformation	0.5	3.0	5.0
Operation Policing Transformation	0.6	2.0	2.0
VR VER	2.1	6.0	10.0
Non-recurring pay cost	-	5.5	5.5
Total Committed & Planned Expenditure	**25.0**	**35.7**	**34.7**
Oversubscription	-	**(10.7)**	**(9.7)**
Budget	**25.0**	**25.0**	**25.0**

Table 7 - Indicative Reform Budget

The indicative reform budget for future years has been established in line with the allocated budget for 2018/19.

Business cases are required to justify the use of reform funding, in line with the Police Scotland Investment Governance Framework. These are considered internally by Police Scotland for approval and subsequently require the approval of the SPA and Scottish Government prior to the release of funding. The use of this funding is separately monitored as a distinct funding source from the revenue and capital budgets.