The Chartered Institute of
Public Finance & Accountancy

Financial resilience self-assessment and medium-term financial planning toolkit

Achieving Finance Excellence in Policing (AFEP)

Financial Management Working Group

Association of Police and Crime Commissioners

National Police Chiefs' Council

PACCTS
Police and Crime Commissioners Treasurers' Society

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Foreword

This document has been produced as part of the Achieving Finance Excellence in Policing (AFEP) programme under the oversight of the Police Financial Management (FM) Working Group. The working groups were set up at the start of the AFEP programme to complement each stream, and the FM group focused very much on the findings of the financial management capability reviews (FMCRs). When the national report on the FMCRs was presented in 2020, it was apparent that more work was needed in the sector in relation to medium-term financial plans and financial resilience. This chimed with the new requirement in CIPFA's Financial Management Code (FM Code) for local authorities (including police) to undertake a self-assessment of their financial resilience.

This document aims to bring together both these themes into a single toolkit to help PCCs and police forces ensure their financial resilience and the sustainability of vital public services. It also includes an appendix containing an example medium-term financial plan and signposts further reading. We would like to thank everyone who has been involved in producing the document, especially Sandra Wiseman and Debbie Carrington for their work in bringing it together, Audit Wales for their presentations and the six financial resilience indicators, and Police Scotland for allowing us to share their medium-term financial plan as a case study.

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Introduction

Financial management is at the heart of ensuring an organisation's financial sustainability and the continued provision of public services. This document aims to support police forces and PCCs in undertaking a self-assessment of financial resilience in order to ensure their financial sustainability in the medium to longer term and compliance with the Financial Management Code (FM Code). It also gives advice on putting together a medium-term financial plan with scenario planning and sensitivity analysis to complement the financial resilience assessment, and to ensure that police bodies have a strong grip on their finances over the medium term.

Part 1: Financial resilience self-assessment toolkit

Financial resilience is a key component of CIPFA's Financial Management (FM) Model and provides an assessment of the financial sustainability of each force and its ability to withstand financial shocks. While the individual circumstances of each force are different, CIPFA's financial management capability review (FMCR) national report in 2020 reported that financial resilience was generally good, but forces have work to do in developing better integration between their medium-term financial strategies and the wider organisational drivers relating to workforce development, estates, information technology and transformation.

Police finance has been under significant pressure for over a decade following the financial crisis in 2008/09 that triggered a severe worldwide recession. In response to this, forces have implemented savings – for example, through efficiencies, transforming services and cuts to officer numbers. In its review of the financial sustainability of police forces in England and Wales in 2018,[1] the National Audit Office (NAO) reported that central government funding to commissioners had fallen by 30% in real terms since 2010/11. The Police Uplift Programme and the 2021/22 flat cash settlement go some way to reversing this situation.

However, the FMCR report found that not all forces had benefited fully from the maximum increases in precept permitted in 2019/20 and 2020/21, thereby not maximising the local funding that could have been available to them. In addition, some medium-term financial plans depended on thus far unidentified savings.

Against a backdrop of existing funding pressures, the financial costs of the COVID-19 pandemic are unprecedented in modern times. While the majority of additional costs have been met by grants from the Home Office and Department of Health and Social Care (DHSC), the question of the preparedness to meet such an unprecedented event or the impact if the pandemic continues for future years remains. At the time of writing, the implications of Brexit are still largely unknown, but significant price increases and an impact on supply chains are anticipated.

Some forces are much better placed than others to weather a financial challenge such as the pandemic. However, all forces will need to maintain financial sustainability against such significant funding pressures.

1 Financial sustainability of police forces in England and Wales 2018 (National Audit Office, 2018).

Financial strategy

Public service organisations operate in a challenging and potentially volatile environment in which strategies and plans can quickly be overtaken by events. It might seem that long-term planning under such circumstances is futile, but this is far from the case. High levels of uncertainty make long-term planning even more important.

A financial strategy is the link between an organisation's long-term service objectives and its financial capacity. It seeks to ensure the organisation's strategic objectives can be achieved within the confines of the financial resources that the organisation has at its disposal.

Sophisticated strategies will be of little value if they do not reflect the existing financial health of the organisation and emerging financial pressures it faces. Consequently, it is important that the organisation initiates the financial strategy development process with a comprehensive appraisal of its current financial position and the financial challenges that it faces.

A financial strategy can help improve the organisation's financial resilience by:

- helping to maintain and improve the organisation's financial solvency and/or liquidity
- increasing the value and diversity of income from public, commercial and other sources
- enhancing the organisation's ability to manage financial risk effectively.

Financial resilience

Financial resilience is the ability of police forces to remain viable, stable and effective in the medium to long term while facing pressures from growing demand, a tightening of funding and an increasingly complex and unpredictable financial environment.

CIPFA's report *Building financial resilience: managing financial stress in local authorities*[2] sets out the pillars of financial resilience, which are summarised in the following chart.

PILLARS OF FINANCIAL RESILIENCE

- Getting routine financial management right
- Benchmarking against most similar forces
- Clear plans for delivering savings
- Managing reserves over the medium-term financial planning horizon

INDICATORS OF FINANCIAL STRESS

- Running down reserves
- Failure to plan and deliver savings
- Shortening medium-term financial planning horizons
- Gaps in savings plans
- Departments having unplanned overspends and/or undelivered savings
- Dependencies on external central financing
- Proportion of non-discretionary spending, eg capital financing as a proportion of total expenditure
- An adverse judgement by HMICFRS
- Changes in accounting policies
- Low levels of confidence in financial management

2 **Building financial resilience: managing financial stress in local authorities** (CIPFA, 2017).

The CIPFA *Financial Management Code*[3] is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time, the FM Code sets out the standards of financial management for local authorities in the UK, including police and fire bodies. **Full compliance with the *Financial Management Code* is expected from 1 April 2021, part of which requires a financial resilience self-assessment to be completed by section 151 officers and shared with auditors.**

The following toolkit has been produced, which pulls together all current guidance with the aim of assisting forces to conduct a self-assessment of their financial resilience.

Benchmarking against similar forces is a pillar of financial resilience, as this helps to provides context to numerical indicators. However, there is no intention by the subgroup to collate or publish 'league' tables recognising different local circumstances for forces. The indicators are only part of the picture, and the addition of context in terms of local circumstances, trends and professional judgement provides the full picture.

Key financial resilience indicators

This toolkit outlines six public sector indicators of financial resilience. Existing publications mainly relate to local government authorities, and this document aims to put these into a police context.

The six indicators of public sector financial resilience are:

1. The funding gap as a percentage of net revenue expenditure (NRE) over the MTFP period
2. Savings delivered as a percentage of planned savings
3. Over/underspend relative to net expenditure
4. Useable reserves as a percentage of net revenue budget
5. Council tax as a percentage of income
6. The cost of total borrowing as a percentage of NRE

1. The funding gap as a percentage of NRE over the MTFP period

Forces should have a clear estimate of their funding gap over the MTFP, along with a robust savings plan to meet the gap.

The FMCR reported that all the CIPFA-assessed forces had medium-term financial plans and strategies, although the time horizon for these varied from three years (including the current financial year) to five years. The review found that some forces had well-developed savings planned, while others had very high-level plans where the focus tended to be on 'low-hanging fruit', including delivering savings through not filling posts. Some cited new systems implementation, business process re-engineering and wider transformative programmes, but there was little evidence of any more detailed plans. Some medium-term financial plans depended on unidentified savings.

Only a small number of forces had developed scenario modelling, and only one force had developed a more sophisticated range of up to four scenarios with related impacts to its overall financial standing over its MTFP period.

3 **Financial Management Code** (CIPFA, 2019).

It is important to distinguish savings between agreed, planned and aspirational targets. Targets or aspirational savings rather than firm plans pose a risk to financial resilience.

Table 1: Example format

	2021/22	2022/23	2023/24	2024/25	2025/26	
	£m	£m	£m	£m	£m	
NRE						
Estimated funding gap						
Gap as a % of NRE	%	%	%	%	%	
	£m	£m	£m	£m	£m	
Savings Identified:						
1. Agreed						%
2. Agreed in principle						%
3. Proposed						%
4. Potential						%
Unidentified gap as a % of NRE	%	%	%	%	%	

Local interpretation:

- The key assumptions used in calculating the size of the gap, the risks associated with these assumptions and the consistency with which they have been applied.
- The extent of any modelling and scenario planning in terms of budget assumptions and the potential range of savings that still need to be identified.
- How well planned savings align with forces' strategic plans and the opportunities provided by those strategic plans to give rise to potential future savings.
- The force's past performance in delivering savings, the risk associated in delivering the savings and an assessment of the viability of identifying further savings.
- The force's past performance in terms of budget assumptions – for example, actual pay awards are higher than planned, over optimistic tax base growth.

2. Savings delivered as a percentage of planned savings

The ability to not only identify areas where specific financial savings can be made but to also make those savings is a key aspect of ensuring ongoing financial sustainability against a backdrop of increasing financial pressures.

Where savings plans are not delivered, this can result in overspends that require the use of limited reserves, while increasing the level of savings required in future years to compensate for this. Where service areas are required to make unplanned savings, this increases the risk of savings not being aligned to strategic priorities, or of 'short-term' solutions that are not sustainable over the medium term such as a vacancy freeze.

A tendency to have unplanned overspends and/or carrying forward of undelivered savings into the following year creates a need for greater cuts in subsequent years. Unplanned overspends are a sign that a force is struggling to translate its policy decisions into actions.

Table 2: Example format

	2016/17	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m	£m
MTFP savings planned (cashable)					
MTFP savings achieved					
% of savings achieved	%	%	%	%	%

The above figures will show the trend of savings delivery and whether that trend is worsening or there is an increasing savings requirement that is becoming more difficult to achieve. It is also important to view past performance in the context of the scale of future planned savings. Even if significant savings have been made in the past, what is the impact of this on delivering future savings plans?

Good practice is for a force to have a single, consolidated, living document that tracks its savings plans. This would outline what has been agreed and how much progress has been made in implementation and would link to both its budget and medium-term financial plan.

A good savings plan needs to distinguish between the different types of savings in play – those that:

- have been agreed and for which there is a clear delivery plan
- have been agreed in principle but do not yet have a clear strategy for implementation
- have been proposed but not yet agreed
- are simply ideas.

Planned timescales and investment for change need to be realistic, and any delays in savings need to be explained and the impact on future years considered. It is important to consider both capital and revenue savings. Failure to achieve planned capital receipts in terms of value or time may impact on future capital investments.

3. Over/underspend relative to net expenditure

The NAO's report on the financial sustainability of police forces in England and Wales 2018 found that while no police force has failed financially, there are signs emerging that forces are finding it harder to deliver an effective service.

It is important that overspending and underspending are kept under control and that actual expenditure is as close as possible to the levels planned. Inability to accurately forecast and plan expenditure risks creating unforeseen financial pressures and compromises the ability to set a balanced budget. Significant and recurring patterns of underspending may reduce the ability of a force to deliver its key objectives or meet its statutory responsibilities.

Overspends met from reserves, particularly planned or unplanned overspends, to balance budgets is unlikely to be sustainable, particularly if levels of usable reserves are already relatively low. Regular unplanned use of reserves to plug gaps in their revenue budget reduces an organisation's resilience to fund unforeseen budget pressures in future years.

Table 3: Example format

	2016/17	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m	£m
NRE					
Over/(under) spend					
Over/(under) spend as a % of NRE	%	%	%	%	%

The percentage level gives an indication of the force's ability to forecast and deliver a balanced budget. However, local interpretation is essential in contextualising this indicator.

The narrative should identify the reasons for any planned use of reserves, such as one-off capital spend or unforeseen expenditure (eg COVID-related expenditure). Reasons should also be identified for an improving or worsening trend. A force that is consistently overspending runs the risk of experiencing unforeseen financial pressures and the ability to maintain adequate reserves. Consistent underspends may indicate an inability to meet key objectives.

While the above table is retrospective, any in-year savings gaps, ie budgets set with unspecified savings targets, should be considered in terms of the likelihood that the current year's budget can be met.

4. Useable reserves as a percentage of net revenue budget

The FMCR reported that all PCCs had depleted reserves in recent years, though this was usually through a proactive strategy for the planned use of reserves.

There is significant variation between PCCs in the level of general reserves held as a proportion of spend. For some, there is little flexibility for any additional unforeseen financial challenges. Reserves allow financial uncertainty to be managed. Healthy levels of useable reserves are an important safety net to support financial sustainability. As well as being available to fund unexpected funding pressures, useable reserves can also fund investments required to implement efficiency savings.

It is anticipated that the level of reserves will differ significantly across PCCs – for example, PCCs for larger forces are likely to hold higher levels of reserves. Although this is a relatively simplistic analysis, the level of usable reserves available to a PCC and their force is one of the key indicators of financial resilience and sustainability.

Table 4: Example format

	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23	2023/ 24	2024/ 25	2025/ 26
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
NRE										
Resource reserves* General Earmarked (of which £ committed)										
Resource reserves as a % of NRE	%	%	%	%	%	%	%	%	%	%
Changes in %	%	%	%	%	%	%	%	%	%	%

*Reserves usable for revenue costs where the purpose is not protected by law. This is the total of the general and earmarked reserves. It excludes capital receipts and capital grants unapplied.

Local interpretation:

As part of the self-assessment, PCCs and forces should consider the following:

- The reserves strategy published by the PCC.
- How much of the useable reserves relates to earmarked reserves? How easy are these to re-purpose?
- Running down reserves or a rapid decline in reserves is an indicator of financial stress. Was the use of reserves planned?
- Unplanned use of reserves to balance budgets is unlikely to be sustainable, particularly if levels of usable reserves are already relatively low. Regular unplanned use of reserves to plug gaps in the revenue budget reduces resilience and the ability to fund unforeseen budget pressures in future years.
- The use of reserves to manage and cushion a clear and transparent savings programme over the medium term can be very sensible; however, large, unidentified 'savings' in a five-year plan is likely to lead to unplanned use of reserves. The one-off use of reserves to avoid cuts can only provide temporary relief and is unlikely to be good policy.
- Finance staff need to be aware of the electoral cycle and the difficulty of delivering a tough budget at the end as opposed to the beginning of an electoral term.

5. Council tax as a percentage of income

The Police Objective Analysis (POA) estimates for 2020/21 show a range of council tax precept from 19–56% for those forces, which is not fully grant funded.

It has been acknowledged by the NAO that the formula for funding police forces does not consider the full range of demands on police time. Police forces' experience of funding reductions varies, and the forces that most rely on government funding have experienced the greatest cuts.

According to figures published by the Home Office, as of March 2020, PCCs held over £1.5bn in usable resource reserves.

Table 5: Example format

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Council tax precept										
Total financing provision										
Council tax as a % of total financing	%	%	%	%	%	%	%	%	%	%

Local interpretation:

As part of the self-assessment, this indicator gives the forces' reliance on core grants.

The trend in council tax increases may give an indication for the appetite to increase funds in future years. Council tax collection rates are also important. These may influence the appetite for raising council tax. A change in PCC or funding settlement could change previous assumptions made around levels of council tax funding.

In principle, the higher the percentage of council tax funding, the greater the ability and flexibility to increase financing provision. However, assumptions around council tax increases will vary by force and are subject to local factors.

The levels of council tax impacts on a PCC's reserves strategy. The FMCR found that PCCs who were more reliant on revenues that look particularly vulnerable in the short term had higher reserves, but this was not always the case.

6. The cost of total borrowing as a percentage of NRE

Borrowing can be a valuable source of funding – for example, to fund large-scale capital projects such as new police stations. However, the cost of repaying borrowing, including interest costs, is ultimately funded from ongoing revenue budgets and can create a long-term commitment.

The cost of borrowing will vary significantly across individual force areas. The POA estimates for 2020/21 show a range from 0–8%.

The cost of borrowing includes external interest and repayment on principal minimum revenue provision (MRP).

Table 6: Example format

	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23	2023/ 24	2024/ 25	2025/ 26
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
NRE										
Capital financing requirement (CFR) Borrowing MRP Interest PFI interest Internal borrowing										
Cost of borrowing as a % of NRE	%	%	%	%	%	%	%	%	%	%
Level of debt										
Level of debt as a % of NRE	%	%	%	%	%	%	%	%	%	%

Local interpretation:

Factors to consider in assessing this indictor include:

- What is the current level of borrowing and the sources?
- What is the level of obligation under any PFI agreements?
- What is the PCC's capital financing strategy?
- What are the future requirements for additional borrowing? Are any planned savings dependent on future investment funded by borrowing?

Summary

While the individual circumstances of each PCC and force are very different, the FMCR national report in 2020 reported that the financial resilience of forces was generally good. There are several factors that build the picture of financial sustainability, but it's clear that a financial strategy and a medium-term financial plan are key.

The above indicators are an integral part of the picture in assessing a force's financial sustainability, and it's recommended that these are included in the financial resilience self-assessment required to comply with the *Financial Management Code*.

However, it is the addition of local context and the interpretation of the indicators that gives an overall assessment of the level of financial sustainability of a force and an indication of the level of risk in being able to cope with financial stress. There may also be other non-financial indicators that contextualise some of the above indicators and help provide an overall picture of financial health. These include but are not limited to:

- sickness levels
- vacancy factor levels (eg a high vacancy level can lead to less service delivery by both officers and staff, and a high turnover can lead to inefficiency, which can also lead to high levels of overtime, and this impacts on wellbeing and generates a reliance on agency and temporary staff)
- levels of unmet demand
- the quality of workforce planning arrangements
- the workforce mix and levels of civilianisation
- asset repair backlogs.

Part 2: Medium-term financial planning toolkit

Home Office Financial Management Code of Practice

Section 8.1 of the revised Home Office *Financial Management Code of Practice* (FMCP),[4] 'Medium-term financial strategy', refers to the shared responsibility of the PCC and chief constable for budget planning and the requirement to agree a medium-term financial strategy, the requirements of which should be included in financial regulations and:

- include funding and expenditure for revenue and capital
- have regard to affordability
- be multi-year
- cover revenue and capital interdependencies
- include the role of reserves
- consider risk
- be aligned to the Police and Crime Plan.

CIPFA Financial Management Code

The Financial Management Code is designed to support good practice in financial management and to assist authorities in demonstrating their financial sustainability.[5]

Section 3 of the CIPFA *Financial Management Code* and Chapter 3 of the *Financial Management Code Guidance Notes*[6] on medium to long-term financial management is an **essential** read when developing your medium-term resource plan (MTRP). Some of the key points are covered below, but please refer to the publications for more detail.

Authorities need to ensure compliance with **Financial Management Standard I: The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.**

Financial strategy

The aim of the financial strategy is to "ensure the authority has the financial capacity and capability to achieve its strategic aims. It is about the long-term financial sustainability of the organisation."[7]

4 **Financial Management Code of Practice** (revised) (Home Office, 2018).

5 **Financial Management Code consultation** (CIPFA, 2019).

6 **Financial Management Code Guidance Notes** (CIPFA, 2020).

7 **Financial Management Code** (CIPFA, 2019).

Medium-term financial plan (MTFP)

The MTFP translates the financial strategy into a multi-year, detailed plan that demonstrates how the delivery of services will be financed. It is not just a finance document; it must integrate with other plans to achieve the authority's strategic aims.

Developing a robust MTFP

The following points are a guide to developing a robust MTFP:

- Assess the current position by starting with a robust and credible baseline that includes known cost pressures and commitments profiled over five years.
- Align to the authority's financial strategy, service delivery strategies and force management statement (FMS) and include anticipated financial implications.
- Understand cost and demand drivers, starting with the existing budget and financial performance, to identify trends.
- Undertake analysis of political, economic, social, technological, legal and environmental factors to produce robust assumptions and forecasts.
- Undertake sensitivity analysis by varying the driver-related assumptions made to assess the viability of the MTFP.
- Align to the government's spending review and funding settlement. A multi-year settlement will support financial planning.
- Take corrective action to address weaknesses and enhance the plan's resilience.

Cost and demand drivers

A driver is a factor that can cause a change in the cost of an activity by impacting on either the volume of activity or the unit cost. Some drivers will have an impact across the whole force, eg pay inflation, whereas some drivers will impact specific services or activities, eg specific contractual inflation. The existing budget and financial performance are a good starting point to identify drivers of cost and demand.

Sensitivity analysis ('what if' analysis)

Sensitivity analysis is an analytical technique that measures the sensitivity of something to a given change or range of variables. It typically results in best case, worst case and status quo scenarios.

Areas where sensitivity analysis might be used:

- precept assumptions
- pay inflation
- general inflation.

Scenario planning

Scenarios are an alternative to traditional forecasting suited to complex situations that could be of benefit through periods of uncertainty. The best approach is to set up at least four scenarios that draw attention to the major technical, economic and political uncertainties upon which the success of each option depends.

Good practice

The following points are good practice in medium-term financial planning.

- MTFPs should be fully owned by senior leaders and aligned to the strategic vision and the Police and Crime Plan.
- MTFPs require full participation and ownership from budget holders.
- Plans should cover a minimum of five years.
- Planning should take a bottom-up approach linked to service plans.
- Priorities should be regularly reviewed.
- A strong sensitivity analysis and risk assessment should be undertaken to develop different scenarios to present different versions of the future.
- There should be a clear understanding of cost and demand drivers.
- Planning should incorporate aspects of outcome and/or zero-based budgeting.
- Plans should align to the capital strategy and reflect the revenue consequences of capital investment.
- Plans should reflect budget variances and trends.
- Plans should align to a strong workforce strategy.
- MTFPs should be clearly aligned to operational plans and strategies and the force management statement.
- Plans should align to the savings and efficiency strategy. Savings should not be top-sliced and should not be driven purely based on the funding gap.
- Plans should align to the reserves strategy. Reserves should not be used to fund recurring expenditure.
- Plans should be rolling and responsive to changes in key assumptions.
- Plans should contain checks and balances to identify input and output errors.
- Plans should be underpinned by a clear set of assumptions.

CIPFA Financial Management Model (FM Model)

The Financial Management Model is a framework that can be used by police forces for financial management assessments. The focus on medium-term financial planning and longer-term financial planning is core to two out of the 30 statements, L4 and PR10. The following tables can be used to develop an action plan to drive improvements.

Leadership statement – L4

L4	**The organisation has a developed financial strategy to underpin medium and longer-term financial health. The organisation integrates its business and financial planning so that it aligns resources to meet current and future outcome-focused business objectives and priorities.**	**No/Partly/ Yes (RAG)**
1	Does the medium-term financial plan project forward the financial position for at least three years and is it based upon analysis of cost and income implications of policy choices?	
2	Is the medium-term/longer-term financial plan embedded within the organisation's corporate business plan?	
3	Does the corporate business plan demonstrate how resources are allocated strategically to deliver the organisation's aims, objectives and priorities?	
4	Are operational plans fully aligned with the medium-term/longer-term financial plan?	
5	Does the medium-term financial plan draw together realistic estimates of funding to support the achievement of strategic objectives?	
6	Is the corporate business plan developed in collaboration with delivery partners and stakeholders?	
7	Are outcome-focused targets and performance indicators clearly set out in the corporate business plan and related operational plans?	
8	Does the medium-term financial plan examine scenarios to develop financial flexibility, adequate contingency and reserves based on a risk assessment and sensitivity analysis?	
9	Does the leadership team approve of and understand the demand management strategies for demand-led services and activities?	
10	Does the board and management team regularly review priorities to enable resources to be redirected from areas of lesser priority, not relying principally on pro rata cuts to generate savings?	
11	Are individual delivery partnerships and related financial impacts evaluated to ensure they are linked clearly to policy objectives and organisational goals/ outcomes?	
12	Does the leadership team consider alternative arrangements where the performance of a partnership is not meeting expected levels?	
13	Are there clear financial management policies that together underpin sound and sustainable long-term finances?	
14	Do financial management policies support strategic business aims, resilience and financial standing?	
15	Does the organisation prepare a workforce strategy and is this aligned and embedded with the corporate plan?	
16	Are workforce-related performance, costs and liabilities incorporated within strategic planning formulation, eg pension liabilities, sickness and absence?	

Processes statement – PR10

PR10	The organisation's medium-term financial planning process underpins fiscal discipline, is focused upon the achievement of strategic priorities and delivers a dynamic and effective business plan.	No/Partly/ Yes (RAG)
1	Does the organisation produce a medium-term financial plan covering a minimum period of three years?	
2	Is the medium-term financial plan consistent with the organisation's aims and objectives and reflective of a business plan for the organisation?	
3	Does the organisation use formal processes to link the medium-term financial plan to other organisational plans (eg IT strategies, workforce strategy, asset management plans and service development plans)?	
4	Does the organisation use formal processes to link the medium-term financial plan to the annual operational budgets?	
5	Does the medium-term financial plan fully reflect the implementation of new technology to workflow processes and impacts on the workforce and overheads?	
6	Does the medium-term financial plan consider options for new sources of income, new ways of reducing costs and new ways of attracting additional sources of funding?	
7	Does the medium-term financial plan incorporate the organisation's asset management planning, including an assessment of the condition, sufficiency and suitability of assets in light of business needs?	
8	Does the organisation automatically recalibrate its medium-term financial plan for any changes arising from budget setting, forecasting or actual performance-monitoring processes?	
9	Does the medium-term financial plan take account of local and national priorities, changing legal requirements, demographic trends and demand levels, and national standards?	
10	Does the organisation's medium-term financial plan reflect joint planning with partners and other stakeholders? Do delivery partners' financial plans link with the medium-term financial plan?	
11	Is the medium-term financial plan regularly reviewed and approved by the board?	
12	Does the medium-term plan take account of business cases 'in the system' that have not yet been approved?	

CIPFA Financial Management Model national report

CIPFA-assessed forces

Key strengths

- Clearly set out MTFPs that reflect the identification of anticipated operational pressures through strategic threat and risk assessments (STRA) and the intention to establish financial stability. However, many of the MTFPs reflected a three-year rather than five-year view.

Key areas for development

- Developing a more effective and dynamic medium-term financial plan. Many PCCs and forces assess their financial strategy timeframe in three-year cycles, whereas CIPFA would recommend a five-year planning horizon. Consequently, budget setting is largely incremental, lacking precision and challenge, although as noted above, there were some good examples of senior engagement in the annual budget-setting and service prioritisation process.

Financial resilience

- All the CIPFA-assessed PCCs and forces had medium-term financial plans, though the time horizon for these varied from three years (including the current financial year) to five years.
- Some medium-term financial plans depended on as yet unidentified savings.
- In general, medium-term financial plans allow little flexibility during the period of the medium-term financial plan or beyond.

Specific comments

- Only a small number of PCCs or forces had developed scenario modelling, and only one force had developed a more sophisticated range of up to four scenarios with related impacts to its overall financial standing over the period of its MTFP. This was Police Scotland, and its medium-term financial plan showing the four scenarios is included as an appendix to this document.
- Many of the forces had plans in place to deliver savings over the period of the MTFP. Some had a significant and escalating budget gap, which is predicated on delivering the savings, although a number reported slippage in their savings programmes due to COVID-19.
- Many of the MTFPs were within the three-year range, with only a couple of MTFPs spanning a five-year period. The FMCR report also found a general lack of integration between MTFPs and other strategic documents, including an ICT strategy, estates strategy and workforce planning strategy. Only one force demonstrated an integrated approach and evidenced a bottom-up approach in developing a more accurate and precise model.

Self-assessed forces

Key findings

- The picture on financial resilience is generally good, but there is work to be done on forces developing better integration between their medium-term financial plans, with wider organisational drivers relating to workforce development, estates, information technology and transformation.

Conclusion

Financial management is at the heart of good governance and effective decision making to ensure the financial sustainability of organisations and the continued provision of public services. CIPFA's *Financial Management Code*, published in 2019, requires local authorities (including police) to undertake a self-assessment of financial resilience. Ultimately, this document aims to support police forces and PCCs in undertaking such an assessment in order to ensure their financial sustainability in the medium to longer term and to comply with the *Financial Management Code.*

Acknowledgements

We would like to thank the co-chairs and members of the Police Financial Management Working Group for their efforts in producing this document, especially Sandra Wiseman and Debbie Carrington. We would also like to thank Audit Wales and CIPFA for their presentations, and Audit Wales for the six financial resilience indicators.

Further reading and references

Building financial resilience: managing financial stress in local authorities

This CIPFA Insight looks at the four pillars of financial resilience – routine, benchmarking, having clear plans and reserves – and then considers the challenges facing those involved in an organisation's financial management, good practice in making and managing plans, and the routes to robust and effective reporting.

Financial sustainability of local authorities 2018

This report from the NAO reviews developments in the sector and examines whether the department, along with other departments with responsibility for local services, understands the impact of funding reductions on the financial and service sustainability of local authorities.

Financial Foresight: current insights on local government financial sustainability

In this report from Grant Thornton and CIPFA, Phil Woolley and CIPFA Chief Economist Jeffrey Matsu look at the current circumstances and how local councils can prepare for the future.

Financial sustainability of local government as a result of the COVID-19 pandemic

The report from Audit Wales sets a high-level baseline position, including the reserves position, of local councils before the pandemic. It also sets out the initial financial implications of the pandemic for local councils and the scale of the anticipated challenge going forward, as well as some reflections on the preparedness of local government in Wales for such an unprecedented event.

Home Office Financial Management Code of Practice

The Home Office Financial Management Code of Practice (FMCP) provides clarity around the financial governance arrangements within the police in England and Wales and reflects the fact that the police have a key statutory duty to secure value for money in the use of public funds. It provides high-level guidance to help ensure effective and constructive relationships in all financial matters.

Prudential Code for Capital Finance in Local Authorities (2021 edition)

The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

Thinking Ahead: Developing a Financial Strategy (2018 edition)

This publication provides public service organisations with the tools they need to engage in effective strategic financial planning in today's uncertain environment. In particular, the guide introduces the concept of scenario planning, which is by far the most effective approach to strategic planning in a dynamic operating environment.

CIPFA Financial Management Code

The Financial Management Code (FM Code) provides guidance for good and sustainable financial management in local authorities and will provide assurance that authorities are managing resources effectively.

Police financial reserves: March 2020

This document shows the holdings of police reserves in March 2020, broken down by police force area and showing the breakdown between different types of reserves.

Appendix

POLICE SCOTLAND
POILEAS ALBA

SCOTTISH POLICE AUTHORITY

Finance

Five year financial planning

September 2021

Highlights

01

Scottish Government funding
A balanced budget can be sustained assuming that Scottish Government funding keeps pace with unavoidable pay pressures, including wage inflation, national insurance increases, SPRM and lost income. It is also assumed that additional funding will be provided to support key legislation changes.

02

Workforce size and mix
In order to meet changing demand, the organisation must manage the workforce size and mix within current pay budgets.

03

Savings requirements
Any cost pressures beyond Scottish Government funding to be offset by compensating savings across the organisation. This is critical to sustaining financial balance into the future.

04

Developing capability
Significant additional investment is required to implement key investment strategies and transformation programmes, including DDICT, the estates strategy and the transition to 100% electric fleet.

05

Creating capacity
Capital and revenue investment in areas such as DDICT is a key enabler in creating capacity across the organisation. The organisation must continue to develop its processes to ensure that this capacity is released and reinvested in priority areas of policing.

06

Alignment with strategic planning
A balanced budget allows a refocus on strategic planning without the requirement for net workforce reductions. The financial strategy will continue to be developed in line with the strategic business planning cycle.

Operational context

Responsive and accessible local policing lies at the heart of Police Scotland's purpose and identity.

It is the strong relationship of trust policing in Scotland has with our fellow citizens from which we draw our legitimacy.

We know communities and their policing needs are always changing and we are committed to constant improvement to protect the people of Scotland from threat, harm and risk in the public, private and virtual spaces.

Upholding the law, protecting victims of crime and bringing offenders to justice is critical to maintaining the respect with which policing is held in Scotland.

While overall recorded crime has reduced in recent years, increasingly complex offences require time and expertise to investigate while incidents, particularly those involving vulnerability, demand a co-ordinated, multi-partner response which upholds everyone's human rights.

Policing must continue to enhance our capacity and capability to ensure we can respond fully to the changing nature of crime as well as changing community needs, public expectations and legislative requirements. Additionally, we have an important role in supporting major events in Scotland, the UK, and beyond, as demonstrated by the COP26 climate change summit.

Our response to the pandemic has underlined the broad remit of policing, as enshrined in the Police and Fire Reform Act 2012, to maintain wellbeing and support communities, going far beyond only law enforcement. Along with other critical incidents, our response to coronavirus has demonstrated the pivotal role of a national policing service in the planning, co-ordination and support of multi-agency responses.

It is the challenge of all public services to ensure that, in a rapidly changing world, when people need help, they get it at the right time from the right people and, where required, on an ongoing basis.

Our strategic ambition, covering how we develop our buildings, fleet, technology, response to cyber threats and our workforce can help to ensure this is achieved in a modern, flexible and collaborative way which supports value to the public. Reform of policing in Scotland has transformed the way we respond to serious crime and major incidents while at the same time policing in Scotland returns significant savings to the public purse every year compared to legacy arrangements.

It is vital that where efficiencies and benefits are achieved, we consider how they can be invested into supporting the safety and wellbeing of our people and enabling them to improve the lives of our communities as set out in our strategic objectives and in support of the Scottish Government's national outcomes.

Policing, so often the service of last resort, will not step away from people in crisis where they have nowhere else to turn.

The police service is and will always be there for our fellow citizens.

Summary

Executive summary

1. Background

- The Scottish Police Authority and Police Scotland (SPA/PS) were established in 2012 with a remit to:
  - protect and improve local services despite financial cuts, by stopping duplication of support services;
  - create more equal access to specialist support and national capacity; and
  - strengthen the connection between services and communities.
- Since its creation the SPA has undergone significant change, delivering financial and operational benefits of police reform.
- Despite all that has been achieved to date, significant additional investment is needed to enable the implementation of investment strategies which will progress the transformation programmes.
- There are plans for an ambitious multi-year investment portfolio, enhancing our ICT capabilities, transforming and simplifying our property estate, and 'greening' our fleet of vehicles. This investment is closely aligned with Scotland's National Performance Framework.
- However, the Scottish Government's recent capital investment review suggests a level of funding that is significantly short of the requirements to deliver a police service for the 21st century.

2. Financial sustainability

- The May 2018 three year financial strategy provided a route to balancing the SPA budget by 2020/21 through significant officer and staff reductions enabled by capital investment in transformational change.
- Officer capacity and productivity benefits have been achieved, however, policing numbers have been retained in response to acute operational demands, including Brexit, COP 26 and latterly the operational response to COVID-19. This delayed the achievement of financial balance into future years.
- The Scottish Government's 2021/22 budget included a significant uplift to core policing funding allowing the Authority to eliminate the structural deficit without the requirement for significant workforce reductions.
- Maintaining the current levels of policing, whilst continuing to achieve financial balance over the longer term, is dependent on a number of key factors including:
  - managing the workforce size and mix within current pay budgets;
  - receiving funding increases in line with unavoidable pay pressures (real terms protection);
  - managing non-pay pressures with corresponding savings across the org; and
  - receiving compensatory funding to support lost income as a result of COVID-19.

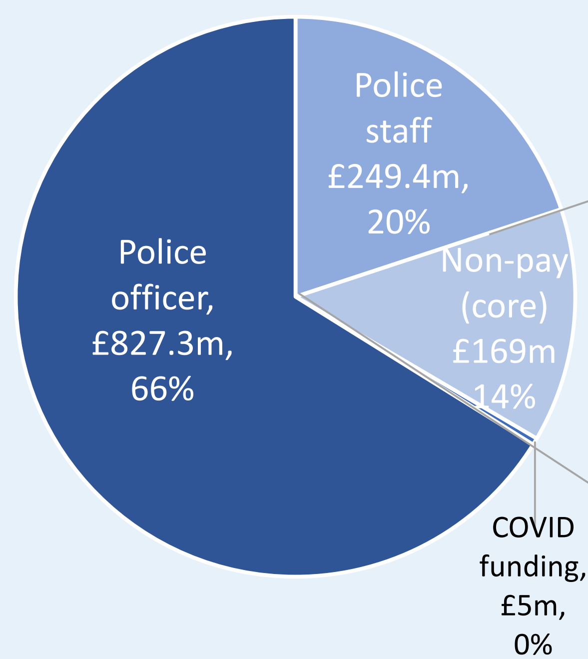
3. Financial planning

- Development of a robust financial strategy is highly dependent on a number of key strategic outputs which will continue to evolve as part of the strategic business planning cycle.
- The aim of this document is to reset the baseline financial position in the context of a balanced budget ahead of the Scottish Government Spending Review, and to set out the broad financial parameters that need to be considered to maintain financial sustainability over the longer term.
- The Scottish Government published "Scotland's Fiscal Outlook: The Scottish Government's Medium Term Financial Strategy" in January 2021 which set out three illustrative scenarios for available funding in future Scottish budgets.
- A similar approach has been taken for SPA/Police Scotland to create an illustrative 5 year revenue profile, along with a view on capital investment and reform over the same period.
- The financial strategy will continue to be developed in line with the business planning cycle to bring together the financial implications of strategic objectives and priorities, demand and resource forecasts and the impact on wider service delivery, allowing decisions to be taken on longer term funding implications.

Baseline budget

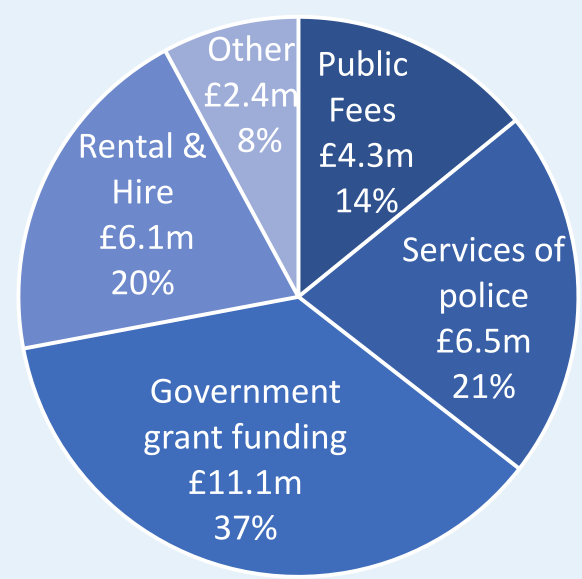
- The 2021/22 revenue budget approved by the SPA Board on 24 March 2021 is the baseline budget for the purposes of this report.
- Approximately 97% of annual spending is undertaken by Police Scotland with the remainder incurred by forensic services (3.0%) and the SPA corporate body (0.4%).
- The net budget requirement is £1,220.3m, consisting of £1,250.7m gross expenditure and £30.4m income.
- The majority of the revenue budget relates to Police Officer and Police Staff costs (86% combined).
- The Scottish Government's 2021-22 budget included a significant uplift to police funding allowing the Authority to set a balanced budget whilst maintaining the current level of policing (17,234 officers and ~5,563 staff).
- Non-pay costs represent 14% of the current gross expenditure budget, a large proportion of which are relatively fixed in the short term. The level of non-pay has remained fairly consistent with the previous year following a £17m uplift to address historic under-investment and high operational risk.
- There has been a significant reduction in income due to the ongoing impact of operating in a COVID-19 environment. Future uncertainties include: income from other public bodies; events income which remains uncertain given ongoing restrictions; and airport income which is expected to be suppressed for a number of years.
- Income and expenditure pressures have been considered as part of the illustrative revenue profiles at page 16.

Gross expenditure by type - £1,250.7m



Non-pay Budget*	
Other employee	£2.5m
Premises	£51.4m
Transport	£20.1m
Supplies & services	£39.2m
ICT	£30.6m
Admin	£7.6m
Third party payments	£13.1m
Capital financing	£5.5m
Other costs	£-1.0m
Total non-pay budget	**£169.0m**
Additional COVID funding*	**£5.0m**

Income by type - £30.4m*



Services of police income budget	
Events & concerts	£2.6m
Sporting events	£1.7m
Airports	£1.3m
Other	£0.9m
Total service of police	**£6.5m**

Government grant income budget	
Local authority	£3.0m
Safety camera p/ship	£4.0m
VRU	£1.1m
Other specific grants	£3.0m
Total gov't grants	**£11.1m**

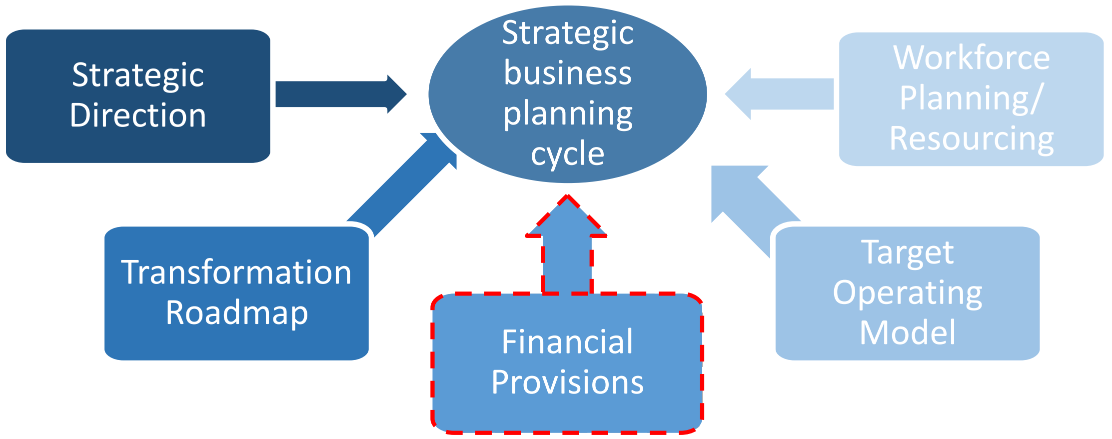
*Budget includes £15m of one-off COVID funding - £5.0m to support additional non-pay expenditure and £10m to support lost income.

Strategic direction and objectives

Strategic direction and priorities

Financial alignment with strategic planning

- The purpose of this document is to reset the baseline financial position and to set out the key financial parameters for maintaining financial sustainability over the medium term.
- Development of a detailed financial strategy is dependent on a number of key inputs which will continue to evolve as part of the strategic business planning cycle. A detailed financial strategy is best sequenced towards the end of this planning cycle when all key inputs are known.



Police Scotland

- The Joint Strategy for Policing (2020) - policing for a safe, protected and resilient Scotland - is the overarching strategy setting out the strategic direction and associated outcomes for policing in Scotland.
- Policing must continue to enhance capacity and capability to ensure that Police Scotland can respond fully to the changing nature of crime as well as changing community needs, public expectations and legislative requirements.
- Investment in new technology which will enable the organisation to become more efficient and create greater capacity to meet these changing demands.
- There are plans for an ambitious multi-year investment portfolio to enhance our ICT capabilities, transform and simplify our property estate, and to 'green' our fleet of vehicles.
- This investment is closely aligned with Scotland's National Performance Framework and delivers environmental and digital benefits for both the service and wider Scottish economy.
- It is vital that where efficiencies and benefits are achieved, consideration is given to how they can be invested to support the strategic policing priorities and Scottish Government's national outcomes.

Forensics services

- The forensic services 2026 strategy outlines a phased approach to improve the service. An initial business case was presented to the July 2020 SPA Forensic Services Committee and work continues on the full business case. Whilst the FBC is under development, it is expected to seek an option that will require capital and reform investment to deliver an enhanced operating model with an estimated additional cost of ~£3.0m per annum from 2023/24 onwards.
- All options will be considered and reflected in future budgets as appropriate, however, any increase in the overall budget requirement would require to be met from compensating savings elsewhere in the organisation.

SPA corporate

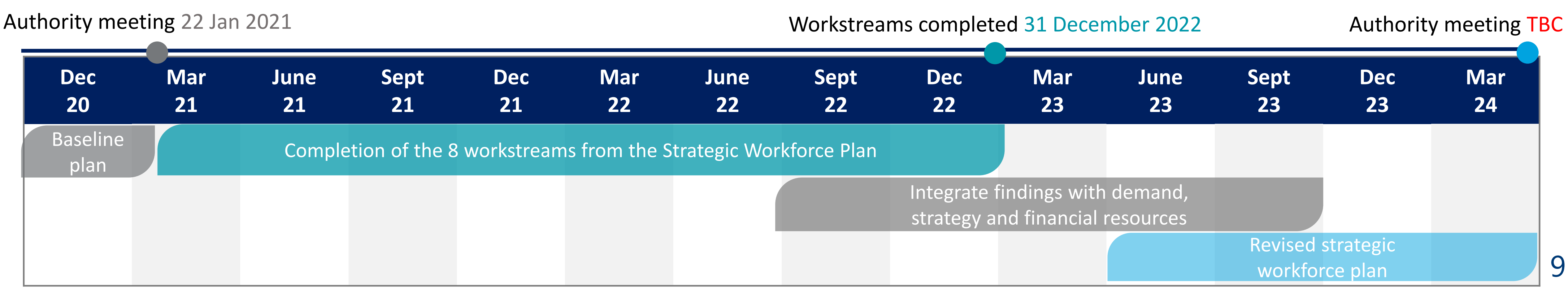
- The proposal to establish a strategic, assertive and outward facing SPA structure was supported by the Board in May 2020. The new structure was completed last financial year and no further changes are expected. Whilst this change led to an increase in staff numbers, this was effectively filling current vacancies or roles currently filled by temporary appointments and secondments.

Strategic workforce planning

- Our people continue to be the most important driver of success for the service representing 86% of gross expenditure.
- The Strategic Workforce Plan (SWP) covering the period 2021 – 2024 was formally adopted by the Scottish Police Authority at its meeting on 22 January 2021.
- Local Functional Area Plans were developed across every business to underpin the final SWP. The plan highlights that there is a significantly higher level of demand than the financial resources available.
- Through the development of the SWP, eight workstreams have been identified to be taken forward within a three year period. This is a key focus of the workforce planning team and wider services over the immediate term.
- Maintaining financial balance over the medium is dependent on a number of key factors, including managing the workforce size and mix within current pay budgets. To facilitate this, the SWP methodology will be utilised to assist in prioritising the significant demand for additional resource that exists across the organisation.
- The newly established Demand, Design & Resources Board (DDRB) will be the key mechanism for approving the reallocation of Police Scotland resources in line with strategic priorities and objectives.
- Capital and revenue investment in areas such as DDICT is a key enabler in creating capacity across the organisation. In order to fully benefit from this investment, the organisation must continue to develop its processes to ensure that this capacity is released and reinvested in priority areas of policing.

National workstreams

Modified duties	Review of the processes for support and management of modified duties
Shift pattern review	Implement suitable alternative shift patterns where required
Operational base levels	Agree a definition for OBLs to support a broader and consistent understanding within the service
Annual leave policy	Define the policy and the reporting mechanism to ensure that annual leave levels are consistent with demand
Workforce agreements	To prevent the use of officers in civilian roles a review of contractual T&C's of police staff members will be undertaken.
Rank ratio	Further review of rank ratios across operational policing
Remote & rural recruitment and retention	Developing solutions to the ongoing recruitment and retention difficulties within rural and remote areas
Skills mix	Ensuring the right person with the right skillset is in the right role



Government funding

Core funding

Scottish Government funding

- SPA/PS receives Scottish Government funding from three main sources, revenue, capital and reform. In terms of the allocation and monitoring of costs, there is clear distinction between each of these funding streams to ensure full transparency in reporting and budget monitoring.

Revenue

- The Scottish Government's 2021/22 revenue budget confirmed an additional £60m recurring funding for policing, allowing the Authority to set a balanced budget and eliminate the structural deficit without the requirement for significant workforce reductions.
- The SNP 2021 Election manifesto provides a commitment to "Protect the police resource budget in real terms for the entirety of the next parliament". Our understanding of "real terms protection" is that funding will increase in line with unavoidable pay pressures as a minimum. This includes pay award, national insurance, SPRM and reduced income directly related to funded officers. It is also assumed that the financial implications of key legislation changes will be funded in full.
- In addition to this, a case will be made to Scottish Government for future in-year support to cover lost income as a result of operating in a COVID-19 environment.
- Three funding scenarios have been considered to provide an **illustrative** 5 year financial outlook for the purposes of this report, i.e. funding increases in line with:
    - unavoidable pay pressures only;
    - unavoidable pay pressures plus lost income; and
    - unavoidable pay pressures, lost income and revenue impact of investment.

Revenue represents budget for current expenditure such as staff costs and goods and services. The revenue cost of police officers employers pensions contributions are not included in the funding allocation. This budget is held and managed by the SG separately. The SPA is required to meet the cost of officers' ill health retirement and injury pensions only.

Capital represents budget for new investment. The SPA is also permitted, subject to SG approval, to use disposal proceeds (NBV) to reinvest in further capital expenditure.

Reform funding is available to support transformational change. Total revenue funding of up to £25m and capital funding of £4.6m is available to the Authority and there are proposals to fully utilise this funding.

Capital

- The Scottish Government spending review indicates a flat cash settlement for capital investment over the next 5 years. This is significantly less than the £471m capital requirement identified in our original spending review submission. Although flat cash allows key investments to be progressed, the pace of delivery is limited within the funding available. The full implications of this are detailed at page 22.

Reform

- Our spending review submission assumed the continuation of £25m revenue funding and £4.6m capital funding over the next 5 years. If the reform funding is not available it will significantly impact the organisation's ability to deliver key transformation strategies.

Additional funding: new services and legislation

- There are a number of programmes and areas of legislation that will have a significant financial consequence for the organisation from 2021/22 and beyond. We will continue to work closely with Scottish Government to define the operational and financial implications.
- These areas have been excluded from the base financial modelling on the assumption that, once confirmed, any financial implications will be funded in full by Scottish Government.

POST MORTEM TOXICOLOGY SERVICES	▪ Post mortem toxicology services to transfer to SPA in 2022. ▪ Work is underway to ensure appropriate funding and planning arrangements are in place. ▪ Operational and financial implications of service delivery to be defined to understand the additional funding requirements from Scottish Government to mitigate the impact on the SPA budget.
DIGITAL EVIDENCE SHARING CAPABILITY (DESC)	▪ Scottish Government is responsible for funding the delivery of Digital Evidence Sharing Capability (DESC) for Scotland ▪ DESC will help to streamline the process of capturing; storing and sharing digital evidence and facilitate the faster resolution of cases. ▪ Additional funding will be provided to SPA to deliver the overall programme as lead delivery partner.
EMERGENCY SERVICES MOBILE COMMUINICATIONS PROGRAMME (ESMCP)	▪ ESMCP commissioned by the Home Office in 2011 - MOU signed in 2016 on the condition that ESMCP would meet the operational requirements of Police Scotland. ▪ Business case was revisited in May 2021. ▪ Emergency Services Network (ESN) is not affordable for Police Scotland unless Scottish Government fund the significant non–core costs associated with the programme.
AGE OF CRIMINAL RESPONSIBILITY (SCOTLAND) 2019 ACT	▪ The ACRA is scheduled to be implemented in October 2021, raising the age of criminal responsibility from eight to twelve years old. ▪ The majority of the additional costs associated with this act is proposed within capital and reform. ▪ Minimal ongoing revenue impact.
DRUG DRIVING LEGISLATION	▪ New drug driving legislation went live on 21 October 2019. ▪ Some funding already provided by SG. ▪ Current indications highlight an ongoing revenue cost pressure of £1.3m from 2022/23 onwards. ▪ Discussions are ongoing with Scottish Government to explore various options with the aim of securing additional revenue funding.
OTHER BILLS	▪ Biometrics, domestic abuse protective orders and hate crime bills will also have a future financial impact on the organisation. ▪ The estimated additional costs associated with these bills is unknown at this time. The financial implications will continue to be monitored as new information becomes available. ▪ The impact of legislation changes and new bills will be considered in future iterations of the financial plan.
IFRS16 LEASES	▪ IRFS16 due to be adopted from 1 April 2022. ▪ Operating lease payments are currently charged to revenue, however, from the implementation of IFRS16, the expectation is that an asset and liability will be recognised for most ongoing and new lease agreements. ▪ We are awaiting final budget guidance to determine the overall impact on capital and revenue.

Medium term financial planning

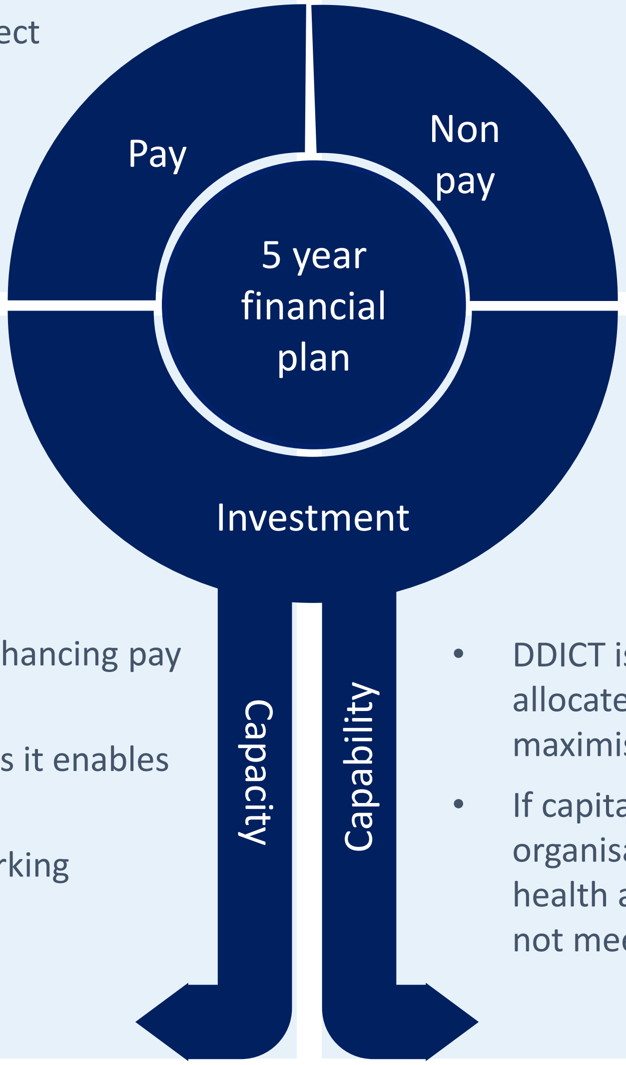
Financial planning parameters

Pay

- The pay budget for 2021/22 is **£1,076m** (*PS £1,042m*)
- Demand, Design & Resource Board (DDRB) – chaired by Chief Constable - will decide Police Scotland resource allocation
- New demand to be funded from current budget allocation
- Finance will provide data to decision makers on what can be afforded within funding parameters
- Work with SG annually to ensure funding increases reflect unavoidable pay pressures and key legislation changes.

Non Pay

- The **core** non-pay budget for 2021/22 is **£169m** (*PS £161m*)
- Includes impact of a significant uplift in 2020/21 to reverse previous years' cuts and address operational risk
- Non-pay should only change due to a change in operating model or contractual price increases
  - As a general rule, non-pay budget should not be used to expand pay budget
  - Annually, any unavoidable pressures on non pay will require an equal level of compensating savings across the organisation



Capacity creation

- As a result of being in balanced budget position, and a commitment by SG to protect the police workforce at the current time, all capacity created in policing can be re-invested in policing
- This could mean creating new roles or it could mean enhancing pay and allowances
- There may be more of an incentive to realise capacity as it enables investment in new areas
- Police officer numbers will be retained but efficient working practices should still be encouraged

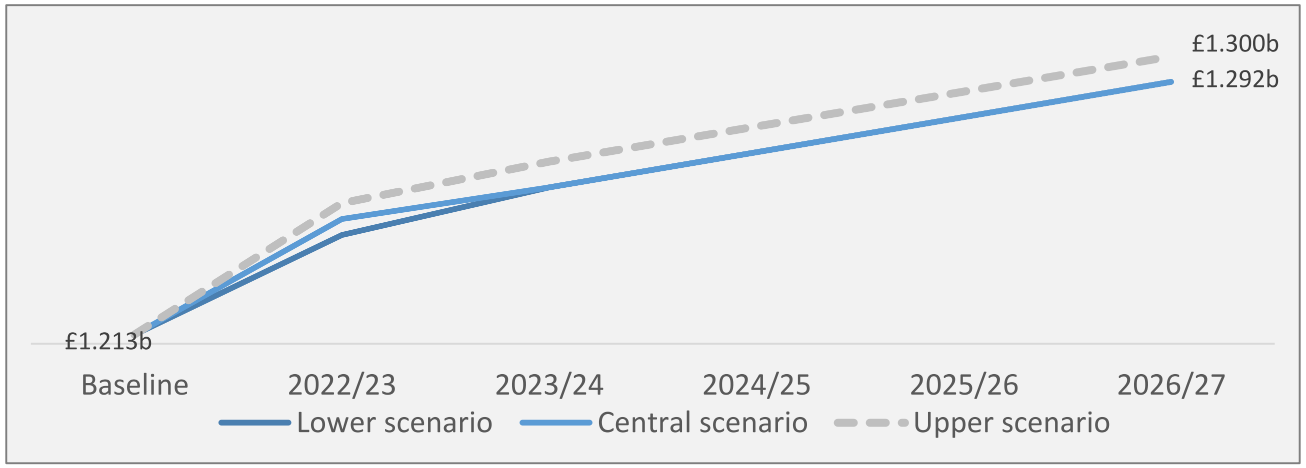
Developing capabilities

- There is a focus on developing capabilities to provide an even better service to the public, and to be fit for purpose as the nature of threat, harm and risk evolves over time
- DDICT is a key enabler for this. As a result capital investment is allocated on a do-minimum basis to the existing asset base to maximise investment available for new change projects
- If capital funding continues to be smaller than required, the organisation would continue to meet statutory and legislative health and safety requirements, however estates and fleet would not meet the standards the organisation aspires to.

Maintaining financial balance

- Maintaining financial balance over the longer term is dependent on: managing the workforce size and mix within current pay budgets; receiving funding increases in line with unavoidable pay pressures; managing non-pay pressures with corresponding savings across the organisation; and receiving additional funding to support lost income as a result of operating in a COVID-19 environment.
- Three funding scenarios have been considered to provide an **illustrative** 5 year financial outlook:
    - Lower scenario - funding increases in line with unavoidable pay pressures only.
    - Central scenario - funding increases in line with unavoidable pay pressures and lost income (non-recurring).
    - Upper scenario - funding increases in line with unavoidable pay pressures, lost income (non-recurring) and the revenue impact of investment.
- It is also assumed that the financial implications of key legislation changes will be funded in full.
- The detailed financial modelling on page 16 is based on a very specific set of financial assumptions. These assumptions are detailed on the table to the right, with the revenue outcome summarised below.
- Any changes to the base assumptions will have an impact on the future revenue profile. For example:
    - a 1% pay award has been applied for illustrative purposes only - **each additional 1% will require an additional ~£11m of government funding.**
    - each additional £1.0m of income will result in a reduction in the overall funding or net savings requirement
    - a reduced capital allocation will impact quantum of new ongoing costs/savings
    - new demand or budget growth which requires to be absorbed within existing budgets.

Baseline financial assumptions	
Financial balance	Financial balance sustained - no budget will be set with an operating deficit
	Current staffing and service levels
Funding	Funding increases in line with unavoidable pay pressures as a minimum (real terms protection)
	SG funding increase in line with the appropriate revenue scenario
Workforce	Total cost of current workforce maintained
	Workforce size/mix to be funded within current pay budgets, adjusted for pay award and increments
Pay award	PSPP applied in 2021/22 and illustrative 1% thereafter
	Each additional 1% will require an additional ~£11m of government funding to maintain financial balance.
Non-pay	Revenue impact of investment to be met by compensating savings or additional funding.
	Reduced capital allocation will impact quantum of new ongoing costs/savings:
	DDICT generally creates new revenue costs as new technology is introduced
	Estates and Fleet programmes deliver savings via property consolidation, vehicle maintenance and fuel
	Cost pressures beyond SG funding to be offset by compensating savings from elsewhere in the organisation.
Income	Minimum income recovery following COVID-19 (non-recurring pressure)
	Reduction in Local Authority funding (recurring pressure)
Out of Scope – fully funded by SG	Post mortem toxicology services
	DESC
	ESMCP
	Impact of new legislation



Illustrative 5 year revenue profiles

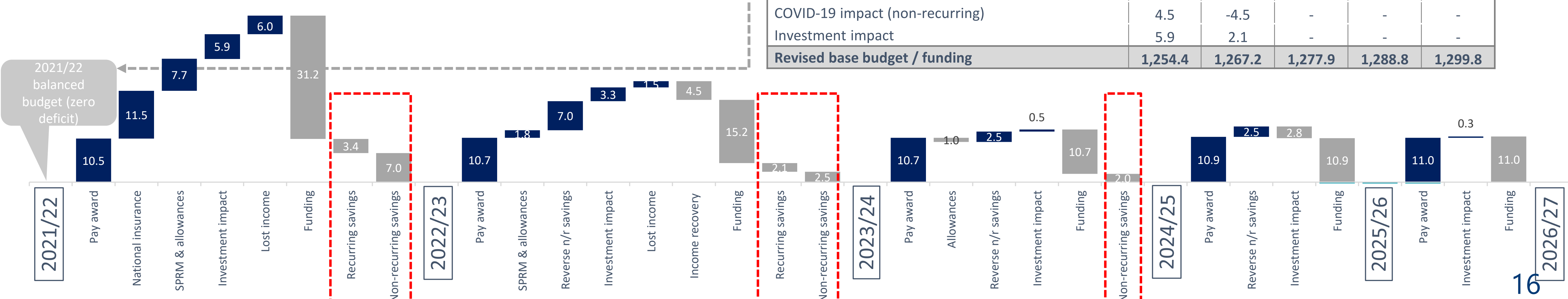
- The 5 year revenue profile has been modelled based on the total cost of the existing workforce, adjusted for pay award and SPRM, the revenue impact of our current investment plans and a significant reduction in income, mainly as a result of COVID-19.
- To maintain financial balance over the medium term, all pressures beyond Scottish Government funding require to be offset by compensating savings from across the wider organisation.
- The lower funding scenario assumes that the cost base will increase by unavoidable pay pressures only, equating to ~£79m over the next 5 years. This includes provision for pay award, national insurance increases, SPRM and a reduction in the local authority income which is directly linked to funding police officers.
- In the lower funding scenario, the revenue profile shows that £5.5m (0.5%) of recurring savings will be required between years 1 and 2, with an additional non-recurring savings requirement between years 1 and 3 (£7.0m in year 1, reducing to £2.5m and £2.0m in years 2 and 3 respectively). This is further detailed below.
- The non-recurring savings requirement includes a significant reduction in income as a direct consequence of operating in a COVID-19 environment, where it is anticipated that income will continue to be suppressed for a number of years. This will be highlighted to Scottish Government with a view of seeking one-off additional funding in line with the central funding scenario.
- The upper funding scenario assumes that pay, income and investment pressures are fully funded and indicates a net increase of ~£87m in the revenue cost base over the next 5 years.
- The funding requirements for each scenario is detailed on page 17.

Lower funding scenario	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Base budget / funding	1,212.8	1,244.0	1,259.2	1,269.9	1,280.8
Pay award	10.5	10.7	10.7	10.9	11
National insurance increase	11.5	-	-	-	-
SPRM increments and appeals	7.7	3	-	-	-
Reduction in LA funding	1.5	1.5	-	-	-
Revised base budget / funding	**1,244.0**	**1,259.2**	**1,269.9**	**1,280.8**	**1,291.8**
Recurring savings requirement	*-3.4*	*-2.1*	-	-	-
*Non-recurring savings requirement**	*-7.0*	*-2.5*	*-2.0*	-	-
Total savings requirement	*-10.4*	*-4.6*	*-2.0*	*0.0*	*0.0*

*Includes impact of COVID-19

Central funding scenario	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Base budget / funding	1,212.8	1,248.5	1,259.2	1,269.9	1,280.8
Pay award	10.5	10.7	10.7	10.9	11.0
National insurance increase	11.5	-	-	-	-
SPRM increments and appeals	7.7	3.0	-	-	-
Reduction in LA funding	1.5	1.5	-	-	-
COVID-19 impact (non-recurring)	4.5	-4.5	-	-	-
Revised base budget / funding	**1,248.5**	**1,259.2**	**1,269.9**	**1,280.8**	**1,291.8**
Recurring savings requirement	*-3.4*	*-2.1*	-	-	-
Non-recurring savings requirement	*-2.5*	*-2.5*	*-2.0*	-	-
Total savings requirement	*-5.9*	*-4.6*	*-2.0*	*0.0*	*0.0*

Upper funding scenario	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Base budget / funding	1,212.8	1,254.4	1,267.2	1,277.9	1,288.8
Pay award funding	10.5	10.7	10.7	10.9	11.0
National insurance increase	11.5	-	-	-	-
SPRM increments and appeals	7.7	3.0	-	-	-
Reduction in LA funding	1.5	1.5	-	-	-
COVID-19 impact (non-recurring)	4.5	-4.5	-	-	-
Investment impact	5.9	2.1	-	-	-
Revised base budget / funding	**1,254.4**	**1,267.2**	**1,277.9**	**1,288.8**	**1,299.8**



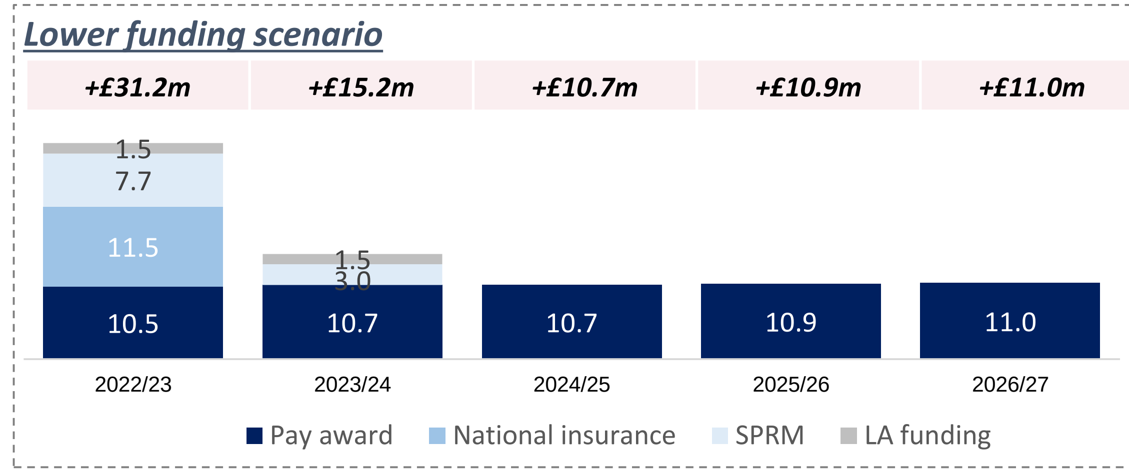
Illustrative 5 year funding scenarios

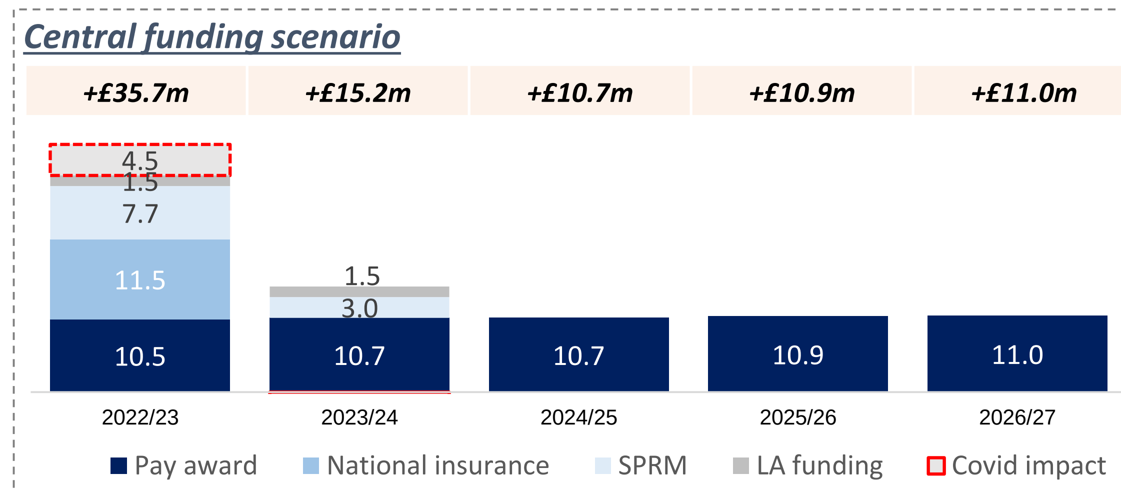
- Each funding scenario assumes that core revenue funding will increase in line with pay award[1], national insurance increases[2], SPRM costs and any income reduction directly linked to funded officers. **This represents the minimum funding requirement to maintain current levels of policing**.

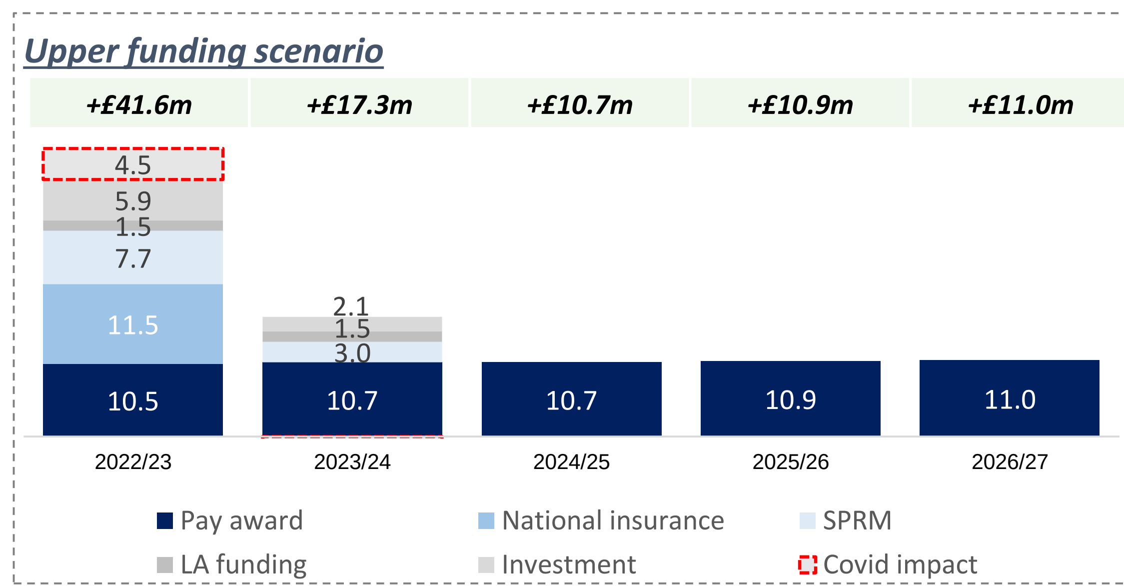
  *Note 1: a 1% pay award has been applied for illustrative purposes - **each additional 1% will require an additional ~£11m of government funding.***

  Note 2: a 1.25% increase national insurance increase was announced on 7 September 2021.

- The minimum requirement is represented by the lower funding scenario. This shows that the funding required in years 1 and 2 is significantly higher than subsequent years due to the inclusion of increased national insurance costs, SPRM and anticipated lost income.
- The central funding scenario includes an additional £4.5m of non-recurring funding to support the ongoing impact COVID-19. Future uncertainties include events and airport income which are expected to be suppressed for a number of years following the pandemic.
- Specific COVID funding was provided in 2020/21 and 2021/22 as it was recognised that these additional pressures could not be absorbed within the core revenue budget. We will continue to work closely with Scottish Government to quantify the ongoing financial impact of COVID and monitor the impact on the future revenue budget.
- In addition to the above, the upper funding scenario also includes the revenue impact of investment. DDICT generally creates additional revenue costs as new technology is introduced, however this is a key enabler in creating capacity across the organisation to meet new and changing demand.
- There are number of new services and legislation changes that will have a significant financial consequence for the organisation from 2021/22 and beyond. These changes have not been included in the 5 year revenue or funding profiles as the full financial impact has yet to be quantified. However, it is assumed that the financial implications of such changes will be funded in full by Scottish Government.







COVID impact – non-recurring

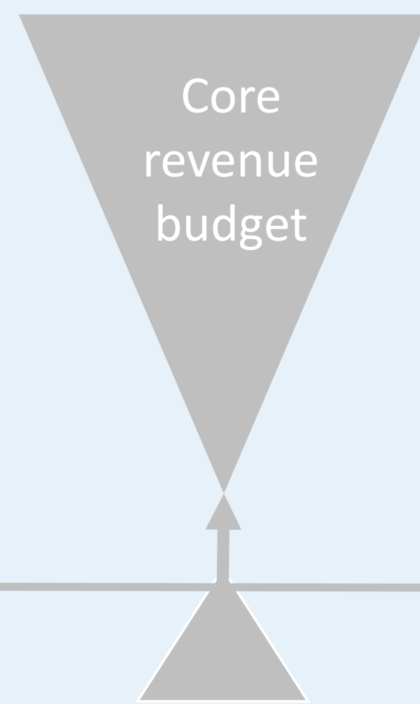
Re-work table

New demand and budget growth

- The financial modelling on page 16 provides a illustrative view of the next 5 years' revenue costs based on the existing workforce, the revenue impact of investment and a reduction in income.
- In addition, there are a number of proposals for increased headcount and improved service levels that have **not** been included in the financial modelling. These proposals require consideration **within the context of the organisation's strategic priorities** and if approved, they require to be funded through reallocation of existing budgets to avoid creating an unfunded pressure for the organisation.

Included in the 5 year revenue profile

- PSPP – illustrative 1% pay award *(each additional 1% requires an additional £11m SG funding)*
- National insurance increase
- SPRM increments and appeals
- Income reduction (funded officers)
- Income reduction (COVID)
- DDICT
- Fleet strategy
- Estates strategy



Not included in the 5 year revenue profile

- New demand to be funded though reprioritsation of existing pay budgets (page 9)
- The Forensic strategy which would require additional savings to be identified across the wider organisation
- Budget growth and other pressures to be absorbed within existing budgets
- New legislation and transfer of services which are assumed to be fully funded by SG (page 12)
- The budgetary impact of IFRS16 (Leases)

Capital investment

Investment outcomes to date

- The investment portfolio can improve conditions and equipment for the wellbeing of officers and staff, can enable a better service to be provided to the public and can create time saving efficiencies through the use of newer technologies.
- Through the delivery of major change projects in the past 3 years, we have a single national network, have consolidated and integrated legacy policing applications, instituted a new contact assessment model and rolled out mobile technology to front line officers. In addition to the practical benefits to staff and improved outcomes for the public, this has also resulted in efficiencies of 1,424 officer FTEs and 209 staff FTEs being identified, realised and reprioritised.

Forward-look on Investment Portfolio

- The 5 year view of the capital investment requirement is set out on page 20. It shows, like in previous years, the major investment areas for the SPA will continue to be furthering the DDICT strategy, consolidating and improving the Estate and modernising the Fleet through embracing greener technologies.
- **DDICT** – The strategy was published in April 2018, with major successes achieved including the roll out of mobile devices to officers and the introduction of a national network. In the short term, key projects in focus will be the roll out of body-worn video and investment in our data and digital capabilities. A review and update of the DDICT strategy and implementation plan is expected to be concluded in Autumn 2021.
- **Fleet** – The roll out of electric vehicles with accompanying infrastructure has ramped up significantly, with the expectation that 40% of the infrastructure required across the estate will be installed by the end of 21/22, with 18% of the Fleet transitioned to Ultra low emission vehicles. Further incremental roll out of infrastructure and vehicles is proposed in the coming 5 years, moving towards the 2030 target for full transition as set out in the Fleet Strategy.
- **Estates** – A core ambition of the Estate strategy is to have a smaller and smarter footprint and to seek co-location opportunities with partner organisations as the preferred solution. Supported by funding, the next 5 years would see major collaboration projects (e.g. North East Division Integration, Project Quest), strategic solutions for areas most in need (e.g. Ayr, Oban), small co-locations (e.g. Maybole) and the disposal of aging and not fit-for-purpose properties.
- **Emerging strategies** – Implementation plans are in development for emerging strategies including Cyber, Public Contact, Enviromental and Energy, which will feed into future capital planning.

Capital breakdown

The table below shows the detail of the 5 year capital requirement.

			22/23	23/24	24/25	24/25	26/27
DDICT	Mobile Working	Roll out of 4,500 devices to operational police officers as Phase 2, following the roll out of 10,000 in Phase 1.	4.8	0.0	1.1	1.7	0.0
	Body Worn Video	Roll out of BWV to front line police officers.	3.4	0.3	0.0	0.0	0.0
	Core Infrastructure	Rolling replacement of infrastructure, consolidation of legacy applications and replacement of major systems that are now outdated.	22.9	42.1	20.1	14.2	10.3
	Digital & Data	A series of projects focused on data storage, compliance and use of data as an intelligence tool.	12.2	3.3	1.4	0.0	0.0
	External Partnering	Collaborative projects including Digital Evidence Sharing Capability	8.1	3.3	0.0	0.0	0.0
	Cyber Strategy	Projects relating to maintaining cyber security and tackling cybe crime.	4.6	4.5	2.8	0.0	0.0
	Corporate Services Transformation	Projects relating to creating efficiencies in corporate services and improving technology used.	0.0	0.0	0.0	0.0	0.0
Fleet	Electric cars	Continuation of electric fleet roll out across Scotland	6.3	6.9	16.8	11.0	14.1
	EV infrastructure	Continuation of roll out of EV infrastructure across Scotland	6.5	8.0	7.5	0.0	0.0
	Diesel cars	Investment in diesel cars - this will slowly decrease as electric roll out continues	5.0	2.0	1.5	1.0	2.0
Estates	Co-location	Large scale co-location projects with other public sector bodies, may include new builds	1.9	8.3	16.0	9.4	4.0
	New Build	Major new build investment projects, including Project Eagle	0.1	4.3	32.7	18.1	24.6
	Refurb	Refurbishments of existing facilities	5.5	6.1	3.4	9.4	11.1
	Various	Other small projects including the housing strategy	0.6	3.1	3.1	0.2	0.0
Rolling replacement	Forensic services	Rolling replacement of equipment and investment upgrades including Core Operating System	5.7	9.2	5.2	4.2	4.2
	Specialist policing equipment	Rolling replacement of equipment to support operational and strategic policing	3.5	3.5	3.5	3.5	3.5
	Weaponry & officer safety	Rolling replacement of equipment such as body armour accelerated rollout and firearms equipment	2.5	1.5	1.5	1.5	1.5
TOTAL			**93.6**	**106.4**	**116.6**	**74.2**	**75.3**

£466.1m

Capital investment – scenario analysis

Funding

- The Scottish government published their 5 year capital spending review in February 2021. This noted funding of c.£49.6m proposed for the SPA. This will not be sufficient to deliver against all the ambitions of the organisation.

- 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 borrowing, or up front funding for long term disposals as explained in the Capital Strategy.

Scenario Analysis

- We have set out the impact of three funding scenarios in the subsequent slides:

  - Scenario 1 – Base Level Funding (in line with Capital Spending Review)

  - Scenario 2 – Upfront funding for long term disposal income

  - Scenario 3 – Upfront funding for long term disposal income, plus additional grant-in-aid

Scenario 1 – base level funding

The following scenario models the impact over the next 5 financial years if the SPA is granted a capital budget equivalent to that set out in the Scottish Government Capital Spending Review. The table below gives a high level outline of how this capital budget would be allocated.

	22/23	23/24	24/25	25/26	26/27	Total
DDICT	23.6	23.6	23.6	23.6	23.6	**118.0**
Fleet	7.0	7.0	7.0	7.0	7.0	**35.0**
Fleet Diesel	2.5	2.5	3.0	3.0	3.0	**14.0**
Estates	9.0	9.0	9.0	9.0	9.0	**45.0**
Forensic services	2.0	2.0	2.0	2.0	2.0	**10.0**
Specialist policing equipment	3.5	3.5	3.5	3.5	3.5	**17.5**
Weaponry & officer safety	2.0	2.0	1.5	1.5	1.5	**8.5**
TOTAL	**49.6**	**49.6**	**49.6**	**49.6**	**49.6**	**248.0**
Funding						
Core GIA + Reform	49.6	49.6	49.6	49.6	49.6	**248.0**
TOTAL	**49.6**	**49.6**	**49.6**	**49.6**	**49.6**	**248.0**

Impact:

- Prioritisation would be given to meeting health and safety needs, legislative requirements and replacement of core equipment (Weaponry, SPE and Forensics would all receive an allocation which would be the minimum required to maintain these business/asset areas effectively).
- 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.

Scenario 2 – upfront funding for long term receipts

As note in previous spending review submissions, future disposal proceeds in the region of £100m could be generated as an outcome of a fully funded Estate Strategy. The table below sets out what impact this would have on the ability to meet capital requirements, should the government provide upfront funding in advance of longer term receipts.

	22/23	23/24	24/25	24/25	26/27	TOTAL
DDICT	23.6	23.6	23.6	23.6	23.6	118.0
Fleet	12.8	12.8	12.8	12.8	12.8	64.0
Fleet Diesel	5.0	5.0	3.0	3.0	3.0	19.0
Estates	8.1	21.8	55.2	37.1	39.7	161.9
Forensic services	5.7	5.7	5.7	5.7	5.7	28.5
Specialist policing equipment	3.5	3.5	3.5	3.5	3.5	17.5
Weaponry & officer safety	2.5	2.5	1.5	1.5	1.5	9.5
TOTAL	**61.2**	**74.9**	**105.3**	**87.2**	**89.8**	**418.4**
Funding						
Core GIA	49.6	49.6	49.6	49.6	49.6	248.0
Additional upfront for future capital receipts 1	0.0	15.0	35.0	25.0	25.0	100.0
Funding Gap to complete estates work 2	11.6	10.3	20.7	12.6	15.2	70.4
TOTAL	**61.2**	**74.9**	**105.3**	**87.2**	**89.8**	**418.4**

1 An estimated £100m could be achieved through the sale of existing buildings and moving to partner co-locations. Providing this funding to Police Scotland upfront, with SG receiving the proceeds on sale would mean a net zero impact over the period.

2 In order to generate approximately £100m in property sales, all Estates projects would need to be funded. This line shows the remaining gap in each year to fund all estates projects.

Scenario 3 – upfront funding for long term receipts, plus additional funding

As per the previous slide, future disposal proceeds in the region of £100m could be generated as an outcome of a fully funded Estate Strategy. The table below sets out what the funding gap would be in order to deliver the full programme of capital investments.

	22/23	23/24	24/25	24/25	26/27	TOTAL
DDICT	56.0	53.5	25.4	15.9	10.3	161.1
Fleet	12.8	14.9	24.3	11.0	14.1	77.1
Fleet Diesel	5.0	2.0	1.5	1.0	2.0	11.5
Estates	8.1	21.8	55.2	37.1	39.7	161.9
Forensic services	5.7	9.2	5.2	4.2	4.2	28.5
Specialist policing equipment	3.5	3.5	3.5	3.5	3.5	17.5
Weaponry & officer safety	2.5	1.5	1.5	1.5	1.5	8.5
TOTAL	**93.6**	**106.4**	**116.6**	**74.2**	**75.3**	**466.1**
Funding						
Core GIA	49.6	49.6	49.6	49.6	49.6	248.0
Additional upfront for future capital receipts 1	30.0	22.7	30.0	5.8	7.8	96.3
Funding Gap 2	14.0	34.1	37.0	18.8	17.9	121.8
TOTAL	**93.6**	**106.4**	**116.6**	**74.2**	**75.3**	**466.1**

1 An estimated £100m could be achieved through the sale of existing buildings and moving to partner co-locations. Providing this funding to Police Scotland upfront, with SG receiving the proceeds on sale would mean a net zero impact over the period.

2 In order to generate approximately £100m in property sales, all Estates projects would need to be funded. This line shows the remaining gap in each year to fund all estates projects, plus the remaining broader investment programme.

Next steps

Financial planning: timeline

Immediate next steps:

Date	Meeting / Board	Decision
Formal governance		
31/08/21	Corporate Finance & People Board	For approval
08/09/21	Strategic Leadership Board	For approval
14/09/21	SPA Resources Committee	For approval
29/09/21	SPA Board	For approval

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