

Justice Committee

Scottish Government's Draft Budget 2016-17

Written submission from Police Scotland

Purpose

1.1 The purpose of this report is to provide written evidence at the request of the Justice Committee to assist the Committee's scrutiny of the budget planning process for 2016/17.

1.2 It is noted that the Justice Committee will focus its budget scrutiny on the specific areas of Police Scotland, Scottish Fire and Rescue Service and the Crown Office and Procurator Fiscal Service.

Background

2.1 The outcome of the UK Government's Spending Review will be announced on 25 November 2015 with the Scottish Government's Draft Budget and indicative Spending Plans for 2016/17 due to be published on 16 December 2015.

2.2 Police Scotland recognises the need for public sector organisations across Scotland to look for efficiencies and new ways of undertaking their business to ensure that we can continue to provide quality public services and at the same time deliver upon the challenge of balancing our budget each year.

2.3 In this regard, the consolidation of policing services, one of the largest mergers in the history of the public sector, was successfully secured in that to date since the inception of Police Scotland cumulative savings of almost £140m have been achieved. This is in excess of the total budget of 3 legacy forces combined (and is, in fact, progressing toward that of 4 legacy forces).

2.4 The Outline Business Case for Police Reform indicated a savings target of £1.1bn to be achieved by 2026. The cumulative savings to date projected over the 15 year period to 2026 forecasts a saving of £1.6bn in comparison to the £1.1bn target.

2.5 In order to meet the Policing principles contained within the Police and Fire Reform (Scotland) Act 2012, build upon the efficiencies already achieved and complete the necessary transformational change, investment will be required.

Financial Position 2015/16

Budget Allocation

3.1 The SPA approved a revenue budget for financial year 2015/16 of £985.8m allocated across Police Scotland (£957.8m); Forensics (£23.8m) and SPA Corporate (£4.2m).

3.2 The capital grant available to SPA is £28.1m and is supplemented by the use of capital receipts for reinvestment purposes. The Scottish Government provide a Reform budget of up to £68.7m, which is primarily applied to meet the liability for VAT and the costs of the voluntary redundancy and voluntary early retirement (VR/VER) scheme.

3.3 As 2015/16 is the final year of the current spending review, the delivery of a balanced budget was always considered a challenge given the cost profile of the organisation.

Savings Delivered

4.1 The challenges faced in delivering further savings in financial year 2015/16 have been considerable, particularly in the context of the significant level of efficiencies secured in the previous two financial years. This is further complicated by the requirement to deliver savings from reform in conjunction with the management of in year costs pressures.

4.2 Nonetheless, savings have indeed been generated and these extend across the whole cost base and include efficiencies in relation to people, procurement and property.

4.3 Savings in both police officer and police staff costs have been delivered in a sustained manner since 1 April 2013. One of the most marked savings in officer costs is the substantial reduction in overtime spend. Police Scotland inherited an overtime budget from legacy Forces of £33.8m in 2012/13. The current core overtime budget is £17.5m, which represents a saving of 48% on pre-reform expenditure levels.

4.4 The impact of efficiencies achieved since 1 April 2013 is demonstrable through the change in the organisational cost base. This effect on the revenue spend profile is a material shift from that of legacy organisations.

4.5 Historically, people costs were deemed to constitute typically 85% of organisational budgets. Financial savings delivered in recent years have resulted in a significant shift in this profile such that some 94% of the budget is now invested in people related costs. Non-people costs have been squeezed from 15% to circa 6% of the budget.

4.6 A high employee cost base represents a real challenge in terms of generating further efficiencies particularly given the commitment to maintain 17,234 police officers, no compulsory redundancies or service out-sourcing.

4.7 It is evident that efficiencies achieved to date have driven the non staff cost base down significantly. Having applied significant constraints to such budgets, remaining costs are largely unavoidable in nature (examples include contractual commitments and property related costs such as non domestic rates and utilities). As such, it is estimated that flexibility remains in a very small proportion of the total budget.

4.8 Financial management within Police Scotland is underpinned by strong Governance. From the start of Police Scotland the Chief Constable and Members of the Force Executive undertook this process of scrutiny and challenge at various boards including Star Chamber, Resource Governance Group and the Improvement Board. In line with our Corporate Strategy the Star Chamber meeting became Police Scotland's Corporate Finance & Investment Board.

4.9 The focus of the Corporate Finance & Investment Board remains the financial position for 2015/16 and future years covered by the forthcoming spending review.

Service Impact

5.1 The constraints within which Police Scotland has operated since inception are outlined later in this document. However, to some degree these have been helpful in ensuring that the level of service delivered to communities in Scotland has remained strong.

5.2 In moving forward, however, these are likely to present barriers to the future sustainability of current service delivery models. Flexibility and investment are fundamental to informing business decisions that will enhance and effect strong outcomes for the public in Scotland from a robust policing provision.

Financial Year 2016/17

Financial Planning & Modelling Arrangements / Cost Pressures

6.1 Work has progressed within Police Scotland to model the financial requirements for the next three financial years. At this stage, projections of budget requirement assume that reform funding does not continue beyond 2015/16. This has the effect of increasing the mainline revenue and capital budgets to take account of costs such as irrecoverable VAT (a total cost to the organisation of approximately £33m).

6.2 Pressures such as pay inflation have been included in the assessment of budget need and this assumes the continuation of the Public Sector Pay Policy of up to 1% with effect from 1 September 2016. There are other unavoidable pressures which have been included in the assessment such as the increased rates of employer national insurance contributions as a result to changes in State pension and contractual pay costs.

6.3 Legislative pressures going forward include the costs associated with the implementation of the new Criminal Justice Bill as well as the impact of the national inquiry into the Historical Abuse of Children.

6.4 Financial modelling of future funding streams has included sensitivity analysis to determine the impact of varying levels of grant in aid. The model has quantified the impact of options ranging from flat cash settlement to funding reductions of 25% and 40% respectively.

6.5 This has facilitated the estimation of possible funding gaps and work to plan priorities, develop options around service delivery and likely required efficiencies is ongoing. These plans are evolving and take account of investments required

(included in the assessment of likely future capital requirements) to deliver savings over the timeframe covered by the spending review ('spend to save' options).

Scope for Savings

7.1 The cost base assumes recurring savings arising from the effect of savings implemented in previous financial years.

7.2 Further, all areas of the budget are subject to on-going scrutiny and review in both current and future financial years. Further efficiencies are anticipated to continue from the on-going embedment of the Fleet and Procurement strategies.

7.3 The Estates Strategy, approved by SPA in June 2015, has sharp focus on enhancing service delivery through transforming the estate to one that is modern, flexible and fit for future policing across Scotland. More effective use of accommodation will reduce occupied floor space and so generate revenue savings. To this effect we have been working with Scottish Futures Trust and also with other public sector partners to explore joint opportunities. Further, this reshaping of the estate enables the potential to realise capital receipts over the timeframe of the strategy.

7.4 The ICT strategy is currently being developed and will support the on-going programme of transformation as well as enabling future efficiencies.

7.5 At this time there are no specific savings which have been excluded from scope.

Limiting Factors & the Continuing Financial Challenge

8.1 The current constraints, within which Police Scotland must manage, represent areas of inflexibility in terms of driving the cost base down further. These constraints restrict capacity to drive out efficiency beyond the substantial savings already successfully delivered.

8.2 With 94% of the base consumed by employee related costs, it would seem inevitable that future efficiencies would have to include further reduction of budget in this area. Successful delivery of such savings is a challenge which is further compounded by the commitment to maintain 17,234 police officers and to avoid compulsory redundancies or outsourcing.

8.3 A process of significant organisational change has been on-going since the inception of Police Scotland and will continue into financial year 2016/17. Further staff reductions under the programme of VR/VER will require support from Scottish Government in terms of the associated release costs. This could represent a further financial constraint moving forward.

8.4 The real extent of the future budgetary challenge will not be fully known until the draft budget is announced by the Scottish Government on 16 December 2015.

The need for ongoing investment

9.1 The objectives of reform continue to significantly shape our plans for the future. Aligned to this is the sustainability of our services and design of our operating model to meet a changing society and changes in crime trends. The constantly changing policing need, exemplified by the on-going and escalating threat from terrorism and the recent events in France and Belgium, has resulted in a significantly greater demand on resources. This highlights the importance of the need for a robust and flexible Police Service which delivers protection to the communities of Scotland and further afield from threat and harm.

9.2 To meet this ever changing landscape, it is considered that our future operating model moving towards 2026 will radically evolve and look considerably different to today's operating model. Investment is required to ensure effective delivery in this regard. Moving forward, the overarching strategy will consider the following areas:

a) **Workforce**

The workforce model will consist of work streams aimed at modernising the workforce, taking into consideration terms and conditions of employment, recruitment and approaches to training. The development of a strategic workforce plan will be critical to this.

b) **Service Efficiency**

This programme will encompass the broadening lean programme; process and efficiency reviews; better integration of internal corporate functions facilitated by ICT investment and the identification for potential collaborative opportunities with partners.

c) **Enabling Technology**

The third programme of activity will complete the roll out of i6 and implement enabling ICT provision such as resource management and payroll systems. This strand will also develop and deliver the future mobility programme and focus on flexibility elements which support a modern workforce.

9.3 Such on-going transformation will require a programme of planned investment to manage the dynamic nature of policing, effect positive change and continuous improvement whilst driving out efficiencies over the longer term.

Police Scotland
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