

Justice Sub-Committee on Policing

Audit Scotland's 2015/16 Audit Report on the Scottish Police Authority

Written submission from Police Scotland

Implications of the findings of the 2015-16 Audit Report for Police Scotland

The Scottish Police Authority (SPA) 2015-16 Annual Audit Report to Members and the Auditor General for Scotland, and the subsequent Section 22 Report clearly outline a number of areas where significant improvement in Police Scotland's financial governance, capacity and control arrangements is required.

The steps that we have taken, and the further work that is currently ongoing, to address these areas for improvement are set out below.

Financial Leadership & Capacity

The new Chief Financial Officer is accountable to both the Chief Constable, through the Deputy Chief Officer, and the SPA's Chief Executive Officer. A recruitment exercise was progressed during early 2017 which has resulted in this post being filled on a permanent basis. Arrangements have been made to ensure that there is a seamless transition between the current interim arrangements and the permanent arrangement which will commence in Summer 2017.

The Senior Leadership Team of Police Scotland was strengthened in September 2016, with the appointment of a Deputy Chief Officer. This is a new position which has responsibilities covering all Corporate Services function including Finance. This is the most senior civilian appointment ever made in a policing organisation in Scotland, highlighting the Chief Constable's commitment to enhancing the Corporate Services division within Police Scotland.

The Interim Chief Financial Officer of Police Scotland undertook a review of the finance function to assess issues with the level of capacity and skills within the current structure, following which the Deputy Chief Officer successfully made the case to the SPA Board in October 2016 to secure funding to recruit the following temporary additional posts:

- Capital Finance Manager
- Financial Accounting Manager
- Systems Development Manager
- Financial Transactions Manager
- Project Finance Manager
- Budgeting Manager
- Financial Planning Manager
- Business Partnering Manager – Operational
- Business Partnering Manager – Corporate Support
- 4 Management Accountants
- 2 Finance Officers

The recruitment exercise for these 15 posts took until the end of February 2017 to fill with suitable candidates.

These additional resources have brought stability to the finance function, and are addressing the areas of weakness which were identified by Audit Scotland, establishing consistent policies and procedures, and providing experience in technical financial support for areas such as the Annual Report & Accounts and capital accounting.

In addition, a project management approach has been adopted for the preparation of the draft 2016-17 Annual Report & Accounts for the first time, to ensure that the quality issues highlighted in the 2015-16 Audit Report are fully addressed.

The 2015-16 Final Outturn and the Use of Reform Funding

Audit Scotland highlighted the fact that a £19.4m under-spend on capital had been used to offset a £20.5m overspend on revenue in 2015-16. In addition, to this reform funding had been used in part, to support recurring revenue expenditure.

In order to improve the transparency of the Scottish Government funding allocation against Revenue, Capital and Reform, the 2017-18 budget was developed, with a clear separation of revenue, capital and reform funding. There was be clear and transparent reporting on the use of these three funding streams throughout the financial year.

Financial Control & Budgeting

The public information that was presented with regard to the 2016-17 budget was limited, and this was highlighted in the most recent Section 22 Report. In response to this, a completely fresh approach was taken to the development and public reporting of the 2017-18 budget. Initial informal feedback from our auditors has indicated that the level of publicly available information on the budget, which was presented to the SPA Board on 22 March 2017, was significantly improved. The improvements that have been undertaken, or are underway, to strengthen financial management in the organisation around the governance and control of spending are:

- Far greater engagement with the business in the development of the budget, placing accountability on budget holders to identify savings opportunities and cost pressures;
- A transparent and clear Budget Report setting out how the budget was developed for 2017-18 which was reported publicly;
- Improved reporting templates for financial monitoring in 2017-18;
- Enhanced devolved budgeting arrangements – giving budget holders more flexibility to manage budgets within approved limits;
- A formal budget monitoring guidance pack for budget holders, which documents the framework under which they must operate;
- Development of a business partnering model, to ensure that budget holders have the right level of financial support to provide advice on financial decision-making;
- The development of a training plan for budget holders which identifies and addresses training needs;

- A refreshed Investment Governance Process, supported by new business case templates, to ensure that all investment decisions are aligned to the corporate strategy, and that a robust process has been undertaken, in line with green book principles, for all business cases seeking investment;
- Month-end procedures have been revised to achieve a faster close, which will result in a flash finance report 5 working days after month end, and a detailed analysis of the results each month, which will be 10 working days faster than 2016-17;
- A refreshed Police Scotland Finance Board with a new terms of reference, and strengthened arrangements for ensuring that budget holders are held to account for their budgets;
- An annual work-plan for the Board, which is aligned with the SPA Finance Committee both in terms of content, but also timing, to ensure smoother reporting arrangements in the future.

Financial Sustainability and Long Term Financial Strategy

The Auditor General for Scotland estimates that the SPA and Police Scotland are facing a cumulative deficit of approximately £200m in real terms over the current parliamentary session, which highlights the need for effective long term financial planning to address this challenge.

Our own assessment is broadly in line with that presented by the Auditor General for Scotland and, in order to have clarity around the extent of the financial challenge, there is greater transparency of this within the revenue budget. For the first time, the revenue budget clearly highlights an operating deficit of £47m in 2017-18. This is the remaining deficit after the inclusion of savings; the first draft of the budget indicating a deficit of £64m before savings options were applied. The savings requirement for the forthcoming year incorporates an efficiency challenge (consistent with normal practice within the public sector) which was accepted by the Deputy Chief Constables and Deputy Chief Officer. They are currently working on plans to deliver the required savings in-year.

It is important to note that the termination of the i6 programme, and the loss of expected savings, has already been factored into our financial modelling, and does not increase the size of the financial challenge that is currently being reported.

As a result of the financial position, Police Scotland is focused on a Long Term Financial Strategy (LTFS) in order to support the organisation's move towards financial sustainability, a significant issue highlighted in the Auditor General for Scotland's Section 22 Report. It is the intention of the SPA to publish a 10 year LTFS to provide the financial underpinning for the draft Policing 2026 Strategy which is currently out to consultation.

As a result of the current revenue budget deficit position, it is the intention of the SPA to also develop and publish a 3-year Medium Term Financial Plan which will underpin the delivery of the 3 year business implementation plan, with a key focus on delivering a financially sustainable policing service in Scotland by the end of 2019-20.

Initial financial modelling work was undertaken during 2016-17 which provided an early indication of a recurring revenue budget deficit position of £60m (assuming Scottish Government continues to fund the irrecoverable VAT costs) in 2017-18. It was forecast that, without corrective action, this deficit position would remain static at £60m in future years, which reflects the fact that the Scottish Government's commitment to increase the police grant-in-aid over the lifetime of the current Scottish Parliament would be sufficient to meet known cost pressures over this period, thus preventing the revenue deficit position from increasing.

An initial high-level 3-year Medium Term Financial Plan will be produced to coincide with the publication of the Policing 2026 Strategy and the 3-year implementation plan, following approval by the SPA Board on 22 June 2017. This high level plan will set out the areas where the organisation will seek to deliver £60m of recurring savings over the period to the end of 2019-20. The main area of focus will be on non-pay and corporate services savings, with additional savings targeted from the police officer pay budgets following a demonstrable increase in productivity gains in policing. The plan will also set out indicative investment requirements from both capital and reform funding, insofar as individual project plans are developed at that stage.

As Police Scotland's change capability is built up over the next quarter, it is anticipated that the key projects supporting the delivery of the first 3 years of the 2026 Strategy will be more fully developed, setting out in the detail the investment requirements to support transformation, as well as expected benefits, which will be both non-financial and financial. The finance service will work closely with the project leads to understand the financial implications, so that these can be used to inform a detailed 3-year Medium Term Financial Plan which will be published in the autumn. This plan will form the basis for the development of the 2018-19 revenue, reform and capital budgets.

The 10 year LTFS will be an extension of the detailed 3-year financial plan and will also be published in autumn 2017. The Strategy will set out a number of possible scenarios, making clear the financial parameters that it is anticipated that the organisation will be operating under. Sensitivity analysis will be applied to demonstrate the financial impact of a change in the underlying assumptions.

Both the 3-year and 10-year financial plans will be reviewed and updated on an annual basis to ensure that they reflect the most up to date information, and they will be used as a framework for annual budget development to ensure that the organisation becomes financial sustainable, and remains so into the longer term.

Police Scotland
12 May 2017