



CROWN OFFICE
& PROCURATOR
FISCAL SERVICE

SCOTLAND'S PROSECUTION SERVICE



Financial Strategy

Contents	Page
Purpose	3
1. Assumptions and Pressures	4
2. Strategic approach	5
3. Staff-related savings	5
4. Non-staff savings	6
5. Accountability	6
6. Risk	7
Appendices	
Appendix A: Base Budget 2016-17	8
Appendix B: Assumptions and Pressures	9
Appendix C: Forecast Base Budget 2022-2023	12
Appendix D: Risk Analysis	13

Purpose

Financial Strategy

The purpose of this Strategy is to set out a clear financial direction for COPFS that provides sustainable options to enable COPFS to deliver and maintain improving levels of service, consistent with the Scottish Government Performance Framework, within a better environment for staff and taking full account of the likely expenditure constraints over the next five years.

1. Assumptions and Pressures

The core assumption underpinning the Strategy is that the 2017-18 allocation from Scottish Government (revenue and capital) will remain unchanged throughout the period; i.e. any additional resources must be regarded as over and above normal requirements and thus deployed accordingly.

It should be pointed out that the current base allocation includes £0.950m for prosecution of domestic abuse and it has been assumed that this additional funding from SG will continue beyond the scheduled end-date of 31 March 2018. Appendix A sets out the base budget for 2016-17 that provides the basis for future forecasts .

Prudent assumptions have been made about pay, national insurance, pension and other inflationary pressures which will add to costs over the period. In the light of current commentary from the Bank of England, we have assumed inflation will be 3% per annum throughout the period. It has been assumed that the SG no compulsory redundancies policy will continue and that staff savings will therefore need to be made from natural turnover (i.e. not replacing all those who leave voluntarily or at the end of contracts).

We have factored in expected inescapable increases in costs arising from the new apprenticeship levy on all major employers and changes in the charges for movement of bodies. However we have assumed that additional pressures on staff time arising from new legislation and policy changes will be absorbed and netted against savings in staff time that will be made from implementing more efficient and effective approaches to prosecution and internal processes. We have also assumed that all capital pressures arising from estates and IT will be absorbed within the current and assumed , unchanged, allocation of £3.6m.

In view of the recommendations from our Fair Futures project to speed up recruitment and deployment processes in order to fill vacancies more quickly, the vacancy assumption has been set at 1% from April 2017, lower than has been the practice in past years – i.e. from 1 April 2017 onwards the cost of staff in post should be no more than 1% lower than the total notional cost of established posts at any time. To achieve this we will remove some vacant posts in the first quarter of 2017.

The updated assumptions and pressures are summarised in Appendix B. The table in the Appendix shows that on this basis we could potentially need to find around £15m worth of savings by 2022/23 – an annual average of £3m with the savings slightly higher in the earlier years.

2. Strategic Approach

Although around two-thirds of COPFS expenditure is payroll-related, the intention is to look for the required savings on a 50/50 basis between staff and non-staff costs in order to maintain staffing levels at the appropriate level necessary to deliver an efficient and effective service. More generally, we will be aiming throughout to make the maximum savings possible, in order to provide headroom if at all possible and to hedge against the risk of any adverse changes in the underlying assumptions and pressures, not least of which is the level of government funding. .

3. Staff-related savings

As indicated above, staff-related savings will need to be made from not replacing a specified number of staff who leave voluntarily or at the end of a fixed-term contract. In broad terms, on the basis of either median, lower quartile or average salaries, we will potentially need to reduce headcount over the next five years by between 105 – 290, with the average used in the forecast of 210 fte, over the five-year period, with this slightly weighted towards the earlier years. This takes into account that several of the identified cost pressures occur in 2017/18 and 2018/19 and therefore the required savings in these years are higher as a consequence. Our trend analysis suggests that we can expect around 230 permanent FTE staff to resign or retire during that period. Speeding up recruitment and deployment processes will help to ensure that any reduction in complement can be managed.

We believe that significant amounts of staff time will be freed up over the period as a result of changes in prosecution policy and practice, sheriff and jury reform, further digitisation of processes (such as case management in court), bearing down on sick absence, and reducing the time taken up with the internal recruitment processes. Work is continuing to provide the firmest possible estimates of time that will be saved by these means.

On the basis of our assumption that any savings needed will come from staff and non-staff costs on a 50:50 basis, not all of the maximum savings from natural turnover would be required. This would give COPFS choices about how to take advantage of natural turnover: for example, there would be some scope to make posts occupied by Band B FTAs permanent, and to replace a proportion of the permanent staff who leave (although not necessarily on a like for like basis); but clearly other permutations are possible and these will be explored by Workforce Planning Group on the basis of the Workforce Planning Strategy and Function workforce plans.

4. Non-staff savings

The major areas of focus for non-staff savings will be estates; witness costs; reduction in running costs (such as paper, printing and postage) arising from digitisation; and reductions in costs of contracts as a result of improved procurement and contract management including rationalising contracts and identifying opportunities for additional outsourcing and shared services.

Work is continuing with budget owners to identify specific, stretching but realistic targets in the major areas of savings, but also in relatively small budgets particularly where there have been underspends in recent years.

In relation to estates we believe that there is significant scope to reduce our expenditure of roughly £10m pa (around £9m for the shared service with SCTS, and £1m of other estate-related expenditure). We have set a very ambitious target that by 2022-23 we will be spending £2m pa less than at present in real terms i.e. around a third of the total non-staff savings target. These very significant savings in estates costs will only be possible if managers at all levels embrace new, different and more flexible ways of working particularly in conjunction with digitisation, and persuade our criminal justice partners that there will be no impact on service provision and that indeed as a result of improved processes and practices, potential improvements in service provision. There is no question that some COPFS offices will need to close or reduce in size. In the event that we were to sell any building owned by COPFS we would seek to retain all or some of the proceeds to help to offset the costs of reducing our estate (dilapidations possible staff relocation etc.); this would need to be approved by the Scottish Government on the basis of a robust business case.

A major area of non-staff spend in which we have so far assumed relatively modest savings is mortuaries and pathology: at £8.2m currently it constitutes around 7.5% of total COPFS spend (excluding capital expenditure). Work is in train to review the range of contracts and arrangements we have with the NHS and universities. Longer term there is undoubtedly scope for significant savings in this area, and so while only £100k per annum, starting in 2018/19, has been included within the forecast so far work is in hand to increase the level of savings. Additional resources have been recruited to assist with contract management and to facilitate the freeing up of resources to move forward on future definition of service requirements, contract content and procurement.

5. Accountability

Appendix C shows a provisional budget for 2022-23 on the basis that the assumptions/pressures materialise as described and the savings plan is delivered. This illustrates the scale of the challenge.

High-level targets for the delivery of savings for Function Heads in relation to both staffing and non-staffing budgets, starting with the 2017-18 budget will be allocated to Budget holders. Setting these targets will not alter the position that decisions about prosecution in individual cases are made without reference to the

financial consequences. There will also need to be close liaison with our criminal justice partners who will themselves be facing similar financial challenges.

A new financial scheme of delegation will be put in place for 2017-18 which will balance the requirement to manage our resources corporately with a sufficient degree of local accountability and incentives. There are a series of relevant strategies and plans feeding in to the Financial Strategy (e.g. Estates strategy, Digital strategy, Prosecution Policy Review, Workforce Planning strategy, Fair Futures, Case Management in Court and corporate apps, Procurement improvement plan). Owners, project executives and managers from across COPFS will be responsible for taking each strand forward and delivering agreed benefits; each owner will be accountable ultimately to one of the three committees of the Executive Board. The interdependencies between the various strategies and workstreams are being mapped to ensure that they are fully understood and are managed accordingly to ensure and underpin the delivery of our strategic financial targets

In terms of corporate governance and accountability, the Resources Committee will own the overall five year Strategy on behalf of the Executive Board (EB). The other two EB committees would be required to take the Strategy into account in all their decisions as part of the overall Governance arrangements. The Risk Management Group which will play a key role in monitoring risk, (with the Audit and Risk Committee having an overwatch role).

6. Risk

The base case scenario set out above and in the appendices is our best assessment based on current information and assumptions, but clearly there are significant underlying risks. A Risk Analysis has been prepared.

The table at Appendix D shows two alternative scenarios derived from our risk analysis i.e. COPFS is worse off than our base case scenario: the first assumes the worst case impact of a range of major negative items occurring at the same time; the second is a scenario where a more limited range of risks materialise.

In the worst case scenario the ability of COPFS to continue to function and deliver services would be seriously undermined; it would not be possible to deliver the required savings within the context of a no compulsory redundancies policy.

In the lesser scenario where domestic abuse funding is discontinued and there is some slippage of savings deliveries together with some smaller salary related cost increases the revised savings target of £17.7m would be extremely challenging but achievable.

Appendix A: Base Budget 2016-17

By Funding	£.000m	By Cost Type	£.000m
Cash	100.800	Staff	71.401
Major Cases	2.700	Estates; Shared Services	8.830
Non Cash (Ring Fenced)	5.400	Estates ; Non Shared Services	1.109
		ISD	3.704
		Pathology	8.229
		Witness Costs	2.877
		Other Admin, Office & Centrally Managed	8.300
		Depreciation/Impairments	5.400
SUB TOTAL	108.900	SUB TOTAL	109.850
Domestic Abuse Cases	0.950		
SUB TOTAL	109.850		
Capital	3.600	Capital	3.600
TOTAL	113.450	TOTAL	113.450

Appendix B: Assumptions and Pressures

Area		**5 Yr. Cost £0.000m
Independence of COPFS	It is assumed that COPFS will remain an independent organisation with sole authority to prosecute in Scotland and that the Law Officers will continue to prosecute in the public interest regardless of cost.	n/a
Scottish Government Funding	Flat cash settlement over the period of the forecasts i.e. at the same level for both capital and revenue as in 2016/17	
2016-17 Budget	All in year cost pressures in 2016/17 are met from savings elsewhere in the year	0.000
Pay Awards	Set at 1.14% per annum to cover main pay award and measures to help lower paid staff	4.066
Inflation	Based on independent , post Brexit vote, assessment of the annual increase in the Consumer Prices Index has been included at 3% per annum	4.989
Staff Budgets	Agreed reduction in vacancy management. The salaries budget is set gross, on the assumption that all posts are filled 100% of the time. In reality there is always a % of turnover and the target for this has been set at 1% reduced from the 2016/17 target of 3%. Each 1% change = £600k	1.200
Increments	Annual increments paid to staff not at the top of their grade	3.213
Redundancy Policy	It has been assumed for the strategy period that the current policy of no compulsory redundancies will continue	
Employers National Insurance	In view of the current economic climate an increase of 0.25% per annum has been included	0.643
Employers Pension Contributions	The Pension scheme is subject to a triennial valuation to assess its continuing ability to meet its liabilities. The next one is due this year with any changes due with effect from 2018/19. The next one falls outside the period covered by the current strategy and another one in 2021/22. An increase of 0.50% has been assumed	0.643
Apprenticeship Levy	The UK government has introduced a new levy on firms with a wage bill in excess of £3m per annum, estimated at 2% of all UK firms. This levy is to help finance the external training costs of apprentices employed by qualifying organisations, the precise details for Scotland were subject to consultation the detailed outcome of which is not known at this point. COPFS will be required to	0.300

	pay an annual levy based on 0.5% of the salary bill less £15,000	
Post Mortems; Movement of Bodies	Discussions are ongoing with Police Scotland about the cost of movement of bodies between mortuaries as this is a service that is not currently included in any relevant contracts. Whilst final costs have not been agreed initial indications are that the maximum cost will be in the region of £90k per quarter, £360k per annum.	0.360
Movement of Prisoners	The current Court Custody and Prisoner Escort services contract expires in January 2019. This contract covers the transport of prisoners to and from police stations, the courts and the prison estate. The current contract is paid for and managed by the Scottish Prison Service. Different financial arrangements, are being considered for the new contract structure but will not be known for some time. Any potential impact on COPFS in 2018-19 will be small as the new contract will only be in place from February 2019 but will increase in subsequent years. It is not possible at this time to make any sensible estimate as to the financial impact on COPFS. Therefore at this time this potential cost pressure will be included in the risk assessment	0.000
Compensation Cases	From time to time COPFS is subject to compensation claims both in terms of staff related claims and external claims.. No provision has been assumed at this time.	0.000
Legislative and Policy	There are a range of potential cost pressures arising from various legislative and policy pressures and this includes areas such as Child Abuse Inquiries and Cold Case investigations. To absorb changes could require either a robust business case for additional funding, redeployment of existing staffing, recruitment of additional staff increasing pressure for further savings elsewhere, or a combination of all 3. Some however have already been absorbed within exiting budget i.e. Victims and Witnesses (Scotland) Act 2014 and the Criminal Justice & Licensing (Scotland) Act 2010 The potential impact of these needs to be fully assessed and discussed further with Scottish Government if appropriate; the currently stated Scottish Government position is that these costs will require to be absorbed into existing budgets. In the interim, they are included within the Risk Assessment	0.000
Capital Pressures	Capital funding is also assumed to be frozen at 2016/17 levels of £3.6m over the 5 years. The	0.000

	<p>following pressures will be absorbed within that target and the risks will be highlighted in the Risk Assessment.</p> <ul style="list-style-type: none"> • Estates ; there is the potential requirement to fund a backlog of maintenance over a 10 year period for the owned and leased estate ,scheduled for 2017 onwards . These figures exclude the embedded estate and will be based on the results of an up to date conditions survey being undertaken by Turner and Townsend , the surveys are due to finish by Spring2017.This backlog is not envisaged to include any urgent , essential work • IT; the draft IT and Digital strategy is still being prepared but it is currently the case that there is not a structured planned maintenance and upgrade programme in place for hardware and software other than individual contract management arrangements. The future impact of IPad in court, corporate apps etc. need to be factored into such a programme. 	
	Total Identified Pressures to be met from Savings	<u>£15.414</u>

** This is the total cost pressure to be financed from savings. A cost is included in the year it arises and is assumed to be fully funded from in year savings and therefore becomes a baseline cost replacing the savings items. In effect all costs added to the savings targets are the total, new, in year costs

Appendix C: Forecast Base Budget 2022-23

By Funding	£.000m	By Cost Type	Base £.000m	Inflation/ Costs £.000m	Savings £.000m	2022/23 £.000m
Cash	100.800	Staff	71.401	10.065	7.707	73.759
Major Cases	2.700	Estates; Shared Services	8.830	1.333	1.596	8.567
Non Cash (Ring Fenced)	5.400	Estates ; Non Shared Services	1.109	0.167		1.277
		ISD	3.704	0.559	1.750	2.513
		Pathology	8.229	1.602	0.400	9.431
		Witness Costs	2.877	0.434	0.470	2.841
		Other Admin, Office & Centrally Managed	8.300	1.253	3.492	6.061
		Depreciation/Impairments	5.400			5.400
SUB TOTAL	108.900	SUB TOTAL	109.850	15.414	15.415	109.850
Domestic Abuse Cases	0.950					
SUB TOTAL	109.850					
Capital	3.600	Capital	3.600			3.600
TOTAL	113.450	TOTAL	113.450	15.414	15.415	113.450

The forecast base budget for 2022/23 includes all cost pressures including pay awards and an increased, post Brexit, inflation rate, and offset by all targeted savings.

- Estates budgets have absorbed all cost pressures and the base budget actually represents a real terms cut of £2.000m with £0.400m available for risk mitigation
- The Pathology budget take account of cost pressures from increased payments for movement of bodies as well as inflation and ISD includes significant cost savings in operational and contractual costs offset by inflation.
- Ad hoc and salami sliced budget savings have been allocated to Office, Admin and Other Centrally Managed until specific targets are identified and savings allocated to specified project areas within the Savings Delivery Plan
- Inflation has been allocated pro rata to each budget heading

Appendix E: Risk Analysis

	Worst Case		Lesser	
Base Savings Target		15.414		15.414
Risks				
Funding reduced by	2.00%	10.600	0.00%	0
Further CPI increase of	0.50%	0.832	0.00%	0
Pathology Savings are not delivered		0.400		0
Domestic Abuse Case funding not extended		0.950		0.950
Slippage on Savings delivery	10.00%	1.451	5.00%	0.766
Prosecution Policy Review does not proceed as planned		0.500		0.100
Pay Award higher than forecast	0.50%	1.784	0.00%	0
NIC higher than forecast	0.25%	0.642	0.10%	0.257
Pension higher than forecast	0.50%	0.321	0.25%	0.161
Revised Savings Target		32.895		17.647