



The Scottish Parliament  
Pàrlamaid na h-Alba

## **Finance Committee**

### **Report on the Financial Memorandum of the Police and Fire Reform (Scotland) Bill**

The Committee reports to the Justice Committee as follows—

#### INTRODUCTION

1. The Police and Fire Reform (Scotland) Bill was introduced in the Parliament on 16 January 2012.
2. Under Standing Orders Rule 9.6, the lead committee at Stage 1 is required, among other things, to consider and report on the Bill's Financial Memorandum (FM). In doing so, it is required to consider any views submitted to it by the Finance Committee ("the Committee").
3. At its meeting on 18 January 2012, the Committee agreed to seek written evidence from a number of organisations potentially affected by the Bill. Submissions were received from—

- Association of Chief Police Officers in Scotland
- Association of Principal Fire Officers Scotland
- Association of Scottish Police Superintendents
- Board of Strathclyde Fire and Rescue
- Chief Fire Officers Association of Scotland
- CIPFA
- COSLA
- Crown Office and Procurator Fiscal Service
- Dumfries & Galloway Police and Fire and Rescue Authority
- Fife Fire and Rescue Service
- Fire Brigades Union
- Grampian Joint Fire and Rescue Board
- Highland Council
- Her Majesty's Inspectorate for Constabulary Scotland
- Northern Constabulary
- Northern Joint Police Board & Highland and Islands Fire Board
- Police Complaints Commissioner for Scotland
- Scottish Courts Service

- Scottish Fire Conveners Forum
- Scottish Police Federation
- Scottish Police Services Authority
- Unison

4. All written submissions can be accessed from the Committee's webpage at the link below—

[http://www.scottish.parliament.uk/S4\\_FinanceCommittee/General%20Documents/COLLATED\\_SUBMISSION\\_POLICE\\_AND\\_FIRE\\_REFORM.pdf](http://www.scottish.parliament.uk/S4_FinanceCommittee/General%20Documents/COLLATED_SUBMISSION_POLICE_AND_FIRE_REFORM.pdf)

5. At its meeting on 22 February 2012, the Committee took evidence from the Association of Chief Police Officers in Scotland (ACPOS), the Chief Fire Officers Association of Scotland (CFOAS), the Fire Brigades Union (FBU), Her Majesty's Inspectorate for Constabulary Scotland (HMICS), the Scottish Police Federation (SPF) and John Connarty, Business Support Manager at the City of Edinburgh Council and a member of COSLA's police and fire reform task group. The Committee also took evidence from the Bill team. The Official Report of the evidence sessions can be found on the Parliament's website, at—

<http://www.scottish.parliament.uk/parliamentarybusiness/28862.aspx?r=6865&mode=pdf>

## THE BILL

6. The Policy Memorandum<sup>1</sup> accompanying the Bill states that the main policy objectives of the Bill are to create a single police service and a single fire and rescue service in order to deliver the policy aims set out below—

- To protect and improve local services despite financial cuts; by stopping duplication of support services eight times over and not cutting front line services;
- To create more equal access to specialist support and national capacity—like murder investigation teams, firearms teams or flood rescue—where and when they are needed; and
- To strengthen the connection between services and communities, by creating new formal relationship with each of the 32 local authorities, involving many more locally elected members and better integrating with community planning partnerships.

7. The Bill will establish the Scottish Police Authority (SPA), which will oversee the Police Service of Scotland, and a single Scottish Fire and Rescue Service (SFRS). It provides that the functions, staff, resources, assets and liabilities of the current police and fire and rescue services will be transferred to the new statutory SPA and SFRS respectively.

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<sup>1</sup> Police and Fire Reform (Scotland) Bill. Policy Memorandum, paragraph 3.

[http://www.scottish.parliament.uk/S4\\_Bills/Police%20and%20Fire%20Reform%20\(Scotland\)%20Bill/Policy\\_Memo.pdf](http://www.scottish.parliament.uk/S4_Bills/Police%20and%20Fire%20Reform%20(Scotland)%20Bill/Policy_Memo.pdf) [Accessed 24 February 2012]

## THE FINANCIAL MEMORANDUM

### Proposed funding arrangements

8. Funding arrangements for both the police and fire and rescue service will change significantly under the Bill. Currently, the police services are funded jointly by the Scottish Government and by local authorities, with total revenue funding for 2011-12 set at £1,370m.<sup>2</sup> Funding for the fire and rescue services is currently provided by the constituent local authorities, via the local government settlement with pension costs and revenue support for the Scottish Fire Services College at Gullane and for the Firelink communication system provided by the Scottish Government. Total revenue funding for 2011-12 is £335m.

9. The Bill seeks to consolidate the various existing funding streams into a single funding stream provided directly by the Scottish Government to the SPA and SFRS. This funding will be subject to the approval of the Scottish Parliament through the normal budget process. Section 85 of the Bill seeks to give the Scottish Ministers powers to make grants to the SPA, as they determine, and subject to any conditions they may specify.<sup>3</sup>

10. The FM to the Bill points to a clear financial imperative for legislating to create single police and fire and rescue services. For example, with regard to police, the FM states—

“Police forces across Scotland continue to perform strongly, with recorded crime at a 35-year low, improved detection rates, and high levels of public satisfaction. In the face of significant cuts to public sector budgets, the Scottish Government wishes to protect this level of performance as far as possible. It is not possible to meet this challenge in the current structure and organisation of policing in Scotland. The decision to move to a single police service provides for long-term sustainability. It provides the best way to deliver savings – through reduced duplication, rationalised and simplified support functions and standardised business processes - while protecting front-line services to communities.”<sup>4</sup>

11. In near identical language, with regard to the fire and rescue service, the FM states—

“Scotland’s fire and rescue services have performed well, helping to reduce deaths from fire by almost 50% over the last 10 years. In the face of significant cuts to public sector budgets, the Scottish Government wishes to protect this level of performance as far as possible. It is not possible to meet that challenge in the current structure and organisation of fire and rescue services in Scotland. The decision to move to a single fire and rescue service provides for longterm sustainability. It provides the best way to deliver savings - through reduced duplication, rationalised and simplified

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<sup>2</sup> SPICe Briefing 12-15 Police and Fire Reform (Scotland) Bill: Financial Memorandum.

<sup>3</sup> SPICe Briefing 12-15 Police and Fire Reform (Scotland) Bill: Financial Memorandum.

<sup>4</sup> Police and Fire Reform (Scotland) Bill. Financial Memorandum, paragraph 152.

support functions and standardised business processes – while protecting front-line services to communities.”<sup>5</sup>

12. In its evidence to the Committee the Bill team confirmed this financial imperative behind reform of the police and fire and rescue services. It stated that—

“Our projections are that budgets are going to go down, whether there is reform or not. Reform is a way of coping with those decreasing budgets more intelligently and protecting frontline services.”<sup>6</sup>

13. The Bill team went on to state that—

“The consequence of reducing budgets without reform is potentially a weaker front line in some parts of Scotland than in others—fewer police officers, firefighters and so on. One of the major motivations for engaging in reform was the aim to maintain the front-line capacity in both police and fire services despite there being less money to spend on them.”

### **Outline business cases**

14. The FM states that it “has been developed using the best available evidence, as summarised in the police and the fire and rescue Outline Business Cases (OBCs).”<sup>7</sup> The OBCs were published in September 2011, and form the basis for the calculations included in the FM. The FM states that the OBCs were developed by stakeholders from the police and fire services.<sup>8</sup>

15. Each OBC used Target Operating Model (TOM) methods to assess the most efficient way of delivering the key service functions. The fire OBC describes the TOM as “representing the most effective and efficient way in which to deliver services in a world without constraints, and is developed independent of existing structural configurations”.<sup>9</sup> The overall service TOM was then applied to three reform options—

- Enhanced eight forces/eight brigades with greater collaboration
- A regional structure of three or four forces/brigades
- Single national police and fire and rescue services

#### *Police OBC*

16. The police OBC found that significant efficiency savings could be made regardless of force structure and that most of these savings would be realised within the first five years. Thereafter, the OBC assumes a “steady state” under which this level of savings will continue over a projected 15 year period. Similarly, the costs of reform are estimated to peak after 5 years, reduce the following year then remain at that level for the projected 15 year period.<sup>10</sup> The OBC estimates of

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<sup>5</sup> Police and Fire Reform (Scotland) Bill. Financial Memorandum, paragraph 222.

<sup>6</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.724

<sup>7</sup> Police and Fire Reform (Scotland) Bill. Financial Memorandum, paragraph 133.

<sup>8</sup> Police and Fire Reform (Scotland) Bill. Financial Memorandum, paragraph 139.

<sup>9</sup> Fire and Rescue Reform: Outline Business Case, page 6.

<sup>10</sup> SPICe Briefing 12-14 Police and Fire Reform (Scotland) Bill

the financial costs and benefits of each model over 15 years are presented in Table 1 below.

**Table 1: Police Financial Appraisal – Assessment of affordability (excludes non-cashable savings) (Over 15 years) (£000)**

Option	Costs (15 years)	Cashable savings	Net Savings
Eight forces (enhanced)	356,197	1,311,160	954,963
Regional force	367,487	1,454,350	1,086,864
Single force	485,129	1,660,634	1,175,505

Source: Table A13, A14 and A15, Police OBC

17. In financial terms, the option which offers the largest projected savings over a 15 year period is the single force option. However, significant financial savings would also be achieved by applying the TOM to both the enhanced eight force structure and the regional force structure. In terms of annual savings, the OBC estimates that, after the fifth year, the single force option would result in savings of around £106m per year compared to almost £97m per year for the regional option and just over £85m per year for the enhanced eight force option. It is clear therefore that the single structural option differs only marginally in the scale of savings when considered over a 15-year period.<sup>11</sup>

#### *Fire and Rescue Service OBC*

18. The fire and rescue service OBC builds on work by the Ministerial Advisory Group (MAG) subgroup, and by others to produce costed options for structural reform of the service. Like the police OBC, the fire and rescue OBC suggests that significant financial and non-financial savings would result by adopting a TOM and that these savings would vary depending on which structural option was chosen.<sup>12</sup> Table 2 below presents the OBC's estimates of the financial costs and benefits of each model over 15 years.

**Table 2: Fire and Rescue Financial Appraisal – Assessment of affordability (excludes non-cashable savings) (Over 15 years) (£000)**

£,000	Transition Costs	Efficiencies	Efficiencies minus costs
Option 1 (8 brigades)	1,412	96,650	95,238
Option 2 (regional)	40,026	318,745	278,719
Option 3 (single service)	116,632	435,400	322,768

Source: adapted from Appendix 4, Fire Services OBC, page 84 - through addition of redundancy costs

<sup>11</sup> SPICe Briefing 12-15 Police and Fire Reform (Scotland) Bill: Financial Memorandum.

<sup>12</sup> SPICe Briefing 12-15 Police and Fire Reform (Scotland) Bill: Financial Memorandum.

19. As for the police OBC, the single service option would result in the largest potential savings. In terms of annual savings, the OBC estimates that the enhanced collaboration eight brigade option would deliver net financial savings of over £7m per year, the regional service option would deliver savings of nearly £22m per year, and the single service option would deliver savings of just over £25m per year.<sup>13</sup>

20. The OBCs, however, did not consider only the financial benefits resulting in the different structures. Both also consider that non-financial benefits would result using the TOM and that these would vary in scale under the different structural options. For the police OBC, these non-financial benefits are considered under three broad headings; benefits which improve—

- policing outcomes through eg increasing the effectiveness of policing functions;
- wider public sector outcomes through eg increasing the effectiveness of partnerships;
- underlying organisational ability through eg reducing organisational complexity and streamlining internal processes<sup>14</sup>

21. These ‘benefit categories’ were then weighted (50%, 30% and 20% respectively) and assessed against each structural option using a 0 to 10 scoring system under which a score of 0 meant that the structural option was capable of maintaining current outcomes and 10 meant it was capable of delivering significant improvement. The police OBC non-financial benefit analysis found that, for all three benefit categories, the regional force structure scored higher than the enhanced eight force structure and the single service structure scored significantly higher than either the eight force structure or the regional force structure.<sup>15</sup>

22. The fire OBC identified and weighted a series of outcomes and a scoring exercise was undertaken to rank each of the structural models in terms of their potential to deliver against the chosen outcomes. Like the police OBC, only marginal benefits were assessed as coming from the eight brigade structure while the regional structure had the potential to produce more significant non-monetary benefits and the single national structure, the highest level of non-monetary benefits.<sup>16</sup>

23. In its written evidence to the Committee APFOS suggested that different methodologies (including margins of uncertainty) had been applied to fire and police without sufficient explanation.<sup>17</sup>

24. In its response to the Committee on this issue the Bill team stated that—

“As far as we can, we have used the same methodology and have been advised on how to do that by economists in the Scottish Government who are experts in it. Although the basic structure of the two services is similar in one

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<sup>13</sup> SPICe Briefing 12-15 Police and Fire Reform (Scotland) Bill: Financial Memorandum.

<sup>14</sup> SPICe Briefing 12-15 Police and Fire Reform (Scotland) Bill: Financial Memorandum.

<sup>15</sup> SPICe Briefing 12-15 Police and Fire Reform (Scotland) Bill: Financial Memorandum.

<sup>16</sup> SPICe Briefing 12-15 Police and Fire Reform (Scotland) Bill: Financial Memorandum.

<sup>17</sup> Association of Principal Fire Officers Scotland. Written submission.

sense, it is different in others and the information from each service is structured differently, so it is inevitable that there are sometimes differences in the presentation of information for the two services.”<sup>18</sup>

25. While it is not for this Committee to examine the policy imperative behind a Bill, the Committee notes that in identifying the single structure as the preferred option for both police and fire services that decision was reached on a range of considerations, both financial and non-financial.

26. This point is illustrated by a table produced by the Scottish Parliament’s Financial Scrutiny Unit and adapted from Table 1c in the FM. Table 1c sets out the best estimated costs and savings arising from police and fire reform, the best estimated costs and savings arising from police and fire reform adjusted for optimism bias on costs and assuming a 30% reduction in savings and the costs and savings potentially arising due to structure.

27. The FM explains that the figures relating to structure (summarised in Table 1c and set out in tables 2.3 and 3.3) were calculated by looking at the difference between the costs and savings estimates for an 8 force model with enhanced national delivery (police) and increased collaboration (fire and rescue) and those associated with a single service as appraised in the OBCs.<sup>19</sup>

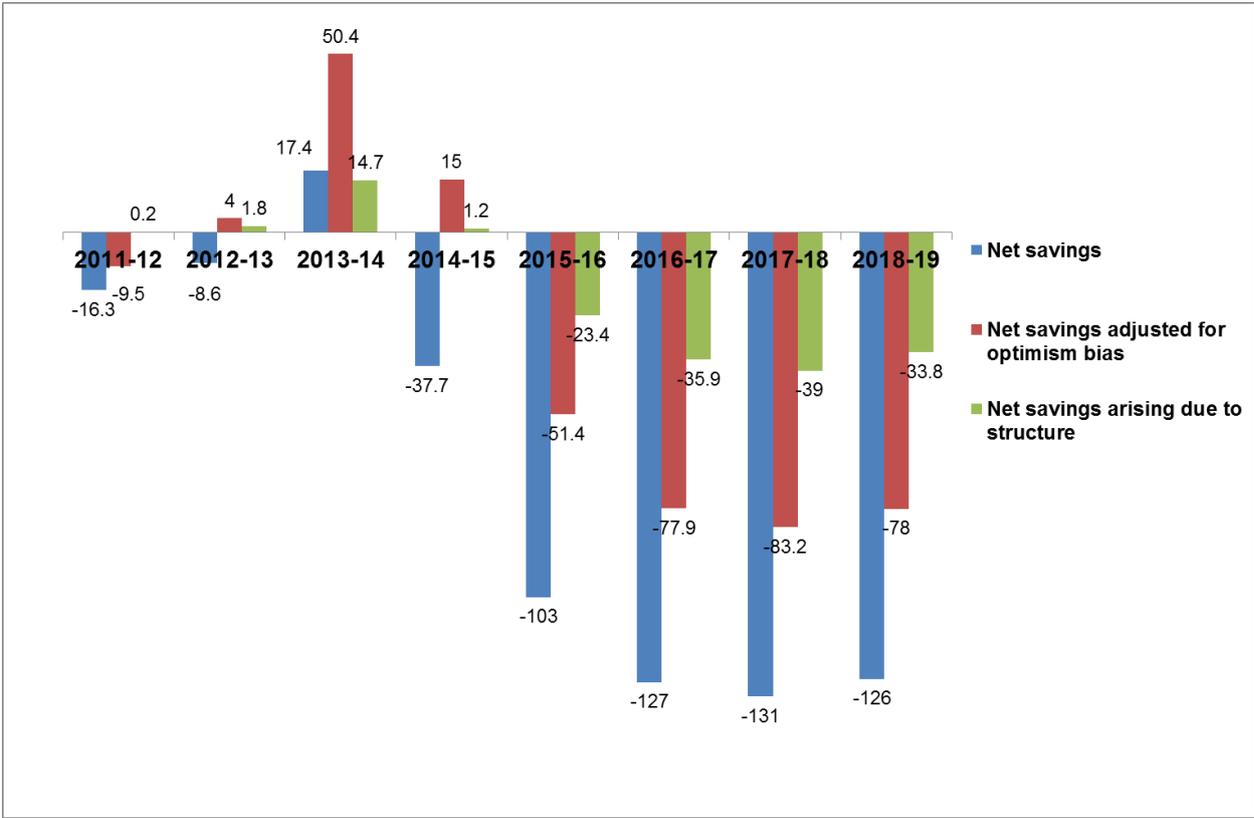
28. The figure below shows the profile of savings over the years covered in the FM and the difference between total savings, savings adjusted for optimism bias and savings due to the proposed single police force and a single fire and rescue services structure.

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<sup>18</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.719.

<sup>19</sup> Police and Fire Reform (Scotland) Bill. Financial Memorandum, paragraph 149.

**Figure 1: Proposed Police and Fire reform - net savings, net savings adjusted for optimism bias and net savings arising due to proposed structure (£m)**



Source: Adapted from FM, table 1c (Financial Scrutiny Unit briefing)

29. The Committee notes that the table demonstrates that approximately 75% of the claimed efficiency savings could be achieved by reform of the existing structure rather than through the creation of single services.

30. The Committee also notes, however, the comments from the Bill team which indicated that while the other structures considered by the OBC could deliver benefits, they could not deliver the same level of benefits as the single service model. The Bill team went on to state that—

“There is a higher risk attached to the delivery of benefits in an eight-force structure or a regional structure, because the benefits would have to be delivered across organisational boundaries.”

**COMMITTEE CONSIDERATION**

**Requirements of Standing Orders**

31. Rule 9.3.2 of the Standing Orders sets out the requirements for the FM accompanying a Bill. The FM should set out—

“the best estimates of the administrative, compliance and other costs to which the provisions of the Bill would give rise, best estimates of the

timescales over which such costs would be expected to arise, and an indication of the margins of uncertainty in such estimates.”

32. The FM must distinguish separately such costs as would fall upon—

- (a) the Scottish Administration;
- (b) local authorities; and
- (c) other bodies, individuals and businesses.

33. The Committee’s report considers each aspect of the requirements of the Standing Orders in turn.

### **General**

34. The Committee notes that, in general, there is strong support among stakeholders for the policy objectives of the Bill. In particular, there was acceptance among respondents that it was necessary for the police and fire service to work within reduced budgets and that savings could be achieved through reform and restructuring. There was also a commitment to work with the Scottish Government and central police and fire bodies in delivering the reform agenda. For example, Chief Constable Smith from ACPOS stated in his oral evidence to the Committee—

“I want to be absolutely clear with the committee that there is no doubt that there is a great prize for Scotland in a reformed police service, and we are absolutely committed to delivering it.”<sup>20</sup>

35. While the Association of Scottish Police Superintendents (ASPS) confirmed its support for a single police service, stating that—

“We recognise the reality of the challenging economic environment which has led to a need to reduce the cost of policing whilst ensuring improved outcomes for communities.”<sup>21</sup>

36. The SPF also noted that “we are of the view that it is instinctive and logical that the removal of needless duplication, the replacing of 8 headquarters (and all the associated costs) with 1 will in itself deliver longer term savings and provide the service additional financial capacity to meet these challenges when presented.”<sup>22</sup>

37. While Northern Constabulary affirmed that it was “fully committed to all of the Scottish Government consultation exercises.”<sup>23</sup>

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<sup>20</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.667.

<sup>21</sup> Association of Scottish Police Superintendents. Written submission.

<sup>22</sup> Scottish Police Federation. Written submission.

<sup>23</sup> Northern Constabulary. Written submission.

38. From a fire service perspective, Eileen Baird from CFOAS highlighted that “CFOAS accepts that a national service is the way forward.” She indicated that CFOAS would “work with all stakeholders to deliver that national service.”<sup>24</sup>

39. Nonetheless, stakeholders clearly had concerns regarding some of the detail within the FM and, in particular, the level of projected savings and the timescale over which such savings could be achieved particularly given Scottish Government commitments. For example, ACPOS indicated that there were “some challenges and constraints in meeting reform objectives while continuing to deliver our record levels of performance within the financial settlement”.<sup>25</sup>

40. While HMICS stated that—

“This is a challenging environment for implementing change of the scale and complexity anticipated under police reform. HMICS fully accepts the right of government to set such constraints. We raise the issue only to highlight the fact that since we have yet to see detailed plans for how this change can be successfully implemented within this context, that we have difficulty providing public reassurance that such changes are possible without risks, including those to performance.”<sup>26</sup>

### **Best estimates of the costs and savings**

*To which the provisions of the Bill give rise*

41. As noted above, Rule 9.3.2 of the Standing Orders requires the FM to provide the best estimates of the costs “to which the provisions of the Bill would give rise.” Given their interdependency both estimates related to costs and savings in the FM have been considered by the Committee. A potential area of difficulty for the Committee has been in determining which costs and savings are attributable “to the provisions of the Bill”, that is in the creation of single police and fire and rescue services, and the extent to which these figures can be distinguished from those relating to the broader reform agenda.

42. The FM sets out the costs implications that may arise directly from the provisions of the Bill and estimates of the broader costs which may arise as a consequence of the Bill and the associated process of reform. The FM also outlines the estimated savings. However, in relation to the savings, the FM does not distinguish between those savings resulting directly from the provisions of the Bill and those arising from the consequences of the Bill and the broader reform. However, it does attempt to separately identify costs arising from structure, but it should be noted that such costs cannot simply be equated to costs arising from the Bill.

43. The FM indicates that tables 2.1 and 3.1 give the best estimates of the financial implications of police and fire reform. It goes on to state that—

“However tables 2.3 and 3.3 present an alternate way of looking at the figures, by assuming that some costs and savings may potentially have

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<sup>24</sup> Scottish Parliament Finance Committee. *Official Report*, 22 February 2012, Col.706.

<sup>25</sup> Association of Chief Police Officers in Scotland. Written submission.

<sup>26</sup> HM Inspectorate for Constabulary Scotland. Written submission.

been incurred by means other than establishing single services, for example, by enhancing national delivery and increasing collaboration. It is difficult to predict exactly which costs and savings will be attributable to the single service structures and those which may have been achieved by taking other measures, particularly given that much of the current work, costs incurred and savings anticipate the establishment of a single service. Therefore, for consistency, figures in tables 2.3 and 3.3 were calculated by looking at the difference between the costs and savings estimates for an 8 service model with enhanced national delivery (police) and increased collaboration (fire and rescue) and those associated with a single service as appraised.”<sup>27</sup>

44. This comparison is shown explicitly in table 1c of the FM, which summarises the total costs and savings from the Bill across both police and fire, but distinguishes between the costs and savings arising from police and fire reform, the costs and savings adjusted for optimism and the costs and savings potentially arising due to structure. Table 1c is summarised in the table below produced by the FSU.

*Table 1: Total projected costs and savings from the Bill, across police and fire (savings expressed as – £m)*

£m	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Total savings over 15
Costs	5.27	19.5	51.9	58.3	20.7	-1.1	-5	0	150
Savings	-21.6	-28.1	-34.6	-96	-123	-126	-126	-126	-1,613
Net savings	-16.3	-8.6	17.4	-37.7	-103	-127	-131	-126	-1,463
Costs adjusted for optimism bias	5.6	23.8	65.5	72.1	24.9	0.5	-5	0	187
Savings adjusted for optimism bias	-15.1	-19.7	-15.1	-57.2	-76.3	-78.4	78.2	-78	-996
Net savings adjusted for optimism bias	-9.5	4	50.4	15	-51.4	-77.9	-83.2	-78	-808
Costs arising due to structure	0.5	3.1	10.2	24.6	8.3	-1.7	-5	0	40
Savings arising due to structure	-0.4	-1.3	4.5	-23.4	-31.7	-34.2	-34	-33.8	-428
Net savings arising due to structure	0.2	1.8	14.7	1.2	-23.4	-35.9	-39	-33.8	-388

*Source: Adapted from FM, table 1c*

*Note: as in the FM, savings are presented in the table as negative numbers*

45. This summary indicates that the net savings resulting from reform of the police and fire services is £1.46 billion over the 15-year period. However, it also shows that the net savings resulting from changes to the structure are only £388 million over the 15-year period.

46. It is unclear how the costs in tables 2.1 and 3.1 compare to those presented in tables 2.3 and 3.3 relating to structure and totalled in table 1c. An example of this is the VAT cost for the police, which in table 2.1 is circa £21m, while in table 2.3 is £7.4m. An explanation of the figure of £7.4m is provided in the police OBC which indicates that under the regional and eight-force models irrecoverable VAT at an estimated £14.1m per annum would, in any event, be incurred as a result of certain functions being transferred to the national policing and national support entities. In its evidence to the Committee the Bill team advised that—

<sup>27</sup> Police and Fire Reform (Scotland) Bill. Financial Memorandum, paragraph 149.

“It is difficult to distinguish between savings that will result from the bill’s provisions and longer-term savings. Our assessment, and the reason why the Government decided that a single service is the best option, was that that single service structure would best enable us to deliver the maximum savings with least risk. However, on the bill and the distinction drawn between a single service and a regional or eight-force structure, the only difference in actual savings will be the reduction in chief officer posts and the reduction in the requirement for the relevant national organisations, ACPOS.”<sup>28</sup>

47. The Bill team went on to state in relation to the reduction in officer numbers that “there is one figure for the savings that come directly from the change that the bill enacts, and a larger figure for savings that come from the creation of the new structure. The Government’s view is that you cannot unpick those two, as one flows from the other.”<sup>29</sup>

48. Standing Orders require the FM to provide the best estimates of the costs to which the provisions of the Bill give rise. As noted above, a potential area of difficulty for the Committee has been in distinguishing with clarity those costs and savings attributable to the provisions of the Bill and those relating to the broader reform agenda, some aspects of which will be achieved by non-legislative means. The Committee notes the comments of the Bill team that it is difficult to unpick the savings that will result from the Bill’s provisions and longer term savings, but also notes that the FM distinguishes between savings arising due to structure and those arising from the reform of the two services.

49. It would also have been helpful to the Committee’s scrutiny if the FM had provided greater clarity on how the costs and savings directly attributable to the Bill as set out in tables 2.1 and 3.1 compare to figures arising from structure as set out in tables 2.3 and 3.3 and totalled in table 1c.

*Reliance on the OBCs to provide “best estimates”*

50. A key issue raised by a number of respondents in both their written and oral evidence was reliance on the OBCs to provide the best estimates for the costs and savings in the FM. Witnesses indicated their expectation that the figures in the OBCs would be independently verified and audited to inform a more detailed financial plan of costs and savings, a point that CIPFA had emphasised in its original submission to the Scottish Government’s consultation exercise on the Bill. It had stated that—

“It is essential that the savings projections made in the outline business cases are robust and independent verification of the business cases along with Parliamentary committee challenge is recommended. It is also essential that a clear and transparent financial plan which itemises where savings are to be made is set out.”<sup>30</sup>

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<sup>28</sup> Scottish Parliament Finance Committee. *Official Report*, 22 February 2012, Col.712.

<sup>29</sup> Scottish Parliament Finance Committee. *Official Report*, 22 February 2012, Col.713.

<sup>30</sup> CIPFA. Written submission

51. In its written submission Northern Joint Police Board and Highland and Islands Fire Board emphasised that “the costings contained within the Business Case should have been subject to independent audit and scrutiny.”<sup>31</sup> While APFOS asserted that “there is still a lack of detail to enable a proper and robust analysis” of the estimated costs and savings.<sup>32</sup>

52. Likewise the FBU stated, with reference to the OBC, that—

“None of these assumptions have been tested against the reality of the single service as no model has been produced. It is difficult to understand where some of these figures have come from.”<sup>33</sup>

53. COSLA also stated its belief that the “estimated costs and savings set out in the Financial Memorandum are not supported by robust evidence.”<sup>34</sup>

54. For its part, Unison Scotland stated that although the FM contains more information on the savings “there is still a lack of detail, with too many assumptions made about the costs of restructure and the projected savings.”<sup>35</sup>

55. While CFOAS stated that—

“Whilst we would not challenge the assumptions that savings can be made by removing duplication and we accept that financial challenges face all public sector bodies, we would argue that both the level of savings and the timeframe over which they are to be achieved, as outlined in the Financial Memorandum, are not based on robust evidence.”<sup>36</sup>

56. In his oral evidence to the Committee Chief Constable Smith from ACPOS commented on the police OBC and summarised the position as follows—

“By its nature, that business case contains high-level assumptions and does not go into the detail of costs and savings to a degree that allows us to be confident that those cost and savings will be achieved. The purpose was to allow the Government to make a decision on which of the three options it thought best. It was always intended at that point that the Government’s preferred option would be subject to a detailed business case. That would involve going through due diligence on the reality of costs and savings and considering how we actually achieve the reform and how things will be done. For example, there would be consideration of whether we will be able to make the savings in relation to staff cuts that we have anticipated.”<sup>37</sup>

57. One particular area of concern was the suggestion that over-estimating the projected savings might impact detrimentally on frontline services. For example, CFOAS indicated that estimates in the area of Prevention and Protection as set

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<sup>31</sup> Northern Joint Police Board and Highlands and Islands Fire Board. Written submission.

<sup>32</sup> Association of Principal Fire Officers Scotland. Written submission.

<sup>33</sup> Fire Brigades Union. Written submission.

<sup>34</sup> COSLA. Written submission.

<sup>35</sup> Unison Scotland. Written submission.

<sup>36</sup> Chief Fire Officers Association of Scotland. Written submission

<sup>37</sup> Scottish Parliament Finance Committee. *Official Report*, 22 February 2012, Col.666.

out in the FM were “over-generous, have no supporting evidence base and will not enable the Service to deliver risk reductions across Scotland.”<sup>38</sup> It indicated that—

“They do not consider the emerging changes to risk and without a proper impact assessment may disproportionately affect vulnerable and at risk groups.”<sup>39</sup>

58. COSLA highlighted estimated savings of £8m per annum in the fire OBC through “risk assessing and applying consistent crewing practice which could involve some redistribution”. COSLA suggested that “delivery of this saving should be considered as high risk both in terms of achievement of estimated savings and maintenance of service outcomes”.<sup>40</sup>

59. A recurring theme from witnesses was that it was not possible to quantify the costs and savings until the structure of the new services had been decided. For example, APFOS pointed out that the structures were yet to be developed and it was therefore difficult to make any determination as to the accuracy of the projected costs and savings.<sup>41</sup>

60. While CFOAS stated that “until the new Service’s structure and design is developed, it is difficult to accurately identify the final level of savings achievable.”<sup>42</sup> Further, in her oral evidence to the Committee, Eileen Baird from CFOAS stated that—

“We have said that, until the new service’s structure is known and until the number of people who are needed to deliver safe incident command has been verified and validated, we cannot sign up to agreeing that the proposed savings are achievable. Just as the number of firefighters on fire engines who attend emergency incidents is a key factor in success, so is the level of incident response and incident command. Unfortunately, there have been many examples where that has been lacking, with tragic outcomes.”<sup>43</sup>

61. The Bill team responded to these comments in its evidence to the Committee. It stated that—

“The projected savings for police were benchmarked against efficiencies that have been delivered by police forces in England and Wales and the projections were quality assured by KPMG and Deloitte. A similar process was adopted for the fire service, including workshops with fire and rescue stakeholders to identify areas for costs savings. Detailed assessments of

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<sup>38</sup> Chief Fire Officers Association of Scotland. Written submission.

<sup>39</sup> Chief Fire Officers Association of Scotland. Written submission.

<sup>40</sup> COSLA. Written submission.

<sup>41</sup> Association of Principal Fire Officer Scotland. Written submission.

<sup>42</sup> Chief Fire Officers Association of Scotland. Written submission.

<sup>43</sup> Scottish Parliament Finance Committee. *Official Report*, 22 February 2012, Col.689.

potential savings were then developed with support and quality assurance from Deloitte.”<sup>44</sup>

62. However, the Bill team went on to state that “For us, the outline business case was sufficient to justify introducing the Bill. The next stage of the process is being led by the two services. That is when we expect the outline business case to be turned into a full business case.”<sup>45</sup>

63. The Bill team indicated that it had a team of officers working out how to implement the consequences of restructuring and that “the journey from outline business case to full business case is under way.”<sup>46</sup>

64. The Committee notes the comments from the Bill team and paragraph 143 of the FM which states that—

“It does not provide a plan or blueprint for the future delivery of the services and it is not intended to be used to set future budgets. As such, the actual costs and savings achieved may differ in detail as transition progresses, and indeed as decisions are taken by the new services.”

65. The Committee would welcome clarification on the nature of the quality assurance exercise that was undertaken by Deloitte on behalf of the Scottish Government and whether this exercise involved the independent verification of the figures that had emerged from the OBCs.

66. The Committee welcomes the assurance from the Bill team that a full business case is now being developed which should provide greater accuracy of the costs and savings which will result from reform of the police and fire services. It notes, however, that there is disagreement as to whether the FM provides the best estimates of costs and savings arising from the provisions of the Bill.

67. The Committee would welcome clarification on how the results of the full business case will impact on future budget planning and whether there is flexibility in the overall savings that must be achieved by reform. In this regard, it notes the comments of the Bill team below which suggest that while there is flexibility across categories of costs and savings, the overall budget has been set and therefore savings of nine per cent must be achieved. The Bill team stated that—

“If they find that some savings are easier to achieve than others and they adopt a different mix of savings that means that they incur some costs that they did not expect to incur but do not incur other costs that we projected that they would incur, that is fine.”<sup>47</sup>

68. The Committee invites the lead committee to pursue this issue with the Cabinet Secretary for Justice.

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<sup>44</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.708.

<sup>45</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.715.

<sup>46</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.715.

<sup>47</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.715.

## Best estimates of the timescales

69. An issue closely related to the identification of the best estimates of the costs and savings arising from a Bill is the estimated timescale over which the costs and savings are likely to be achieved. The FM states that “Many of the costs have been identified as falling within an initial five-year period. However, as the efficiency savings will continue to recur for some time, they have been profiled over a 15-year period.”<sup>48</sup>

70. Paragraph 150 of the FM explains that the costs and savings of reform arise over different timeframes for the police and fire and rescue services. In the main, the total costs and savings have been assessed in both cases over a 15-year period. However, the FM notes that for fire and rescue service reform there are some minimal costs prior to the start of the 15-year period which have also been included. For police, year 1 is 2011-12 and the total costs and savings are calculated to 31 March 2026. For the fire and rescue services year 1 is 2012-13 and the total costs and savings (including those in year 0) are calculated to March 2028.

71. As noted above, a number of organisations, including Dumfries and Galloway Police and Fire and Rescue Service Authority,<sup>49</sup> raised concerns regarding the timescales within which savings are required to be achieved. In particular, the SPF pointed out that it was difficult “to envisage any circumstance in which a 15 year estimate could confidently be claimed to be accurate.”<sup>50</sup>

72. In his oral evidence to the Committee, Chief Constable Smith reaffirmed ACPOS’s belief that savings could be achieved, but emphasised that “much more thought has to be given to timing. At the moment, the timing is about making savings and not about reform.”<sup>51</sup>

73. Referring to the start date for the new service on 1 April 2013, Chief Constable Smith indicated that this would “be the first point at which meaningful consultation can take place with the unions about what the structure will look like; thereafter, we can start to look at redundancies.”<sup>52</sup> He indicated that “savings cannot start until April 2013.”<sup>53</sup>

74. However, the Committee notes that in his evidence John Duffy from the FBU took a different view, indicating that—

“It was interesting to hear Kevin Smith say that ACPOS will not start negotiating until 1 April. However, with our management colleagues, we are taking a partnership approach to the process whereby we are trying to get as much agreement as we can now in order to speed up the process. If we do not do that, every pound that we have to save will have to come out of

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<sup>48</sup> Police and Fire Reform (Scotland) Bill. Financial Memorandum, paragraph 136.

<sup>49</sup> Dumfries and Galloway Police and Fire and Rescue Authority. Written submission.

<sup>50</sup> Scottish Police Federation. Written submission.

<sup>51</sup> Scottish Parliament Finance Committee. *Official Report*, 22 February 2012, Col.671.

<sup>52</sup> Scottish Parliament Finance Committee. *Official Report*, 22 February 2012, Col.671.

<sup>53</sup> Scottish Parliament Finance Committee. *Official Report*, 22 February 2012, Col.674.

the front line; that is a frightening prospect given that we are already at the bare bones.”<sup>54</sup>

75. In its evidence to the Committee the Bill team commented on the timeframe for implementation of the Bill. It stated that—

“We have been advised by the leadership of both services that they would like the new services to start on 1 April next year, if that is possible, because the sooner the unified service is there, the sooner the benefits of reform can be achieved.”<sup>55</sup>

76. It went on to state that—

“Both services are planning for implementation on that date and are putting in place what they think will be necessary to operate a single service by then. I am not worried about a difference in approach.”<sup>56</sup>

77. The Committee notes the comments of the Bill team. However, it understands the predominant concerns of stakeholders to relate not to the proposed start date of 1 April 2013 but the timescale within which the estimated savings must be achieved as set out in the FM. For example, in his evidence to the Committee, John Connarty from the City of Edinburgh Council stated that—

“There is nervousness just now because for 2013-14 there is a £40 million savings target sitting against the police budget line, and savings are also anticipated in fire. Timing is an issue, and the transition has to be managed carefully.”<sup>57</sup>

78. The Committee considers that until a full business case has been developed and the costs and savings identified with greater accuracy it will be difficult to assert that the timeframe as set in the FM is achievable.

79. The Committee recommends that the lead committee seeks clarification from the Cabinet Secretary for Justice on the extent to which there is flexibility in the timeframe as set out in the FM within which savings should be achieved.

#### *Redundancy costs*

80. The uncertainty around figures in the FM and whether the estimated savings are achievable within the timetable provided is illustrated by consideration of the estimated savings resulting from workforce rationalisation, an issue which drew significant comment from stakeholders.

81. The FM confirms that regarding the police reform proposals, “it is likely that rationalisation will be required in support functions with resultant voluntary redundancy costs”. The FM calculates voluntary redundancy costs for the police at £80.8m over the first 5 years. This calculation is based on actual costs incurred through recent police and SPSA voluntary redundancy programmes and an

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<sup>54</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.701.

<sup>55</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.716.

<sup>56</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.716.

<sup>57</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.704.

assumed natural attrition rate of 3%.<sup>58</sup> No indication of numbers and the balance between police and civilian staff is provided. However, the guarantee that police officer numbers will be maintained at 17,234 suggests that these costs relate to police civilian staff.

82. In terms of the fire and rescue reforms, the FM states that “some rationalisation may be required and result in redundancy costs”, with redundancy costs estimated at £4m spread over years 1-4. These calculations are based on reductions in uniform members being managed through staff turnover and retirements (with no redundancy costs required) and between a third and half of non-uniform headcount reductions coming from “some sort of voluntary redundancy package”.<sup>59</sup>

83. The Scottish Government’s pay policy is for no compulsory redundancies up to 2012-13. It is also committed to keeping police officer numbers at 17,234.<sup>60</sup> While these commitments were welcomed by police stakeholders, ACPOS, in particular, emphasised the constraints that this would put on its ability to achieve savings, noting that protection of police officer numbers would effectively close off 75% of the spend to making financial savings.<sup>61</sup>

84. In its evidence to the Committee, ACPOS noted that, based on the figures included in the FM, the estimated savings equated to a reduction in circa 2000 full time equivalents (fte) (or approximately 33% of all police staff posts) leaving the organisation by April 2015 and that this had to be achieved by voluntary redundancy.<sup>62</sup>

85. ACPOS pointed out that police forces and the SPSA had already reduced police staff levels by c1000 fte in the last two to three years, much of it by voluntary redundancy and stated that—

“There is, therefore, a diminishing pool of people likely to be attracted to voluntary severance, particularly when there is a clear statement that there will be no compulsory redundancy.”<sup>63</sup>

86. As a result ACPOS considered that it was highly unlikely that voluntary redundancy schemes would attract such numbers, particularly within the current economic climate and a less than buoyant jobs market. By way of example, it pointed to a Voluntary Redundancy Scheme within Strathclyde Police over the last eighteen months which released only c200 members of staff and was on more favourable terms than those assumed within the FM. The Scheme attracted c500 notes of interest, many of whom were in areas of business that were not in scope for change.<sup>64</sup>

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<sup>58</sup> Police and Fire Reform (Scotland) Bill. Financial Memorandum. Paragraph 196.

<sup>59</sup> Police and Fire Reform (Scotland) Bill. Financial Memorandum, paragraph 259.

<sup>60</sup> Scottish Government (2011) *Scottish Spending Review 2011 and Draft Budget 2012-13*. Page 124

<sup>61</sup> Association of Chief Police Officers in Scotland. Written submission.

<sup>62</sup> Association of Chief Police Officers in Scotland. Written submission.

<sup>63</sup> Association of Chief Police Officers in Scotland. Written submission.

<sup>64</sup> Association of Chief Police Officers in Scotland. Written submission.

87. ACPOS also expressed concern that funding set aside for voluntary redundancies would be lost if it was not used within a specific timeframe. Chief Constable Smith said—

“We have been told that if, as a consequence of the redundancy process next year, we cannot use all the money that will be set aside for voluntary redundancy, that money will be lost to us.”<sup>65</sup>

88. ACPOS also pointed out voluntary redundancy was a “relatively crude measure; it is not strategic in any sense—it depends on who puts up their hand and whether the organisation can afford for that person to go.”<sup>66</sup> This view was shared by the SPSA, which expressed concern regarding the expectation that the reduction in staff numbers would be achieved through natural attrition and voluntary redundancy, stating—

“While this may be achievable in theory, these are blunt instruments and unlikely to result in the optimum skill, experience and grade profile.

Current policy around voluntary rather than targeted redundancy also constrains the ability to reduce expensive, senior staffing levels where excess capacity is most likely, and as a result may increase the potential impact of job losses among staff on average pay or below.”<sup>67</sup>

89. Finally, ACPOS also expressed concern that the scale and phasing of police staff voluntary redundancies carried a risk that police officers would be drawn into non police roles.<sup>68</sup> This was a view shared by UNISON, which commented in its submission to the Committee on the implications of the FM for non police staff—

“This means that 2000 police staff posts could be made redundant followed by substitution by police officers.

Police staffs includes properly qualified civilian personnel delivering a wide range of routine, complex, and specialised functions that are central to modern day police forces, while allowing uniformed officers to concentrate on operational policing duties. Taking trained operation police officers off the streets to perform administrative tasks – at greater costs, is economic madness.”<sup>69</sup>

90. Calum Steele from the SPF considered that, in any event, it was unhelpful to make a distinction between uniformed and non uniformed jobs stating that—

“It is not useful to get into a debate that pits police officers against police staff. I very much agree with Chief Constable Smith that we should examine

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<sup>65</sup> Scottish Parliament Finance Committee. *Official Report*, 22 February 2012, Col.671.

<sup>66</sup> Scottish Parliament Finance Committee. *Official Report*, 22 February 2012, Col.671.

<sup>67</sup> Scottish Police Services Authority. Written submission.

<sup>68</sup> Association of Chief Police Officers in Scotland. Written submission.

<sup>69</sup> Unison Scotland. Written submission.

whether a role needs to be performed and not necessarily who will perform it.”<sup>70</sup>

91. Fire service stakeholders also expressed concern regarding the estimated costs and savings relating to workforce rationalisation. APFOS stated that it was particularly concerned with the assumptions and commentary in relation to the voluntary redundancy payments.<sup>71</sup> While CFOAS indicated that assumptions with regard to both uniformed and non uniformed staff appeared to be “significantly flawed”. It noted that—

“Redundancy costs of £4m have been assumed on the basis that any reduction in uniform numbers could be managed through staff turnover and retirements.”<sup>72</sup>

92. However, it indicated that “Even if uniformed staff reach minimum retirement age, there is no certainty they would elect to do so.”<sup>73</sup>

93. While the FBU stated that—

“There is an assumption that members will retire as soon as they can, but that needs to be looked at in much more detail. At the moment, there is a great deal of uncertainty around a number of aspects of our pensions, but the one thing that I would not assume is that firefighters will retire as soon as they can, at 55 or after 30 years.”<sup>74</sup>

94. In relation to non uniformed staff, CFOAS reported that projects of turnover levels based on the age profile of current employees was 1.47% per annum over the next five years.<sup>75</sup> In her oral evidence to the Committee, Eileen Baird from CFOAS expanded on this stating that—

“Our human resources people have looked at the age profile of our non-uniformed colleagues. We have 1,100 support staff; if a third of those jobs go over time, that will amount to between 380 and 400 staff. If a ballpark figure for redundancy pay that might seem reasonable is approximately £30,000 a head, the overall figure will be closer to £9 million than £4 million.”<sup>76</sup>

95. In its evidence to the Committee the Bill team explained its methodology in identifying the costs associated with redundancies in the fire service and indicated that its focus had been on identifying duplication. The Bill team reported that—

“We looked at the opportunities to make reductions for that duplication and the implications that would have for the number of staff currently employed

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<sup>70</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.672.

<sup>71</sup> Association of Principal Fire Officers Scotland. Written submission.

<sup>72</sup> Chief Fire Officers Association of Scotland. Written submission.

<sup>73</sup> Chief Fire Officers Association of Scotland. Written submission.

<sup>74</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.692.

<sup>75</sup> Chief Fire Officers Association of Scotland. Written submission

<sup>76</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.691.

in support roles. On the basis of that, we came to an assessment that around 200 posts would need to go over a four to five year period.”<sup>77</sup>

96. The Bill team explained that it thought that of those it projected that around 100 would leave of their own accord. It therefore had calculated that 100 support staff may need to be offered voluntary redundancy at an average cost of £40,000 per person, making a total figure of £4 million.<sup>78</sup>

97. In responding to the concern that police officers might end up undertaking non police staff roles, the Bill team advised that—

“there is no assumption that police officers would replace the civilian staff posts. The savings will come from a reduction in the duplication that is inherent in the existing structure.”<sup>79</sup>

98. The Committee has some sympathy with the views of stakeholders (and those who will ultimately be involved in delivering the savings) that until the structure of the single services has been designed it will not be possible to identify the detail of duplication that might allow for a reduction in staff posts.

99. The Committee is also concerned by suggestions that funding set aside for redundancies in 2013 will be lost if not achieved. The Committee invites the lead committee to seek clarification from the Cabinet Secretary for Justice on this point.

100. As noted above, in the Committee’s consideration of the FM there is a significant disparity between the confidence of the Scottish Government in realising the savings as set out in the FM and the views of stakeholder groups. Therefore the Committee welcomes the assurance from the Bill team that a full business case is now being developed, which should provide greater detail on the costs and savings that will result from the creation of the single services and specifically identify where there is currently duplication.

101. The Committee invites the lead committee to seek clarification from the Cabinet Secretary for Justice on—

- Who is leading on the development of the full business case (FBC);
- Whether industry practice will be followed;
- How the development of the FBC is engaging with stakeholders;
- When the FBC will be completed;
- How the information within the FBC will be used; and
- Whether, in principle, the annual budgets for police and fire services will be adjusted as a result of the FBC.

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<sup>77</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.709.

<sup>78</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.709.

<sup>79</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.719.

## Margins of uncertainty

102. As required by Standing Orders, the FM provides a range of cost figures where there is a margin of uncertainty in the best estimates. Optimism bias ranges from 0-100% depending on the margins of uncertainty around a particular area. The FM states that “the likely level of optimism bias was assessed individually for each element of cost, informed by evidence of the costs of other UK public sector reforms and advice from government analysts and members of the current police forces”.<sup>80</sup>

103. The FM goes on to state that for most elements of cost an upward adjustment of 53% was adopted. The exceptions to this include police programme/project management costs which were increased by 10% and police information and communication technology (ICT) costs, which were increased by 100%.<sup>81</sup> However, the ICT costs for the fire service were only adjusted by 53%. A number of submissions commented on the margins of uncertainty applied to the costs and savings as set out in FM. In particular, several respondents raised concerns regarding the optimism bias applied to ICT costs. For example, the SPSA stated that—

“We believe that significant ICT spend is likely to be required to support changes to business process and resourcing. ICT is a key enabler of Reform. As such SPSA believes that, even with the 100% optimism bias provided for ICT costs within the Financial Memorandum, the cost of change relating to ICT within the OBC and reflected within the Financial Memorandum may be under-stated.”<sup>82</sup>

104. While HMCIS stated that “where *optimism bias* is applied at the rate of 100% instead of the relevant guidance of 200%, we would not share the apparent confidence in the positive prognosis for, or current condition of, police ICT infrastructure.”<sup>83</sup>

105. CFOAS also commented on the 53% optimism bias that had been applied to fire service ICT, pointing out that this level of bias “differs from that considered appropriate and in line with Treasury Green Book for Police. The figure used there is 100% and given the early point in the process of assessing ICT assets, this would appear to be more realistic.”<sup>84</sup> As Eileen Baird from CFOAS emphasised in her oral evidence to the Committee the ICT investment would “take resources, but it will also take time.”<sup>85</sup>

106. As a result, CFOAS suggested that the Scottish Government should consider “allocating a Contingency Fund in order to meet any potential shortfalls.”<sup>86</sup>

107. In its evidence the Bill team stated that—

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<sup>80</sup> Police and Fire Reform (Scotland) Bill. Financial Memorandum, paragraph 145.

<sup>81</sup> Police and Fire Reform (Scotland) Bill. Financial Memorandum, paragraph 145.

<sup>82</sup> Scottish Police Services Authority. Written submission.

<sup>83</sup> HM Inspectorate for Constabulary Scotland. Written submission.

<sup>84</sup> Chief Fire Officers Association of Scotland. Written submission.

<sup>85</sup> Scottish Parliament Finance Committee. *Official Report*, 22 February 2012, Col.702.

<sup>86</sup> Chief Fire Officers Association of Scotland. Written submission.

“if in working through reform the service thinks that one line in the savings is overcooking it and another is unrealistic, adjustments can be made. That is part of the journey from outline business case to full business case. That does not weaken our confidence that overall projected level of savings is realistic.”<sup>87</sup>

108. The Committee is aware that the Scottish Government has established a Public Sector Reform Board responsible for public sector ICT and digital public services and a McClelland National Oversight Board sitting above oversight boards for each of the public sectors. The Committee invites the lead committee to seek clarification from the Cabinet Secretary for Justice on what consideration these boards will give to ICT savings arising from police and fire reform.

*Implications for future spending plans*

109. Despite reassurance from the Bill team that figures can subsequently be adjusted if required, a number of stakeholders considered that the estimated costs and savings as set out in the FM were now reflected in budgets and future spending plans. For example ACPOS stated in its oral evidence—

“Another aspect of optimism bias is that, although it has been included in the financial memorandum to indicate that costs might be greater and savings less, our budget has not been affected and remains at the same level. For ACPOS, it is a practical issue of the optimism bias being theoretical at this point, but we still have to move towards the savings that have been set. The danger is that we focus on savings rather than reform.”<sup>88</sup>

110. The issue of figures subject to optimism bias being reflected in future spending plans was also raised by HMICS in its written submission. It commented on the similarities in estimated costs and savings projections and the subsequent budget settlement for policing “as set out in the Comprehensive Spending Review (CSR).” Noting that the projected savings figure per annum is £108m, HMICS went on to state that—

“The CSR settlement for policing appears to be profiled to achieve a recurring reduction in police budget of £106m per annum. Not only are these two figures surprisingly similar (£108m per annum - £106m per annum).....the OBC figure (£108m) is founded on the TOM [Target Operating Model] and POA [Police Objective Analysis], both of which contain margins of uncertainty.”<sup>89</sup>

111. The Committee recommends that the lead committee seeks clarification from the Cabinet Secretary for Justice on the extent to which the estimated costs and savings as set out in the FM, particularly those subject to optimism bias, have been reflected in the Scottish Government’s future budgets and spending plans.

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<sup>87</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012, Col.718.*

<sup>88</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012, Col.668.*

<sup>89</sup> HM Inspectorate for Constabulary Scotland

## VAT recovery

112. The FM states that if the new bodies are subject to VAT, the cost of that payment would be a recurring annual cost of £21.5m<sup>90</sup> for the single police service and £4m for the single fire service.<sup>91</sup> These costs have been factored in to the FM. Should the new single services be able to recover VAT then this would lead to lower costs and higher savings.

113. A key issue raised by stakeholders was the ability of future single services to recover VAT. At present, the police forces and fire services are able, under section 33 of the Value Added Tax Act 1994 (“the 1994 Act”), to recover any VAT costs incurred. The FM states that the proposed move to a single police and fire service may alter this.

114. The VAT exemption issue relates to the status of the new police and fire services. Police authorities and the Receiver for the Metropolitan Police District, as well as local authorities are currently classed as public bodies where VAT is recoverable. Non-departmental public bodies (NDPBs) cannot recover VAT on their expenditure on goods and services. The Bill proposes that the new police and fire services will be classed as ‘Other significant National Bodies’, along similar lines to HMICS and Audit Scotland. The FM states, however, that there is still uncertainty regarding whether the new police and fire services will, as ‘Other Significant Public Bodies’ be able to reclaim VAT.<sup>92</sup>

115. HM Revenue & Customs notice 749<sup>93</sup> states that HM Treasury has the power to add bodies to the list of VAT exempt bodies by order and that it will consider applications from bodies that meet both the following criteria. The body must—

- undertake a function ordinarily carried on by local government; and
- have the power to draw its funding directly from local taxation.

116. In their evidence to the Committee, a number of bodies referred to the difficulties that had arisen in relation to the creation of the SPSA and its subsequent liability for VAT payments. For example, CIPFA stated that—

“The Scottish Police Services Authority (SPSA) was introduced in 2007, it was later established that the body was not in fact registered as a VAT exempt body. It is understood that this was an oversight of legislative drafting and that there was subsequent financial and administrative consequences to the Scottish Government, the SPSA and to HMRC.”<sup>94</sup>

117. While CFOAS noted in its evidence that efforts by the Scottish Government to resolve the VAT issue when the SPSA was created were unsuccessful and emphasised that, in relation to the new police and fire services, “Resolution of this matter will be essential to sustain performance and protect services to

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<sup>90</sup> Police and Fire Reform (Scotland) Bill. Financial Memorandum, paragraph 178.

<sup>91</sup> Police and Fire Reform (Scotland) Bill. Financial Memorandum, paragraph 242.

<sup>92</sup> SPICe Briefing 12-15 Police and Fire Reform (Scotland) Bill: Financial Memorandum.

<sup>93</sup> HMRC (2002) Notice 749.

<sup>94</sup> CIPFA. Written submission.

communities.”<sup>95</sup> ACPOS estimated that a recurring VAT liability of £22m per annum would be “equivalent to over 800 police staff or 630 police officer posts.”<sup>96</sup>

118. In its written submission CFOAS claimed that the cost of VAT payments for the fire and rescue service was a significant concern and could equate to £10m per annum, more than double the £4m claimed in the FM.<sup>97</sup> In her oral evidence to the Committee, Eileen Bard from CFOAS explained how this figure had been reached, stating that—

“We incur costs of around £50 million a year for goods and services, and 20 per cent VAT on that would be around £10 million. That figure was verified by the actual level of VAT that is reclaimed by Strathclyde, which we grossed up to give us that figure. I understand that there might be some debate about which elements of VAT can and cannot be reclaimed. Therefore, the figure may not be as high as £10 million, but it would still be significantly higher than £4 million.”<sup>98</sup>

119. Witnesses stressed the importance of resolving the VAT liability issue. For example, John Connarty stated that—

“If I were to highlight one issue, it would be VAT liability, which is critical. Anything that the committee can do to seek a resolution to that would be of great assistance.”<sup>99</sup>

120. While Calum Steele emphasised that—

“I would be amazed—I suppose that that is a strong word—and horrified if no VAT exemption were afforded to the police service. I hope that every influence is being exerted at Westminster to ensure that that happens.”<sup>100</sup>

121. However, Chief Constable Smith stressed that—

“I am in no doubt that Government is turning itself upside down trying to resolve the issue but the answer lies with the UK Government, HMRC and the Treasury.”<sup>101</sup>

122. In its evidence to the Committee, the Bill team indicated that it was currently awaiting a response from HM Treasury, having been advised by HMRC that the matter would be referred to HM Treasury.<sup>102</sup>

123. The Bill team stated that—

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<sup>95</sup> Chief Fire Officers Association of Scotland. Written submission.

<sup>96</sup> Association of Chief Police Officers in Scotland. Written submission.

<sup>97</sup> Chief Fire Officers Association of Scotland. Written submission.

<sup>98</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.700.

<sup>99</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.706.

<sup>100</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.683.

<sup>101</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.680.

<sup>102</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.710.

“Our first pitch is to establish that the service would be exempt from VAT under existing law. We are waiting to hear from the Treasury on that. If the Treasury’s view is that they would not be exempt, we propose that the existing law be amended so that they would be. Only if that were not possible would we enter the realms of negotiation about compensation, financing and so on.”

124. To assist in its scrutiny of the FM, the Committee wrote to both HM Treasury and HMRC to seek clarification on the section 33 status of the new bodies. It was also advised by HMRC that the matter was a decision for HM Treasury.

125. HM Treasury responded to the Committee on 29 February and a copy of its response is attached at Annexe A. The response sets out the criteria for section 33 exemption status.

126. The Committee sought the comments of the Scottish Government on the HM Treasury response and an update on its further discussions including which alternative options were being considered with HM Treasury and HMRC. For example, the Committee is aware that the single Police Service of Northern Ireland is able to recover VAT under section 99 of the 1994 Act. The Scottish Government’s response is also attached at Annexe A.

127. Given the significant financial implications raised by potential VAT liability for the new police and fire services, the Committee invites the lead committee to pursue the issue of VAT liability with the Cabinet Secretary for Justice and seek information and an update on all steps that the Scottish Government is taking to try to resolve this issue.

## **Costs on local authorities**

### *Local accountability arrangements*

128. Standing Orders require the FM to identify separately those costs falling on local authorities. The FM states that the Bill provides for the police and fire services to engage with local authorities, and in particular, to work with local authorities when setting priorities and objectives. Local authorities will also have a role in monitoring the exercise of functions in their areas and in providing relevant feedback.<sup>103</sup>

129. In relation to the new police service, section 45 of the Bill requires the Chief Constable to ensure that there are adequate arrangements in place for the policing of each local authority area. The Chief Constable must designate a police officer of unspecified rank as Local Commander for each local authority area but that officer may cover more than one such area. Section 47 places the Local Commander under a statutory duty to participate in community planning, replacing a similar duty of the Chief Constable under section 16 of the Local Government in Scotland Act 2003.<sup>104</sup>

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<sup>103</sup> Police and Fire Reform (Scotland) Bill. Written submission, paragraph 183.

<sup>104</sup> SPICe Briefing 12-15 Police and Fire Reform (Scotland) Bill: Financial Memorandum.

130. With regard to the fire and rescue service, section 113 of the Bill requires the SFRS to ensure that there are adequate arrangements in place for the carrying out of its functions in each local authority area. The SFRS must also designate a Local Senior Officer for each local authority area, however, this person may be designated to more than one such area. Similar to the structure proposed for policing, section 113 also places a statutory duty on the Local Senior Officer to participate in community planning partnerships for the local area.<sup>105</sup>

131. The FM states that “following the enactment of the Bill, the police service/SFRS will receive all its funding – both revenue and capital – from the Scottish Consolidated Fund through the annual Budget Bill rather than via the local government settlement...”<sup>106</sup> However, paragraph 161 of the FM states that individual local authorities will still be able to provide additional funding to supplement policing in their area.

132. Paragraphs 184 and 248 of the FM provide an estimate of the costs likely to be incurred by local authorities for engaging with the new police service and the SFRS. According to COSLA, costs are likely to be in the region of £3m-£4m, based on costs for elected members, policy support, research and analysis and administrative support.

133. A number of bodies commented on the costs to local authorities in providing local accountability arrangements. For example, CIPFA pointed out that—

“The requirement (or opportunity) for local authorities to consider whether there should be a police and/or fire committee (or to introduce other arrangements) means that some costs of uniformed services will continue to be borne by local authorities. Those costs will be in the form of staffing and other central costs required to govern committees.”<sup>107</sup>

134. CIPFA notes, however, that after reform, such costs will continue to be borne by local authorities without associated funding.<sup>108</sup> Likewise, HMICS state that “one area where we consider there may be increased and uncosted impact, is in the servicing of 32 local police committees.” In his oral evidence to the Committee John Connarty emphasised that—

“There is a lot of uncertainty about what the costs might be, given that we could move from having responsibility across eight boards to having responsibility across 32 councils. That implies a potential risk of increasing costs.”<sup>109</sup>

135. CIPFA suggested that, in the absence of an appropriate funding stream, there was a risk that local authorities elect not to maintain committees.<sup>110</sup>

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<sup>105</sup> SPICe Briefing 12-15 Police and Fire Reform (Scotland) Bill: Financial Memorandum.

<sup>106</sup> Police and Fire Reform (Scotland) Bill. Written submission, paragraphs 160, paragraphs 229.

<sup>107</sup> CIPFA. Written submission.

<sup>108</sup> CIPFA. Written submission.

<sup>109</sup> Scottish Parliament Finance Committee. *Official Report*, 22 February 2012, Col.694.

<sup>110</sup> CIPFA. Written submission.

136. Unison Scotland expressed concern that local authorities “may end up with additional budgetary pressures paying for the scrutiny of complaints, training for members, or even the administration of local police board and local fire and rescue board”, when this funding should come from the central police and fire service resources.<sup>111</sup>

137. In view of the above, ASPs stated that while it was supportive of simplified funding arrangements it was “in favour of continuing with additional local funding in pursuit of local policing arrangements as currently exists, where they add value at the very local level.”<sup>112</sup>

138. The Committee invites the lead committee to seek assurances from the Cabinet Secretary for Justice that local authorities will be adequately resourced in order to effectively carry out their police and fire and rescue monitoring and scrutiny functions under the Bill.

#### *Transfer of assets/resources*

139. The Bill is not explicit on how assets and reserves from existing police and fire authorities will be allocated under the proposed structure. For example, the current Joint Police Boards’ have built up reserves, and the Bill is not clear on whether these will be distributed to local authorities, based on their funding shares, or transferred to the newly created SPA and SFRS.<sup>113</sup> The submission from ACPOS states that it is its understanding that in terms of the police reserves, the Scottish Government and COSLA have agreed that these funds will be recovered from police authorities and returned to the Scottish Government and COSLA on the basis of a 51%/49% split, in line with current funding arrangements.<sup>114</sup>

140. Among others, Dumfries and Galloway Police and Fire and Rescue Authority<sup>115</sup> sought clarity on how assets and liabilities would be transferred as part of the new arrangements.

141. Eileen Baird from CFOAS pointed to the sale of assets, indicating that the disposal and transfer of assets might not be as straight forward as anticipated. She said—

“First, as has been rightly said, the current climate is such that not many people are looking for that type of asset. The second operational problem is that many of what we call non-operational assets—that is, they are not fire stations—are either attached to fire stations or are within the fire station’s curtilage.”<sup>116</sup>

142. The Committee invites the lead committee to seek clarification from the Cabinet Secretary for Justice on its plans for the transfer of assets and resources and how the funding will be re-distributed.

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<sup>111</sup> Unison Scotland. Written submission.

<sup>112</sup> Association of Scottish Police Superintendents. Written submission.

<sup>113</sup> SPICe Briefing 12-15 Police and Fire Reform (Scotland) Bill: Financial Memorandum.

<sup>114</sup> Association of Chief Police Officers in Scotland. Written submission.

<sup>115</sup> Dumfries and Galloway Police and Fire and Rescue Authority

<sup>116</sup> Scottish Parliament Finance Committee. *Official Report*, 22 February 2012, Col.705.

## Additional financial issues

143. A number of additional financial issues were raised during the course of the Committee's scrutiny and these are considered below.

### *Transition period*

144. A number of organisations commented on financial provision for the transition or "shadow" period. In its response to the Scottish Government's consultation, CIPFA noted that "funding and financial management of police and fire bodies have been inextricably linked to local government finance. It is essential that the scale of the task that will be required to extract police and fire from the current arrangements is not underestimated."<sup>117</sup>

145. It therefore suggested that—

"A shadow period of operation would allow the new authorities to operate in parallel with the existing bodies while new governance arrangements are embedded and while resources are transferred and acquired."<sup>118</sup>

146. For its part, COSLA wished to ensure that there was "as smooth a transition process in transferring to single Police and Fire authority as possible."<sup>119</sup> It highlighted a number of issues that should form the basis of discussions between the Scottish Government and key stakeholders and emphasised the need for—

"Clear accountability for control of costs and delivery of savings during transition to the National arrangements. Given the April 2013 provisional start date and the likely timescale for appointments to SFRS, SPA and Chief Officer posts, it will be extremely challenging to establish clear accountability for financial management for the financial year 2013-14."<sup>120</sup>

147. The FM states that Scottish Government estimate that the cost of "shadow leadership" of the new police authority will be between £1.72m to £2.63m<sup>121</sup> and for the SFRS, between £500 and £765k<sup>122</sup> for, "...a period of six months of additional planning and preparation".<sup>123</sup> This suggests that a six month transition period is anticipated.

148. However, in his evidence to the Committee, Chief Constable Smith on behalf of ACPOS indicated that—

"The reality is that the Government has decided at the policy level that there will be no shadow period."<sup>124</sup>

149. While Andrew Laing the HM Inspector for Constabulary in Scotland stated that—

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<sup>117</sup> CIPFA. Written submission.

<sup>118</sup> CIPFA. Written submission.

<sup>119</sup> COSLA. Written submission.

<sup>120</sup> COSLA. Written submission.

<sup>121</sup> Police and Fire Reform (Scotland) Bill. Financial Memorandum, paragraph 187.

<sup>122</sup> Police and Fire Reform (Scotland) Bill. Financial Memorandum, paragraph 252.

<sup>123</sup> Police and Fire Reform (Scotland) Bill. Financial Memorandum, paragraph 187.

<sup>124</sup> Scottish Parliament Finance Committee. *Official Report*, 22 February 2012, Col.673.

“The notion of a six-month or a year-long shadow board is quite interesting, but the reality is that the spending review has set targets for savings and they have to be achieved.

Until the proposed legislation is enacted and the existing legislation is repealed, we work under the current legislation. It is as simple as that. To that extent, anything that has been agreed nationally, or any of the work that Mr Smith will try to do will have to be done through collective agreement and good will. There is no legislative lever to pull to say that someone must do something.”<sup>125</sup>

150. The Committee invites the lead committee to seek clarity from the Cabinet Secretary for Justice on the transition period and what steps the Scottish Government is taking to ensure that, financially, there is as smooth a transition period as possible.

#### *Holding of reserves*

151. The Police and Fire Services (Finance) (Scotland) Act 2001 currently allows police authorities, joint police boards and joint fire boards to carry forward unspent balances from one financial year to the next. In this way, reserves of up to 5% of revenue budgets can be held. However the 2001 Act would be repealed by Schedule 7 of the Bill, and as a consequence, the SPA (and SFRS) will be unable to accrue financial reserves.<sup>126</sup>

152. COSLA expressed concern that the proposed governance structure would not allow the new single services to be able to hold reserves. It noted that—

“The holding of reserves is regarded as good financial management practice as they provide a contingency to cushion against the impact of unexpected events or emergencies.”<sup>127</sup>

153. In response to questions from the Committee the Bill team pointed out that the majority of public services in Scotland are managed without reserves. It went on to state that—

“We do not think that the loss of capacity to hold reserves will impact adversely on either service. Both will have substantial budgets. The policing budget will be £1.3 billion a year or thereabouts and the fire and rescue budget will be over £300 million a year. There ought to be enough scope for effective financial management within those budgets to manage without building up reserves.”<sup>128</sup>

154. The Committee notes the response from the Bill team. It also notes, however, that the use of the £1.3 billion budget and £300 million budget for the police and fire services respectively will be dependent on the new services achieving significant savings.

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<sup>125</sup> Scottish Parliament Finance Committee. *Official Report*, 22 February 2012, Col.675.

<sup>126</sup> SPICe Briefing 12-14 Police and Fire Reform (Scotland) Bill.

<sup>127</sup> COSLA. Written submission.

<sup>128</sup> Scottish Parliament Finance Committee. *Official Report*, 22 February 2012, Col.722.

### *Fire service pensions*

155. The FBU was keen to highlight to the Committee additional budgetary pressures that might result in changes to the fire pension scheme. In his evidence to the Committee John Duffy said that—

“A number of changes are being proposed by the Westminster Government and if they go ahead, firefighters might leave the pension scheme, which would have huge implications for the budget of the new fire and rescue service.”<sup>129</sup>

156. The Bill team stated in response that—

“at the moment, the employer contributions to firefighter pensions are picked up by the Scottish Government, as it any shortfall. And we expect that situation to continue. Although there might be a budget pressure, it will fall on the Scottish Government, not on the service.”<sup>130</sup>

157. In subsequent correspondence to the Committee, the FBU indicated that the issue was that “any drop-out from scheme membership would not be temporary but rather create a permanent reduction in the pension income from members’ contributions.”<sup>131</sup>

158. The Committee welcomes the commitment from the Scottish Government that should the position in relation to firefighter pensions change, then any resulting financial implications will fall on the Government and not on the new fire service. It invites the Scottish Government to confirm that this would be the case where there is a permanent reduction in pension income.

## CONCLUSION

159. Ultimately, stakeholders emphasised that the focus should be on reform rather than on achieving savings. As Chief Constable Smith asserted—

“We must ensure that the public, politicians and the police are focused on reforming the service in a strategic and logical way rather than focused simply on cuts. That is not to say that we are not fully cognisant of the current financial constraints. We will make savings, but there needs to be some reflection on the phasing of the ones that are anticipated.”<sup>132</sup>

160. While John Duffy from the FBU stated that—

“the emphasis must be on delivering the service, not on finding the savings. Savings will be made from redesigning the service, but we are focusing on delivering the fire and rescue service to the communities of Scotland under a single umbrella. Only once the detailed work that comes out of that is in

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<sup>129</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.705.

<sup>130</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.725.

<sup>131</sup> Correspondence from the Fire Brigades Union to the Convener of the Finance Committee.

<sup>132</sup> Scottish Parliament Finance Committee. *Official Report, 22 February 2012*, Col.686.

place will we start to see what the savings will be. However, we are also seeing that that is where some costs will be incurred.”<sup>133</sup>

161. In its submission to the Scottish Government’s consultation on the Bill CIPFA suggested that—

“There is a clear role for both the Scottish Parliament and the Auditor General to both validate and to track the realisation of both financial and non-financial benefits claimed by the proposed reform.”<sup>134</sup>

162. The Committee agrees and recommends that the Scottish Parliament undertake to monitor the non-financial and financial benefits arising from the provisions of the Bill should it become law and asks that the Scottish Government ensures that the appropriate data is collated over the 15-year period to facilitate this exercise.

163. To assist with this exercise, the Committee invites the lead committee to seek clarification from the Scottish Government on—

- What data will be collected and by whom;
- How it will be analysed; and
- How it will be reported and to whom.

164. The lead committee is invited to consider the specific comments made by the Committee in this report in its scrutiny of the FM, which are summarised below.

*Best estimates of costs and savings*

165. The Committee would welcome clarification on the nature of the quality assurance exercise that was undertaken by Deloitte on behalf of the Scottish Government and whether this exercise involved the independent verification of the figures that had emerged from the OBCs.

166. The Committee welcomes the assurance from the Bill team that a full business case is now being developed which should provide greater accuracy of the costs and savings which will result from reform of the police and fire services. It notes, however, that there is disagreement as to whether the FM provides the best estimates of costs and savings arising from the provisions of the Bill.

167. The Committee would welcome clarification on how the results of the full business case will impact on future budget planning and whether there is flexibility in the overall savings that must be achieved by reform. In this regard, it notes the comments of the Bill team below which suggest that while there is flexibility across categories of costs and savings, the overall budget has been set and therefore savings of nine per cent must be achieved. The Bill team stated that—

“If they find that some savings are easier to achieve than others and they adopt a different mix of savings that means that they incur some costs that

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<sup>133</sup> Scottish Parliament Finance Committee. *Official Report*, 22 February 2012, Col.695.

<sup>134</sup> CIPFA. Written submission.

they did not expect to incur but do not incur other costs that we projected that they would incur, that is fine.”<sup>135</sup>

168. The Committee invites the lead committee to pursue this issue with the Cabinet Secretary for Justice.

*Best estimates of the timescales*

169. The Committee recommends that the lead committee seek clarification from the Cabinet Secretary on the extent to which there is flexibility in the timeframe as set out in the FM within which savings should be achieved.

*Redundancy costs*

170. The Committee is also concerned by suggestions that funding set aside for redundancies in 2013 will be lost if not achieved. The Committee invites the lead committee to seek clarification from the Cabinet Secretary for Justice on this point.

171. As noted above, in the Committee’s consideration of the FM there is a significant disparity between the confidence of the Scottish Government in realising the savings as set out in the FM and the views of stakeholder groups. Therefore the Committee welcomes the assurance from the Bill team that a full business case is now being developed, which should provide greater detail on the costs and savings that will result from the creation of the single services and specifically identify where there is currently duplication.

172. The Committee invites the lead committee to seek clarification from the Cabinet Secretary for Justice on—

- Who is leading on the development of the full business case (FBC);
- Whether industry practice will be followed;
- How the development of the FBC is engaging with stakeholders;
- When the FBC will be completed;
- How the information within the FBC will be used; and
- Whether, in principle, the annual budgets for police and fire services will be adjusted as a result of the FBC.

*Margins of uncertainty – ICT costs*

173. The Committee is aware that the Scottish Government has established a Public Sector Reform Board responsible for public sector ICT and digital public services and a McClelland National Oversight Board sitting above oversight boards for each of the public sectors. The Committee invites the lead committee to seek clarification from the Cabinet Secretary for Justice on what consideration these boards will give to ICT savings arising from police and fire reform.

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<sup>135</sup> Scottish Parliament Finance Committee. *Official Report*, 22 February 2012, Col.715.

### *Implications for future spending plans*

174. The Committee recommends that the lead committee seeks clarification from the Cabinet Secretary for Justice on the extent to which the estimated costs and savings as set out in the FM, particularly those subject to optimism bias, have been reflected in the Scottish Government's future budgets and spending plans.

### *VAT liability*

175. Given the significant financial implications raised by potential VAT liability for the new police and fire services, the Committee invites the lead Committee to pursue the issue of VAT liability with the Cabinet Secretary for Justice and seek information and an update on all steps that the Scottish Government is taking to try to resolve this issue.

### *Local accountability arrangements*

176. The Committee invites the lead committee to seek assurances from the Cabinet Secretary for Justice that local authorities will be adequately resourced in order to effectively carry out their police and fire and rescue monitoring and scrutiny functions under the Bill.

### *Transfers of assets/resources*

177. The Committee invites the lead committee to seek clarification from the Cabinet Secretary for Justice on its plans for the transfer of assets and resources and how the funding will be re-distributed.

### *Transition period*

178. The Committee invites the lead committee to seek clarity from the Cabinet Secretary on the transition period and what steps the Scottish Government is taking to ensure that, financially, there is as smooth a transition period as possible.

### *Fire service pensions*

179. The Committee welcomes the commitment from the Scottish Government that should the position in relation to firefighter pensions change, then any resulting financial implications will fall on the Government and not on the new fire service. It invites the Scottish Government to confirm that this would be the case where there is a permanent reduction in pension income.

### *Future monitoring*

180. In its submission to the Scottish Government's consultation on the Bill CIPFA suggested that—

“There is a clear role for both the Scottish Parliament and the Auditor General to both validate and to track the realisation of both financial and non-financial benefits claimed by the proposed reform.”<sup>136</sup>

181. The Committee agrees and recommends that the Scottish Parliament undertake to monitor the non-financial and financial benefits arising from the provisions of the Bill should it become law and asks that the Scottish Government ensures that the appropriate data is collated over the 15-year period to facilitate this exercise.

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<sup>136</sup> CIPFA. Written submission.

182. To assist with this exercise, the Committee invites the lead committee to seek clarification from the Scottish Government on—

- What data will be collected and by whom;
- How it will be analysed; and
- How it will be reported and to whom.

## **ANNEXE A: CORRESPONDENCE ON VAT LIABILITY**

### **Letter to HM Treasury from the Convener of the Finance Committee dated 31 January 2012**

The Scottish Parliament's Finance Committee is currently considering the Financial Memorandum produced to accompany the Police and Fire Reform (Scotland) Bill.

As you may be aware, the main objectives of the Bill are to create a single police service and a single fire and rescue service. Paragraphs 178 and 242 of the FM consider the impact that the Bill might have on the ability of the new single police and fire services to recover VAT costs incurred under section 33 of the Value Added Tax Act 1994. The FM indicates that it has been assumed that each single service may be liable for irrecoverable VAT on all goods.

The Committee would welcome your views on whether the new single services will be able to recover VAT under section 33 the 1994 Act. It would be helpful to the Committee's scrutiny if it could receive your response by 17 February.

A copy of the Bill and Financial Memorandum are attached.

### **Letter to the Convener of the Finance Committee from HM Treasury dated 29 February 2012**

Thank you for your letter of 31 January, which has been passed to me as the Minister responsible for VAT. I'm sorry that we were unable to reply to you by the requested deadline.

Based on the information currently available it seems that the Scottish Government's planned reforms to the police and fire and rescue services will mean that they are no longer be eligible for VAT refunds under Section 33 of the VAT Act 1994.

The Section 33 refund scheme was introduced together with VAT in 1973, following a commitment that VAT would not become a burden on local taxation. Since then, successive Governments have maintained its original policy objective by only granting access to bodies which both carry out local authority functions and have a power to draw upon local taxation.

All police forces in England, Wales and Scotland currently receive a significant proportion of their funding from the council tax precept for police and do are eligible for Section 33. However, the reform Bill, currently before your Parliament, looks set to remove the power to precept from for the new single services and they will instead be funded by the Scottish Government.

The eligibility criteria for Section 33 are set out in HMRC's published guidance. Although the UK Government did not have sight of any draft of the Bill, HMRC referred the Scottish Government to these conditions of entry in August last year.

In response, they acknowledged that the direct link to local taxation would be lost following their reforms. The UK Government has since remained clear and consistent in explaining its position on Section 33 to the Scottish Government.

There can be no doubt that the Scottish Government was fully aware of the consequences of deciding to remove the link to local taxation. This is clearly evidenced by the Scottish Government's Explanatory Notes and Financial Memorandum (in particular Paragraph 178 on page 43) which accompany the bill and which assume that Section 33 will be lost.

Access to Section 33 is highly sought after as it can provide full VAT refunds to bodies that are otherwise unable to reclaim VAT. It is therefore vital that the Government can continue to apply a robust policy for determining access to the scheme. Where bodies are no longer be funded by local taxation, in this case the council tax precept for police, the rationale for providing Section 33 (to prevent VAT from becoming a burden on local taxation) falls away.

It is also important to bear in mind that the basic principle for funding most public services is that VAT costs are covered within upfront funding allocations. For example, Government Departments and the NHS only receive partial VAT refunds. For the NHS, this means that on average it is only refunded 20% of its VAT costs. There are also many public bodies, such as non-departmental public bodies or further education colleges, which receive no VAT refunds at all.

The Government's decision to continue applying the long-standing eligibility criteria for Section 33 is necessary to maintain coherent and effective public spending controls in this area. If, for example, the police forces in England and Wales were to be reformed in such a way that they lost their power to draw on local funding they would also become ineligible for Section 33. The Scottish Government has made the decision to go ahead with these reforms fully sighted on the likelihood that the VAT refunds would be lost.

I hope that this provides some clarity for your consideration of the Bill's Financial Memorandum

**Note from the Scottish Government to the Finance Committee dated 13 March 2012**

Police and Fire Reform - VAT Status of New Bodies  
Update at 13 March 2012

Discussions with HM Treasury and HMRC on the VAT status of the proposed Scottish Police Authority and Scottish Fire and Rescue Authority got underway in August of 2011. Most recently Scottish Government Finance officials undertook a series of discussions with HM Treasury VAT officials on 6 March and 9 March 2012.

The purpose of these latest discussions was to explore the background to the most recent formal view from the Treasury received on 2<sup>nd</sup> March (which is similar to that sent to the Finance Committee), to clarify the reasons behind the view that

the new bodies may not continue to enjoy the current exemption from VAT, make clear that the current reform proposals represent the best way to protect frontline services and deliver them more efficiently, and, identify opportunities and press a robust case for the current exemption status to transfer to the new bodies.

HM Treasury are now considering evidence put forward by Scottish Government officials related to a range of bodies that currently enjoy Section 33 exemption status and have similar characteristics to the new Police and Fire services. It is not possible to speculate whether those discussions are likely to lead to a positive outcome at this stage since HM Treasury have yet to formally respond.

A further update will therefore be provided to the Committee when the results of these deliberations are clear.

## **ANNEXE B: ORAL EVIDENCE AND WRITTEN EVIDENCE**

**6th Meeting, 2012 (Session 4), Wednesday 22 February 2012**

### **ORAL EVIDENCE**

Eileen Baird, Deputy Chief Officer Strathclyde Fire and Rescue and lead officer for Chief Fire Officers Association of Scotland Finance

Nick Bland, Head of Police Reform Unit

John Connarty, Business Support Manager, City of Edinburgh Council and member of COSLA's Police and Fire Reform Task Group

John Duffy, Scottish Secretary, Fire Brigades Union

Lorna Gibbs, Head of Fire and Rescue Reform Unit

Andrew Laing, Her Majesty's Inspector of Constabulary for Scotland

Christie Smith, Head of Police and Fire Reform Division, Scottish Government

Chief Constable Kevin Smith, President, Association of Chief Police Officers in Scotland

Calum Steele, General Secretary, Scottish Police Federation

### **WRITTEN EVIDENCE**