This briefing provides an overview of:

- funding arrangements for the police in Scotland before and after reform in April 2013
- progress in the budgetary process for the financial year 2013-14
- information on the scrutiny and best value arrangements for police services prior to and following reform
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INTRODUCTION

Funding arrangements for police services have changed following police reform in April 2013, including the creation of a single police force (the Police Service of Scotland).\(^1\) Prior to April 2013 the eight police forces were funded through a range of different funding streams from local and central government. From April 2013, funding for the single force comes mainly from the Scottish Government via the Scottish Police Authority (SPA).

The main driver of police reform was to provide savings, while maintaining front-line services, estimated at £1.1 billion to 2026. The SPA and the Police Service of Scotland identified a funding gap of £63.9m when comparing the anticipated expenditure for 2013-14 with the available funding.

Prior to April 2013 local police authorities and joint police boards had responsibility for police budget scrutiny at the local level. Since April 2013 funding for local policing has been centralised. The responsibility for local budget scrutiny now rests with the SPA and the Police Service of Scotland.

Prior to police reform, the Accounts Commission had responsibility for the Best Value audit of the eight police forces and the police authorities (or joint police boards). Audit Scotland and HM Inspectorate of Constabulary in Scotland (HMICS) carried out best value audits on behalf of the Audit Commission. This arrangement continues for the Best Value audit of the Police Service of Scotland following reform.

FUNDING ARRANGEMENTS BEFORE AND AFTER REFORM

In 2012-13, a total of £1.4 billion was distributed through seven main funding streams to fund the eight local police authorities/joint police boards. The two diagrams below set out in broad terms how police services were funded both prior to and after April 2013.

\(^1\) The Police Service of Scotland is also referred to as PSoS and Police Scotland.
Funding Arrangements prior to April 2013

Scottish Government (2012-13 figures)

Local government settlement
The local authority share of police funding was included within the General Revenue Grant paid directly to the 32 local authorities. The local authorities decide whether to match Police Grant funding for the police authority/joint board on a 51%/49% ratio or to provide more or less than 49%.

Local Authority contribution
£463-£464m*

Capital funding (from local authorities)
Capital funding was provided by local authorities from the general capital grant settlement within the overall local government settlement.

Police Grant
Ministers set the level of police grant (and police officer pensions) in the annual Police Grant Order

Police Officer Pensions
Police officer pensions costs were removed from the Local Government Settlement from 2010-11 and were paid directly to the eight police authorities and joint boards.

Police Loan Charge funding
Relates to the loan charge costs for any loans taken out by police authorities/joint police boards prior to 1/4/2004

£6m

Police Central Government
Funded SPA, SCDEA, PCCS, and national initiatives eg counter terrorism and UK wide ICT/telecoms systems such as Airwave Radio and the Police National Computer. Includes funding for 1,000 additional police officers.

£242.4m

Funding for 1,000 additional police officers from 2007 was paid directly from PCG to the eight police authorities and joint boards.

Eight Police Authorities

* figures not yet finalised
Funding Arrangements from April 2013

Scottish Police Authority
Set through the annual budget bill (and agreed by parliament). The budget along with Ministerial expectations and priorities are set out in the annual budget allocation and monitoring letter issued by the Scottish Government in March.

2013-14 budget: £1,086.4m DEL*

*This figure does not include £39.1m provided to cover depreciation of assets.

£1,068m Resource
£18.3m Capital

Police Central Government
Set through the annual budget bill (and agreed by parliament)
2013-14 budget: £114m DEL

£96.1m Resource
£17.9m Capital

Police Pensions
Set through the annual budget bill (and agreed by parliament)
2013-14 budget: £231m DEL

£231m Resource

Other funding from Scottish Government to SPA:
- Violence Reduction Unit: £0.9m
- Security for Commonwealth games: £90m

Scottish Police Authority allocates budget to the Chief Constable to deliver the Police Scotland Annual Police Plan, and Local Policing Plans. Scottish Police Authority is also directly responsible for services such as forensic services, independent custody visiting, and complaints handling.

Resource DEL allocated
SPA: £95.7m
PSoS: £966.8m

Chief Constable allocates resources to ensure effective delivery of national and local policing plans. NB only a small proportion of the PSoS budget is devolved to local police commanders.

Scottish government directly administers spend on the Scottish Crime Campus, the Police Investigations and Review Commissioner, and funding in support of police reform.

Scottish Police Authority ensures pension costs of retired officers are met.
BUDGET PROCESS IN 2013-14

In its 2013 report, Audit Scotland sets out the background to the current financial pressures on police services:

“One of the main drivers for reform is to deliver financial savings in the face of reduced public sector budgets, while maintaining frontline services. The outline business case for reform stated that over £1.1 billion of net savings can be achieved from police reform over 15 years to 2026. Of this total, £155 million (14 per cent) is estimated to arise from the implementation of the new structure, with the remaining £980 million (86 per cent) to come from wider reforms of police service delivery. Costs are expected to be incurred to the end of 2016/17, beyond which, annual recurring savings of £101 million are anticipated.”

<table>
<thead>
<tr>
<th>Estimated net savings from Police Reform (£m)</th>
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<tbody>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Year</strong></td>
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<tr>
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</tr>
<tr>
<td>2011/12</td>
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<td>2012/13</td>
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<td>2013/14</td>
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<td>2014/15</td>
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<td>2024/25</td>
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<tr>
<td>2025/26</td>
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<tr>
<td>2026</td>
</tr>
</tbody>
</table>

Source: Police and Fire Reform (Scotland) Bill, Financial Memorandum

The total cost of implementing police reform is estimated to be £137 million by 2026. The majority of spend (£95 million, 69 per cent) is expected to occur in 2013/14 and 2014/15. Restructuring costs will account for approximately one-fifth of total costs (£29 million) with the remaining costs expected to be incurred from investments to deliver wider aspects of reform.

Total savings from implementing police reform are estimated to be £1.27 billion by 2026. Net savings are therefore estimated to be £1.1 billion once costs are deducted. Annual savings are estimated to increase from £21.6 million in 2011/12 to £101 million in 2016/17 and continue at this level to 2026. Total savings arising from the restructure are expected to be £184 million by 2026 with the remaining savings expected to come from wider police reforms.

The SPA board has approved a revenue budget of £966.7m for Police Scotland and £95.7m for SPA for 2013/14. This anticipates combined savings of £63.9m being delivered by the SPA and Police Scotland. In addition, the SPA has a capital budget of £18.3m for 2013/14. This may be supplemented by a further £16.1m, although this would require separate Scottish Government approval.”

A ‘funding gap’ (or savings target) was identified following a review by the interim finance directors of the Police Service of Scotland and the SPA Finance and Investment Working Group (SPA board paper 28/3/13). Their budgeting process resulted in expenditure budgets (£1,126m) exceeding available funding (the Grant in Aid budget of £1,062m) by some £63.9m.

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The requirement to make these ‘savings’ for the 2013-14 financial year have been split between the Police Service of Scotland and the SPA as indicated (right), in proportion to their revenue expenditure.

**Progress towards Savings**

By March 2013 (SPA March 2013a) some £41.6m of the required £63.9m of savings had been identified. Approximately 87% of the total gross budget relates to employment costs and the largest single category of savings is spending on people. Savings have been identified through reductions in overtime, police officer delayering, ‘management of police officer numbers to the 17,234 baseline’, and VR/ER schemes. As indicated below, some £22m worth of reductions remained to be identified.

For 2013-14, the Scottish Government has set aside a budget to support the process of police reform (approximately £38m) and to offset the impact of irrecoverable VAT (estimated at £22m). To access the police reform component of this budget, it is necessary to prepare a business case showing what savings will result from the expenditure. A significant proportion of these funds are expected to be used for voluntary severance and voluntary early retirement programmes.

**Progress towards Savings at 31 August 2013**

Since March 2013, the SPA and the Police Service of Scotland have been working through what is termed the ‘Star Chamber Process’ (led by the Chief Constable). This process introduces reviews and challenges the internal allocation of resources and seeks to produce further cost reductions while minimising the impact on services. Star Chamber sessions are intended to take forward a range of work streams focusing on service development and business change. These
sessions also seek to ensure that policing performance is maintained and enhanced while at the same time delivering the business change programme and meeting budget saving targets.

The SPA provides an update on the progress towards achieving the remaining £22.3m savings by the end of August (SPA 2013c)

**Table 1: Scottish Police Authority progress on savings**

<table>
<thead>
<tr>
<th></th>
<th>£,000</th>
<th>Opening 2013-14 shortfall</th>
<th>Net Savings Identified to 31/8/13</th>
<th>Revised 2013/14 surplus/shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Services</td>
<td>951</td>
<td>844</td>
<td>107</td>
<td></td>
</tr>
<tr>
<td>Forensic Services</td>
<td>1,381</td>
<td>900</td>
<td>481</td>
<td></td>
</tr>
<tr>
<td>Training</td>
<td>489</td>
<td>499</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>ICT</td>
<td>2,849</td>
<td>1,141</td>
<td>1,708</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>5,670</strong></td>
<td><strong>3,384</strong></td>
<td><strong>2,286</strong></td>
<td></td>
</tr>
</tbody>
</table>

As indicated in Table 1 above, the Star Chamber process has identified £3.384m of savings. The SPA has rated the risks of achieving/not achieving the savings, and reports that the vast majority of SPA savings are rated ‘green’ (described as “easy wins”).

**Table 2: Police Service of Scotland progress on savings**

<table>
<thead>
<tr>
<th></th>
<th>£,000</th>
<th>Opening 2013-14 shortfall</th>
<th>Net Savings Identified to 31/8/13</th>
<th>Revised 2013/14 surplus/shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>DCC Local Policing</td>
<td>4,278</td>
<td>764</td>
<td>3,514</td>
<td></td>
</tr>
<tr>
<td>DCC Crime &amp; Ops support</td>
<td>1,068</td>
<td>1,120</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>DCC Designate</td>
<td>827</td>
<td>2,574</td>
<td>1,747</td>
<td></td>
</tr>
<tr>
<td>VR/ER</td>
<td>10,478</td>
<td>10,478</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>16,651</strong></td>
<td><strong>14,936</strong></td>
<td><strong>1,715</strong></td>
<td></td>
</tr>
</tbody>
</table>

As indicated in Table 2 above, nearly £15m of the £16.7m savings required of Police Scotland have been identified. The largest component of these savings is the £10.5m associated with voluntary redundancy and early retirement (VR/ER). The SPA financial monitoring report (SPA 2103c) indicates that £7.6m of the VR/ER savings are scheduled for the fourth quarter of 2013/14. Risk ratings are also applied to the Police Scotland savings, and these indicate some £4.5m of savings as being “red” (described as a “major challenge and might not be achieved”), all of which are scheduled for the fourth quarter of 2013/14.

**Capital Funding**

Following initial indications that there would be a funding shortfall of £9.7m in the capital budget, planned expenditure was scaled back to £49.4m. The main areas of this revised capital spend for 2013-14 are set out below (SPA 2013a, June):
SCRUTINY ARRANGEMENTS BEFORE AND AFTER REFORM

Local Budget Scrutiny Arrangements – prior to April 2013

Prior to April 2013, police authorities/joint police boards were responsible for overseeing the work of chief constables and holding them to account for policing in their areas. The responsibilities of the police authorities/joint boards included appointing chief officers, controlling force budgets, securing best value and monitoring performance.

Local Budget Scrutiny Arrangements – from April 2013

The SPA has emphasised (discussions with SPICe, August 2013) that PSoS is currently in a transitional phase. Structural changes include the development of specialist and centralised functions and squads such as national specialist investigative and intelligence functions. In addition there is the requirement to make significant budget savings across most service areas.

Transitional arrangements also apply to budget allocations within PSoS, including the devolution of budgets to local policing. Budgets are aligned to the structure of PSoS including the fourteen divisions. Divisional budget allocations will be subject to change as arrangements settle. However it is clear that the majority of the budget allocated to PSoS is retained and monitored at the centre, including major areas of expenditure such as most costs associated with staffing (police officers, police staff, traffic wardens) which determine the level of police resources deployed in local areas. As a consequence, local authorities are not currently provided with details of police expenditure in their areas. The PSoS advise that budget scrutiny is undertaken by the SPA and PSoS and is not an issue for local authorities.

As context Deputy Chief Constable, Rose Fitzpatrick, the DCC with national responsibility for local policing, advised at a previous evidence session (18 April 2013), that all local authorities have arrangements in place to facilitate partnership working at the local level with police Divisional Commanders.

Best Value – prior to April 2013

Before police reform, the Accounts Commission was responsible for the best value audit of police authorities/joint police boards. In practice, inspection of the eight forces and their associated authorities/boards was undertaken by HM Inspectorate of Constabulary for Scotland (HMICS). HMICS and Audit Scotland, on behalf of the Accounts Commission, undertook joint best value audit inspections of police forces and police authorities/joint police boards (eg
November 2012 Report. In that report, Audit Scotland and HMICS concluded that local scrutiny arrangements were weak and, specifically, that police authority members had not provided ‘appropriate leadership’. Although they had been improving their scrutiny of police performance, they “still do not provide an appropriate level of challenge to performance, particularly relating to value for money and risk”.

Best Value – from April 2013

The Police and Fire Reform (Scotland) Act 2012 places a duty on the Auditor General for Scotland and inspectors of constabulary in Scotland to co-operate and co-ordinate activity with each other, with a view to improving how each carries out their respective functions. Audit Scotland and HMICS have developed a Memorandum of Understanding (2013) which sets out how they intend to fulfil this duty. It describes their respective powers and responsibilities and provides a framework for collaborative working. The memorandum identifies distinct areas of responsibility, but also those which have the potential to overlap (as indicated right).

In relation to best value, the memorandum identifies the following responsibilities and the scope for collaboration:

<table>
<thead>
<tr>
<th>Audit Scotland</th>
<th>HMICS</th>
</tr>
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<tbody>
<tr>
<td>Section 23 of the Public Finance and Accountability (Scotland) Act 2000 gives the Auditor General for Scotland specific powers to examine the economy, efficiency and effectiveness with which resources are being used by specified public bodies, including the SPA and the Police Service of Scotland. This includes the power to examine the arrangements made by these two bodies to secure best value. Audit Scotland may undertake planned performance audits and best value audits of the SPA or the Police Service of Scotland, or on specific aspects of their work, as requested by the Auditor.</td>
<td>The role of HMICS is to monitor and improve police services in Scotland. HMICS does this independently of the Police Service of Scotland, the SPA, local committees and the Scottish Government. HMICS discharges this duty by inspecting and advising the Police Service of Scotland and the SPA and by inspecting how best value is achieved.</td>
</tr>
</tbody>
</table>

There are some areas where the duties of the two organisations have the potential to overlap. For example, in relation to arrangements for governance and accountability, achieving best value, performance management and community planning. The framework for collaborative working includes:

- joint discussions on work plans and maintaining communications
- sharing relevant information, skills and experience
- working together where appropriate (though few joint reports are anticipated)

Audit Scotland, on behalf of the Auditor General for Scotland, is currently undertaking a performance audit of police reform and will report in November 2013.
SOURCES


Scottish Police Authority. (2013a) Minutes of Full Public Board Meetings (March, May and June 2013). Available at http://www.spa.police.uk/meetings-events/board-meetings/


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