Correspondence from Audit Scotland to Public Audit Committee, dated 31 January 2014

Thank you for your letter of 16 January 2014. As requested I enclose further information in response to your question about paragraph 80 in my report Police reform: progress update 2013. I have also taken this opportunity to clarify two other issues which were raised during the Committee’s recent evidence sessions on police reform.

Paragraph 80 of Police reform: progress update 2013

In paragraph 80 of my report, I refer to the presentation of police reform costs and savings information. This centres on how costs and savings are presented by the Scottish Government in comparison to the information outlined in the financial memorandum to the Act.

The financial memorandum separates the anticipated costs and savings associated with introducing a single police service with those which are anticipated as part of wider police reforms. This separation is necessary to inform Parliament of the potential costs and benefits arising from the proposed legislation compared to those which may have been incurred through alternative measures. The Scottish Government does not make a distinction between the restructuring costs and savings and those which would have been incurred as part of wider police reforms, irrespective of the structure chosen.

I can confirm that the Scottish Government did not provide any comments on this paragraph in their response to the draft report.

The terms “Full Business Case” and “Financial Strategy”

At the Public Audit Committee meeting on 18 December 2013, there was much discussion concerning a full business case and a financial strategy. My report commented on both of these separately: that the costs and savings in the OBC had not been updated into a FBC; and a financial strategy had not yet been agreed. Given the stage of reform, it is my view that the financial strategy is the more important document for SPA and Police Scotland to now focus their time, effort and resources into developing. That is why I specifically made a recommendation in the report that the financial strategy should be agreed by 31 March 2014.

According to HM Treasury guidance (which is linked in the Scottish Government’s Public Finance Manual), the purpose of a FBC is to revisit the Outline Business Case in advance of an investment decision and set out the recommendation for the option which optimises value for money. The FBC should include detailed arrangements for the successful implementation of a project or programme including updated economic and financial appraisals, detailed benefits and risks registers, project and change management plans and arrangements for post project evaluations. I have described the role and purpose of FBCs in a number of previous reports, in particular those relating to capital investment.

By way of comparison, the purpose of a financial strategy is to demonstrate how an organisation intends to use its financial resources to meet strategic objectives and ensure long term financial sustainability. Paragraph 77 on page 26 of my report
identifies what we would expect the SPA and Police Scotland to consider in developing their financial strategy. In particular, the strategy should be based on a sound understanding of the costs of different activities, identify options for achieving savings and be clearly integrated with the other longer-term strategies which will be important in making savings.

Savings in 2014/15
At the Public Audit Committee on 18th December 2013, Scottish Government officials quoted a savings target of £88.2 million for 2014/15 (PAC Official Report, col.1972). The Committee noted my report estimates savings for the same year as £68 million. The difference is explained as follows:

• The £88.2 million is a cumulative amount covering 2013/14 and 2014/15 and is based on the OBC. This combines the Scottish Government’s target savings of £42 million from 2013/14 and their savings target of £46.5 million in 2014/15, allowing for minor rounding differences (Police reform: progress update, paragraphs 64 and 84).
• These estimates do not include cost pressures such as inflation, pay awards or annual pay increments.
• Taking these cost pressures into consideration, my report estimates the savings required for 2014/15 at £68 million (Police reform: progress update paragraph 86). The corresponding figure in 2013/14 is £64 million, giving a cumulative total of £132 million for both years.

I hope this provides the Committee with clarification on these issues.

Yours sincerely,
Caroline Gardner