Dear Mr Henry

I am writing in response to your letter of 20 January 2014 confirming the further evidence requested by the Committee at the Scottish Government oral evidence session on 18 December 2013. For ease of reference, the points you raise are repeated below with my responses in bold.

**Forecast savings**

You offered to provide the Committee with a breakdown of the savings made in 2013, and the two subsequent years and the contribution these will make towards the £1.1billion savings (to 2026). Of the remaining savings to be achieved, please can you confirm where you anticipate these savings will be made? *(Col 1939-1941)*

The savings generated by police reform are expected by the Scottish Government to be £41.8m, £88.2m and £108.7m for years 2013-14 to 2015-16 respectively. In March 2013 the SPA set a savings target of £63.3m for 2013-14 to achieve a balanced revenue budget. This includes a further £21.5m in order to meet inflationary and other cost pressures. Savings identified and delivered to date are £61m.

The savings are expected to be delivered by a combination of:

- People related savings such as reductions in overtime, Police Officer delayering and voluntary severance/early retirement schemes
- Property related savings including those from the disposal of properties, self insurance and reducing repairs and maintenance costs.
- Procurement related savings including reductions in supplies, transport and administration costs

The relative proportions of savings from these three sources will change over time.

The table below shows the current split of savings identified for 2013-14 and the forecast additional ‘new’ savings needed to meet both the expected savings from police reform and inflationary and other cost pressures for 2014-15 and 2015-16:

<table>
<thead>
<tr>
<th></th>
<th>2013-14 SG target (£m)</th>
<th>2013-14 (identified – all recurring in subsequent years) £m</th>
<th>2014-15 SG target (£m)</th>
<th>2014-15 (forecast, in addition to recurring savings) (£m)</th>
<th>2015-16 SG target (£m)</th>
<th>2015-16 (forecast, in addition to recurring savings) (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>People</td>
<td>37.8</td>
<td>32.2</td>
<td></td>
<td>6.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property</td>
<td>12.7</td>
<td>6.1</td>
<td></td>
<td>7.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Procurement</td>
<td>10.5</td>
<td>8.1</td>
<td></td>
<td>7.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>41.8</td>
<td>61.0</td>
<td>88.2</td>
<td>46.4</td>
<td>108.7</td>
<td>21.6</td>
</tr>
</tbody>
</table>
The 2013-14 figure includes both the expected savings from reform and those relating to inflationary and cost pressures. The 2014-15 and 2015-16 figures show the forecast additional savings required to meet the savings expected from police reform. By the end of 2015-16 the total savings towards the Scottish Government targets are expected to be at least £107.8m. As these will be recurrent, over the subsequent ten years the total contribution towards the eventual 2025-26 target of £1.1bn will be £1.078bn.

Quality and accessibility survey
Please can you confirm when the results of the survey on the quality and accessibility of the police service post reform are due? (Col 1943)

The surveys undertaken by Police Scotland referred to at the evidence session will be used to inform local policing plans and there are no plans for a stand-alone publication. The Scottish Police Authority is required by the Police and Fire Reform (Scotland) Act 2012 to publish an annual report for each reporting year. This Annual Report must contain an assessment of the performance by the Authority and the Police Service during the reporting year in achieving, or in working towards achieving, the main objectives set out in the most recently approved strategic police plan. It is expected that the SPA’s first Annual report covering 2013/14 will be published in the summer.

Costs of a single service
At the meeting there was discussion about the interpretation of paragraph 80 of the Audit Scotland report regarding the attribution of costs and savings arising from a single Police Service compared with those costs and savings which would have been delivered by the wider police reform programme. I would be grateful if you could clarify whether in its comments on pre-publication drafts of the Audit Scotland report, the Scottish Government commented on this paragraph (and if so, what was the nature of those comments). (Col 1945-1946)

Paragraph 80 is the third paragraph within a section titled “The Scottish Government spent almost £16 million in 2011/12 and 2012/13 on police reform. However, the full costs of restructuring to date are not known”. The substantive point in this section of the first draft and clearance drafts provided to Scottish Government for comment was that the full costs of restructuring were not known and that Scottish Government was not distinguishing between the costs specifically associated with restructuring and those arising from wider police reform as identified in the Financial Memorandum. The Scottish Government’s comments at drafting stage concentrated on addressing these points and providing information on the factual issues around that. The sentence at paragraph 80 “It is not therefore clear which costs are a direct consequence of introducing a single service and what savings could have been achieved by delivering services differently” was queried as it was not clear how that related to the substantive paragraphs above which related to the state of Scottish Government knowledge of costs of restructuring. This point was not discussed any further. For the record, Scottish Government’s role in agreeing the report is limited to agreeing the facts on which Audit Scotland were applying their professional judgement and drawing conclusions.

I note that at columns 1945 and 1956 of the Official Report on the Committee’s session on 18 December, Tavish Scott MSP was suggesting that I do not agree with this paragraph. I should clarify that what I was not agreeing with was his suggestion that the paragraph states that the costs of the different options of police reform were
not clear. As I said in my evidence to the Committee (in column 1946) the outline business case and the financial memorandum – which Parliament scrutinised carefully – considered the three different reform models that were up for discussion at the time.

**Additional resource cost**
The AGS report states that, “Limited financial capacity and capability within the police has contributed to the lack of financial strategy.” To address this, you confirmed that the Scottish Government has provided additional resource to the SPA and Police Scotland, including seconding staff and providing additional support for recruitment and developing the financial and corporate strategies. Please can you provide a breakdown of the costs of providing this additional support and resource? (Col 1950-1951)

Scottish Government identified the need for senior public sector financial experience to assist with the development of the corporate and financial strategies. The cost of this additional resource is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secondees (salary &amp; on-costs, T &amp; S)</td>
<td>94,614</td>
</tr>
</tbody>
</table>

In addition, assistance and support was provided by Scottish Government to the SPA and Police Scotland for other activities arising out of the reform process.

**VAT-exemption**
There was discussion about the VAT status of the police service and what models were considered which may have retained VAT exemption for the police service. You committed to write to the Committee on whether it would have been possible to establish a single police force which would have remained VAT exempt. (Col 1969 - 1970)

As part of the process of winding up the former police boards, discussions took place with HM Treasury that no exemption under section 33 of the Value Added Taxes Act 1994 would be applicable because the new police service would have no power of precept on local taxation. Scottish Government does not agree with this ruling but acknowledges that it is a matter reserved to the UK Government. At the time consideration was given as to whether it would be possible to establish a single police service which would retain VAT exemption. It was concluded that, while in theory this would have been possible, it would have meant significant practical problems. There were two possible solutions to ensuring a continuing exemption for the single service. Firstly, directing Scottish Government funding through the 32 local authorities and thereby qualifying for a s33 exemption. This was rejected as it would not have met the reform objective of a simplified landscape comprising a single Police Service of Scotland accountable to a single Scottish Police Authority. Governance arrangements would have been overly burdensome and complex and lines of accountability blurred. Alternatively, we could have sought UK Government approval to amending the VAT Act (1994) to provide for a specific exemption similar to that for the police service of Northern Ireland, under s99 of the VAT Act. This was not viewed as an option by HMT and to pursue this option would have caused significant delay to the implementation of reform.

I trust this clarifies the position.

LESLIE EVANS