



Scottish Fire and Rescue Service
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HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Mr Pat Watters
Scottish Fire and Rescue Service
5 Whitefriars Crescent
Perth
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Your ref: PW/GMC

27 FEB 2015

Dear Mr Watters

Thank you for your letter of 30 January to The Prime Minister about VAT and the Scottish Fire and Rescue Service. I am replying as Minister responsible for this policy area.

You note that the VAT Act makes provisions for HM Treasury to review the list of bodies eligible for VAT refunds. Whilst this is indeed the case, the announcement at the time of the 2014 Autumn Statement by the Chancellor of the Exchequer was simply in relation to the two organisations that you refer to in your letter (the successor body to the Highways Agency, and the London Legacy Development Corporation). As regards the Scottish Fire and Rescue Services (SFRS) it may be helpful if I provide some background.


Like other people and organisations, fire and rescue services pay VAT on the taxable goods and services they purchase. However, because they are largely not engaged in business activities, they cannot recover this VAT through the VAT system in the same way that businesses do. There are, though, in certain clearly defined circumstances, existing schemes which refund some or all VAT.

Two such schemes are relevant in the case of fire and rescue services. The first, in section 33 of the VAT Act 1994, was introduced to ensure that VAT is not a cost borne by local taxation. There are two long-established criteria for inclusion in this scheme. Firstly that a body must undertake a local government function – and we accept that the successor bodies of the former fire and rescue service authorities do this. Secondly, the body must have the power to draw funding directly from local taxation (the requisitioning system in Scotland). The Scottish Fire and Rescue Services is funded by the Scottish Government rather than through any legal call on local taxes. This means it does not meet a key condition of the section 33 VAT refund scheme.

The second refund scheme is for government departments and the NHS. This scheme refunds the VAT incurred on certain outsourced services. It was introduced to ensure that irrecoverable VAT does not dissuade these bodies from outsourcing services where this results in greater efficiencies of scale. The Scottish Fire and Rescue Services are not central government departments and are not eligible for inclusion in this refund scheme.

In 2011 the Scottish Government were explicitly advised of this potential consequence of changing from regional police forces to a single authority as part of the proposed revised funding model for Police Scotland. At the time they took the decision to make these reforms they would have known they would no longer be eligible for the VAT refunds as a result.

I understand this will be a disappointing response for you, but thank you for taking the trouble to make us aware of these concerns.

Yours sincerely


DAVID GAUKE