

LOCAL GOVERNMENT COMMITTEE

Tuesday 4 September 2001
(*Afternoon*)

Session 1

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LOCAL GOVERNMENT COMMITTEE

21st Meeting 2001, Session 1

CONVENER

*Trish Godman (West Renfrew shire) (Lab)

DEPUTY CONVENER

*Dr Sylvia Jackson (Stirling) (Lab)

COMMITTEE MEMBERS

Mr Kenneth Gibson (Glasgow) (SNP)

*Mr Keith Harding (Mid Scotland and Fife) (Con)

*Mr Michael McMahon (Hamilton North and Bellshill) (Lab)

*Mr Gil Paterson (Central Scotland) (SNP)

*Iain Smith (North-East Fife) (LD)

*attended

THE FOLLOWING ALSO ATTENDED:

Tricia Marwick (Mid Scotland and Fife) (SNP)

WITNESSES

Chief Constable Andrew Cameron (Association of Chief Police Officers in Scotland)

Martin Christie (Audit Scotland)

Firemaster Colin Cranston (Chief and Assistant Chief Fire Officers Association)

Councillor Lesley Hinds (Convention of Scottish Local Authorities)

Mr Allan Macleod (Association of Chief Police Officers in Scotland)

Chief Constable William Rae (Association of Chief Police Officers in Scotland)

Councillor Joe Shaw (Convention of Scottish Local Authorities)

Tim Stone (Convention of Scottish Local Authorities)

Firemaster John Williams (Chief and Assistant Chief Fire Officers Association)

CLERK TO THE COMMITTEE

Eugene Windsor

SENIOR ASSISTANT CLERK

Irene Fleming

ASSISTANT CLERK

Craig Harper

LOCATION

Committee Room 1

Scottish Parliament

Local Government Committee

Tuesday 4 September 2001

(Afternoon)

[THE CONVENER *opened the meeting at 14:00*]

The Convener (Trish Godman): Good afternoon, comrades. Welcome back after your summer break—I am sure that you are all raring to go, as they say. I am sorry to say that this is Gil Paterson's last meeting as a member of the committee. Kenny Gibson is not here and I am sorry that it is also his last meeting. They have given good service to the committee and they have given a few interesting moments as well—maybe that is the job of the Opposition. They move on to other committees and we will welcome other Scottish National Party members at our next meeting. I thank Gil and Kenny for all their hard work.

Item in Private

The Convener: I am glad that Kenny is not here at this point because I must ask the committee to decide whether to take item 3 in private. The ombudsman's annual report has not yet been published and—being an open Government—we would not want the public to know anything that they should not know. I ask members not to nod, because “nod” cannot be written in the *Official Report*.

Members *indicated agreement.*

Police and Fire Services (Finance) (Scotland) Bill: Stage 1

The Convener: We return to stage 1 of the Police and Fire Services (Finance) (Scotland) Bill. We will take oral evidence from four organisations. In members' papers there is written evidence from Her Majesty's chief inspector of fire services and from Her Majesty's inspectorate of constabulary for Scotland.

We will hear first from the Chief and Assistant Chief Fire Officers Association. I welcome Mr John Williams—the Scottish regional secretary of that association—and Colin Cranston, who is its chair. The procedure is that the witnesses will give their presentation, then I will open up the discussion to committee members for questions.

Firemaster Colin Cranston (Chief and Assistant Chief Fire Officers Association): Thank you, convener.

Since the Chief and Assistant Chief Fire Officers Association was formed in 1974, Scottish members have articulated a Scottish perspective on fire service matters, primarily through the central fire brigades advisory councils of Scotland and of England and Wales. This is the first time that we have been invited to present our professional views to a committee of the Scottish Parliament; such direct access to the parliamentary process is much appreciated. We hope that today's meeting will lead to further invitations in future.

About 80 per cent of fire brigades' budgets relates to staff costs. The remaining 20 per cent funds brigades' overheads, including rates and other statutory charges. There is little flexibility at present for managers to influence spending patterns. Therefore, any proposals that increase spending controls in line with three-year budgeting strategies are welcome.

The immediate financial problem facing all brigades is associated with funding the pension scheme. It is estimated that the costs of that to fire authorities will rise from £10 million to some £32 million over the next five years. It is therefore unlikely that in the short to medium term the provisions of the Police and Fire Services (Finance) (Scotland) Bill will be of great benefit to the service, as all our additional funding will go on pensions. Nevertheless, CACFOA believes that the flexibility that is offered by the bill will assist in the future fiscal management of brigades.

Our submission is before the committee. I could speak to it in further detail or we could move to questions.

The Convener: I am happy to move to

questions. Do you want to add anything, Mr Williams?

Firemaster John Williams (Chief and Assistant Chief Fire Officers Association): No, I am quite content with the statement that has been given by Mr Cranston.

The Convener: I take it that committee members have read the papers. Before moving on, I welcome Tricia Marwick. She will join the committee officially next week, but is welcome to sit in on the meeting today.

I have a question. What happens currently to any unspent money that is returned by the joint boards to constituent authorities? How much money is returned?

Firemaster Cranston: It is difficult to give a global answer to that question. The amount varies from authority to authority and from year to year. Generally, all underspends will go straight into the pension fund deficit, which all fire authorities have. There is only a limited chance of an overspend over and above the pension requirements. The current protocol is that if there is an overspend, we make a requisition to the constituent authorities at the end of the budgetary year. Similarly, if there was an underspend that money would go forward for consideration within the next budgetary year.

Mr Keith Harding (Mid Scotland and Fife) (Con): Can you expand on why you think that the requirement on joint boards to obtain permission from constituent authorities to carry forward balances would be divisive?

Firemaster Cranston: The joint boards are corporate bodies that are, to all intents and purposes, authorities in their own right, but they do not have the power to raise a rate or a levy. However, as corporate bodies, they are entitled under the current democratic system to own property and to carry out their own business.

Under the pre-1996 arrangement of regional authorities there was, in my view, more ownership of fire boards than under the new arrangement, in which we have 32 fire authorities compared with the previous eight under the regional councils. Joint boards operate in a clearly different way from individual boards. CACFOA thinks that there might be more difficulty in future if the democracy and authority of joint boards were further reduced by the boards' having to refer to the constituent authorities on such relatively minor issues as carrying forward balances. The constituent authorities are fully involved in the budget-setting process, both at the level of officials and at elected-member level. If that process occurs every year—as it should—we see no need for the authority of the fire board to be further devolved.

Mr Harding: Is it your concern that where a fire

authority joint board is made up of three local councils, as it is in Central Scotland fire board for example, one council might say—particularly if that council has a budget deficit—that it does not want to carry forward the underspend and that it would prefer to have the moneys returned to it?

Firemaster Cranston: Yes—that is one of the issues. It is perhaps not so much the case that one authority might want to veto the carrying forward of an underspend. The issue is more about pensions and funding the pension deficit. A firefighter might spend 30 years in one authority's area, but is more likely to have moved across the constituent areas. Therefore, funding that individual's pension should be an issue for a fire board, rather than for an individual authority. We believe that it would be divisive if individual constituent authorities had the power of veto, and that that would be harder for boards to manage, because the system would become more bureaucratic.

Mr Harding: Are you less concerned about the issue of ministerial approval?

Firemaster Cranston: That issue does not cause us as much concern because it is probably more relevant to police boards than to fire boards, given the different funding mechanisms. We assume that a figure of 3 per cent would be set and that that would be that. There would be ministerial involvement only if we breached that figure. Nevertheless, ministerial involvement would—in CACFOA's view—introduce an unnecessary level of administration. We want to make matters simpler and more accountable to the joint boards, which have served the fire service well in the past. The authority and primacy of the joint boards is all-important.

Mr Gil Paterson (Central Scotland) (SNP): You say in your written submission that a maximum level of 3 per cent on budget carry-forwards might not be reasonable for all fire brigades. Can you be more specific?

Firemaster Cranston: Unfortunately, I cannot be more specific, but I can raise concerns about where the figure of 3 per cent came from. It seems to us from reading the original report that 3 per cent was merely a figure that the authors of the report thought reasonable. No real evidence or thought has gone into arriving at that figure. It might be correct, but the figure could be 2, 4 or 5 per cent. We would like some more evidence that 3 per cent is the appropriate figure, rather than merely a figure that some people might think is appropriate.

Mr Paterson: Are you suggesting that the figure should be flexible across different authorities?

Firemaster Cranston: No.

Mr Paterson: Should there be a statutory figure?

Firemaster Cranston: There should be a percentage that everybody understands and works to. However, I would like assurances that that figure was arrived at with a little more thought than would appear to have gone into the current decision.

Mr Paterson: In the paper that your organisation submitted, I noticed that mention was made of events that might take place in a given fiscal year that could result, for example, in an oversubscription for foam. Is the volume required in a given year likely to be of such magnitude? Do you have discrepancies as high as 3 per cent?

Firemaster Cranston: No. At the moment we cover any discrepancy by going into an overspend and then levying the constituent authorities. I hope that if brigades get into an overspend and could carry forward money, that would not be required.

As I said, 80 per cent of our costs is for staff. The difficulty with predicting expenditure is that—in the case of Lothian and Borders fire brigade—if there is a dry summer, fire costs in West Lothian or East Lothian will rise, but the costs might remain static or even drop within Edinburgh. Conversely, if there is a busy period in Edinburgh, the costs within Edinburgh will rise. It is difficult to manage and predict that. Therefore, management and—probably more important when it comes to that issue—board treasurers need flexibility. We are quite content that a percentage should be determined; we are just uncertain about how the figure of 3 per cent was arrived at.

Dr Sylvia Jackson (Stirling) (Lab): Halfway down paragraph 4.4 your submission states:

“It may also be the case that a standardised carry forward figure can not be applied consistently between police forces and fire services given the differing form of funding arrangements. It would be more appropriate to allow Fire Boards to determine their own strategy for carrying forward balances.”

Can you confirm that that does not agree with what you just said? I thought that what you said to Mr Paterson—that you agreed with a standardised figure, but were less sure that 3 per cent was the right figure—was the opposite of that.

Firemaster Cranston: I am sorry to have caused that confusion. I am saying that the figure of 3 per cent was quoted as an example. We wish further consideration to be given to the figure. We are also concerned that a straightforward read-across between fire and police is not necessarily appropriate. The figure of 3 per cent seems to have come almost entirely from the report into police funding, “Credit to the force”. We do not wish to delay the Local Government Committee’s deliberations and the work of the Parliament, but

we draw the committee’s attention to the fact that further examination of that figure, to determine its appropriateness, might be worth while.

Dr Jackson: Can you confirm that you are quite happy that, whatever the agreed percentage is, it should be applied across all boards?

Firemaster Cranston: Yes.

Iain Smith (North-East Fife) (LD): From my time as a councillor in Fife, I know that funding of pensions is often a major problem for fire authorities. Do you envisage that the allowance or underspend to be carried forward would go into a reserve that would help to meet the pensions deficit in future?

14:15

Firemaster Cranston: In the long term, the pensions deficit would probably be the main beneficiary from any carry-forward. In the short term—the next 10 years—there is no question but that any money that fire authorities are able to save from their normal operations will go to feed the pension deficit. However, even if that is the case, it will still not be enough.

Iain Smith: I presume that the pensions must be budgeted for and that you must get the authorities to agree to fund the pensions in order to ensure that there is no deficit, rather than the authorities funding them from underspends that happen to arise during a particular year.

Firemaster Cranston: The situation is very complex. We are just entering a period of sustained growth as far as pensions are concerned and board treasurers are already struggling to meet the pension demands. Representations have been made to the Scottish Executive, but it has yet to make proposals on how it will assist fire and police authorities to meet those statutory demands, which cannot be avoided and must be met. That is a big problem.

Iain Smith: I appreciate that it is a big problem, but I am not sure how it relates directly to the Police and Fire Services (Finance) (Scotland) Bill. The bill is about year-on-year variations in funding, rather than the predicted, or predictable, long-term deficits to which you refer.

Firemaster Cranston: Once we get over the pension blip that will arise in the next five to 10 years, and if the proposals in the bill are implemented, carry-forward of unspent funds will be of great benefit in funding pensions, for example.

Firemaster Williams: I have listened to the discussion and perhaps I can clarify Mr Cranston’s comments.

At present, the savings that we have been able

to make on aspects of the budget—principally on the operational side—were made for the reasons that Mr Cranston gave, such as seasonal fluctuations in operational activity. The majority of the country is covered by retained, part-time firefighters. Unless we achieve the number of incidents that we have planned for, we will not use the finance that has been set aside for operational activity. The savings that we make must be used to fund the pension deficit in which we find ourselves. Although we plan for predicted retirement from the brigades every year, each brigade suffers from the unplanned retirement of people who sustain injuries on operational activity or who fail medicals. There is no provision within the fire service to maintain those people as part of the service and they must be pensioned out. Those unplanned retirements must be funded somehow; at present, they are funded from areas of the budget in which we are able to make savings. We reach a balanced budget position at the year end, but sometimes we must make supplementary requisitions to achieve that balanced position.

CACFOA's view of the next few years is that although the legislation will provide for a percentage figure for carry-forward, the pensions problem with which we are faced means that any savings that we make will have to go into the pensions part of the budget. The issues are linked.

Iain Smith: Are you saying that you do not predict any underspend in the next few years, because of the pensions problem?

Firemaster Williams: There will be no underspend at all.

Iain Smith: Therefore the bill is academic.

Firemaster Cranston: Yes, in the short to medium term. Nevertheless, the bill is welcome.

The Convener: The idea is welcome.

Mr Michael McMahon (Hamilton North and Bellshill) (Lab): I want to go back to Mr Cranston's earlier comment that one cannot predict where incidents will take place and that therefore it is difficult to foresee where expenditure might be required. Paragraph 4.10 of the CACFOA submission says:

"The advent of proportionality funding could have the effect of requiring Firemasters to consider limiting spending on incidents based upon the proportion of funding received from a constituent authority. Currently no such consideration is made".

Surely you do not mean that a firemaster would be forced to decide whether to send the required amount of service to an incident based on changes in the funding.

Firemaster Williams: That is related to a question that Mr Harding asked about whether we

are concerned that a constituent authority of a fire board might request that its portion of the savings be returned to it. CACFOA believes that, although that situation would not be divisive in the short term, once one constituent authority wanted to adopt that strategy, all constituent authorities would want to follow the same route. That would negate everything that the bill tries to provide for police and fire authorities.

To extrapolate a little further, we think that, if we allowed a firemaster to retain any savings, a constituent member of the board could say to him, "Ensure that those savings are spent in our part of the fire brigade area." That would mean that the firemaster would be providing financial controls for areas of the brigade that he manages. At some future point, each constituent authority might say, "We are providing £X million of funding and we want that funding to be spent in our area of the fire authority." We do not want to go down that avenue.

Mr McMahon: I would hope not. However, paragraph 4.10 of your submission refers to "incidents" but not to overall budgets. Surely there cannot be a point at which a firemaster, on hearing that an incident has occurred, would look at a map and say, "That area has already spent its allocation of funding," or, "I am only allowed to spend a proportion of my funds in that area," and therefore decide not to send firefighters to the incident. Paragraph 4.10 seems to say that that might have to be taken into consideration in the future.

Firemaster Williams: If it is linked to the response that I gave earlier, it might have to be.

Mr McMahon: That would alarm us all.

Firemaster Williams: It is alarming. We do not want to go down that route.

Mr McMahon: Are you seriously telling the committee that you believe that, at some point in the future, some firemasters will be forced to decide, based on funding, whether to send a team to an incident because the funding has become proportional and is determined by one constituent authority determining the overspend that is carried over in a given year?

Firemaster Williams: We are not saying that at all. We will continue to attend each call that is made to a fire service for whatever reason that call is made.

Mr Cranston spoke about prolonged incidents, which are incidents that go on for days or weeks. Last year, I think, Highlands and Islands fire brigade attended heath fires in Sutherland for a fortnight or three weeks until the weather broke. That kind of commitment has a significant effect on our budgeting. There might come a point at

which we have to examine what benefit we can provide and what we can prevent when we attend incidents over extended periods. I imagine that, in a case such as the Sutherland heath fires, we would be able to prevent or mitigate environmental damage.

Such decisions might arise in the future, but we are not suggesting for a minute that we would not continue to respond to emergency calls.

Mr McMahon: Even your qualified answer causes me concern. Convener, would it be appropriate for us to ask the minister for a response to that comment?

The Convener: Yes.

Firemaster Cranston: Incidents in one area may receive assistance or resources from another area. In the Lothian and Borders fire brigade area, for example, appliances from Edinburgh might be used in East Lothian for a length of time and vice versa. Currently the cost is carried on a knock-for-knock basis. However, if after an incident—not during or before it—constituent authorities insisted on getting back pound for pound what they had paid, we could become involved in lengthy debates about who pays for what and when. We do not want that to happen. Generally the current system works well. We assure members of the committee that brigades will respond with whatever resources are required to any incident that occurs not just within their area but within Scotland and even beyond our national boundaries.

Mr Paterson: You mentioned unforeseen retirements. Do you have an average annual figure for such retirements? Could they be budgeted for? Are they in fact budgeted for?

Firemaster Cranston: The current pension difficulties arise because the pension scheme is unfunded—there is no pension fund. Pension payments are made up in two ways. Current members of the brigade contribute 11 per cent of their salary towards pension payments. The balance comes from the fire authority. The average period of service for a firefighter is 30 years. In the early 1970s there was a reduction in the working week, which led to an influx of personnel into the service. Those persons have now reached the end of their service and will retire over the next two to three years. We face a similar problem in 2008-09 for exactly the same reason.

Although by and large such situations are predictable, because of the funding mechanism they are not easy to deal with. There is a difference of about £22 million between the amount that the Scottish fire service needs this year and the amount that it needs in 2005 to cover pensions. The service's total annual budget is just over £200 million.

The Convener: Can you think of any reason why joint fire boards should not allow a balance to be carried forward? Do you think that there should be guidelines setting out when a balance should be carried forward and when it should not?

Firemaster Cranston: I suspect that fire authorities would welcome the flexibility that the carry-forward would allow. I hope that guidelines will be issued to authorities, so that they are not forced continually to seek clarification from the Scottish Executive. Such guidelines have been issued in the past and I am sure that the same could be done under the bill.

The Convener: I want to pick up on some of the points that Michael McMahon was making. I know from written evidence that we have received that the 3 per cent limit on carryover applies to authorities in England and Wales. You have suggested that the evidence to support such a limit is not as sound as it should be. We can raise that issue with other witnesses.

Firemaster Cranston: The report "Credit to the force" gives the limit of 3 per cent as an example.

The Convener: In both written and oral evidence others have said that they are happy with that limit, so we need to explore the issue.

Thank you for taking the time to give evidence to the committee. If we need to get in touch with you again, we will do so. We will write to the minister for clarification of the point that Michael McMahon picked up.

14:30

Comrades, we move on to the second part of this agenda item and welcome the Convention of Scottish Local Authorities, which is represented by Tim Stone, who is the head of policy development, Councillor Joe Shaw and Councillor Lesley Hinds. The last two witnesses are not mentioned on members' agendas; however, they are mentioned in my note, because I am the convener and get to know things that the rest of you guys do not. I welcome Joe and Lesley, particularly Joe, whom I know from another life—I should declare an interest, as I have worked with him in the past. It is nice to see him again.

As Tim Stone has attended the committee before, I am sure that he knows the procedure. After he has made some opening remarks, I will open up the meeting to questions.

Tim Stone (Convention of Scottish Local Authorities): Thank you, convener. The committee asked COSLA to submit evidence that represents the views of the joint fire boards, the joint police boards and the constituent councils, which are the three local authority interest groups involved in the matter. My evidence today comes

centrally from COSLA and expresses the views of the leaders meeting that took place on Friday. As for my colleagues, Councillor Shaw is the convener of the Strathclyde joint fire board and Councillor Hinds is the convener of the Lothian and Borders joint police board; they represent the collective interests of the police and fire services.

COSLA has carried out a comprehensive consultation exercise with the six joint fire boards, the six joint police boards and all the convention's constituent council members. A report presented at the COSLA leaders meeting last Friday outlined the results of the written consultation. The eight police conveners and eight fire conveners have also had meetings. As a result, the views that will be expressed today are the unanimous views of the police conveners, the fire conveners and the COSLA constituent members—the councils.

In reaching those views, we have applied subsidiarity and local democratic accountability principles. We believe that the existing requirements for the joint boards to consult their members—the constituent councils—and to persuade a majority of board members of the reasonableness of their proposed budget provide sufficient safeguards, given that all joint board members are councillors. My colleagues will be happy to elaborate on the consultation processes between joint boards and councils.

As for the principle of the bill, we agree that it would be beneficial to give greater flexibility to joint boards to allow them to carry forward underspends and build up reserves. However, we are concerned about the proposed constraints in the bill. For example, we do not believe that the minister should have a role in approving the principle of carrying forward. In formal terms, the minister does not currently have that role and we do not see any reason for introducing it for such a small element of the budget for joint boards. In our written evidence, we point out that there is no equivalent ministerial control over the general fund for councils or their housing revenue account.

We are concerned about the proposal for individual approval for carry-forward from each constituent authority because we believe that it undermines the whole basis of the current relationship between joint boards and the constituent members. There is no justification for changing that relationship.

Moreover, it would not be practical to change that relationship, because the key purpose of the bill is to allow more sensible planning for contingencies. By their nature, it cannot be predetermined in which areas contingencies will be needed. Although the proposal is supposed to safeguard the interests of councils, the 29 constituent councils that COSLA represents agreed unanimously at their leaders meeting on

31 August that such a safeguard would not be necessary.

On the proposal that there should be a limit of 3 per cent on the carry-forward, we believe that that should be a matter for the joint boards to determine with their constituent members. We are not clear why there should be a limit. It should be a matter of trust between the joint boards and the constituent members to agree what is an appropriate carry-forward. There is no limit on the reserves that councils can carry forward from their general fund or from their housing revenue account fund.

It would also be appropriate to consider introducing a provision into the bill to allow joint boards to carry forward an overspend. That would be the obverse of carrying forward reserves; it would add appropriate flexibility and could prevent in-year problems if a board had to make a supplementary requisition.

Finally, our submission notes the issue of joint valuation boards. Our position—if we assume that some of the constraints will be removed from the bill—is that we do not want the bill to be delayed to accommodate joint valuation boards.

The Convener: I was going to ask whether there were any circumstances in which you thought that a minister should be approached before balances could be carried forward, but you have answered pretty strongly that you cannot think of any reason. If one or more of the constituent councils disagreed with the board's proposal, what kind of implications would that have?

Councillor Joe Shaw (Convention of Scottish Local Authorities): I am confused about the whole thing. Joint police and fire boards are the most democratic boards in the country. As for consultation, the joint board sets its budget and its clerk consults the finance people of all local authorities. Boards have revenue budget groups and working parties that are made up of councillors who are part of the board. To go back to authorities to get approval would absolutely slow up the process. It would not be feasible and it would not be necessary. I have never had any problem getting council approval because, although I am convener of the board, I am also a local councillor. If our board did anything that prevented our council from surviving, a big pole and a piece of rope would be erected.

Councillor Lesley Hinds (Convention of Scottish Local Authorities): I back up what Joe Shaw has said. Our board has a good relationship with all the local authorities. I do not think that we could function without that.

For example, last year Lothian and Borders had an underspend, which was in part due to a delay

in getting the correct protective clothing for our police officers. We therefore had to ensure that the police board was happy for that to be carried forward into the next financial year. Obviously, in the meantime, there was discussion with all the local authorities. That dialogue happens all the time. We need to take the local authorities and the board members along with us.

Mr McMahon: I take it as read that you do not want the minister to be involved in such decisions. Would clear and explicit guidance from the minister help to remove the need for his or her involvement or would that take away flexibility from you, which you would resist?

Councillor Shaw: The minister has never interfered before because he has never seen the need to interfere. I do not know why it has become a problem all of a sudden. The minister is astute enough to realise that, given that the board is democratic and there is enough consultation with local authorities and the minister, he would quickly know about any problem. However, no problem would be allowed to arise because the consultation process would deal with it. I do not think that the minister has to interfere.

Mr McMahon: If clear guidance had been breached, in whatever circumstance, the minister would become involved. If no guidance exists, is there not an element of dubiety about whether ministerial involvement is necessary? Would guidance make clearer the remit that you work with, or does that remit not need that formal clarification?

Councillor Shaw: In relation to Strathclyde fire board, the belt-and-braces approach that has been taken and the amount of relevant legislation mean that the minister would not have to get involved. His involvement would slow up the process.

One of the previous speakers said that collaboration between the brigades would quickly deal with any emergency anywhere in Scotland. However, if we had to follow guidance and wait for the minister's approval, the emergency would never be dealt with. The minister's involvement is unnecessary and I think that enough legislation is already in place.

Tim Stone: The bill is an attempt to allow the joint boards to build up reserves and therefore deals with a small element of their overall budgets. At the moment, there is no formal guidance from the minister on the totality of the budgets and we see no need for guidance on the small element that we are discussing. If a board is following good practice and is building up a reserve, why should the minister suddenly get involved in that element of the process?

Councillor Hinds: I see no point in having

three-year budgeting if there is no ability to deal with a three-year budget. Local authorities and police boards have had problems with the inability to carry over underspends from one year to the next and would spend all the money towards the end of the financial year. Three-year budgeting is about trust. The budgets are set, the resources are delivered, the targets for the police and the fire service are set out and the authorities are allowed to get on with their job during the three-year period. We are all concerned about the bureaucracy that the proposals would cause at the end of every year. What is the point of having three-year budgeting if we cannot get on with delivering the services in those three years?

Mr Harding: The representatives of CACFOA implied that it was impossible to build up reserves because any savings would be absorbed by the pensions deficit. Could you comment on that?

Councillor Shaw: That is certainly correct. The issue of pensions is a time bomb. The previous witnesses were right to point out that people who were employed 30 years ago are now due to retire. Strathclyde's pension problem involves £8 million and, by 2005, it will involve £18 million. Another problem is that, if a member of the fire brigade obtains employment somewhere else, his pension rights go with him. At the moment, two of our officers are going to other brigades and £500,000 is going with them. That money comes out of the fire brigade's budget. That demonstrates the sanity of having an underspend that can be drawn on to deal with such problems.

As I said, the issue is a time bomb. In fact, by 2005, we will be bankrupt. However, I am quite sure that the Government will have solved the pensions problem by then.

Mr Harding: Is there a similar problem within the police forces?

Councillor Hinds: No. The issue is complicated, but the matter has been dealt with differently by the police forces and is not such a big problem.

14:45

Mr Harding: The bill would address that matter. Could you expand on your comments on joint valuation boards? It is a good suggestion for them to be covered by the bill. Why do you think that adding them in would cause a delay?

Tim Stone: Because that would require a new section. My understanding is that this is meant to be a fairly focused, in-and-out bill, with particular issues for police and fire joint boards having been identified. If valuation joint boards can be covered without causing a delay in scrutiny of the bill, that would be worth while but, apart from anything

else, such boards deal with lesser sums of money. We would not want the bill to be delayed by its taking valuation boards into consideration—that may require time. There may be other routes whereby that could be achieved; other bills could address the matter.

The Convener: Why does the situation with police pensions appear to be healthier than that with fire service pensions?

Tim Stone: The technical issue is this: on the police side, the pension liability is no longer transferred over when an officer moves between forces; on the fire side, the equivalent transfer is still made.

Two different issues apply to both police and fire service pensions. A major problem with the increasing cost of fire service and police pensions is forthcoming. Those will increase substantially over the next 10 years and will somehow have to be funded. I suggest that that cannot be dealt with using the reserves with which the bill is concerned.

It has been pointed out that unanticipated moves of officers occur from year to year, which can cause headaches because of transfers of pension funds. If there was the flexibility of being allowed to build up a level of reserves, such problems could be smoothed over without impacting on the rest of operational budgets. I do not think that the building up of reserves as proposed is viewed as the route to solving the pension problem, but it does smooth expenditure from year to year.

Councillor Shaw: What Tim Stone has said is perfectly correct, but I would also point out that the problem of not having the money to pay pensions comes about when a budget is set at the start of the year, taking into account the prediction of the number of people who will retire in that year, but, for some reason or other, that number of people do not retire. In such cases, there is an underspend, but that could quickly disappear the following year. That is one of the reasons why I would welcome underspends being carried forward.

Iain Smith: Representatives of COSLA and other organisations have said that they do not think that there is a need for a percentage limit on the carryover. Are there any circumstances under which an underspend of more than 3 per cent would be created in either the police or fire board budgets? Should there be a level of carryover above which the approval of the constituent authorities is required? I accept that you do not believe that there should be such a requirement in general, but should it apply in the unlikely event that underspend came to 5 per cent or 10 per cent, for example? Would it then be reasonable to ask the constituent authorities for approval?

Tim Stone: On the first part of that question, no

examples were given to COSLA of cases in which one might want a carryover of more than 3 per cent. This is an issue of principle: why apply that limit to a part of local government—joint boards—when such a limit is not imposed on other parts of local government, including councils themselves?

Could you remind me of your second point?

Iain Smith: I wanted to know whether there was a level of carryover at which it would be reasonable to have to ask the constituent authorities' permission first.

Tim Stone: We need to return to the basis on which joint boards set their budgets. They do so by consultation and discussion with the constituent councils. They present to the constituent councils the amount that they think needs to be spent for the given service. Constitutionally speaking, it has been agreed that the service be provided on a joint basis, because it is not appropriate to provide it at the level of individual councils.

The joint board, which includes councillors, is effectively charged with recommending to councils what the budget should be. If a joint board was to approach the constituent councils, saying that it thought, for whatever good reasons, that there should be a 10 per cent reserve for the following year, for example, and if the councils were persuaded of that—it is a matter of persuading councils, which mandate members on the joint board—then why not? That is part of the democratic and accountable process by which the relevant legislation says that the budget should be set. We simply do not see why one element—the reserve—should be dealt with separately from the whole budget process.

Iain Smith: Are you saying that a joint police or fire board that was building up too high a reserve would be controlled by the constituent authorities through the budget process?

Tim Stone: Absolutely.

Councillor Hinds: I assure members that, if a large underspend occurred in Lothian and Borders police, councillors on the local authorities that are involved would question the police about it, as I am sure that councillors in similar situations throughout Scotland would. MSPs and councillors want more police officers on the street, so councillors would want to be sure about why money was not being spent on providing such a service. I assure the committee that local authorities, councillors and MSPs would ensure that the money was spent.

Iain Smith: I was describing a hypothetical situation.

Councillor Shaw: The system has plenty of provision to catch that situation. We treat an underspend and an overspend equally severely. I

have had to talk to every council leader in Scotland about fire brigade budgets. Believe me, that is not a pleasant task—asking for money never is. I see Michael McMahon smiling, but that is true.

Mr McMahon: I know him too well.

Mr Paterson: You said that the power should cover not only underspends but overspends. Does that relate to your peculiar time-span problem with pensions, or should such a power be in place all the time? If such a power were available, would it work as business operates, where there is no sudden cut-off, but a run-on? Would the system be manageable in the early part of the next fiscal year? Is that what you had in mind?

Councillor Shaw: You are correct. In general, an overspend in a fire authority would be caused by pensions. At present, we have a slight overspend. There is no way on this earth that I would ask the local authorities for the money to cover that. Our finding that money is just good housekeeping. It will not be easy, but we will find it.

Gil Paterson is right that we should be allowed to carry forward overspends and underspends. That ability plus three-year planning are sensible and would bring financial advantages. Three-year planning cannot be achieved unless such a system is in place.

Tim Stone: An overspend provision appeals to the constituent councils. An overspend does not happen often, but if one occurs and cannot be resolved by a joint board by other means, the present legislation requires an in-year requisition to be made to obtain money. An in-year requisition would mean that a council had to find that money from its in-year budgets, which would have been set previously. That could cause councils embarrassment.

Councils consider an overspend the obverse of the building up of reserves. A board should manage its circumstances and agree once a year—at the time of the budget, if possible—what the councils will be asked to provide in the next year. We consider that part of sensible budgeting.

Mr Paterson: I have a question about the minister's powers. Are you worried that you might identify an underspend that the minister would then claw back? Relatively small figures are involved.

Councillor Shaw: Anything that does not allow you to do your job is a worry. The minister has more than enough to do without checking every item on a fire board's budget. The minister is aware that the systems exist. He can quickly assess any emergencies that occur or alarm bells that ring.

All that troubles me is the fact that the process might be held up. People must realise that the fire department is an emergency service. We had to deal with fires in Arran, which cost us roughly £50,000. If I had had to wait for ministerial approval, the cost could have been £250,000. It is lucky that we put out the fires in time. Waiting for ministerial approval might have meant that we lost Arran. I think that the minister knows fine that the fire board is run well.

Councillor Hinds: The difficulty is the bureaucracy of the system. If the Scottish Parliament is about nothing else it is about trust and devolving power and resources. That is the principle of the matter.

Mr Paterson: You did not say "control freakery".

Councillor Hinds: No, of course not.

The Convener: She did not say "control freakery".

Tim Stone: The minister has no power to claw back anything on the fire side. The sum of money that we are discussing is the specific grant on the police side. If that is not spent in-year the minister can take it back and allocate it elsewhere. The minister's position is protected in that nobody can overspend what they have indicated that they are prepared to allow a board. We are saying that having done that, they should trust the board to make the best use of the money. If the judgment of the board is that the best use is made by carrying some of it forward to the next year, that should be allowed.

Dr Sylvia Jackson: My question is similar to Iain Smith's. The thrust of your argument seems to be that there should be parity with councils on flexible budgeting and that the management of the joint boards is more than adequate to deal with the issues so the minister's additional checks or the statutory limit of the amount that can be put forward are not required. As we are dealing with relatively small amounts of money, why are you so against the 3 per cent limit, which is being used south of the border?

Tim Stone: As we stated in our submission, we question why the limit is necessary. We are against it because it introduces a constraint on a part of local government funding that is not there elsewhere. We question why it is necessary to do that for one part of local government when it is not considered to be necessary for other parts. It is a point of principle rather than identifying that it will cause a major problem.

Councillor Shaw: From Strathclyde fire brigade's point of view, I do not have a problem with the 3 per cent limit. The problem is that when we set and spend budgets I have not had anyone asking me what I have spent before, so why do it

on this 3 per cent? I could live with it, but I do not think it is necessary.

Mr Paterson: The perennial problem with budget setting in local government is the mad rush to spend money, because it gets clawed back next year if you do not spend it. Is it possible that if the limit were 3 per cent and you had some spare money, you might spend that if there was not more flexibility?

Councillor Shaw: I agree with you. I have been in local authorities for many years. It always troubled me that you did not get best value when it came to the end of the year because you were rushing to spend money when it was not necessary. I am sure that the CACFOA witnesses would agree that it is not a situation that fire departments ever get into—they never have enough money.

Councillor Hinds: From the point of view of both fire and police the 3 per cent limit is the matter that we are least concerned about. We feel more strongly about the points about the minister approving any carry-forward and the proposed requirement for joint boards to seek individual authorities to give approval for the carry-forward. We could live with the 3 per cent limit, but not with the other two points.

Councillor Shaw: We certainly would not like to see the bill fall because of the 3 per cent limit.

The Convener: I thank the witnesses for their contribution. The witnesses have asked why the ministers, who were not previously involved, should interfere now. We should perhaps ask ministers that question. You said that the existing legislation means that if a minister wants to do anything, he or she can do so and also that most of your reserves—if you had any—would go into pensions. You raised the question about pensions, which we must certainly consider.

We think that it will be easy when a bill such as this comes before the committee: we will allow the police and fire services to carry forward unspent balances and that is fine. However, when we get into the matter we think, “Hey, hey—this is not as easy as we thought it would be.”

I thank the witnesses for their contribution. If we need to see you again, we shall certainly call upon you.

15:00

I welcome witnesses from the Association of Chief Police Officers in Scotland. On behalf of the committee, I take this opportunity to congratulate William Rae on his appointment to the post of chief constable of Strathclyde police. I told the clerk to the committee that I thought that I had met you before; he said that you had probably arrested

me at some time. I should put on record the fact that I have never been arrested by the police.

I also welcome Andrew Cameron, chief constable of Central Scotland police and vice president of ACPOS, and Mr Allan Macleod, who is force finance officer of Strathclyde police and a member of the finance standing committee of ACPOS.

You have been sitting at the back until now, so you will know the format. Please begin by giving your presentation, and then we shall ask questions.

Chief Constable William Rae (Association of Chief Police Officers in Scotland): First of all, thank you for inviting us to present evidence to the committee. We have not been here before, so it is a unique experience for us. Thank you for making us feel so welcome.

I shall take a few minutes to summarise our position. The aim of the bill—as I am sure members will not be surprised to learn—is unanimously supported by our association and is welcomed by chief constables. The bill addresses what we see as an anomaly in the current arrangements, whereby the six joint police boards do not have the flexibility in financial planning that is currently available to local authorities and to the two police forces that serve unitary authorities, as we do not have the power to carry forward our general balances.

The effect of that arrangement is to make our three-year financial planning under the comprehensive spending review somewhat problematic. It encourages annuality of budget management, with people using up money towards the end of the financial year, rather than spending sensibly over a longer period.

Members will be well aware that it is difficult to predict the nature of policing. We face unexpected situations all the time, which means that effective or precise year-on-year budgeting can be problematic in matters such as police pensions, which have been mentioned. It can also be difficult to assess movements in inflation for police pay, which is a matter that is outwith the control of chief constables or police authorities, because pay levels are set by a national body. That unpredictability encourages us to look for a provision for year-end general balances.

Although we welcome the bill, we have concerns about a couple of the provisions in it, which we believe will impede effective financial planning and will not create the facility that the bill is intended to create of allowing us to break away from the annual budget cycle. We consider unnecessary and unwarranted the provisions that relate to ministerial approval and to the approval of constituent authorities on the police board.

The report on police finance by the Accounts Commission for Scotland and Her Majesty's inspectorate of constabulary recommended that a provision of about 3 per cent should be allowed as a carry-forward for annual budgets.

I heard the committee debating earlier the issue of the 3 per cent figure. I clarify that we, as chief constables, find it difficult to conceive of a situation in which we would require any amount more than 3 per cent—unless there was an exceptional or extraordinary circumstance. Our police board would not be pleased with us if we managed our budgets so ineffectively that something like that could catch us by surprise. It is difficult for us to see a figure beyond 3 per cent being likely. We are, therefore, perhaps less concerned by the 3 per cent figure than are some of the other groups that are giving evidence to the committee. If that figure gives ministers comfort, we do not object to it.

Councils do not require ministerial approval to carry forward their unspent balances; joint police boards require the same flexibility. Ministers might require the power of veto because they are concerned about boards building up large balances. However, we believe that ministers have adequate controls to prevent such balances building up.

As well as the 3 per cent limit, ministers determined both the service total and individual force total grant-aided expenditure levels against which the police-specific grant is paid. Ministers also exercise controls over our capital allocations and any discretionary funds that are allocated to the police service. Ministers already exercise significant control over police funding. Under the grant regulations, police grant can be used only for police-specific expenditure. There is no possibility of that grant being used for non-police-specific purposes. Balances cannot be held for the sake of it. The fact that we have such a balance will form an integral part of our budgetary strategy.

We are opposed to the need for ministerial approval because that provision would introduce uncertainty and add unnecessary bureaucracy to the financial planning process. Most forces run with devolved budgeting arrangements; that is the way in which forces operate nowadays. The provision would have a knock-on effect on the way in which we delegate our budgets to our budget holders.

We believe that police boards have all the authority that is required for controlling the police budget. They are tasked—under the amalgamation orders—to set the budget for the force and so provide the chief constable with the resources that are necessary to police an area effectively and efficiently.

The boards are publicly accountable bodies and it is for them, in consultation with the chief constables and treasurers, to determine the approach that is taken to carrying forward balances. They properly represent the constituent authorities. The notion of going back to individual constituent authorities would undermine the corporate approach to police funding that has prevailed so far and it would add to uncertainty and bureaucracy. If one authority determined that it was not going to make a contribution, or that it was not going to allow the carry-forward to take place, that could lead to differential policing, which would be a disadvantage to the communities that we are responsible for policing.

ACPOS supports the aims of the bill. We believe that it would enhance significantly the management and efficient use of our resources. It would help greatly with financial planning; that benefit is already available to councils. We consider that the 3 per cent figure is reasonable, largely because we do not see it as an impediment—it is unlikely to cause us difficulty with carry-forward.

However, we believe that the controls that are available to ministers are sufficient and that they do not need to be strengthened in the way that the bill suggests.

I am happy to answer questions from members.

The Convener: I will begin the questions. Any of the witnesses from ACPOS may answer. Members have the written submission from ACPOS, which states, on the second page, under the heading "Ministerial Approval":

"The proposal for Ministerial approval would introduce uncertainty and unnecessary bureaucracy to the financial planning process, and possibly act as a disincentive to budget holders to optimise the use of resources."

Will you expand on those comments and explain exactly why you think that that would happen?

Chief Constable Rae: Members know that at the beginning of each financial year chief constables look at their commitments for that year and distribute their budgets accordingly. However, during the year, things happen that can lead to an underspend or that are unexpected—I am thinking of pension requirements, purchases or the number of incidents that occur. Because of the unpredictable nature of policing, we may well find that we have commitments at the end of the year that have to continue into the following year but for which the budget provision is in the first year.

Since the introduction of the comprehensive spending review, the Scottish Executive has been supportive and, through an ad hoc arrangement, it has allowed the budget to be carried forward, so I believe that it has nothing in principle against chief constables having the facility to carry forward the

resources that are available to them.

At the end of the year, we often find that something has not been delivered or a proposed event has not taken place but that they will happen in the following year. In that situation we need the facility to meet the cost in the following year. I can give a clear example of that from the force that I recently inherited. The board recently approved funding for the provision of protective vests for officers. The order was placed in one financial year but the nature of the contract was such that the supplier could not deliver until the following financial year, although that was not known until close to the end of the first year. We sought approval to carry forward the balance into the following financial year to meet the cost of the vests.

Predictable expenditure can be managed through that ad hoc arrangement but, if I do not get approval to meet costs by carrying the funding into the next financial year, I have to plan how to accommodate that additional cost in the following year's budget. There is unpredictability and it would be helpful if ministers could give approval to carry forward the money on the day that problems are discovered. However, that is not what happens in real life. It takes weeks or months for the various approvals to come through and during that time I have to make contingency arrangements to accommodate the costs in the following year's budget.

My example was of a piece of equipment, but the same can be said about operational events, which might be planned for one part of the year but not take place until the following year. Chief constables require the flexibility to carry forward resources to meet the cost of such commitments and there is a problem if we do not know whether we will have that flexibility automatically. We are prudent individuals and we do not want to end the financial year embarrassed by an overspend, so we take steps to ensure that we are certain that we can live within the budget in a financial year.

If we do not get clearance quickly, we take action that may mean adjusting the policing over the financial year until such time as we are certain that the additional funding will be made available to us. Situations might arise that require us to fund equipment or operational events that flow from one year into the next. Without some certainty that the money will follow those events, we have to make adjustments to our budgets. That unpredictability means that we are not delivering the best service to the community.

15:15

The Convener: Can you think of any reason why the joint boards should not be allowed to carry

over moneys?

Chief Constable Rae: We must consider policing in context. The constituent members of the joint boards are accountable to their authorities. There may be events within the authorities that put pressure on individual members. In practice, over the past three years, the joint board has given approval for such flexibility and so has the Executive. However, that is done in retrospect and takes some time—as members will know, committee approval may take weeks or months. As the accountable officer for the spending in the force, I cannot take it for granted that the approval will come through, albeit that it has done so in practice. We undertake a degree of risk management.

The practice in the police service has been to take a prudent approach to budget management. In recent years, chief constables have not been overspending their budgets. They consider it important that they deliver the services within the year that they say that they will deliver them. They do not want to create difficulties for the boards by overspending.

Mr Harding: You have emphasised the fact that police grant can be used only for authorised expenditure. If a constituent member wanted their funds returned, could they retain them or would they gain a proportion with the rest going back to the centre?

Chief Constable Rae: Members will be aware that the local authorities' provision is 49 per cent. That proportion of the underspend would go back to the authorities. The grant is paid in retrospect and therefore we would not receive the 51 per cent that comes from the Executive if we did not spend the money. The proportion that comes from the authority would go back to the authority, as you suggest, but the grant would be retained by the Executive.

Mr Harding: I understand that. It means that there is little financial benefit in any member voting against having a carry-forward.

Chief Constable Rae: There would be no significant financial benefit to the constituent authorities in doing so. However, that does not rule out the possibility that it might happen.

Mr Harding: Can you think of any reason why a constituent member would vote against a carry-forward other than for financial benefit if they had a budget deficit?

Chief Constable Rae: I cannot think of any reason why they should and the experience of the past two years has been that the boards have supported the carry-forward arrangements. However, that element is unpredictable. Although I believe that, in the main, boards would support the

carry-forward arrangement, I cannot guarantee that. Furthermore, individual members representing authorities on the police board might come under pressure from their constituent authorities not to support the carry-forward arrangement because those authorities are having difficulties with their budget.

Mr Harding: So you want the matter reviewed so that the carry-forward arrangements are guaranteed.

Chief Constable Rae: Yes.

Chief Constable Andrew Cameron (Association of Chief Police Officers in Scotland): I endorse what Chief Constable Rae has said. If we were to enter into a system of ministerial approval and constituent authority approval, there is a danger that it would hinder our confidence in following the principle of three-year budgetary planning. I think that we are all agreed that, under best value, there is sense in aligning our strategic operational planning with our financial planning. We should not miss the opportunity to carry forward and we should have the confidence to do it.

William Rae mentioned devolved financial management. It is important to give confidence to operational commanders at local community level to carry forward. I am the chief constable of a relatively small force. Devolved financial management would give increased confidence to local unit commanders at inspector level to prioritise their local community needs. They would not move towards the end of the financial year concerned about whether their local plans—to tackle drugs issues or high-visibility reassurance policing, for example—would be hindered by having no carry-forward at local, devolved financial management level. It is crucial that we do not take away their confidence.

Mr Allan Macleod (Association of Chief Police Officers in Scotland): Currently, we are locked into an annuality approach to budgeting, notwithstanding the three-year budgeting that Parliament has put into effect under the comprehensive spending review. Our financial planning is restricted to the 365 days between 1 April and 31 March, but the service continues and liabilities cross over, particularly at the end of the financial year. Issues arise in year one that have a particular impact in year two, for which we have not specifically budgeted. It does not make sense to wait until year two to deal with an issue and have to make corresponding offsetting savings to ensure that there is a balanced budget in that year. That is an ineffective way of delivering the service and managing the budget.

Iain Smith: Your written submission mentions a concern that, if a constituent authority refuses to

allow a carry-forward and wants its money back, that may lead to differential policing. What do you mean by that? Presumably an underspend would be on the operational budget and there would be another operational budget for the following year.

Chief Constable Rae: We would have another operational budget, but the difficulty arises if the commitment that we have not delivered in the previous year is carried forward into the following year.

I return to the issue of police vests. If we did not have approval to carry forward the money to buy the rest of the vests for which we were waiting and one of the constituent authorities objected to paying its share or allowing the carry-forward and claimed back its share of the budget, I could not decide not to give the police officers in that part of my force area the protective vests simply because the constituent authority had not agreed to the carry-forward.

Under the amalgamation arrangements, there are provisions for setting the budget for the year. Once the budget is set, all the constituent authorities understand that there is great flexibility in how the police can respond to incidents. It may be that, because of circumstances, we must increase the number of police officers for a period in an area. That flexibility is allowed under the current arrangements. However, once one of the partners takes away its share of the cake, it is difficult for me to say that I will not send as many police officers to an incident because that authority has withheld a proportion of the budget. As you can imagine, if I say I will continue to police in the same way to meet the demands that are placed on us irrespective of who is paying what, that may be seen as unfair by the other constituent authorities that have agreed to allow the carry-forward. That is how the differential element arises.

Iain Smith: You indicated in your submission that the 3 per cent level is reasonable but that in exceptional circumstances there may be a requirement for more. Would it be reasonable in circumstances where there is an exceptional need for a higher carryover to require the authorisation of ministers or the constituent authorities?

Chief Constable Rae: Yes. It would not be unreasonable; it would reflect reality. I came from Dumfries and Galloway constabulary and was recently involved in policing the Lockerbie trial, for which there were exceptional costs. That is the scale I mean when I talk about exceptional costs. Those costs were predictable. We knew when they were coming and we engaged directly with ministers in that regard. I believe that 3 per cent gives sufficient flexibility; it is cumulative, year on year. We cannot set aside resources for another Lockerbie or another foot-and-mouth outbreak but, when extraordinary situations such as those occur,

we make representations to ministers. That is a reasonable approach.

Mr Paterson: I am trying to imagine the downward pressure from the top on the spending departments, offices and stores, for example. Earlier, you spoke about uncertainty with regard to approvals. If there was uncertainty and you did not know that you were going to get the 3 per cent this year, would that encourage what normally happens, which is that towards the end of the year spending is taken to the limit to make sure that the budget is spent?

Chief Constable Rae: Absolutely. Strathclyde police have more than 50 devolved budget holders, some of whom are in divisional command and some of whom are in departments. Individual budgets are allocated for one year. If something happens to prevent budget holders from spending to plan, the risk—albeit slight—of the money not being available next year encourages inefficient spending of resources simply to use them up. Obviously, the resources are used in a productive way, but not as originally planned in the budget strategy. You are right in what you say. It is human nature.

Mr Macleod: Our budget monitoring system demonstrates that that is the case. We can trend our expenditure; year on year we see an increase towards the end of the year. Determining what drives that expenditure increase is problematic, but in my view it is the fact that there is no facility to carry forward an efficiency saving—a managed underspend—so the attitude is, “I will spend it on something that is related to policing rather than lose it.”

The Convener: I note that our witnesses think that 3 per cent is a reasonable and workable cut-off and that the controls that are available to the minister at the moment would be sufficient for the Police and Fire Services (Finance) (Scotland) Bill. I note also your comments on the length of time that it takes to obtain ministerial approval. We can see where the delays occur.

Thank you all for coming. You said at the beginning that none of you had appeared before a committee before. I hope that it was not too onerous for you. It certainly was not for us. If we need to call you again we will do so.

As there is to be a slight delay before the arrival of the next witness, we will have a five-minute comfort break.

15:30

Meeting adjourned.

15:35

On resuming—

The Convener: I welcome Martin Christie, portfolio manager for Audit Scotland and the author of “Credit to the force”. I ask him to make his presentation after which I will open the meeting to questions.

Martin Christie (Audit Scotland): I am pleased to come before the Local Government Committee to give evidence on the report “Credit to the force”. As the project manager for the report, I am happy to take questions on its contents.

The report was a study jointly conducted by the Accounts Commission for Scotland and Her Majesty’s inspectorate of constabulary. The bill reflects the principles that were contained in the report’s recommendations, but I will give a brief background to the study before I comment on the contents of the bill.

The study reviewed the framework for funding police forces in Scotland, including the management of resources and arrangements for devolved financial management. The latter is important because it allows managers to adjust the use of resources to meet local needs. Devolved financial management also allows managers to be held accountable for the use of those resources.

Particular factors were found to mitigate against effective financial management. Police operate in a cash-limited environment and, in a devolved management situation, there is a tendency to hold back on spending money until close to the year end. However, because the police grant is based on expenditure, there is pressure on forces to spend up to their budget limits to avoid a possible loss of grant.

In a devolved management situation, forces are encouraged to look for efficiency savings, but the existing situation does not allow forces to retain savings as working balances. Unspent money must be returned to constituent authorities at the end of the financial year.

Forces welcome the three-year planning regime that was put into effect at the time of the report’s publication. The report makes two particular recommendations to give forces greater certainty of funding and assist them to obtain better value for money.

The first recommendation suggests that the Scottish Executive revises the rules that enable forces to carry forward a working balance from one year to the next. The report used a working balance figure of 3 per cent. That percentage applies in England and Wales and is seen by

HMIC in England and Wales as being a reasonably safe level of balance for forces to carry. The report proposes that working balances should be additional to specific funds, reserves and provisions. Boards currently have powers to carry specific funds for specific purposes. A board can carry forward a capital fund or a repair and renewal fund. If capital receipts are generated from the sale of capital assets, that money can be put into a capital fund to be used for a purpose specified by the board. However, because boards cannot transfer unspent moneys, they cannot put savings into those funds.

The Scottish Executive has taken our 3 per cent total balance proposal further by proposing a cumulative balance. That has implications for the level of checks and balances needed to protect the individual stakeholders, of which there are three: the Scottish Executive, the police boards and the constituent councils. Various mechanisms have been put in place by the bill. The committee might wish to ask about those mechanisms later on. It is important that checks and balances do not introduce uncertainty into the financial planning process as that would undermine the value of boards being able to carry forward balances.

The report's second recommendation is that boards should be able to carry forward unspent police grant. The mechanism that has been introduced has the same effect as paying police grant on the board's budgeted figure for the year. The exception is that checks and balances are introduced that require the approval of the Scottish ministers and it is proposed that the carry forward be limited initially to 3 per cent of the police grant paid.

That is all I have to say about the police service. However, while preparing the report, we considered the fire service. There are natural links and obvious parallels to be drawn between the two services and the Scottish Executive has seen fit to extend its proposals to the fire service.

The Accounts Commission is comfortable with the proposals in the bill. It believes that the carry forward of working balances will be helpful in assisting police forces and fire brigades to deliver better value for money.

The Convener: Is it acceptable—or even necessary—for joint boards to have not only the consent of the constituent councils but of the Scottish Executive?

Martin Christie: It may be sufficient for the joint board to be delegated the authority to manage the resources of its particular force. Forces should work in such a way that their financial balances are transparent in their accounts, which are reviewed by external auditors and HMIC.

Iain Smith: To clarify that, you do not think that

it is necessary for the ministers to have the approval of the constituent authorities. You are comfortable with the ministers having that authority, but you do not think that it is necessary.

Martin Christie: It is not for the Accounts Commission to deem it necessary. The purpose and the proposals must be acceptable to all three of the stakeholders.

Iain Smith: Obviously, you are coming from a background of prudent public finance. Would you therefore say that, because the joint boards must involve the constituent authorities and the Scottish Executive in the budgeting process, that is a sufficient check to ensure that the boards do not rack up an unnecessarily large balance?

Martin Christie: If the boards are working to a minimum balance, the budget process would take account of that. The board would take account of any balance at the end of a year when setting the appropriate budget level for the ensuing year.

Iain Smith: In your presentation you mentioned that the figure of 3 per cent was used as an illustration because that figure is used in England and Wales. Do you have any indication or knowledge as to the reason why a figure of 3 per cent was set for England and Wales?

Martin Christie: None, other than that it is relatively minimal in the context of schemes. The situation in England and Wales is slightly different because boards are independent of councils. The boards manage their own budgets and have their own regulations. When considering the reasonableness of the financial management and planning of a force, HMIC has deemed that a figure of 2 per cent to 3 per cent is reasonable.

Mr Harding: You say that you do not think that it is necessary for the minister to have that power. Can you think of a reason why the minister should not give permission to carry forward a working balance?

Martin Christie: The report takes the view that what should be considered is the working balance. By its nature, a working balance should be minimal. The bill would allow forces to create the specific funds and balances that I have mentioned. If a force intends to do something that requires major capital expenditure or to carry out a major repair, it would be possible to transfer balances into those funds. It would be appropriate for the joint board to approve the transfer of moneys into those funds. What could happen is that the level of balances might rise in the context of specific capital repair and renewal funds whilst the working balance remains at a nominal minimum level from one year to the next.

15:45

Mr Paterson: We have had a mixed bag of responses to the figure of 3 per cent for a working balance. Do you have any information about whether the boards in England and Wales feel that that figure is adequate or whether it should be slightly higher or lower?

Martin Christie: I have no direct knowledge of the boards' position on that matter. However, I have checked with HMIC colleagues that HMIC south of the border continues to hold to the 3 per cent figure. However, I should point out that we see the figure as a working balance. Instead of having a rolling balance that works from one year to the next—what might be termed a working balance—a joint board could use capital and repair and renewal funds, which perhaps contain more appropriate mechanisms as they involve projected specific needs.

Mr McMahon: Most of the evidence we have heard so far seems to agree that the bill's principles are good. However, witnesses who have experienced the current circumstances do not see why the minister should get involved and do not like the idea of a constituent authority having a veto over such decisions. The matter seems to come down to "what if" questions. For example, what if a constituent authority does not want to carry forward? Therefore, my question to you is "What if?"

Martin Christie: From my reading of the bill, if everyone plays the game and tunes in to the board's proposals and intentions and if there are good relationships between the board and its constituent councils, there might be fewer problems with a council voting not to allow carry forward. Although the report recommends empowering boards to carry working balances, such working balances should not accumulate unnecessarily. The Accounts Commission would want a sizeable working balance to be used for a specific purpose. If a local authority were in a similar situation, one would be curious as to why that authority was building up working balances without wanting to apply those funds in their budgeting for the following year. Any attempts to set funds aside for future specific projects should be made through the vehicle of capital and repair and renewal funds instead of letting funds accumulate as a working balance. The approval of ministers or constituent councils might be required to prove that such funds formed a working balance.

Mr McMahon: Another concern centres on the divisions that might be caused if one constituent authority decides that it does not want to allow carry forward and the proportionality involved in that decision. Some decisions would have to be made about whether one authority was playing ball or whether its contribution was the same as

others. It was thought that such a situation might introduce unnecessary division. Do you take that view?

Martin Christie: The report considers the basis of allocating police expenditure across councils. Each force should identify the nature and costs of police activity within the boundary of each council. As a result, the report recommends that area commanders should develop a better relationship and understanding with individual councils to allow those councils to become more aware of what they are getting for their money. Such a relationship might make it more likely that a council will be more aware of what it is getting for its money. For example, instead of seeking a return of a twelfth of Strathclyde police force's unspent budget, a constituent council might be inclined to run with the police board's overall view.

Although I will not go into arguments about democracy in budget setting and other issues, obviously the matter arises when budgets are being set. A minimal council could be outvoted on support levels to its local police force. If the working balance were minimised, the proportion of the money that would be returned to an individual council—particularly to a small council—would be relatively little. However, that money may be important to that council.

The Convener: We have also heard this afternoon that if ministers interfered—those are not my words—the process would be slowed down and that there would be extra bureaucracy and administration if the bill's proposals were passed as they stand. Do you agree?

Martin Christie: I cannot comment on the issue of administration. I am not tooled up enough to know the details of the planned or proposed administration arrangements.

The Convener: It seems to me that it would obviously slow everything down if boards had to seek the approval of ministers.

Martin Christie: In my presentation, I attempted to demonstrate that the checks and balances should not be so great that the planning process is removed. A force that planned to spend £1 million on something might not be told until February or so that one or two councils were against that and that the £1 million was going to disappear. It is not helpful in a financial planning situation for a late veto to be applied at any stage.

The Convener: Thank you for your attendance. Your comments about the 3 per cent limit will be noted when we write our report, as the issue has come up before. If we need to call you back, we will do so.

15:51

Meeting continued in private until 16:34.

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