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Official Report

FINANCE COMMITTEE

Wednesday 22 February 2012

Session 4

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FINANCE COMMITTEE

6th Meeting 2012, Session 4

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Gavin Brown (Lothian) (Con)

*Mark McDonald (North East Scotland) (SNP)

*Michael McMahon (Uddingston and Bellshill) (Lab)

*Elaine Murray (Dumfriesshire) (Lab)

*Paul Wheelhouse (South Scotland) (SNP)

COMMITTEE SUBSTITUTES

*Jackson Carlaw (West Scotland) (Con)

*James Dornan (Glasgow Cathcart) (SNP)

*Mary Fee (West Scotland) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Eileen Baird (Chief Fire Officers Association of Scotland)

Nick Bland (Scottish Government)

John Connarty (City of Edinburgh Council)

John Duffy (Fire Brigades Union)

Lorna Gibbs (Scottish Government)

Andrew Laing (Her Majesty's Inspector of Constabulary for Scotland)

Chief Constable Kevin Smith (Association of Chief Police Officers in Scotland)

Christie Smith (Scottish Government)

Calum Steele (Scottish Police Federation)

CLERK TO THE COMMITTEE

James Johnston (Clerk)

LOCATION

Committee Room 4

Scottish Parliament

Finance Committee

Wednesday 22 February 2012

[The Convener *opened the meeting at 09:30*]

Decision on Taking Business in Private

The Convener (Kenneth Gibson): Good morning and welcome to the Finance Committee's sixth meeting in 2012. I remind everyone to turn off any mobile phones, pagers or BlackBerrys.

Agenda item 1 is to decide whether to take in private consideration of a draft report on the Police and Fire Reform (Scotland) Bill at future meetings. Do members agree to consider our draft report in private?

Members *indicated agreement.*

Police and Fire Reform (Scotland) Bill: Financial Memorandum

09:30

The Convener: Item 2 is evidence on the financial memorandum that accompanies the Police and Fire Reform (Scotland) Bill. We have three panels of witnesses. I welcome our first panel: Andrew Laing, Her Majesty's inspector of constabulary for Scotland; Chief Constable Kevin Smith, president of the Association of Chief Police Officers in Scotland; and Calum Steele, general secretary of the Scottish Police Federation.

As we have a packed meeting, we will not have opening statements but will go straight to questions. I will start with a question for Mr Smith, although other panel members should feel free to jump in.

Mr Smith's organisation, ACPOS, said in its written submission:

"the Financial Memorandum and the budget has been set on the basis of an *Outline* Business Case ... not a fully developed Business Case. Within the OBC, there are some high level projections and assumptions that have not been subject to a process of due diligence that would more accurately assess delivery, costs and savings."

Given that the committee's interest is in the financial aspects of the bill rather than other aspects, will you elaborate a bit on your concerns with regard to that process?

Chief Constable Kevin Smith (Association of Chief Police Officers in Scotland): I am more than happy to comment on what is a fairly straightforward statement. Work was done last year to develop an outline business case, to which the service made a significant contribution. By its nature, that business case contains high-level assumptions and does not go into the detail of costs and savings to a degree that allows us to be confident that those costs and savings will be achieved. The purpose was to allow the Government to make a decision on which of the three options it thought best. It was always intended at that point that the Government's preferred option would be subject to a detailed business case. That would involve going through due diligence on the reality of costs and savings and considering how we actually achieve the reform and how things will be done. For example, there would be consideration of whether we will be able to make the savings in relation to staff cuts that we have anticipated.

We all know that major change comes with significant risks: that costs could be greater than anticipated, that savings could be less than

anticipated and that the benefits of reform might not be achieved. There are many examples of that. The work that we have done in the past five to six months has been about articulating more accurately the costs and savings. The Government's financial memorandum recognises that the information on the true costs—or savings—of reform will come through detailed work.

Our concern is that the outline business case is exactly that—an outline that makes high-level assumptions. For example, it assumes that we could save somewhere in the region of £13 million from the rationalisation of police control rooms. That was based on a projection that used the Strathclyde model and simply applied it across Scotland. That is good for an outline business case and a higher-level assumption, but it does not get into the details of what the change actually means and how it can be achieved. The difficulty with that approach is that we will still have to run business as usual. We cannot simply stop what we are doing with control rooms to get the new system in. That is a reasonable example of where due diligence needs to be done. We know what we are trying to achieve, but we need to consider how we actually do it.

I want to be absolutely clear with the committee that there is no doubt that there is a great prize for Scotland in a reformed police service, and we are absolutely committed to delivering it. We are a can-do organisation and every sinew is now being directed towards achieving that aim, but we must articulate the challenges, one of which is whether the outline business case is matched by the reality of a full and articulated business case.

The Convener: Although I put the question specifically to Mr Smith, Mr Laing and Mr Steele should feel free to comment. I will ask each witness a specific question, but the other witnesses can also comment. My colleagues' questions will be for whichever member of the panel wants to answer. Do you wish to comment, Mr Laing?

Andrew Laing (Her Majesty's Inspector of Constabulary for Scotland): I echo many of Mr Smith's comments. The challenge in leading the reform is the fact that the target operating model that informed the outline business case was illustrative. It was used, for comparison purposes, across the potential for a regionalised force, a localised force or a national force, and it has established some really sound principles. As Mr Smith said, the devil will be in the detail. We now need to know how the model can be operationalised and made to work properly within policing. Much of that work is being done and we hope that a clear articulation of it will come out within the next month or two.

A process of due diligence has to be followed, and an important part of what Mr Smith identified in his response centres on timescales. The outline business case was slightly closer but the target operating model did not put time constraints on when the savings would be delivered. It simply indicated how policing could be done.

I am confident that that work will take us to a good solution, and I support Mr Smith's comment that there is a prize to be won at the end of the reforms. From our perspective, the clarity of the detail around how the reforms will be delivered is yet to be unveiled.

The Convener: Mr Laing, your submission talks about uncertainty. For example, you use the term "optimism bias" and say

"where optimism bias is applied to a factor such as 'process improvement' it is important to be clear exactly how an individual process is going to be improved before going on to allocate levels of certainty about the scale of savings that will be derived. It is this level of clarity that we find lacking."

Andrew Laing: There are two elements to optimism bias. The first relates to what I would describe as economies of scale or scope. As a crude example, there are eight human resources departments but we might not need eight in a single service, so economies will be gained that are tangible and easy to identify. On the other hand, where the outline business case or target operating model suggests that, by refining a process, we will save significant amounts of time and/or money, I need to see the detail of how the process will be refined to be confident that it will deliver those savings.

For example, at yesterday's Local Government and Regeneration Committee meeting, we talked about how we bring local accountability to fruition. One notion is that we end up with 32 policing committees. That process change would add in a significant level of bureaucracy. Until we see the detail of the process, we cannot tell which elements will deliver significant savings and which might incorporate additional burdens.

Chief Constable Smith: Another aspect of optimism bias is that, although it has been included in the financial memorandum to indicate that costs might be greater and savings less, our budget has not been affected and remains at the same level. For ACPOS, it is a practical issue of the optimism bias being theoretical at this point, but we still have to move towards the savings that have been set. The danger is that we focus on savings rather than reform. The issue for us is that there is a clash, particularly in relation to time, between the savings that have been set for us and the constraints that have been set in relation to police numbers, no compulsory redundancies, a dispersal model and so on—all of which are strong

and laudable aims that show strong support for policing.

The danger now is that we will be so focused on making cuts in financial budgets for next year and the following one that we do not get into what the exercise should be about, which is developing the best model of policing for the benefit of the people of Scotland. There is a bit of the theory of optimism bias, but it is not coming through in the reality of budgets.

The Convener: Mr Steele, the Scottish Police Federation's written submission states:

"it is instinctive and logical that the removal of needless duplication, the replacing of 8 headquarters (and all the associated costs) with 1 will in itself deliver longer term savings and provide the service"

with

"additional financial capacity to meet these challenges when presented."

However, it also states:

"It is difficult to envisage any circumstance in which a 15 year estimate could confidently be claimed to be accurate."

I therefore take it that the federation has concerns about the long-term financial projections in relation to the bill.

Calum Steele (Scottish Police Federation): At the risk of restating what is before you in the submission, I note that it is enormously difficult to find an economist, or anyone who works with figures, who will say that estimates in relation to something that takes place over such a length of time as 15 years can be seen to be accurate. I suppose that that fits with Mr Laing's comments about the lack of a timescale in the target operating model for theoretically deriving savings. It is important to remind ourselves that the decision to move to a single police service featured heavily in the manifestos of the parties that the majority of members of the Scottish Parliament belong to and that there is a strong political impetus behind making the reform work.

Picking up on the concerns that Chief Constable Smith perfectly well illustrated, I would hate to think that we would end up focusing on the cash and not the service—I do not think that the communities of Scotland would forgive any elected member for that. The short answer, therefore, is that I very much doubt that anyone could know whether the service would be cheaper or, indeed, more expensive in the future. It is just finger in the air stuff.

The Convener: It is the nuts and bolts that we are trying to resolve. As you are aware, the whole point is to achieve a number of things: to maintain police numbers at 17,234; to have no compulsory redundancies; to retain the same terms and conditions for staff; and, more importantly, to be

able to deliver a more effective and efficient police service.

I will open out the discussion to members of the committee.

Elaine Murray (Dumfriesshire) (Lab): As Mr Steele said, there is strong political support for the measure. Whether or not that was predicated on the single police force releasing sufficient funding for front-line policing, that is nonetheless probably why all of us who have signed up to it believed that we were to get a more efficient police force. I am a little concerned about some of the statements on the scale of police staff job cuts. It is argued that possibly 2,054 staff will be lost by 2015-16, and that it could be as many as 2,400 if the projected saving of £10 million in terms and conditions is not achieved. That would be something like 33 per cent of all police staff posts. The ACPOS submission states that there is

"a risk that police officers will be drawn into non police roles."

To an extent, that goes against the purpose of the reform, which is to release funding for police to be out on the front line, doing the activities that we want to see them doing. I ask for comments on the danger that police will end up behind desks rather than out on the streets.

Chief Constable Smith: I think that that is a risk. My starting point is that having 17,234 police officers is very good for Scotland—of that there should be no doubt. That support staff perform an equally critical role in modern policing and that there will be no compulsory redundancies are equally positive things, but in some respects they restrict where savings can be made. The Government's outline business case does not quantify job cuts. However, it does quantify the anticipated savings and the investment in voluntary redundancy, which together equate to that figure of circa 2,000 job cuts. If we are to make the savings that have been set out in our budget for the next three years—and into the next spending review, in fact—the main focus will be on police staff.

09:45

It is critical to state that there is no doubt that savings will be made. As Mr Steele said, that will be done by reducing headquarters and some functions, and by rationalisation throughout Scotland. The question is whether the numbers that are needed if we are to achieve the budget savings can be reached through voluntary redundancy.

In my paper, I refer to the work that was done last summer that led to the outline business case, which drew on comparisons with other forces. Colleagues in Strathclyde managed to secure 200

volunteers for redundancy from 500 expressions of interest. If we use that as a rough measure of what we might achieve throughout Scotland, it does not add up to savings of £50 million. There is concern about how we will achieve the savings.

The risk is that police officers will be brought back inside. Voluntary redundancy is a relatively crude measure; it is not strategic in any sense—it depends on who puts up their hand and whether the organisation can afford for that person to go.

The starting point will be not so much whether a police officer will be put into a job, but whether that job is necessary. Although there will not be an automatic assumption that we will have to put in a police officer, if we are to get to the numbers on which the savings are based, it is a distinct possibility that that will happen. That will not be a good thing professionally or politically, and I do not think that the public will think it a good thing, either. It is a real risk. I suppose that the issue for us is how we manage that risk and how we reduce it—in every sense.

The key issue in police staffing is that we are already into savings. In the next few weeks and into the next financial year, there is an expectation in the current arrangements of savings for reform. Further work is required to prepare for savings in the following year.

Yesterday, it was announced that the new service will start on 1 April 2013. That will be the first point at which meaningful consultation can take place with the unions about what the structure will look like; thereafter, we can start to look at redundancies. It is not that I am particularly smart financially, but if we cannot start the consultation on the practical process of making the thing work until 1 April 2013, it will be much later in the financial year before people leave, and we will not make all our savings.

This goes back to an issue that was mentioned earlier. The Government has made it clear that savings have to be made. Strong and powerful political commitments to policing have been made and, in terms of meeting them, we come back to timing. We believe that this can all be achieved, but much more thought has to be given to timing. At the moment, the timing is about making savings and not about reform. I am sorry for labouring the issue, but it is a critical one.

Another aspect is that we have been advised by the Scottish Government that the investment to make the reform work is available only in that year. We have been told that if, as a consequence of the redundancy process next year, we cannot use all the money that will be set aside for voluntary redundancy, that money will be lost to us. In our view, that is not the most strategic way of doing things. There needs to be not just a year-

on-year plan but a three-to-five-year plan—and a plan for beyond that—about how to make this work.

If I were to leave the committee with only one thought, it would be about timing and phasing. This is not about not being able to make cuts or not meeting Government commitments, because we can achieve those. It is about phasing. I suppose that that is our single biggest issue.

Andrew Laing: The change programme that Mr Smith describes—the move from eight police forces to a single force—is a complex organisational and structural change, and putting it into an appropriate timeframe adds complexity.

The task is made much more challenging when we get into considering the assumptions, or constraints, as they have been described, that must be carried forward about officer numbers; the notion of redundancies; how the model will be applied—it will be dispersed rather than centralised, so it is a rationalised model—and the whole set of circumstances of preserving terms and conditions. The aim is not unachievable, and new areas for savings have yet to be explored, but the complexity suggests that flexibility is needed to allow managers in the new service freedom to make operational decisions that allow the new service to deliver savings to an appropriate timescale.

The Convener: A contingency fund to cushion things somewhat has been talked about.

Calum Steele: It is important that we understand, recognise and endorse the fact that having 17,234 police officers is not just a good thing but a fantastic thing for the communities of Scotland. We must take cognisance of why we are where we are with police numbers. In the 10 years before the commitment to 1,000 extra police officers was made, when budgets across Scotland were relatively healthy, police numbers increased by only 8 per cent, yet support staff numbers in the service increased by 71 per cent. It is easy to see that a lot of the investment in the good years went into support staff. The police numbers that were required and demanded by our communities and by us were welcome when they came.

It is not useful to get into a debate that pits police officers against police staff. I very much agree with Chief Constable Smith that we should examine whether a role needs to be performed and not necessarily who will perform it. It is difficult to suggest that all the 71 per cent increase was a consequence of civilianising jobs previously undertaken by police officers; such a suggestion would be almost beyond the pale. The reverse of that argument is that, if those staff had not been there, there would have been a mass drawing of police officers into back offices. However, that is

not the case. Many of the support roles have evolved because they were nice to have, rather than essential.

It is a great message to the men and women of the police service, in which I include police staff, that no attack is being made on terms and conditions. Expecting the people who work in the service to fund its delivery by having their terms and working conditions eroded would be perverse in the extreme. That would be a particularly unusual approach to financing any public sector activity.

The commitments that have been given are a welcome development. We recognise that the Government's language in talking about the police service in Scotland is poles apart from the language that is used when political masters talk about the police service in England and Wales.

The cross-party support in Scotland buoys the police service and raises the manner in which police services are delivered. If negative language was directed at us and our terms and conditions were being eroded, heads would go down and the quality of the service to the public would be diminished. We will never countenance the expectation that, under the thin veil of modernisation, the terms and conditions of police officers and police staff should be reduced to fund savings in the service.

The Convener: I remember the negative impact on the morale of the force south of the border when, a few years ago, the previous Government did not allow pay recommendations to be implemented.

John Mason (Glasgow Shettleston) (SNP): I will follow up on the question of timing and of a changeover period. One or two submissions have suggested having the future board in place for a shadow period of six months or a year. The Chartered Institute of Public Finance and Accountancy said that the risk periods were before the reformation of the service, during the changeover period, and afterwards. Is there a cost risk during those periods? Perhaps the costs will be too high before the joining up or during the changeover period.

Chief Constable Smith: The reality is that the Government has decided at the policy level that there will be no shadow period. I think that there was a shadow period of a year with the disaggregation of the regional councils in the mid to late 1990s, but it has been decided that that will not happen for the police or fire service. We will have the current governance arrangements, with me as the president of ACPOS and my eight chief constable colleagues still running the force, and the chief executive of the Scottish Police Services Authority and the director general of the agency

running their bits of the organisation. The new team will take over on 1 April 2013, if that turns out to be day one. There is no plan for a shadow period.

There is general agreement among all the stakeholders that the earliest appointment of the chief constable and his or her command team is critical to day one. Everyone agrees that that would be sensible to get the service ready for day one, but also that we should look beyond day one as we start to take forward reforms.

The answer to the question is that there is no shadow period, so I suppose that there may still be some of the risks that CIPFA highlighted. However, I hope that there will be a smooth transition from the current arrangements into the new era. That would best be facilitated by the early appointment of the new chief constable and his or her command team. There are many issues attached to that, and the Government is wrestling with some of the related constitutional and legal issues because it has to do so at some point in the parliamentary process before it can start to think about that. However, I think that everyone agrees that the early appointment of the chief constable is fundamental to reform. If day one is beyond April 2013, which is when some of the significant cuts will start, the challenge of making the savings will be accentuated, as the savings cannot start until April 2013.

John Mason: I asked that question because it has been suggested that one or two decisions might be delayed. For example, Strathclyde Police would like to move out of Pitt Street and immediately make savings, but that is not being allowed until we get the new force, so savings are being delayed. Is that happening nationwide? It has also been suggested that some police forces are promoting people before the national police force is established to enhance their pensions, for example. There is potential for good decisions to be delayed and bad decisions to be made.

Chief Constable Smith: You are right. There is always potential for good decisions to be delayed and bad decisions to be made, but that does not apply only to policing; it applies to the whole governance arrangement. As members know, police wards in police authorities will remain in place and they will look to make the best possible decisions for their policing area with perhaps one eye, but perhaps not two eyes, on the future. That articulates the extent of our challenge in trying to deliver reform within the existing governance arrangements.

I do not know all the details of the Strathclyde issue, but I understand that that will be a decision for the new authority once it is able to look across and manage the whole of Scotland's police estate. People could have come out of Pitt Street, but

would another new building be needed in Dalmarnock, or could people have been dispersed elsewhere? I know that Steve House's strong view was that there was a compelling case. I saw some of the case, and there was a strong business case for Dalmarnock, but a decision has been made and we cannot look back on it.

I challenge the notion that promotions have been made for the sake of pensions. A key issue that has been agreed with the Government is that this is not just about reform; it is about maintaining business as usual, and strong leadership is still needed in forces to ensure that we continue to deliver a high level of performance. That is not to say that the issue in question is lost on us. It has been discussed in the ACPOS reform strategy group, and it will be further deliberated on.

In terms of the savings that we have to make from police officer de-layering, we have our eye on the ball and we are happy and comfortable that we will make the necessary savings in the short and medium term.

10:00

John Mason: Does anyone else want to comment on that?

Andrew Laing: Yes. I have a couple of points. The notion of a six-month or a year-long shadow board is quite interesting, but the reality is that the spending review has set targets for savings and they have to be achieved. The challenge centres on the current legislation, which places a responsibility on chief constables and police authorities to focus on their local area, but the reform process suggests that we should be looking towards the national good. There is a conflict and challenge there.

Until the proposed legislation is enacted and the existing legislation is repealed, we work under the current legislation. It is as simple as that. To that extent, anything that has been agreed nationally, or any of the work that Mr Smith will try to do will have to be done through collective agreement and good will. There is no legislative lever to pull to say that someone must do something.

That aside, there are areas that will cause difficulty in making immediate cost savings because there is a focus on the local rather than the national. Mr Smith is right to say that some decisions could be delayed and that that will defer some of the savings that are necessary to meet the spending review targets. As we move forward, there is an important role to be played by the authorities and agencies that are responsible for scrutiny and inspection. During the transition period, the HMIC, Audit Scotland and others who have a locus have an important role to play in looking at those transitional arrangements.

Notions about the management and handling of reserves, the transfer of assets and liabilities, and the local-national conflict will all stay at the forefront of the inspection programme for the year ahead. The complexity in that is that we are going into local government elections and we are likely to see a change or some transition in local governance arrangements. So we are going into a complex and difficult period and there is a significant risk to the process, which will need to be scrutinised and monitored as we go forward.

Mark McDonald (North East Scotland) (SNP):

I agree with Mr Smith and Mr Steele that the main driver for the reform should be the service that is delivered to the public. Obviously, the Finance Committee has to examine the financial data that lie behind that but I agree that the first consideration should be whether the reforms will deliver a better service to the people of Scotland.

A couple of questions have arisen as a result of some of what I have been reading. Where do the chief officers sit in the pie chart that ACPOS submitted? Are they classified as police officers although they do not perform front-line duties any more?

Chief Constable Smith: Chief constables, deputy chief constables and assistant chief constables are classified in the blue chunk of the pie chart. Other equivalent chief officers, such as directors of finance, HR directors and corporate service directors, or civilian members, are classified in the yellow chunk.

Mark McDonald: Obviously those figures will be reduced in the move to a single force.

Chief Constable Smith: Yes. The paragraph below the pie chart shows what will come from that. Some of the £5.4 million savings shown in bullet point 3 of paragraph 3.3 will mean fewer of me, and fewer of the deputies and assistants. Part of the assumption has been that there is potential for a reduction in some supervisory roles and that will be about police officers at the senior level.

Mark McDonald: Okay. You spoke about potentially achieving 2,000 voluntary redundancies. I come from a local authority background and we have achieved similar numbers of voluntary redundancies. How many voluntary redundancies have been achieved within the police force up to today? Do you have that kind of detail?

Chief Constable Smith: We have reduced our numbers by about 1,000 over the past two to three years, so the number of police staff has gone down. As Mr Steele said, there was a growth in numbers, but the figure is now on a downward trajectory. I do not have the exact figure, but I hope it will be handed to me by the time I finish this sentence. A reasonably significant proportion

of the 1,000 will have been achieved through voluntary redundancy.

The best example to use as a benchmark is in paragraph 4.5 of our submission, which outlines what our colleagues in Strathclyde, which accounts for half of Scotland, achieved over 18 months. My point in that and other relevant paragraphs is that, while the numbers in the forces in the SPSA are following a downward trajectory—some of them through voluntary redundancy—there is no compulsion on the horizon for redundancy, and that, in our experience, people are less likely to take up the offer of voluntary redundancy when the picture of the wider jobs market is not particularly positive. Unless there is an incentive for people, we do not believe that we will attract the numbers required to make the savings.

Mark McDonald: I am aware that a large amount of work is done at present on joint procurement, but I presume that individualised force branding and individualised systems in different forces will affect the amount of savings that can be made through a joint procurement strategy. Has much work been done on what a joint procurement strategy could achieve if it were based on a single-branded, single-force system?

Chief Constable Smith: A single service certainly would provide opportunities for savings, one of which would be in procurement. It is important to highlight that we have already done a significant amount of work. I will not go through it all, but I am willing to provide the information to the committee. It outlines a number of joint procurement operations, such as the Scottish police collaborative agreement, the UK police collaborative framework, the National Policing Improvement Agency, the procurement Scotland initiative and Scotland Excel.

We are heavily involved in as many procurement opportunities as possible, but a single service would provide even more opportunities. It will be a big organisation and one would hope that it would be able to bring its power to bear. A lot has been done and there are more opportunities.

One of our questions about the outline business case was whether we could see the detail of the projection that the proposal would make another £15 million, but that has not been forthcoming. We will do everything that we can to squeeze every penny out of things such as procurement and non-staff costs before we start to consider people.

Mark McDonald: One of the potential start-up costs will be the rebranding of vehicles, uniforms and so on, and the redesign and change of information technology and payroll systems. Are you confident that forces will not press ahead with

any significant procurement of branded items or with changing their IT or payroll systems in the period prior to the implementation of the provision? That could lead to a double cost.

Chief Constable Smith: The simple answer is yes, I am. We took decisions a few weeks and months ago to have more generic badges, whether they be for Fife, Central or Strathclyde, to enable a much smoother transition. We are also working on livery for vehicles and so on, and that will progress in the time leading up to day one. Branding, however, is probably at the lower end of the overall cost, so we do not anticipate that it will lead to significant costs.

The point about information and communications technology is important. Although it would be wrong to say that our ICT programme has not been without difficulties—every organisation, from the Government to the private sector, has issues with ICT—we sometimes overlook the benefits of a single ICT strategy.

Colleagues south of the border enviously look towards a single intelligence system and single command control and HR systems. As part of the reform strategy we have a moratorium on new projects and a tightening-up even of the day-to-day stuff that forces require, to ensure that we are not doing something that has to be unpicked on day one. The reports I anticipate coming in the next few weeks from our executive leads throughout the country are about what the day one deliverables will be, and they will include ICT.

Our overall strategy is not to try to change the world on day one. There will be a soft landing, ensuring that our current high standard of policing is not overly re-engineered for day one. The re-engineering and the big savings have to come beyond that. Many people talk about a single pay system on day one and my response is that what we want on day one is to ensure that people get paid. Whether they are getting their pay line from Highland Council, Glasgow City Council, Strathclyde Police or elsewhere, what matters is that they get paid. We can then have the longer thought-out process about what the new HR or finance process will be, and build and deliver IT to suit that. I anticipate that on day one the ICT change will be at the lower end of the scale.

Mark McDonald: Would Mr Laing or Mr Steele like to comment on that discussion?

Andrew Laing: My only comment is on ICT. The history of ICT in joint projects in Scotland has been varied. Going back to the late 1980s and the 1990s, I note that the Scottish police information system, which was set up to try to get single systems in Scotland, had limited success. The SPSA has come into being and has had much

more success, but it has not been without difficulty.

The single comment in our response centres on optimism bias, in particular regarding ICT. The Green Book guidance suggests that there should be a 200 per cent bias because of the difficulty and nature of ICT projects, but the allowance is 100 per cent. That is simply an observation, but it is a significant one because of the variance there would be in ICT costs between a 100 per cent and a 200 per cent optimism bias.

Calum Steele: I want to expand on the problems with ICT—and largely with its governance. If, because of how the legislation is structured, police forces or unitary authorities make decisions for their geographic confines rather than speaking to each other, that hinders the process, or it certainly has done in the past. I would like to think that one of the many benefits of the new single service is that it will introduce an element of professional scrutiny at the Scottish police authority level, to help to ensure that the services and systems that are being developed for the future of the service are fit not just for busy Aberdeen, Glasgow or Edinburgh city centres but for the far-flung reaches of our many remote and diverse communities. Sometimes geography can have an impact on technology.

Paul Wheelhouse (South Scotland) (SNP): Welcome to the committee. I have been interested in your evidence so far. I start by addressing an important point about VAT that is raised in the ACPOS submission. Reference is made to the fact that, as significant changes will be made in the constitution, Scotland's police will potentially fall liable to an additional £22 million per annum in VAT. There have been on-going discussions between the Scottish Government and Her Majesty's Revenue and Customs, but you do not appear to be confident there will be a happy outcome, based on previous experience.

Can you expand on the figures you have cited? For the benefit of those in the public gallery, I will quote from the report:

"Our planning assumption, therefore, is the new Police Service of Scotland, will have a recurring VAT liability of £22m per annum, which is the equivalent of 800 police staff jobs or 630 police officer posts, on top of what has already been assumed. Over the period covered by the Financial Memorandum this amounts to a liability of £280m."

How confident are you that that will be resolved? What would you like us to do, if anything, in support of your case?

10:15

Chief Constable Smith: All stakeholders have a similar view on this issue and the Cabinet Secretary for Justice and I have spoken to each

other about it on a number of occasions. No one in Scotland wants this; it will be bad for policing and bad for the country. I am not privy to any details—no doubt officials will tell you about them—but I am absolutely confident that Government is doing everything it possibly can to resolve the matter.

I simply express the concern that there has been the same effort and impetus to resolve the issue of the VAT liability that accrued from the introduction of the SPSA in 2007 and that has still not happened. In this day and age of financial constraints, granting that exemption will be a big move for Her Majesty's Revenue and Customs; however, I suppose that the Scottish Government will be able to provide a more informed position.

In paragraph 6.3, I am trying to bring to life the fact that this is not simply about VAT or about our not wanting to pay this tax. It is about people and policing, and the numbers of staff jobs and police officer posts that I mention are simply what £22 million equates to. The impact will be on staff jobs or officer posts because we are already looking at every aspect of non-staff costs, but there is only so much that we can get out of those. Our operating costs are actually very lean—they account for only 12 per cent of our overall budget—and, as you will no doubt know, many of them are simply unavoidable. We have to pay our rent, our rates, our fuel, our heating and so on. We will have cut out as much as we can from the non-staff element and if the VAT liability kicks in, the impact will be on people. For the avoidance of doubt, I stress that I am in no doubt that Government is turning itself upside down trying to resolve the issue but the answer lies with the UK Government, HMRC and the Treasury.

Paul Wheelhouse: Did you wish to comment, Mr Laing?

Andrew Laing: My understanding is that the Police Service of Northern Ireland is VAT-exempt.

Paul Wheelhouse: I do not want to go over the same ground that my colleague Elaine Murray covered in her question about support staff, but can you clarify your baseline in that respect? From what point are you calculating savings in support staff jobs? I know that, in my area of the Borders, G division of Lothian and Borders Police has already made substantial savings of more than 25 per cent of support staff costs through voluntary redundancy and natural wastage. However, what is the baseline? Will those savings be taken into account in the overall savings that have to be made or will the savings have to be made from now onwards?

Chief Constable Smith: All the savings being made into the forthcoming financial year, the following two years of the spending review and the first year of the next spending review are set

against our current position in 2011-12. The issue is important. Although we have been making lots of savings, some—indeed, many of them—cannot be counted.

Paul Wheelhouse: The issue is certainly important. When David Strang met me and other MSPs, he made it very clear that the force had been doing everything that it could to make efficiencies. It is helpful to us to understand that these savings might have to be made on top of those that are already being made.

My final question is on the resource allocation models that might be implemented with a single police force. I am a strong supporter of the overall reform but are there any safeguards within it to maintain police numbers in some of Scotland's rural areas and to prevent officers from being shifted from rural to urban divisions under some national resource allocation model?

Chief Constable Smith: The concern that the new service will draw officers into urban areas is echoed throughout the country. Indeed, the language used has sometimes been even more emotive; some are concerned that officers will be drawn into not just urban areas but the central belt. I spent 31 years in Strathclyde Police, which has big urban areas and rural areas—it goes into Argyll and South Ayrshire, for example. Lothian and Borders Police has a big urban area and your area. Steve House and David Strang do not neglect the rural areas; they ensure that they are policed.

It is not only the policing professionals who are concerned about resources. When I was in Strathclyde Police—it is a few years ago now—whenever the idea of a single service was articulated, people in the urban areas, including the elected members, were often concerned that they would lose out because the resource that they had, including some of the specialist capacity, would be spread far more thinly.

The concerns that rural police officers, elected members and members of the public have are shared with those in the urban areas. We must ensure that we have a robust resource allocation model that takes account of that concern, of crime, risk, sparsity and density and of a community-based style of policing to ensure that, as far as possible, the system is open and transparent and allows people to know why we resource particular areas in the way that we do.

I will add a note of caution: as Andrew Laing and Calum Steele will no doubt agree, there is no such thing as a perfect resource allocation model. I have seen more fights over resource allocation models than anything else in policing, because there is always a perception that there are winners and losers.

In the new structure, the chief constable will be responsible for ensuring that suitable arrangements are in place for local policing. The role of the local policing committees and the role of the authority in ensuring that the chief constable is held to account for delivery throughout the country should ensure balance. I imagine that members of the Scottish Parliament will, for the first time, be able to hold the chief constable and the authority to account in a really meaningful way through scrutiny on some fairly significant issues. Resource allocation might be one of them. I imagine that, within that structure, one of the Government priorities would be ensuring that we continue to deliver local policing.

I reassure you that community policing is not carried out in rural areas alone; it is done wherever we are. It is within our DNA. Police officers, whether chief constables or constables, value it as the building block for all aspects of our policing. I have no concerns that there will be a wholesale transfer of people overnight.

That said, to make the savings, the chief constable will need a degree of flexibility to rationalise the service throughout Scotland. I would not want to mislead the committee because, as the years go on, some reconfiguration will be necessary in the new service.

We also need to ensure that community policing is not simply thought of as the local, well-known community cop or the local inspector but the broad range of policing. No doubt you will have had the major inquiry teams, the public protection unit or the counterterrorism officers operating in the Borders. We must think of policing in the locality as far more than simply local policing.

Paul Wheelhouse: That is helpful. I will reiterate the point that you made. I am aware that, in Lothian and Borders Police, there is a sensitive allocation of resources to reflect the rurality of the region that David Strang oversees. I am comforted by what you say. I hope that that sensitivity and that reflection of the diversity of the region and the nation continue.

Gavin Brown (Lothian) (Con): The point was made earlier that a full business case is generally preferable to an outline business case and a number of concerns were raised about some of the assumptions that were made in the business case. All the witnesses also raised some concerns about savings or costs that are mentioned in the financial memorandum. Apart from those, do they wish to draw to the committee's attention any savings or likely costs mentioned in the financial memorandum that seem optimistic? Are there any obvious ones on which we ought to focus?

Chief Constable Smith: The main one is the leadership of the service. The Government has a

right to assume that we should get our hands on those big figures and wrestle with them.

I will try not to get into too much detail. However, one area that has already been highlighted is information and communications technology for the new single service. Mr Laing touched on that, and no doubt you will have a response from the SPSA ICT people, in whose view the ICT costs will be greater than planned. Without getting into the small beer, I think that that is one of the most significant areas.

There is an assumption in the business case of just over £30 million of savings from non-staff costs. That is about 25 per cent of our operating costs. That would be a significant saving for any business, organisation or service. However, it is not one that we are quibbling about. We articulated our views in our response to the Government on the outline business case and financial memorandum. For us, it is about getting into the detail and trying to eke out as much as we can. We want to do that before we start to look at people. In fact, that is not just what we want to do; we have to do that before we go to our unions to say, "We have no other places to go."

Gavin Brown: Do Mr Laing and Mr Steele have anything to add?

Andrew Laing: I have a concern about ICT, and VAT is a significant issue. If we can resolve the issue in the way in which the Police Service of Northern Ireland has done, it will benefit everybody in the community at large.

The other aspect centres on the flexibility of what is being proposed, in terms of timings, the constraints and the ability of the service to deliver this in a reasoned fashion. The reality is that, until an operational model has been fully developed, we will not know it will look like.

Calum Steele: I agree with Mr Laing and Mr Smith that the key issues are VAT and IT. On VAT, surely there is the political will to make the proposal work. It would be a terrible message to send to the Scottish Parliament if no VAT exemption was afforded to the police service in Scotland, especially as, with only a few exceptions, which I imagine could be counted on two hands, MSPs represent parties that went to the electorate with a policy to deliver a single service for Scotland. I would be amazed—I suppose that that is a strong word—and horrified if no VAT exemption were afforded to the police service. I hope that every influence is being exerted at Westminster to ensure that that happens.

I can provide some further comfort to Mr Wheelhouse on the movement or drawing to the centre of police officers. Picking a police officer up from place A and taking him or her to place B does

not happen with no cost. Moving people is expensive. There are a load of costs associated with the transfer of police officers—and indeed support staff—from one area to another and, against a background of shrinking budgets, there will be no desire unnecessarily to transfer police officers from one place to another.

There is probably further comfort in the bill's provisions on the mobility of police officers and their retention within the confines of their current forces. They will, at least in the short term, provide some comfort that that is going to be the case, although we recognise the absolute requirement for the chief constable to be able to move resources as he or she deems fit. We have to recognise that the rationalisation of the police estate is taking place now. It is a requirement and, irrespective of whether there is to be a single service, it will continue to take place, because of the reality of the financial environment in which the country finds itself.

Elaine Murray: Paul Wheelhouse's question reminded me of a question that I was asked by a police officer in Dumfries and Galloway, where officers are expected to work throughout the constabulary's area. Under a single police force, will police officers be required to work throughout the nation? What would be the resource implications? There would be a significant personal cost to a police officer if they were transferred somewhere else, but there would also be on-costs related to relocation if officers are expected to work throughout Scotland.

10:30

Chief Constable Smith: The simple answer to your question is absolutely not. The bill would not allow for that. Mr Steele will be able to give you greater detail, but I think that there will be a requirement to ensure that officers do not have to move home to get to their place of work.

The last thing that the leadership of the service want is for people to be moved. Not only would that be expensive, it would be counter to good morale. I remember my early days in Strathclyde, when some officers were going from Glasgow to Ayr and others were going from Ayr to Glasgow. They passed each other on the road although they performed the same function. To take that on to a Scotland-wide basis would not be sensible. It would be costly and bad for morale and it is not an idea that we should entertain.

The situation is different for more senior officers, as there should be a degree of flexibility. There should, rightly, be an expectation that chief officers such as me cover the whole country, but these things come with a cost.

Mr Steele will be more in tune with the detail of moving people across.

Calum Steele: I can draw on my experience with Northern Constabulary. Just before I left, the cost of dealing with transfers in Northern Constabulary alone was approaching £1 million a year.

If you multiply a force of 800 by 10 and take into account the mobility that would be associated with that, you see that moving police officers is not cheap. Thankfully, we have a newer breed of more enlightened chief officer, so the attitude that, "It was good enough for me, sonny, so it is good enough for you," does not prevail to the same extent. I would like to say that it does not exist, but it can manifest itself on occasion.

Although finance is not the key issue, it is an enormous consideration. If you can avoid the cost of moving a police officer from one place to another to, as Mr Smith highlighted, perform the same function, why on earth would you do it? Arguably, that is one issue on which some of the boards and authorities have failed, or have certainly not stepped up to the requirements on best value. Although the decision to move police officers can be an operational one, it cannot be at any cost.

Chief Constable Smith: The other side of the coin is that the creation of a single service provides opportunities for those who want to move to have greater career development opportunities. That is an advantage of a single service. There is a lack of career opportunities in my force, Central Scotland Police. A single service will open up opportunities for officers on a voluntary basis.

The Convener: Mr Smith was beaming during some of Mr Steele's comments. I thought that Mr Smith was going to give him a big hug when he praised the enlightened approach of chief constables these days.

I point out to Mr Steele that I think that the opponents of the bill can be counted on one hand as opposed to two.

There is an issue with fuel duty and other fuel costs, which I know that we are looking at.

The witnesses' excellent responses today have certainly given people a lot of food for thought, in particular the bill team who will give evidence later.

Before we wind up the evidence session, do you have any further comments?

Chief Constable Smith: From an ACPOS perspective, this has been a difficult journey. You will know that various views were expressed, as there were politically and by the public. For the avoidance of doubt, the service is now behind the proposal for a single service. We see that there is

a huge prize. Parliament is in the process of making up its mind, but it would take a fairly significant about-turn for the move to a single service not to happen, so the service is at one in putting it together.

Some of our best and most senior people the length and breadth of the country are starting to pull things together. A central team based at the Scottish Police College is ensuring that the work is properly co-ordinated. There is a huge prize. We must ensure that we maintain high-quality local policing and do it within a much tighter financial envelope while also ensuring that the specialisms that, unfortunately, are required in modern-day policing are available throughout Scotland. We must do that on the basis of community-based policing engaged with local partners.

There is an absolute commitment to the single service. We are a can-do organisation and we will make it happen, but timing is an issue. We must ensure that the public, politicians and the police are focused on reforming the service in a strategic and logical way rather than focused simply on cuts. That is not to say that we are not fully cognisant of the current financial constraints. We will make savings, but there needs to be some reflection on the phasing of the ones that are anticipated.

Andrew Laing: I shall pick up on the notion of reflection, and give a flavour of the HMICS's role. The inspectorate's role under the bill is fairly consistent, and it is suggested that I have a responsibility for reporting to Parliament on the effectiveness and efficiency of policing, year on year. This is a complex programme of change, and there are three strands to the challenge facing the inspectorate. First, there is business as usual. Scottish policing starts from a position of huge strength, with 35-year crime lows, record detection rates and increased public satisfaction, so business as usual must be monitored over the period ahead. I have talked about the transitional arrangements, and we are mindful of the fact that they are complex, with legislation driving a localist approach and the reform programme a national one.

On resource allocation, we ultimately have a responsibility for continuing to assure the effectiveness and efficiency of policing, so we need to benchmark now to provide comparative data for the future. We are developing a level of performance reporting based on 32 building blocks—the local authority areas—and focusing on local policing and the impact at the corporate centre to drive significant efficiencies, single outcome agreements and a better dispersal of specialist services, which are among the aims of the bill. The rationale behind that articulation is to assure the committee that we are focused on all

those aspects and will continue to report from an independent and professional perspective.

The Convener: Mr Steele, I give the last word to the Scottish Police Federation.

Calum Steele: In the Local Government and Regeneration Committee yesterday, I think it came across strongly that there is a desire to include in the bill minute details of the mechanisms by which the consultation and the holding to account will take place, and I strongly caution against that. Many of the current systems and mechanisms have evolved, and they exist not in spite of legislation but because they work. I would hate the bill to become too prescriptive, tying the hands of the police service and not benefiting either it or the citizens of Scotland. The bill can lay down a broad framework and it does not need to go much further than that.

The Convener: I thank you all for your contributions.

10:37

Meeting suspended.

10:45

On resuming—

The Convener: Good morning, everyone. It has gone time so I reconvene the meeting. I welcome our second panel of witnesses. Eileen Baird is deputy chief officer of Strathclyde Fire and Rescue and the lead officer on finance for the Chief Fire Officers Association of Scotland; John Duffy is the Scottish secretary of the Fire Brigades Union; John Connarty is the business support manager for the City of Edinburgh Council and a member of the Convention of Scottish Local Authorities police and fire reform task group.

There are no statements so we will proceed straight to questions. I will ask the first series of questions before opening questions out to members.

The FBU's submission talks about assumptions around crewing and asks how such assumptions can be made when the stated position is

"to protect frontline outcomes over the transition period".

You add that

"A number of the figures stated are not quantified and are aspirations and do not fit with the Governments desired outcomes."

Will you expand on your concerns?

John Duffy (Fire Brigades Union): The basis of that is the outline business case, which the previous panel discussed, and some of the figures

that were reported in it. Paragraph 274 of the financial memorandum says that

"Savings for response are estimated to be £13.5m"

and goes on to highlight some other areas such as "operational guidance and procedures" and "reduction in duplication". We can see that some savings could be made there.

However, the financial memorandum goes on to mention

"reviewing crewing and emergency cover practices".

One of the three pillars that we keep being told the reform is about is protecting outcomes. The fire service has come a long way in the past few years in reducing the number of fires, but we still respond too frequently to tragedies. We are keen to protect our ability to protect the community, which involves firefighters on fire engines up and down the country, and their ability to get those fire engines out on the road and to the scene where they are required. The balance is that, although fire engines are not always involved in putting out fires, the crews are taking the preventative message to the community; the vast majority of community fire-safety activity in Scotland is done by fire crews on fire engines from fire stations. If we take money from the response side of the budget in the amounts that are being talked about, we will reduce both our ability to respond to incidents and our ability to prevent those incidents. If we do that, we will see the decline in incidents stop and the level will climb again.

Overall we agree that there are savings to be made within the service. We have never hidden from that, but have suggested a number of areas in which savings could be made, although we suggest that taking from the front line—the very part that the Government says it wants to protect—is an extremely dangerous option.

The Convener: The financial memorandum contains the statement by the Government that it seeks

"To protect and improve local services despite financial cuts".

Are you concerned that that will not happen?

John Duffy: The three elements can be balanced: we can protect outcomes, enhance the service's local accountability and make financial savings. However, if the financial savings are made from the response and resilience part of the fire service, the three elements cannot be married up. Financial savings would be made, but the outcomes would be lost in relation to fires and the other types of incident to which we respond.

The Convener: I will raise similar points from the submissions from other panel members. The Chief Fire Officers Association of Scotland said:

“the level of savings and the timeframe over which they are to be achieved, as outlined in the Financial Memorandum, are not based on robust evidence.”

Will you comment on that, Ms Baird?

Eileen Baird (Chief Fire Officers Association of Scotland): I was present when Chief Constable Smith gave evidence. I echo what he said about the outline business case and its purpose, which was to evaluate three options for change in service delivery. It did not examine in detail where savings could be made or whether they could be achieved in the proposed timeframes.

Like the FBU, CFOA is certain that savings can be made by removing duplication. Our business case suggests that moving to a regional model would save £23 million. It is undoubted that savings can be made, and we support that fully. The questions are about the speed with which savings will be achieved and the up-front investment that will be required to deliver them.

As for protecting front-line outcomes, I will make a point that we have raised when going through the business case process and since meeting Scottish Government officials. A number of savings are suggested across many parts of the service, including learning and development, response and prevention. They all involve reducing the number of senior officers, because of duplication. I understand why people think that such savings can be made, because prevention policies and learning and development policies do not need to be developed eight times.

However, our point was that to look at each of those areas in isolation does not take into account those senior officers' other duties in the service, which relate to incident command and emergency response. We have said that, until the new service's structure is known and until the number of people who are needed to deliver safe incident command has been verified and validated, we cannot sign up to agreeing that the proposed savings are achievable. Just as the number of firefighters on fire engines who attend emergency incidents is a key factor in success, so is the level of incident response and incident command. Unfortunately, there have been many examples where that has been lacking, with tragic outcomes.

In looking at the evidence and the business case, we have expressed the concern that, although savings can be made, we are not convinced that they can be made in the proposed areas. We reserve our position until we have seen the detail of what the service will look like.

The Convener: I know that Mr Connarty is not a direct employee of the Convention of Scottish Local Authorities, but I will put to him a quote from COSLA's submission, which states:

“The Fire and Rescue Outline Business Case includes estimated savings of £8m pa through ‘*risk assessing and applying consistent crewing practice which could involve some redistribution. This includes reviewing risk-based thresholds for crewing appliances.*’ The timing and level of savings assumed in this area is not supported by evidence.”

COSLA says almost exactly the same thing as its colleagues. Will you comment further on that issue?

John Connarty (City of Edinburgh Council): What you say is right—in general, we are all saying that, as the business case is in outline, it does not have a great deal of information that would allow us to analyse the figures and to scrutinise them in great detail.

The difference with the fire and rescue business case is that all areas are open to consideration—for example, there have not been commitments about officer numbers, as with the police—and, as a result, it highlights response areas and prevention as places where significant savings can be made. In that respect, COSLA has highlighted crewing as an example.

In summary, the fire and rescue business case looks different to the police business case because it goes into front-line areas that are perhaps a wee bit more sensitive and which come with some risks. With Lothian and Borders police board and Lothian and Borders fire and rescue board, we have experience of reviewing crewing arrangements through a service improvement plan, although in that process resources were not reduced but redistributed on the basis of a risk assessment. The process was difficult, involved a lot of consultation and gave rise to a lot of challenges.

All I am highlighting is the fact that the fire and rescue business case comes closer to front-line operational areas, and that crewing seems to be the most appropriate example to illustrate the difference between the business cases.

The Convener: The Chief Fire Officers Association Scotland has expressed concern about optimism bias. Although the Treasury recommends that it should be up to 100 per cent, the optimism bias under the bill is about 53 per cent. What is your view of that?

Eileen Baird: Optimism bias of 53 per cent has been fairly consistently applied; however, as my police colleagues pointed out earlier, the bias also applies to ICT investment. At the moment, the estimated costs are £9 million with an optimism bias of 53 per cent but, if the Treasury rules on 200 per cent optimism bias were to be applied, the shortfall could be £20-plus million.

The outline business case suggests that reducing the total of eight command and control

centres could save £3.7 million. I cannot say for certain whether the total will be reduced to three—or even two—but it certainly will not stay at eight. Such a move will mean investing in ICT systems and, as an example of how not to go about this, I should highlight what happened south of the border when the 53 fire authorities tried to design nine regional control centres. The Government spent close to half a billion pounds on the project and then simply abandoned it. If we want a safe and effective command and control system, we will need to spend money—and the job will not be simple and quick.

I simply flag up that I do not know where the evidence suggests that 53 per cent is the right optimism bias and we certainly question the figure with regard to ICT.

The Convener: Indeed. After all, the optimism bias for police ICT is 100 per cent. The figure of 53 per cent seems to be rather odd and precise: we will certainly question the bill team about that.

I seek questions from members.

Elaine Murray: I have a couple of questions, the first of which relates to the £4 million for redundancy costs. It has been argued that the figure is based on the idea that turnover will come mostly from people either retiring or leaving anyway, which will lower the cost, and that half to two thirds of the non-uniformed staff will leave without any redundancy pay at all. The figure is certainly a lot less than the £80 million that is being provided to the police for redundancies. Can you give us a more realistic figure for the cost of redundancies?

Eileen Baird: Can I answer that question?

The Convener: You can all answer it.

Eileen Baird: Our human resources people have looked at the age profile of our non-uniformed colleagues. We have 1,100 support staff; if a third of those jobs go over time, that will amount to between 380 and 400 staff. If a ballpark figure for redundancy pay that might seem reasonable is approximately £30,000 a head, the overall figure will be closer to £9 million than £4 million.

Unfortunately, I should mention the other side of the business. As I said earlier, we have 200-plus command and control staff. If we move from eight to two or three centres, a third of those staff will have to go; however, the business case contains no detail on those numbers. Of the 211 staff members who are in post today, three are expected to retire because of age in the next five years. What is a reasonable figure? If the police redundancies budget is sitting at £80 million, given our size and the relative number of people who may have to leave the service, a figure of around

£12 million to £15 million would be much more realistic than the £4 million that is shown.

11:00

John Duffy: There is at present absolutely no facility within the firefighters pension scheme or the new firefighters pension scheme for early retirement among uniformed staff. There is an assumption that members will retire as soon as they can, but that needs to be looked at in much more detail. At the moment, there is a great deal of uncertainty around a number of aspects of our pensions, but the one thing that I would not assume is that firefighters will retire as soon as they can, at 55 or after 30 years. Previously, there was a clause within the pension scheme that required a member to keep contributing to it up to the point at which they could retire, but there is now no compulsory retirement age and we cannot factor in how many people will retire voluntarily. At the moment, there is no facility within the pension scheme to give any enhancement—there is no early retirement facility. There is such a facility within the local government pension scheme that covers our control room members, but there is none for our firefighters. Our membership ranges from new firefighters right through to senior managers.

Two balances are needed. There seems to be an expectation that we will lose all the duplicated senior managers. However, as my colleagues have spelled out, those senior managers are not just sitting behind desks; they also have command and control duties to perform at incidents, so a number of them must be maintained, although some posts will probably be surplus to requirements. As a trade union, we keep making the point—it will not be a surprise to members—that the posts must be separated from the people and we must look after the people. Those individuals have no facility for early retirement, so the question is what is going to be done about that. In effect, there are too many people in the wrong place in the organisation. They must either be put in roles to which they are not particularly suited further down in the organisation or be allowed to leave the organisation with dignity.

We sometimes hear discussion about the uniformed head count coming down. I argue that the uniformed head count is low and that we need some posts to be redeployed to the front line, which would allow us more to perform the specialist role that the fire service is evolving into. Our role used to be just putting out fires; now, the fire service provides a range of rescues and that is an evolving process. We are starting to develop that, but it takes time, effort and a great deal of training and commitment. In order to provide that

service to the level at which we want to provide it, we need to resource it with bodies on the ground.

Although we see that there may be surplus posts at the top, we also see a need at the bottom, but how can we start to facilitate the move from one place to the other if we do not have the tools to allow people to move?

John Connarty: I think that—

Elaine Murray: I have a slightly different question for you.

John Connarty: I am sorry—I want to follow up on the redundancy question.

One of the points that COSLA raised in its evidence is the difference between the fire service estimate of £4 million and the police service estimate of £80 million. The differential is probably largely driven by the fact that the fire service business case looks across all areas of the service, but the police business case is driven towards staff costs. I would not disagree with Eileen Baird's estimate of £10 million for the fire service, but I think that the police figure is questionable and looks far too high. My experience with Lothian and Borders Police is that we had a significant cut of 2.6 per cent in the police budget, which led to about 120 voluntary redundancies in that year that cost about £2.5 million. That was a significant change in the level of saving.

Lothian and Borders Police has been through the consequences of that cut. We heard the chief constable say earlier that the service has reduced over the past two to three years and now has 1,000 fewer people. We are now at the point at which it is difficult to accept applications for voluntary redundancy, because the concern is that redundancies will have an operational impact. The fire service figures therefore look a bit on the low side and the police figures look high. The question is whether it is possible to deliver that level of saving without having an impact on service through the police staff.

Elaine Murray: I want to ask John Connarty about a particular issue. The bill's explanatory notes state:

"Savings of £7.21m per annum (from the fifth year) arise from opportunities to transfer responsibility for functions to other bodies (such as traffic wardens)".

Is there a concern that savings will be made at the expense of, for example, the local authorities to which the particular functions will be transferred? Do you feel that the financial memorandum adequately covers the costs to local authorities?

John Connarty: I picked up on the example of traffic wardens that you cite only when I read the papers that are in front of us, so we will have to

take that back for consideration. It has probably not been transparent to the appropriate degree in the discussions in which I have been involved through COSLA; it has not been on the table. Most of the discussions on cost implications for local government have been around the local scrutiny arrangements. There is a lot of uncertainty about what the costs might be, given that we could move from having responsibility across eight boards to having responsibility across 32 councils. That implies a potential risk of increasing costs. We will also go through a period of reform, and experience suggests that that will involve heightened scrutiny and change.

The design and shape of the proposed local committees is being taken forward through pathfinder arrangements within each council area. We are concerned about the implications, which will need to be assessed properly going forward. We will need to look carefully at the issue of traffic wardens to assess the implications.

Michael McMahon (Uddingston and Bellshill) (Lab): I apologise for being late. I have explained to the convener and I thank him for his understanding.

On the financial assumptions in the financial memorandum, the submission from the Association of Principal Fire Officers Scotland states that

"there was insufficient detail provided to enable a proper testing of those assumptions".

However, you have made fairly specific points in that regard. I concur with the convener's view that you have provided precise figures in your assessment. Is there not enough detail in the financial memorandum to allow you to test the assumptions, or do you concur with the APFOS view and feel that the detail did not allow you to test the assumptions as much as you would want to?

Eileen Baird: Obviously, the business case that was presented and the financial memorandum have some pretty high-level assumptions built in, but they are not always evident in the financial memorandum. For example, why is there only a 53 per cent optimism bias? Why was the redundancy figure £4 million and not something else? From that point of view, I agree with the APFOS submission that we simply do not have sufficient detail to reflect on whether the figures are right. Until we see the shape of the service, we will not be in a position to cost anything accurately.

I will explain that further. At the moment, the suggestion is that perhaps a third of support staff might leave the service over time because the service could still be provided with significantly fewer people. We do not disagree with the principle that, if we reduce eight services to one,

we will achieve economies of scale and be able to release staff. However, we cannot accurately cost how much that will save because we do not know the new structure. We are also unable to give accurate costs for redundancy, because those clearly depend on the age profile and salaries of the people who—as Kevin Smith said earlier—put up their hands.

We are in almost the same position as APFOS. We can say that, if the bill is enacted, it will certainly make savings, but we cannot say whether those savings will be £15.5 million because we simply do not know the detail that would be required to determine that. We can say that we do not think that the financial memorandum is right and why we do not think that it is right, but we cannot give you the pounds, shillings and pence of what the savings will be. Further work needs to be done to develop that.

Michael McMahon: Do you agree, Mr Duffy?

John Duffy: I do. The outline business case developed what it termed a “target operating model” to lead to a decision being made on whether to go with the status quo, a regional model or the single service. However, the assumptions that were made in that model were undetailed; there was no detail at all—it was just principles about things that could be done once, three times or a number of times.

The service has now been given the task of designing a single fire and rescue service. That work is under way and we are working closely with our management colleagues to try to get the process moving as quickly as possible because of the timescales. The detailed structure will come out of that work.

I return to the point that some of my police colleagues made: the emphasis must be on delivering the service, not on finding the savings. Savings will be made from redesigning the service, but we are focusing on delivering the fire and rescue service to the communities of Scotland under a single umbrella. Only once the detailed work that comes out of that is in place will we start to see what the savings will be. However, we are also seeing that that is where some costs will be incurred.

Michael McMahon: In response to the committee’s question,

“Does the Financial Memorandum accurately reflect the margins of uncertainty associated with the estimates”,

APFOS highlighted a concern that different methodologies had been used to test that uncertainty for the police and the fire service. Were you aware that the methodology that was used for the police was different from that for the fire service? Would you expect different

methodologies to be used, given that the services are different?

Eileen Baird: The services are different but, in respect of moving from eight services to one, there are huge similarities. APFOS was reflecting the fact that, prior to the start of—I think—the previous financial year, police colleagues spent considerable time in the Scottish Government examining detailed costings and their work was done at a different pace from ours. That is reflected somewhere in the bill documents, which talk about the work that was led by the deputy chief constable of Strathclyde Police.

There was not that type of arrangement for the fire service, so the outline business case in the financial memorandum was developed in a different way through the use of workshops with key stakeholders and was driven much more by people in the Scottish Government than it was by people in the Scottish Government in conjunction with the service. That is probably what was alluded to in respect of how the process was worked through.

11:15

Mark McDonald: I thank the witnesses for coming to give evidence.

I state at the outset that, prior to being elected, I was vice-convenor of the Grampian joint fire and rescue board, and a family member is a retained firefighter.

The fire service is obviously somewhat different from the police in having a significant retained element in its staff make-up. How do Mr Duffy and Ms Baird see the retained element fitting into a single service? Is there a role for expansion of the retained element? I know, for example, that some European countries that operate a single fire service have a much more expanded retained element.

John Duffy: A huge tract of our country is covered by retained duty personnel and it is right to acknowledge the work that they do. Basically, away from the central belt, the cities and the larger towns, areas are covered by people who have other work but who carry a pager for 24 hours a day, seven days a week. I acknowledge their commitment. The retained duty personnel in Scotland are Fire Brigades Union members, and we advocate on their behalf.

We have difficulties in recruiting and maintaining crews in some parts of the country. That is not necessarily a reflection on the fire service; rather, it is almost a societal change. The retained duty system was developed in the days prior to commuter belts, when towns and villages were much more self-sufficient. Now, a person who

goes into one of our command-and-control rooms in the morning will see all the lights going off, as appliances will no longer be available. That is a significant problem across Scotland.

There is a job to be done. The issue is going into the joint work streams that we are working through, and such issues are being considered in the Scottish Government reform programme. We need to look at how the current appliances are staffed, as we are not getting them on the run as frequently as we could.

The argument has been made that we could expand the retained element, but we look for people who live and work within a radius of the fire station when there are volunteers to join the retained duty system. In rural areas, that pool of people is becoming smaller; in towns and cities, it is effectively non-existent. If a person wants to go from their house to the supermarket and the supermarket is more than five minutes away from the fire station, the person will no longer be available. Most parts of the system are now done by phone. If a person presses button A, they are available; if they press button B, they are not. Such a system works. If a person is out of their turnout area, they are not available and the appliance is off the run.

The retained duty system is vital to Scotland, and our nation relies heavily on RDS personnel. However, it is not the answer to the fire service's problems.

Eileen Baird: I echo what Mr Duffy said about valuing the work that our RDS colleagues across the country do. He also highlighted the challenges we face, for economic and societal reasons, in attracting people who comply with the requirements to be RDS personnel. As a service in Scotland, we probably have to think about that model and whether it will remain sustainable in the 21st century.

We have to give cognisance to the fact that if someone attends an operational incident, whether they are an RDS firefighter or a whole-time firefighter, the member of the public whom they go to save will not be in the least bit interested in what type of firefighter they are. Their expectations of what will be done for them are exactly the same. That places a significant burden, both on the firefighters and on the service, to ensure that adequate training is given so that RDS firefighters are safe and undertake their work in the required way.

I echo the sentiment that we value the work of the RDS, but there are challenges and we need to start to think, as a country, about how to address them. That probably means investing financially in that element of the service.

Mark McDonald: Ms Baird, you spoke about incident command and control. How do you see firelink fitting into the equation? The system allows for an element of remote incident command, which was previously unavailable, and I understand that it is now used nationally. Has the introduction of firelink put the fire service a step ahead in the move towards a single service?

Eileen Baird: You are correct—firelink is a national system, not just in Scotland but in the United Kingdom. It is used by all three emergency services, so they can communicate at any operational incident, which is a huge benefit. I am not sure whether what Mark McDonald meant by his question was whether firelink replaces the need for the presence of a person, but it does not. It enhances communication and allows for much better communication between the emergency services. From that point of view, it is a good thing.

Mark McDonald: What is the lowest rank of officer currently trained or equipped to command an incident? Where does that responsibility sit in the fire service at present?

Eileen Baird: The standards throughout Scotland are probably different, but I will talk about my service in Strathclyde. The incident commander would be dependent on the size and complexity of the incident. The lowest-ranking commander of an incident would probably be a crew commander, but we would always try to have a watch commander for a routine house fire, rubbish fire or similar. On top of that, if there were a number of fire appliances we would need to have in place the appropriate incident command structure, because we do not want people to be unclear about their role on the incident ground.

Mark McDonald: Are you saying that the gravity of the incident increases the seniority of the incident commander required?

Eileen Baird: Yes.

Mark McDonald: Are you also saying that, in a national service, that would create not a potential issue, but something that would need to be resolved?

Eileen Baird: We are saying that it is important that the appropriate person with the right skills attends an incident at some speed. That requires a suitable number of incident commanders to be located throughout the country, so that someone is able to attend an incident. Whether that person is at the rank of a station commander, a group commander or an area commander, what is important is that they have the appropriate skills, training and experience to do the job that is required of them. However, they have to be able to get to the incident within a reasonable period of time, because the fire service is a dynamic, immediate service.

Mark McDonald: I turn to Mr Connarty and local scrutiny. I seek to correct one comment that you made. You spoke about the number of boards going from eight to 32. There are obviously 14 boards, because we have six fire boards, six police boards and two unitary authorities. I admit that it is still a jump from 14 up to 32.

We have unitary authorities in Fife and in Dumfries and Galloway. Did COSLA look at them as a model for how a potential blue light committee might function at local authority level?

John Connarty: I have not been involved directly in that. Pathfinder arrangements are being trialled across the country and that process will include looking at the existing practices in Dumfries and Galloway and in Fife. The intention is to take the lessons from those pathfinders and come up with the most appropriate model.

Mark McDonald: COSLA's submission refers to potential costs around "informed independent professional advice". Thinking back to my days on the fire and rescue board, I recall that we had clerking from the local authority side and that the chief fire officer provided professional advice, but I do not recall independent professional advice, as such, being provided. What does that comment refer to?

John Connarty: I think that the reference is to a policy officer-type role. The issue is whether that would be appropriate and whether the board or the local committee would require such support in scrutinising the service's local plans. A policy officer would play such a role alongside a committee clerk. As I said, such issues will be considered through the pathfinder arrangements.

Mark McDonald: The financial memorandum estimates that the cost of the proposals for local authorities will be between £3 million and £4 million. That works out at roughly £100,000 to £150,000 for each local authority if it were to be applied equally across them all. Has COSLA done any work on the cost of delivering a committee where there are unitary authorities?

John Connarty: I think that COSLA has asked for information from all the authorities, so it has gathered information on existing practices. That informs the figure of £3 million to £4 million, but that sum is a bit like the figures in the outline business case, as it is indicative and illustrative. The actual cost of the arrangements will be informed by the way in which they are designed. That is where we are now.

Paul Wheelhouse: I have two questions. I will start off with the one that might take a bit more thought and give people time to respond to it, and then come on to a more detailed question.

First, as our briefing paper states, the potential savings—notwithstanding the discussion about the actual costs being at variance with these figures—are nearly £22 million per year for the regional service option and just over £25 million a year for the single service option. The briefing paper also states:

"Like the police OBC only marginal benefits were assessed as coming from the eight brigade structure while the regional structure had the potential to produce more significant non-monetary benefits and the single national structure, the highest level of non-monetary benefits."

We have not talked about the non-monetary benefits. We had some debate about what the actual costs would be in comparison with the proposed costs. Could you take some time to think about what you see as the main non-monetary benefits and give a response? There is a relatively small difference between the regional and single-force options in financial terms, but it is implied that there would be significant non-monetary benefits.

The more detailed and immediate point follows on from the point that I raised with police colleagues about VAT. If we can perhaps park the issue that we are waiting for HMRC and the Treasury to come back on their decision, can you provide comments on two fronts? First, why do you think that the figure of £4 million is an underestimate and that the figure is more likely to be £10 million? Secondly, what impact will that have on the operations of a single fire service, if it comes into being?

11:30

Eileen Baird: I think that the figure is closer to £10 million than £4 million on the basis of the spend that we incur as a service. We incur costs of around £50 million a year for goods and services, and 20 per cent VAT on that would be around £10 million. That figure was verified by the actual level of VAT that is reclaimed by Strathclyde, which we grossed up to give us that figure. I understand that there might be some debate about which elements of VAT can and cannot be reclaimed. Therefore, the figure may not be as high as £10 million, but it would still be significantly higher than £4 million.

The fact of the matter is that, whether the figure is £4 million, £8 million or £10 million, that money would otherwise be used to deliver firefighting and services to the public, not sent down to HM Treasury. Like the police, we hope that Scottish Government officials, in their deliberations with HM Treasury, are successful in overturning the proposal to have the VAT included. How many firefighters would £10 million pay for? We are talking about 350 to 400 firefighters, given that the

average cost of a firefighter is around £30,000 for the sake of calculation.

Paul Wheelhouse: So, it would likely have an impact on the front line whereas, for the police, there might be an issue for support staff. As Mr Connarty said earlier, there is not the same constraint on the fire service, so any savings that have to be made might impact on both support functions and front-line services.

Eileen Baird: Yes, there is the potential for that to happen.

John Duffy: We would highlight the reductions that have already been made within the fire service. We estimate that, over the past few years, we have lost about 800 firefighters. When the proposal first came up and the different options were on the table, one was to maintain the status quo and make the cuts from within the existing structures. The conveners forum submitted a paper that suggested that, by year 4, we would be looking to merge the bits that were left. In the process that we have now started, we are trying to make those savings without having to reduce the front line.

The whole concept of the single service is predicated on protecting the front line, but some things appear to be outwith our control. One of those things is VAT and another is inflation. Some figures on the fuel costs for the police and fire services were released yesterday. Those are significant costs that, in a shrinking budget, can have an impact on one of only two things—the structure or the front line. We are all collectively making a great deal of effort to speed up the structural change process. It was interesting to hear Kevin Smith say that ACPOS will not start negotiating until 1 April. However, with our management colleagues, we are taking a partnership approach to the process whereby we are trying to get as much agreement as we can now in order to speed up the process. If we do not do that, every pound that we have to save will have to come out of the front line; that is a frightening prospect given that we are already at the bare bones.

You asked about the non-financial advantages of a single service. They are so intertwined that it is difficult to pull them out; however, we talk about a consistent approach to operational incidents and interoperability. The service has come under pressure recently over, for example, the fact that acetylene cylinders are handled differently in different services. Through the work streams, we are well on the way to standardising that and, again, ahead of 1 April, we will all be operating to the same or similar procedures.

On access to training, the smaller services—not geographically, but in terms of their structure—

have the same training requirements as the larger ones. We made a similar point earlier in relation to our retained firefighter colleagues. Taking away the boundaries and the lines on the map will make it much easier to transfer training resources from one service to another. Strathclyde is building what will be the finest training establishment in Europe, if not the world. It will be second to none. It must be accessible to all firefighters in Scotland.

Paul Wheelhouse: That is helpful. Thank you.

John Connarty: The VAT issue is one of the key issues in COSLA's submission. Finding a resolution to that is critical if we are to protect service outcomes. For the police, £22 million represents 800 police staff posts. Whether the figure is £4 million or £10 million, there will be a significant front-line impact on the crewing element of the business case. COSLA would certainly welcome direct communication between the committee and HMRC and the Treasury, and we urge the committee to do all that it can to seek a resolution to the issue.

On the wider outcomes, I direct members to the section of the outline business case from page 54 onwards. Perhaps the clerk could share that with members. It shows the assessment that has been undertaken with regard to improved service outcomes and the protection of front-line services. It looks at criteria across a number of areas, so members might want to look at that.

John Mason: I will ask you a question that I asked the police earlier. How optimistic are you that the transition arrangements will go smoothly? You suggested that you are more joined up than the police, who seemed to suggest that nothing can be decided before the big bang on 1 April 2013. I would be interested to know whether we are being overoptimistic in thinking that the transition can be smooth. I note that the CIPFA paper states that, in Fife and Dumfries and Galloway, either the whole administration or the financial operation is integrated with the council.

Eileen Baird: Whether there is to be a soft landing, as Kevin Smith outlined, or something else will depend on the resources that the service is given in 2013 in order to function. John Duffy is right. A lot of work is going on, and it has been for some time, through CFOA and stakeholders to prepare the service for 1 April. Clearly, decisions will have to be taken after 1 April, or at least after the new chief officer and the new board are elected. Where investment is required in some of the ICT systems, it would be better to do that properly rather than simply to do it quickly. If the service has the resources to deliver, we will be approaching the matter in the right way and we will end up with the service that we all want, but if—

John Mason: On that point, is it purely a question of resources or is it also a time thing? We can throw money at some things, but they still take time.

Eileen Baird: The ICT investment will take resources, but it will also take time. If we are to spend that amount of money, and given that we have to go through the European procurement rules, we simply will not have the systems in place on day one. Things will take time.

Like the police, we would welcome a commitment that, on day one, all staff in the existing services will transfer to the new service with the same terms and conditions, and there will be no compulsory redundancies. On day one you have the same number of people as on day minus one, and it will take time and money to match them into the new design of the service. It is about delivering this over a sensible period, to get it right.

John Duffy: I would argue that the fire service has never stopped modernising and probably never will, but we can consider the process as a timeline. Clearly there is a lot of work to be done, but if we were to take a snapshot on 1 April 2013 it would have to look and feel like we had moved into a single service. I do not think that the work will be complete, or that it needs to be, but certain elements must be in place and others can continue to develop over the coming years.

As part of some joint working with our management colleagues, we took a fairly simplistic look at this. We looked at items that we felt were the day one priorities, and at others that we felt we would be working towards. We then prioritised the former, and that gives us confidence that on 1 April the bits that we need will be in place, but the work will not stop then. We are not ignoring the other bits, but the priorities are clearly what will be required on 1 April.

The one thing that we would encourage is the stability of knowing who the new chief officer will be. We are aware of the timeline attached to that, but we think that the earlier the announcement of who it will be, the better. We have time to do this only once, so we cannot have someone coming into post halfway through the year and all of a sudden saying, "No, I've got a different vision and we're going in a different direction." At the moment there is almost a holding pattern. We are doing some of the work on the priorities, but the sooner we know who the new chief officer will be and start putting the team together, the sooner we can start to put the day one priorities in place.

John Mason: Earlier, you mentioned the training and the new facility that will be in Strathclyde, which looks tremendous. Are the other fire authorities gearing up to fit in with that or

are they doing their own thing right up to the end? Will there be integration?

John Duffy: Integration is starting. We are probably talking about a national facility. That does not take away the need for local facilities for firefighters to train more regularly, but this might be a facility that provides access to specialist courses. So, there will be a combination. It would not be right to stop training facilities being developed elsewhere, but if someone is doing that, they should have one eye on what they are doing and one eye on what is happening nationally. I think that that is what is happening at the moment.

John Connarty: I think that CIPFA is right to highlight the extent of the challenge of the transition, and its paper goes into detail about the importance of not underestimating the change required. The point about resources generally is correct. There is nervousness just now because for 2013-14 there is a £40 million savings target sitting against the police budget line, and savings are also anticipated in fire. Timing is an issue, and the transition has to be managed carefully.

CIPFA drew out lessons in its paper from the previous local government reorganisation, about the building blocks that need to be in place to ensure that stability is maintained throughout the transition. However, there is a bit of a conflict at the moment, because of that £40 million savings target. It is about balancing a smooth transition against that requirement, and it comes back to the point about the timing, in particular of the financial savings.

11:45

Paul Wheelhouse: The CIPFA submission states that the creation of another agency or non-departmental public body could lead to the police boards losing access to borrowing to support capital expenditure. Do you think that CIPFA is correct and do you have any views on the implications for capital investment?

John Connarty: My understanding is that the bill provides for borrowing, but with the consent of ministers. There should be a power for borrowing.

The area that is of greater concern—this was touched on earlier—is the absence of a reserves power: the bill makes no provision for the police authority, police service or fire service to hold reserves. COSLA has certainly raised concerns about that, as have the Association of Chief Police Officers in Scotland and CFOAS. It is seen as being a particularly important mechanism to allow a service to plan over the medium term, and to encourage strong financial management throughout the organisation. It is an issue. Reserves would allow the services to manage the

availability, within a specific period, of funds that have been set aside for the programme of change, and to do so more effectively over time. We would support the inclusion of a reserves power.

Paul Wheelhouse: Although the reserves issue is a live one that we have to look at, are you satisfied that you still have access to enough capital to invest, at least within the current financial constraints?

John Connarty: The financial memorandum indicates that there is a borrowing power, but only with the consent of ministers.

The Convener: I want to ask about assets and liabilities, which we have not discussed yet. How confident are you that assumptions about them are realistic? The potential exists for buildings to be let go, but that may not be realisable in the current property market. Will you comment on that?

John Connarty: There are some assumptions in the outline business case, but I cannot really comment on that. It is one of those areas in which there is probably not enough detail. Eileen Baird may be able to help with that.

Eileen Baird: Our submission noted that although there may be an opportunity to sell some assets, the estimate on the sale of assets is, for two reasons, optimistic. First, as has been rightly said, the current climate is such that not many people are looking for that type of asset. The second operational problem is that many of what we call non-operational assets—that is, they are not fire stations—are either attached to fire stations or are within the fire station's curtilage.

John Duffy: I agree. The only example that springs to mind is that Grampian fire and rescue recently built a new fire station next to an existing one that now serves as a kind of headquarters. There is an opportunity there, but most headquarters facilities are part of existing fire stations, so although the management function can be taken away from that building, the building cannot be taken away from the fire station. We see a number of such properties as being not sellable.

The Convener: Could we end up with mothballed buildings?

John Duffy: Yes.

The Convener: Time is marching on, so I want to ask a final question which will be similar to that which I asked the previous panel. Do any of the witnesses want to bring any other points to our attention?

John Duffy: I would like to raise a key point on financial risk that has not been appreciated in any of this work—namely, firefighters' pensions. They

are unfunded schemes, so what comes in goes out to pay pensioners. A number of changes are being proposed by the Westminster Government and if they go ahead, firefighters might leave the pension scheme, which would have huge implications for the budget of the new fire and rescue service.

We would all hate to have worked hard with the best will in the world to deliver the three strands of improved outcomes, better accountability and financial savings—we have made some savings—only for the financial basis of the service to be compromised by external factors. There is a huge threat that, if firefighters leave the current pension scheme in anything like the numbers that we suggest, there will be a huge hole in the budget for the new service. That needs to be appreciated and some action must be taken to try to protect the budget.

The Convener: Thank you for bringing that to our attention.

Eileen Baird: Much like my police colleagues who gave evidence earlier, I highlight the fact that CFOAS accepts that a national service is the way forward. We will work with all stakeholders to deliver that national service.

We believe that savings can be made. However, over the past couple of years, the service has already made savings of around £10 million, and we would like that to be reflected in some way in our future targets because it is not possible to make the same savings twice. Although savings can be made, the speed at which they are requested and the level of up-front investment need to be matched so that we achieve our vision of delivering a world-class service, rather than a second-class service.

John Connarty: COSLA is committed to working with the Scottish Government, the fire service and the police service to ensure as smooth a transition to the new arrangements as possible. If I were to highlight one issue, it would be VAT liability, which is critical. Anything that the committee can do to seek a resolution to that would be of great assistance.

The Convener: We are in correspondence with the Treasury.

I thank the witnesses for their evidence. I suspend the meeting until noon to allow members to have a natural break and the witnesses to leave.

11:52

Meeting suspended.

11:59

On resuming—

The Convener: Our final panel of witnesses are from the Scottish Government's bill team. I welcome Nick Bland, who is head of the police reform unit; Lorna Gibbs, who is head of the fire and rescue reform unit; and Christie Smith, who is head of the police and fire reform division. I understand that Mr Smith will make a short opening statement.

Christie Smith (Scottish Government): I offer many thanks for the opportunity to give evidence on the Police and Fire Reform (Scotland) Bill.

Police and fire reform is, first and foremost, about keeping our communities safer and stronger. The Government's view is that creating single police and fire services for Scotland will protect and improve local services despite financial cuts, by stopping duplication of support services eight times over and by not cutting the front line. The reform will create more equal access to specialist support and national capacity and will strengthen the connections between police and fire services and their local communities. The restructuring of the two services will enable some savings to be made at a stroke, but it will also put in place an effective structure for realising further savings without impacting on front-line services.

The financial rationale for single services has been developing for some time. Work that was done by ACPOS for the Scottish policing board in June 2010 demonstrated that efficiencies alone would not be sufficient to meet the projected funding gap between the cost of policing and expected budgets in future years. In December 2010, the interim report of the sustainable policing project suggested that the range of possible savings that are achievable through reform is between £81 million and £197 million a year. In March 2011, the phase 2 report of the sustainable policing project found potential for £154 million a year in efficiency savings by organising policing on a national basis. For fire and rescue services, a similar process was followed under the direction of the ministerial advisory group on fire and rescue.

The outline business case for police reform that was published in September 2011 found that £106 million of annual cash savings could be made. The outline business case for the fire service, which was also published in September, identified recurring savings of £25 million a year. The financial memorandum that we have submitted with the bill shows the best estimates that we can make of the costs of and savings from

setting up and operating the single police and fire and rescue services. The estimates have been shown separately as the costs that will arise from the bill, the broader costs that might arise as a consequence of the bill and the associated process of reform, and the estimated savings.

The costs and savings figures have been shown for each year up to the year when the efficiency savings recur annually, which is 2017-18 for police reform and 2018-19 for fire reform. As the efficiency savings will continue to recur for some time, the costs and efficiency savings for each service have been totalled over a 15-year period. Overall, the net savings will be substantial. Once a steady state is reached, we estimate annually recurring savings of £126 million, which is comprised of £101 million from police and £25 million from fire and rescue.

The estimated costs and savings are based on information on current cost levels, information from stakeholders and the outline business cases for the police and fire and rescue services that were published in September. We believe that the figures are robust for a number of reasons. For police, the reform savings figures have been built up from assessments—that were made by professional leads from across the police forces—of what improvements can be delivered in key policing functions. The projected savings for police were benchmarked against efficiencies that have been delivered by police forces in England and Wales and the projections were quality assured by KPMG and Deloitte. A similar process was adopted for the fire service, including workshops with fire and rescue stakeholders to identify areas for cost savings. Detailed assessments of potential savings were then developed with support and quality assurance from Deloitte.

The assessments of costs and savings have always erred on the side of caution and are likely to be pessimistic. A number of potential sources of savings have not been counted. Most obviously, in policing, no savings from estate rationalisation or property disposal have been assumed. Moreover, we have deliberately taken a pessimistic view of the costs of reform and we have made generous assumptions about the cost of voluntary redundancy for police support staff. We think that we have a good case for saying that the new services should be exempt from VAT, but we have assumed in the financial memorandum that they will pay VAT. On top of that, and to counter what is known as optimism bias, we considered the effect of increasing some costs by as much as 100 per cent and reducing the expected savings by 30 per cent. The results of that exercise show that there would still be significant savings from our proposed reforms.

Overall, the projected savings for police and fire amount to just 9 per cent of the combined budgets of the two services over five years—less than 2 per cent a year. We are fairly confident that that level of savings is achievable.

The Convener: Thank you for that—that is very helpful. Given earlier evidence, I could probably ask myriad questions. I do not want to steal colleagues' thunder, so I will start with only a couple then open it out to colleagues, who will probably wish to probe further and deeper.

You talked about “pessimistic” assessments. The amount of money that is being considered for police voluntary redundancies is about £81 million, which works out at about £40,000 a head, but in the fire service it is £4 million, which works out at about a third of that per head. There seems to be an anomaly there, which was picked up by all the witnesses on the previous panel. Will you explain that?

Christie Smith: The cost of voluntary redundancies has been worked out according to the savings projections for each service. In fire and rescue, it is projected that about 100 support staff may need to be offered voluntary redundancy at an average cost of £40,000 per person—that is where we get the £4 million.

In policing, we have made a very conservative assumption that any reductions in support staff would have to be funded through voluntary redundancy, so that has also been estimated at £40,000 per person. The basis of the calculations is the same. Support staff roles are expected to reduce less in fire and rescue than in policing, and we have made a more conservative assessment of the scope for natural leaving to impact on the cost of voluntary redundancy in policing.

The Convener: The fire service said that it expected voluntary redundancies to be about 1.47 per cent, compared with 3 per cent in your assessment. Your assessment is therefore more optimistic.

Christie Smith: I ask Lorna Gibbs to address that.

Lorna Gibbs (Scottish Government): It might help if I explain how we came by the figures that we have for the number of voluntary redundancies for support staff in fire and rescue services. We looked at the work that was done—when the outline business case was being created—around duplication of services, particularly around support services, for example in HR, finance and procurement. We looked at the opportunities to make reductions for that duplication and the implications that that would have for the number of staff currently employed in support roles. On the basis of that, we came to an assessment that

around 200 posts would need to go over a four to five-year period.

On existing turnover of staff in other organisations, the average turnover in some of the English services is about 7 per cent at the moment. Clearly, that may change with changes to the economic environment, but we are looking at around 200 posts needing to go. We think that of those, around half would go through people leaving of their own accord, which would be a ratio of just under 2 per cent leaving naturally over three to four years, which would leave about 100 people who would need some degree of voluntary severance.

The reductions that we are looking at are smaller than the reductions that Ms Baird mentioned in her evidence, which is one of the reasons why we are looking at different amounts for the amount of money that we think will be required for voluntary redundancy.

The Convener: You touched on VAT in your opening statement and it has been mentioned frequently this morning. The impact of VAT, if it is charged, would be £21.5 million for the police and £4 million for the fire service, which it is suggested equates to the loss of 800 police staff. When the Scottish Police Services Authority was introduced in 2007, it was not registered for VAT, which has obviously had a financial impact there. You have said that you have taken that into account in your figures, but where are you in your discussions with the Treasury? We have had correspondence with Her Majesty's Revenue and Customs, which says that the matter is being dealt with directly by the Treasury. We want to know where your deliberations are because this is clearly a cause for concern for everyone involved.

Christie Smith: We are very concerned. There is a strong case for exempting both services from VAT: as we are reorganising them to live within the Westminster budget settlement it would be perverse if some of the benefits of that then had to be paid back in taxation.

I am afraid, convener, that we are in exactly the same position as you are in relation to HMRC and the Treasury. We have had correspondence with HMRC, and it has told us that it has referred the matter to the Treasury. We are now discussing the matter with the Treasury, and are awaiting a response. We asked it to respond before today's meeting, and will continue to press for an answer.

The Convener: You say that you have taken the matter into account, but it will have a significant adverse impact.

Christie Smith: It will reduce the savings, but it is not true to say—as you suggested earlier—that it will lead to more job losses. The projections of savings from reductions in the number of posts are

based on what we think needs to be done and on what can be done. We have reduced the potential cash savings by £25 million or £26 million to take account of VAT, so the impact of a VAT exemption would be that in the Scottish Government's budget we would have about £26 million in cash savings from the restructuring.

The Convener: The figures that I cited come from the Scottish Parliament information centre, incidentally.

I will open this out to colleagues, because I want them to have an opportunity to ask questions.

Gavin Brown: I will start with a narrow question on VAT and the police. In the financial memorandum, the VAT prediction for after the first couple of years is £21.5 million, both in your main table and in the one in which you make adjustments for optimism bias. However, on page 55, in your third table on the costs and savings arising from structure, the VAT figure is put at £7.4 million per annum. If only £7.4 million of the £21.5 million VAT bill relates to the change in structure, what happens to the other £14 million?

Nick Bland (Scottish Government): That figure comes from looking at the differences in the VAT bills for a single structure, a regional structure and an eight-force structure. In the outline business case, we compared the ability of the different structures to deliver savings and efficiency gains through the target operating model that was developed by the sustainable policing team. All the structures would require national capacity to deliver some things, but that capacity would vary across the three options, with the national eight-force structure requiring the least, the regional one more, and the single force the most. So, the application of VAT to the national single capacity would vary. The figure that you cited is the difference between those capacities.

Gavin Brown: If I have understood the narrative correctly, the VAT liability potentially applies—discussions are on-going—because you have moved from an eight-force structure to a national one. Would not, therefore, all the VAT depend on the fact that you have gone to a national structure?

Nick Bland: It is the functions and services in that national structure that will attract VAT. In the three options, the functions and services that were considered at national level vary, hence the level of VAT that would be attracted also varies.

Gavin Brown: Can you provide detail about that to the committee? For the fire services, the figure is consistent across all three options.

Nick Bland: The different VAT liabilities are set out in the outline business case, but of course we can point them out to you.

Gavin Brown: I want to return to the financial memorandum and ask another question about the police.

What will the annual savings be as a result of the bill? I presume that it will be enacted regardless of what happens, but it appears that some of the savings that are quoted will not be reliant on that, while others clearly will be. What will the police savings be as a result of the bill? The first table on page 52 of the financial memorandum states that the net saving will be £1.135 billion, but the table on structure notes that the saving will be £155 million. How much of the £1.135 billion represents savings that will flow from the bill, as opposed to savings that may be in train already or that may happen anyway?

12:15

Nick Bland: It is difficult to distinguish between savings that will result from the bill's provisions and longer-term savings. Our assessment, and the reason why the Government decided that a single service is the best option, was that that service structure would best enable us to deliver the maximum savings with least risk. However, on the bill and the distinction drawn between a single service and a regional or eight-force structure, the only difference in actual savings will be the reduction in chief officer posts and the reduction in the requirement for the relevant national organisation, ACPOS.

In the move from one structure to another, specific things will have to be removed or rationalised. The outline business case made an assessment that the large majority of those savings would, theoretically, be achievable in each of the structures. It is more difficult and risky in a regional or eight-force structure, but the ability to deliver the target operating model, which is the root logic of this, was assessed without reference to the structure. The target operating model is a way of delivering the best and most efficient policing, irrespective of the number of forces or the structure.

Gavin Brown: As the Finance Committee, our report to the lead committee on the savings that will result from the bill has to be based on the memorandum's assessment. How much of the £1.135 billion savings noted in the first table will result directly from the bill? Is it the £155 million in the third table, or is it more than that? You may not have a perfect answer, but you must have some idea.

Nick Bland: In those tables we have made a distinction between the total savings that would be achievable through the facilitation of the bill and the specific savings as a result of, for example, moving from an eight-force structure with eight

executive teams to a single-force structure with a single executive team—which will, naturally, be smaller. The ability to deliver all the savings from reform is facilitated by that single-service structure. The Government would argue that, ultimately, the bill and the changes it will make are necessary to deliver all those savings. The delivery of the savings cannot be guaranteed without the bill. If the Government did not need to introduce the bill in order to achieve those savings, it would not have done so.

Gavin Brown: Not necessarily, because there are also policy and, presumably, operational arguments. I am focusing specifically on finance.

You think that you will save £337 million in reduced costs for officers, but in your narrative you point out that a lot of the negotiation and discussions about officers has already happened—the contract has, in effect, been signed—so surely you are able to tell which of those savings will result from the bill and which ones are already signed and sealed.

Nick Bland: Yes. The savings from officers are being made in two ways. Savings are coming from the changes to terms and conditions that have removed bonuses and particular allowances, which we negotiated with all three staff associations last year as part of the reform process. Forces have already started to manage more closely the use of overtime, which was a significant additional cost, and there will be greater opportunities as we move forward to continue to work on that.

There is also an opportunity to make savings in the cost of police officers in the move to a single service structure. As I said earlier, we will have a smaller total executive team—chief constable, deputy chief constable and assistant chief constables—for a single service than we currently have. As Kevin Smith pointed out earlier, there are opportunities to de-layer at certain management levels. There are different ratios of supervision across the forces at present, and we would expect a move to a common supervision ratio—for example, between a sergeant and the constables under that sergeant—which would allow for more savings. There is a provision for savings in VAT, too.

Gavin Brown: Is it fair to say that, on the savings that come specifically from officers, the more accurate figure flowing from the bill would be the £2.79 million a year, as opposed to the figure of £23 million a year that appears in the first table?

Nick Bland: As I said before, there is one figure for the savings that come directly from the change that the bill enacts, and a larger figure for savings that come from the creation of the new structure. The Government's view is that you cannot unpick

those two, as one flows from the other. One is direct—as you say, you can point to the savings that come from removing eight forces and creating a single one—but the rest of the savings that flow on over the period of reform are a direct consequence of moving to a single service structure, which gives us the ability to drive through savings across the various functions.

Gavin Brown: I have one more question, although I do not want to hog the discussion. With regard to the table on page 55, the bill team's view is that, on account of structure, you would save £15.6 million a year recurring, once you get to—

Nick Bland: Can you reference the table?

Gavin Brown: Sure. It is on page 55 of the financial memorandum—the part in the bottom right-hand corner.

Christie Smith: We do not have that page number. Does the table have a title?

Gavin Brown: It is table 2.3. In the bottom right-hand corner—or just to the left—it shows the net savings as £15.6 million a year on account of structure. Has that table been adjusted for optimism bias, or is it a best estimate?

Nick Bland: I do not think that that table has been adjusted for optimism bias. The savings that come purely from structural change are not to do with the cost of wider reform; they come simply—sorry for repeating myself—from a move from eight executive teams and an SPSA to a single service structure. The creation of that structure naturally requires that change.

As I said before, the longer term is different. That is where optimism bias has been applied against all the specific costs of reform, which are largely to do with longer-term organisational reform as opposed to pure structural reform. We could create a single police service and do nothing else, but that would not produce a lot of savings. The single service gives us the ability to reduce duplication and rationalise functions, and that is where the longer-term savings come from.

John Mason: My first question is about VAT. Previously, the committee looked at the implications for the Treasury of measures that we might take on alcohol that would mean that the Treasury got less money. It was suggested that we might end up having to equalise that and refund the Treasury. Is there not a principle in the Scotland Act 1998 whereby, if the Treasury benefits or loses out through some act of ours, there has to be an equalisation?

Christie Smith: I do not think that it is a principle of the Scotland Act 1998, but there is a general principle about imposing burdens on other parts of government. There is some force in what you say.

Our first pitch is to establish that the services would be exempt from VAT under existing law. We are waiting to hear from the Treasury on that. If the Treasury's view is that they would not be exempt, we will propose that the existing law be amended so that they would be. Only if that were not possible would we enter the realms of negotiation about compensation, financing and so on. You are right that VAT is an issue, but use of that principle would not be our first port of call.

John Mason: That is fair enough. I just wanted to check that it was on the table.

My main point is about the fact that a number of witnesses and submissions have mentioned that we have an outline business case rather than a more detailed business case. They seemed to suggest that, by this stage, we would normally expect to have a more detailed business case. On that basis, a lot of the figures are really quite rough figures.

Christie Smith: I might ask Nick Bland to say more about that in a minute but, essentially, we do not think that it should be for the Government to do the detailed design of the police and fire and rescue services. We have tried to satisfy ourselves that, through a different structure, a level of savings can be achieved at a level of cost. We have taken that as far as the outline business case.

We have teams of officers—under Kevin Smith, in the case of the police, and Jimmy Campbell, on the fire and rescue side—working out how to implement the consequences of the restructuring. That is when the detailed design comes in. It will happen under the existing leadership for only another year or so, when it will become a task for the new leadership of the single services. The journey from outline business case to full business case is under way.

As I think we have said in our discussions with the services, we are pretty satisfied with the quality of the analysis that has been used to produce the outline business case, and we are pretty satisfied that the projected level of savings is achievable and that the means by which we project that it will be achieved are realistic.

However, it will be for the services themselves to deliver the savings and to live within their budgets. If they find that some savings are easier to achieve than others and they adopt a different mix of savings that means that they incur some costs that they did not expect to incur but do not incur other costs that we projected that they would incur, that is fine. The Government's hope is that, through those means, the services can become sustainable within the budgets that will be available. We have deliberately stopped short at the outline business case stage. For us, the

outline business case was sufficient to justify introducing the bill. The next stage of the process is being led by the two services. That is when we expect the outline business case to be turned into a full business case.

John Mason: I get a slightly different impression of how the two services are moving forward with the proposals. It sounds as if the fire services are working together a bit more; the police suggested that there had to be a big bang on 1 April 2013, which concerns me slightly, given that they are meant to be working out the detail. Perhaps they will not do that. Are you happy that that is happening?

Christie Smith: Although the two services are different, they are essentially adopting the same approach to preparing for day one of the new service. They are both engaged, jointly with Government, in programme management arrangements to oversee that. There are more functions and more work streams in policing than there are in fire and rescue, and the organisation in the police service part is a bit more complicated than it is in the fire and rescue bit, so it is probably a wee bit more difficult to co-ordinate and bring together. However, the approach is essentially the same.

We have been advised by the leadership of both services that they would like the new services to start on 1 April next year, if that is possible, because the sooner the unified service is there, the sooner the benefits of reform can be achieved. There is no difference in approach. No big bang is being waited for. Both services are planning for implementation on that date and are putting in place what they think will be necessary to operate a single service by then. I am not worried about a difference in approach.

Michael McMahon: Before I come to my main point, I wonder whether you could clarify something. I might be paraphrasing, but Mr Smith said in his opening statement that the case for reform had been made over a long period—or words to that effect. However, in subsequent answers, both Mr Smith and Mr Bland talked about making changes in order to meet the requirements of Westminster budget reductions. Had reform's time come, and had it been worked towards, or was it necessary to introduce cost-cutting measures because you had to find savings?

12:30

Christie Smith: I think that what I said in my opening statement was that the financial rationale for change had been developing for some time. That was largely as a consequence of projections for future Scottish Government budgets—taking the United Kingdom Government's financial

strategy and considering what it might mean for our police, fire and rescue services. Since 2010, we have been developing a financial analysis to support change.

Other aims of reform have been a work in progress for many years. We have quite a track record in policing in providing specialist capacity all over Scotland, for example with the creation of the Scottish Crime and Drug Enforcement Agency. The present reform gives an opportunity to provide a greater amount of equal access to specialist capacity.

Other issues are the relationship with local government and the regional structure of the police, fire and rescue services. Since the creation of the Scottish Parliament, and with the development of community planning and single outcome agreements, there has been a move towards direct engagement with councils, rather than engagement through a regional structure. That is another reason for the reforms, which we believe will lead to a closer relationship between the services and local communities, through their councils.

Michael McMahon: That was helpful; thank you for clarifying that.

I want to consider responses that the committee has received on the financial memorandum. The Chief Fire Officers Association Scotland talks about paragraph 271, on learning and development, and goes on to say that

“the level of savings assumed and the pace at which they could be delivered is unrealistic.”

Paragraph 273 is on prevention and protection, and CFOA believes that

“estimates of savings within this area are over-generous, have no supporting evidence base and will not enable the Service to deliver risk reductions”.

Paragraph 274 is on response, and CFOA says that

“the speed and level of savings to be delivered in these vital areas cannot be supported without robust evidence.”

We have “cannot be supported”, “no supporting evidence base” and “unrealistic”. That is not a good assessment of the financial memorandum, is it?

Christie Smith: I do not think that we agree with that assessment. I will invite Lorna Gibbs to pick up on those points.

Lorna Gibbs: In the outline business case, a huge amount of evidence supports the levels of savings. We have discussed those with CFOA on a number of occasions. In response to its concerns on duplication, we asked our analysis colleagues to go over the figures again, and they are confident that there is no duplication. We have

looked separately at the learning and development elements, and we are not doing anything that would put the services in danger.

As you will understand, there is a huge amount of supporting evidence in the OBC, which is summarised in the financial memorandum. We are confident that the figures that we have worked up through the OBC, which are reflected in the financial referendum, give us a sound basis.

Christie Smith: The Chief Fire Officers Association produced a business case for a regional structure for fire and rescue, which gave annual savings that were very close to the annual savings that we are projecting in this outline business case, just about £2 million less—though still with the duplication involved in a regional, three or four-service structure. That is another thing that gives us confidence that we are in the right area with our total level of savings.

As I said before, if in working through the reform the service thinks that one line in the savings is overcooking it and another is unrealistic, adjustments can be made. That is part of the journey from outline business case to full business case. That does not weaken our confidence that our overall projected level of savings is realistic.

Michael McMahon: Your confidence is clear: you talk about best estimates, pessimistic estimates and generous assumptions. However, CFOA says:

“the costs and savings outlined within the Financial Memorandum do not accurately reflect the margins of uncertainty”.

There is simply a huge disparity between what you say and what CFOA says. If you say that you agree with CFOA when you are close to its analysis but not when there is a huge disparity, there is a problem. On one matter, you say that the association can come up with accurate figures because its figures are close to yours but, on others, you will simply ignore its figures because you think that yours are right. That is despite the fact that, using the same people, analysis and expertise, CFOA has come up with a figure that, it concludes, would require a contingency fund to be created before it could have confidence in the reform because of the degree of disparity between your figures and its figures.

Christie Smith: I did not say that we would ignore CFOA's figures. We have not ignored them through the process. Quite a long, carefully developed period of analysis, consultation, evidence gathering and quality assurance has gone into the figures, which take us to a total saving of £25 million a year. CFOA has come up with a business case that saves £23 million a year and still has duplication in it that is not in the

outline business case that we have published. That should reassure people.

The figures are projections and best estimates. If people have doubts, the proof of the pudding will be in the eating. We will see what savings can be achieved, but we are still confident that the total level of savings can be achieved.

Michael McMahon: In an earlier discussion, I pointed out that APFOS had raised the point that the methodology that was used for the analysis of the possible fire service savings was different from the one that was used for the analysis of the possible police service savings. You highlighted that fact; I think that you said that KPMG had done the police analysis and Deloitte had done the fire service analysis. Why were different organisations and different methodologies used? If you can explain that, it might help to alleviate the concern that there is a disparity.

Christie Smith: As far as we can, we have used the same methodology for both outline business cases. We have used the Treasury green book methodology and have been advised on how to do that by economists in the Scottish Government who are experts in it. Although the basic structure of the two services is similar in one sense, it is different in others and the information from each service is structured differently, so it is inevitable that there are sometimes differences in the presentation of information for the two services.

Deloitte has advised on the police outline business case and the fire service outline business case. We made that change after the initial stages of the analysis. We saw that both reforms were going in the same direction, so we appointed a single consultancy to work on both. KPMG worked on an earlier stage of the police analysis, but we used the same advisers in Government and outside Government for the preparation of both outline business cases.

Elaine Murray: Like colleagues, I was interested by the savings that could be attributed to the restructuring—a total of £388 million, £235 million of which would be delivered by the fire and rescue service, with the national police force delivering only £135 million.

The police will probably lose a third of support staff posts and may have to redeploy police officers to take on civilian tasks because there will be fewer civilian support staff. In light of that, how would you answer the criticism from the Society of Local Authority Chief Executives and Senior Managers that the figures suggest that the case for the national service has not been made because of the possible disruption to the service?

Nick Bland: We do not accept that. The outline business case provided a consistent method of

assessing the relative merits of the three options—a single service, a regional service and eight services with an enhanced national capacity—a consistent comparison of the opportunities to make improvements in service and a consistent comparison of the opportunities for savings. That was very clear and was part of the basis on which the Government decided that a single service is the best model.

In the analysis of savings on civilian staff in a single service—indeed, across all three options—there is no assumption that police officers would replace the civilian staff posts. The savings will come from a reduction in the duplication that is inherent in the existing structure. In an eight-force structure, each force has planning, performance, research, analysis, legal, HR and finance services and functions, all of which are there to provide a basis for those individual organisations, quite rightly. With a move to a single organisation, we will not need all those services and functions to continue to be reproduced eight times. We can rationalise them, deliver them a single time and deliver savings from that.

Elaine Murray: How did you come to the conclusion that a third of posts will be redundant? The fact that eight forces will go into one force does not mean that individual police officers will not require the same amount of support from civilian staff in intelligence gathering, administrative work and so on. That work will not go away, so how did you come to the conclusion that 33 per cent of staff posts will no longer be required?

Nick Bland: The analysis was built up. It began not with a structural analysis but with work on the target operating model, which looked at the optimum way of delivering policing—optimum in terms of best policing and best service delivery as well as in terms of savings and efficiencies.

The target operating model was developed from a function-by-function analysis. Professional leads from the service with expertise in those functions—roads policing, crime, specialist investigation, corporate support, HR and finance—assessed the best way in which each could be delivered. Their conclusions were largely that to have a single management structure and a single development of policy within those functions is the best way in which to deliver them, and that, from that, we will get improvements in service delivery and savings. As a result of that function-by-function analysis, there will be differential savings in staff and non-staff costs, and the resultant total is expressed in the outline business case and the financial memorandum.

Elaine Murray: Given that the savings will be, on average, £10 million a year for 15 years, would I be correct in saying that the argument for a

national police force is not about savings? It seems that it is actually about a better form of delivery, and the savings are not really the impetus.

Nick Bland: I think that we are going back to the discussion that we had with Mr Brown about the distinction between what is purely structure and what flows from that. The outline business case did not look at the matter in that purely structural way. It looked first at the ability to deliver savings and service improvements through the target operating model. Having identified that, the outline business case assessed the ability to deliver the target operating model within three different structures.

The target operating model could be delivered in any structure. The sustainable policing team was explicit about that—"structurally agnostic" was how it talked about it. The task in the outline business case was to make an assessment of which of the three structures is best able to deliver all the benefits of that optimum model, and the outline business case was clear that the best option is the single service model. It did not say that the other structures could not deliver benefits. They could, but they could not deliver the same level of benefits. There is a higher risk attached to the delivery of benefits in an eight-force structure or a regional structure, because the benefits would have to be delivered across organisational boundaries.

The conclusion of the outline business case was that a single-service structure is the best way in which to deliver all the benefits. The legislation is necessary to create that structure, and from it will flow all the long-term savings.

Elaine Murray: That is exactly what I am saying. The risk is actually a policy delivery risk, rather than a financial risk, because the impetus is policy and not savings. It is the risk of not being able to deliver across the eight forces. This is about providing a better service through a single force, rather than saying that you are going to save so much money. The original arguments tended to centre on savings in financial terms rather than on the delivery of a better service.

Nick Bland: The outline business case is clear that we will get the most savings from a single-service structure.

Elaine Murray: But the savings are £10 million a year over 15 years.

12:45

Nick Bland: The total savings from reform are articulated in the financial memorandum. As I said earlier to Mr Brown, it is difficult to talk purely about savings from structure. The majority of

savings will not come directly from moving from eight services to one; it is a matter of facilitating and of having the structural framework within which a vast quantity of reform can be taken forward. The outline business case makes it clear that the level of savings, service improvements and wider benefits would not be delivered if we tried to implement that reform within an eight-force structure. It came to a conclusion on the preferred or best option, which is a single service.

The Convener: My understanding is that the policing saving is £1,135 million projected over 15 years.

Elaine Murray: That is not on the structure.

The Convener: That is over that whole time from the legislation, not on the structure itself.

Mark McDonald: Earlier, it was identified as a concern that, although services can currently carry a certain level of reserves, the national service will have no such facility to hold reserves under the bill. What rationale lies behind the decision to make that change? How do you see that affecting how the service operates?

Christie Smith: The majority of public services in Scotland are managed without reserves. The financial framework within which the Scottish Government operates does not provide for reserves, so it manages the £28 billion budget year to year without reserves, and all the public bodies that it has created, whose budgets range from £1 million to nearly £2 billion each year, operate without reserves. The Scottish Government's view, which is in line with the UK Government's financial strategy, is that that is the best way of managing the financing of all the public services together.

Local authority services operate in a different financial framework. Reserves can be maintained and carried over. The simple consequence of creating the national services, which will be 100 per cent funded by the Government, is that they will come within the accounting framework for public services that the Scottish Government funds, so they will not maintain reserves from year to year. In general, that is considered to be the most efficient way of using the cash that is available to the public services each year. It enables the Government and public bodies to make the best use of emerging underspends, to move money between services to ensure that it is spent in each year, and to allocate money to best effect, as voted on by Parliament. We do not consider it efficient to allow individual services within the central Government body of public services to keep money in their bank accounts from year to year when there are other emerging pressures, cost overruns and things that need to be funded. Things are totalled up for central

Government at the end of each financial year and, by and large, we are achieving very low levels of underspend each year on £28 billion.

We do not think that the loss of the capacity to hold reserves will impact adversely on either service. Both will have substantial budgets. The policing budget will be £1.3 billion a year or thereabouts and the fire and rescue budget will be over £300 million a year. There ought to be enough scope for effective financial management within those budgets to manage without building up reserves.

Mark McDonald: Budgets can often become stretched in the event of a major incident or a number of major incidents. Such occurrences cannot really be accounted for. Previously, a service might have been able to use some of its reserves to fund required operations. How do you see things operating in the new context? Obviously, you cannot budget for the occurrence of terrorist incidents and the on-costs that they would create, for example.

Christie Smith: There is nothing at all to prevent the services from maintaining contingency funds in-year—in fact, that is good practice in most services and not just the police and fire services would do that. Similar issues arise for the health service, for example, such as winter flu and other contingencies that, although not entirely unforeseen, require additional funding. It is good practice for the managers of the two services to maintain those contingency funds in-year. The only thing that we will lose is the ability to carry those funds forward from year to year and, unless an incident were to happen at midnight on 31 March, the lack of ability to carry forward cash reserves from year to year would not have any effect. The services do not have to pay cash for most of the unexpected costs arising from such incidents.

Over the past few years, when police forces have faced unusual incidents, they have often—quite rightly—approached the Scottish Government to see whether any help is available. The biggest bulge of that kind that I have experienced in several years of dealing with the police was a figure of about £2.5 million, which was incurred by one force for an extensive investigation. To put that in context, an organisation with a budget of £1.3 billion a year ought to be capable of maintaining contingency funds to cope with eventualities of that nature. If it was beyond the service's ability to cope with an incident, it would approach its funder, the Scottish Government. I do not think that it makes a difference either way whether the service can carry forward financial reserves from one year to another.

Paul Wheelhouse: I will keep my question brief, as I am conscious of the time. In discussion with Mark McDonald, you have touched on a couple of things that are relevant to what I want to talk about. The figures in the SPICe briefing paper suggest that, as at 2011-12, the combined budget for the police and fire and rescue services is £1.37 billion. Combined annual savings of £126 million are expected by 2017-18—£25 million to £26 million from the fire and rescue service and £101 million from the police. Broadly speaking, I think that that is a saving of about 9 per cent—I have not brought my calculator with me.

Christie Smith: It is about 9 per cent.

Paul Wheelhouse: We touched earlier on the impacts on the Scottish Government's budget of cuts from Westminster. Savings are having to be found in policing across the UK, and I believe that 12,000 police officer posts are being lost in England as a result of the changes that are taking place there—England is not opting for a single police force. In this discussion, we have missed the point that there would probably have been substantial job losses either at the front line or in back-office functions if the reforms were not taking place. As Nick Bland said, going down the single police force route increases the probability that we will be able to deliver the savings that are required without the loss of front-line services.

Christie Smith: That is absolutely the financial rationale for the reforms. There is no thought that we will generate a whole bunch of savings, run off with them and do something else with them. Our projections are that budgets are going to go down, whether there is reform or not. Reform is a way of coping with those decreasing budgets more intelligently and protecting front-line services.

Some of the initial work that was done by the police suggested that, if budgets keep going down, although small forces will be impacted on more severely, even for a large force that needs to keep an organisation in being with a leadership, HR, finance, communications and so on, there is a level beyond which it cannot go before it starts cutting its front line. The consequence of reducing budgets without reform is potentially a weaker front line in some parts of Scotland than in others—fewer police officers, firefighters and so on. One of the major motivations for engaging in reform was the aim to maintain the front-line capacity in both police and fire services despite there being less money to spend on them.

Paul Wheelhouse: That is very helpful. My understanding, from the earlier discussion that you had with Gavin Brown and others about the structural change and the overall savings that will be delivered is that, frankly, we had no choice but to make these savings. Moving to the new structure will not only generate additional

efficiencies that otherwise would not be delivered—hence table 2.3 in the financial memorandum—but ensure that the savings that are delivered out of necessity, in order to meet the overall budget cut that has had to be passed on to the police, will be made in a way that is not as damaging to the service that the public expects from the police and fire and rescue services.

Christie Smith: Absolutely.

The Convener: Is it not the case that you will also be able to ensure that all of Scotland benefits from specialist police teams? Such teams are now based in one force, and negotiations and discussions are required before other forces can use them for specific non-emergency operations. Will there not be greater flexibility within the police force? Although the reform is financially driven—we all appreciate the financial priorities—it is also an opportunity to make the service more streamlined, efficient, effective and responsive at ground level.

Nick Bland: Absolutely. Some of the functional analysis that I talked about earlier identified that some forces do not have that specialist capacity and, when it is needed, are required to seek it from another force. Additionally, forces that have that capacity have made a different decision about the level of risk they feel that they can carry, even if that capacity is underutilised because its requirement within that force boundary is not that frequent. There is an opportunity not only for rationalisation of that specialist support but for the flexibility to deploy it wherever it is required across Scotland.

Christie Smith: The police forces co-operate and collaborate very well on that kind of issue, but it is inherently not organised as efficiently as it could be within a single-service structure.

The Convener: Clearly, if a unit that is based in Strathclyde Police and is required in Strathclyde is asked for by Central Scotland Police at the same time, Strathclyde Police will prioritise its own force, whereas an all-Scotland unit would be more independent.

We have exhausted our questions, but we have a couple of minutes left. Are there any other points that you want to make the committee aware of? I asked the earlier panel of witnesses the same question. Is there anything else that you want to bring to our attention at this point, or are you happy for us to conclude the session?

Christie Smith: I simply add that one or two questions have suggested that—perhaps because this is the Finance Committee—we overemphasised finance and did not discuss the other rationales for reform that we have latterly touched on. I apologise if we have been a bit one-eyed about that one aspect of it and concentrated

mainly on the financial memorandum. We are more than happy to help you in any way that we can. I do not think that I have anything else to add.

Lorna Gibbs: I will make a final point. John Duffy talked about his concern over pensions. He was concerned that fluctuations around pensions would impact on the budget of the new service. However, at the moment, the employer contributions to firefighter pensions are picked up by the Scottish Government, as is any shortfall, and we expect that situation to continue. Although there might be a budget pressure, it will fall on the Scottish Government, not on the service.

The Convener: That is very helpful.

Christie Smith: The same is true of the police pensions.

The Convener: Of course. Thanks very much for your time.

Meeting closed at 12:57.

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