



Credit to the force

FUNDING AND FINANCIAL
DELEGATION IN THE POLICE SERVICE



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HMIC - Scotland

HM Inspectors of Constabulary are charged with examining and improving the efficiency and standards of the police service in Scotland, and the ways in which it provides a service to the public. Their aim is to promote high quality of service and value for money objectives which take full account of public expectations and inspire public confidence.

HM Inspectors are appointed by the Crown on the recommendation of the Secretary of State for Scotland.

The statutory responsibilities of HM Inspectors of Constabulary in Scotland are set out in sections 33, 40 and 40A of the Police (Scotland) Act 1967 as amended:

- to visit and enquire into any matter concerning or relating to the operation of the police forces
- to submit to the Secretary of State for Scotland an annual report on the police forces to be laid before Parliament
- to keep themselves informed of how complaints made by members of the public against constables are dealt with by the chief constables.

HM Inspectorate comprises: HM Chief Inspector and Lay Inspector of Constabulary; Assistant Inspector of Constabulary; senior officers seconded from the police service; administrative and other support services.

Accounts Commission for Scotland

The Accounts Commission is a statutory, independent body which, through the audit process, assists local authorities and the health service in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources.

The Commission has five main responsibilities:

- securing the external audit
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- reviewing the management arrangements which audited bodies have in place to achieve value for money
- carrying out national value for money studies to improve economy, efficiency and effectiveness in local government and the NHS
- issuing an annual direction to local authorities which sets out the range of performance information which they are required to publish.

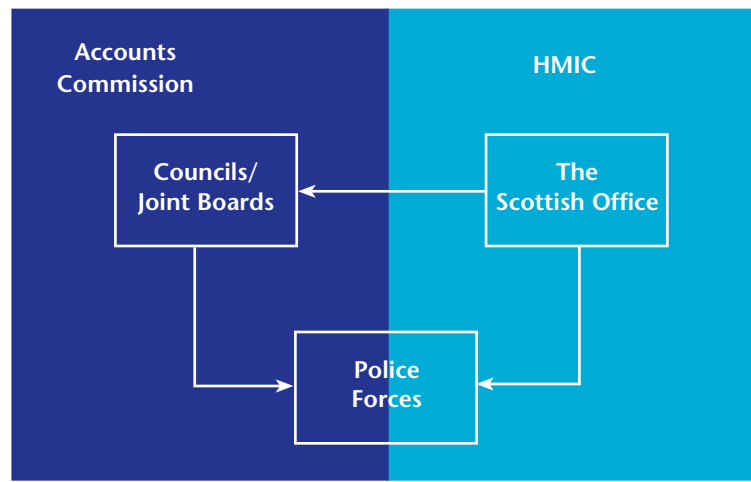
The Commission secures the audit of 32 councils, 34 joint boards (including police and fire services), 15 health boards, 47 NHS trusts and five other NHS bodies. In total, these organisations spend public funds worth around £12 billion a year.

Foreword

Following consultation, the Accounts Commission and Her Majesty's Inspectorate of Constabulary (HMIC) have jointly conducted a study of financial management in the police service. The Commission and HMIC have different statutory responsibilities and the joint working approach to the study has provided the opportunity to paint the complete picture of police financial management in Scotland (Box 1).

Box 1: A joint study of financial management in the police service

The collaboration has enabled a complete picture to be painted.



The work was undertaken by a central study team, comprising Martin Christie and Miranda Alcock (Accounts Commission) and David McCall and Kenny McInnes (HMIC). It was carried out under the direction of Steve Evans, Director of Local Government Studies, Accounts Commission and David Garbutt, Assistant Inspector of Constabulary, HMIC (now Director of the Scottish Police College).

During the course of the work, the study team received support and advice from an Advisory Group, which comprised the following people:

John Orr, John Hamilton and Roy Cameron

Office-bearers of the Association of Chief Police Officers in Scotland (ACPOS)

Albert Tait, Depute Chief Executive

Convention of Scottish Local Authorities (COSLA)

David Garbutt

HMIC

Steve Evans

Accounts Commission

Responsibility for the findings and recommendations in this report rests with the Accounts Commission and HMIC.

Executive summary

The prevention and detection of crime and the maintenance of law and order are fundamental to the well-being of society. The public looks to the police service to take the lead role in combating and preventing crime. Police forces recognise that it is important therefore that best value is obtained from the £700 million invested in forces each year by central and local government.

Best value requires getting the most out of limited resources. Performance and value for money will be improved by devolved resource management (DRM), ie devolving financial responsibility in line with responsibility for operational management. Good business sense requires managers to be able to adjust their use of resources to meet local needs and to be held accountable for their use of resources. DRM should be part of a force's approach to best value.

Forces in Scotland are at different stages in their implementation of DRM, and the report makes recommendations, drawn from the examples of good practice found during the study, that will assist forces to operate DRM successfully. These include:

- a phased extension of the scope of the budgets that are delegated to operational commanders, building on their experience of managing budgets and supported by training
- providing incentives for managers to identify savings and allocate resources to meet local needs (such as allowing them to retain an element of the savings made for spending on local priorities)
- setting DRM within a framework of performance management
- further developing the framework supporting devolved management, including financial and management information systems and, where appropriate, strengthening the role of internal audit
- minimising the costs of supporting DRM by centralising support functions, including finance and IT.

For the police service, DRM can result in:

- increased responsibility placed on divisional commanders and heads of departments to manage resources effectively
- more flexibility to prioritise resources to meet local needs
- greater involvement of staff leading to their identifying innovative ideas for improving value for money and quality of service.

However, DRM works best in a climate where there is some certainty in the level of funding. The Government's introduction of a three-year planning regime is welcomed by forces, but the study has found that further steps could be taken by The Scottish Office, in conjunction with ACPOS and COSLA, that may give forces greater certainty of funding and assist them to obtain better value for money. In particular:

- there is an urgent need for a robust needs-based formula as the basis of allocating the grant-aided expenditure for policing
- value for money would be improved if boards were empowered to carry limited working balances from one year to the next, in addition to specific funds, reserves and pension provisions
- were the principle of working balances to be accepted by The Scottish Office, value for money could be improved if police grant was paid on net budgeted expenditure (subject to a cap) rather than the board's actual expenditure

- alternative ways of financing the costs of police pensions should be explored in order to minimise the unpredictability of their impact on police operational budgets
- the arrangements for approving and allocating forces' capital programmes are worthy of review.

If DRM is extended by forces as recommended in this report then forces should be given credit for providing policing more tailored to local needs, leading over time to tangible improvements in performance, such as more crimes cleared up, and improved value for money.

1 Introduction

Why look at financial management in the police service?

The prevention and detection of crime and the maintenance of law and order are fundamental to the well-being of society. The public looks to the police service to take the lead role in preventing and combating crime. The cost of the police service in Scotland is about £700 million a year and it is important that best value is obtained from the resources invested in the police service by central and local government.

Best value requires a process of performance management with the aim of continuous improvement. DRM is part of the performance management regime. It is not a panacea, and requires careful implementation, but supported by good management arrangements including effective performance review, DRM will assist forces to improve their performance and value for money. Good business sense requires managers to be able to adjust their use of resources to meet local needs and to be held accountable for their use of resources.

The objective of DRM is to devolve financial responsibility in line with responsibility for operational management. In Scotland, different forces have different levels of financial delegation from their police authority to the chief constable and from the chief constable to divisional and sub-divisional commanders. Value for money will be improved by establishing the appropriate level of delegation.

The study looked at the current framework for funding the police service in Scotland and the arrangements within forces for managing their financial resources. This involved:

- looking at the way police authorities set the overall funding level for their forces
- looking at financial management, control and delegation in the police service
- identifying examples of good practice in delegating the management of police resources
- reviewing the arrangements for support services from local authorities and other sources
- benchmarking the cost and quality of financial support services provided to forces.

The study methodology is described in more detail in appendix 5.

Scotland is on the brink of a new era that provides many challenges and opportunities. This report sets out recommendations on a framework that will assist good financial management in the police service, based on examples of good practice found in forces. Because forces are at different stages in their implementation of DRM, most forces will benefit from the experience gained elsewhere, particularly the good practice initiatives already being carried out in some forces.

Structure of the report

Section 2 of this report looks at the police service in Scotland, the tripartite arrangements, the profile and scale of the police service and looks at the arrangements for support services provided to forces from councils and other sources.

Section 3 looks at the financial framework for funding the service.

Section 4 looks at the arrangements for the stewardship and management of police financial resources and forces' financial and management information systems.

Section 5 looks at the progress forces have made in implementing DRM and identifies certain factors that may be affecting its full implementation.

2 The police service in Scotland

Tripartite arrangements

Responsibility for policing is shared among the police authority, the chief constable and the Secretary of State. The Secretary of State has key responsibilities under the tripartite arrangement. These include the payment of police grant, controlling capital expenditure by police authorities, and controlling the overall levels of revenue and capital expenditure by each council. The chief constable alone is responsible for police operations and deploys officers and other resources at his own discretion. In Scotland, the police service is a function of local authorities, each of which has been designated as the police authority for its area. This is unlike the position in England and Wales where, as a result of Part I of The Police and Magistrates' Courts Act 1994, new independent police authorities were created.

Part II of the Police and Magistrates' Courts Act, which does extend to Scotland, made certain changes which have implications for the delegation of financial control by police authorities and joint boards. In particular, it removed control by the Secretary of State over the number of police officers and civilian support staff in each force. Police authorities are also required to delegate to the chief constable the direction and control of civilian staff.

The Scottish Office has issued guidance on delegation of financial management in the police service and the study looked at the extent to which that guidance has been followed.

Police boards

Until local government reorganisation in 1996, the eight police forces came under the administration of six regional councils and two joint committees (Lothian & Borders, and Northern). The geographical areas of the eight forces were unaffected by reorganisation.

Following reorganisation, each of the 32 unitary authorities was created as a police authority in its own right. Through the statutory schemes of amalgamation, 30 police authorities were formed into six joint boards. Details of the police authorities represented on each of these boards are given in appendix 3. The remaining two councils, Dumfries & Galloway and Fife, are police authorities for their own forces, as the force boundaries are coterminous with those of the local authority.

Throughout this report, the term 'board' is used when referring to the six joint boards and to the police committees in Fife and Dumfries & Galloway councils. 'Constituent council' is used for a police authority within a combined police area.

Each board comprises local authority councillors from each force's constituent councils. Boards generally meet around six times a year. Some forces have sub-committees in addition to the board.

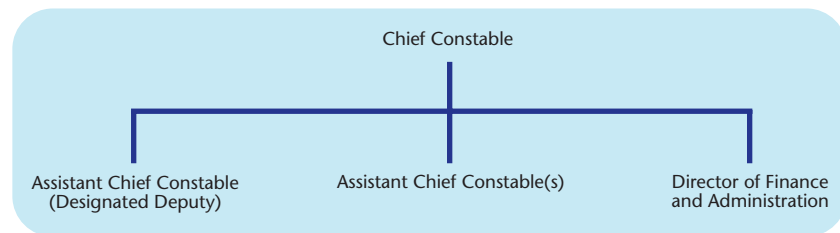
The powers and duties of these boards are similar to the powers of Scottish councils, except that they cannot levy a local tax on citizens in their area, and cannot carry working balances from one year to the next. Boards are responsible for setting the budget for their force, thus providing the chief constable with the resources necessary to police their area. They receive monitoring reports on their force's revenue and capital expenditure. The treasurer to the board is responsible for ensuring that there are sound arrangements in place for the stewardship of the force's finances. Currently, in all cases, the treasurer is the head of finance of one of the force's police authorities.

Force executives

A chief constable heads each force and is supported by a corporate team of senior officers. A force executive generally comprises the chief constable, assistant chief constables (of whom one is designated deputy chief constable), a senior finance officer (where one has been appointed) and sometimes other functional heads. In addition, some forces have established sub-groups to oversee specific areas, for example, human resources, traffic, capital projects and finance. Box 2 shows a typical structure.

Box 2: A typical force executive structure

The chief constable is supported by a corporate team.



Chief constables delegate responsibility for front-line operational policing to area commanders and other units, for example, CID and traffic. Responsibility for police operational support is devolved to heads of departments (such as information technology, finance, stores and the garage). Each force executive consults widely with these officers on matters relating to force policy and operational strategy, but in certain forces there is little formal consultation on the management of financial resources.

An area commander may be responsible for a division with an annual expenditure of up to £15 million a year. However, the extent to which area commanders and other operational officers have been given delegated responsibility for managing their division's budget, and held accountable for the resources they spend, varies significantly among forces.

Profile of the police service in Scotland

In total, the eight police forces in Scotland spend around £700 million a year and employ some 15,000 police and 4,900 support staff. The sizes and hence expenditures of forces vary by a factor of 17:1. Box 3 shows the budgeted expenditure for all forces for the years 1994/95 and 1998/99. During that period, forces' budgets have increased in aggregate by 23%.

Box 3: Forces' budgets, 1994/95 and 1998/99

The budgets of forces vary by 17:1.

Force	1994/95 £ million	1998/99 £ million	% increase 1994 - 99
Central Scotland	24.904	30.607	23
Dumfries & Galloway	15.241	19.353	27
Fife	30.203	36.028	19
Grampian	47.028	59.171	26
Lothian & Borders	99.394	124.833	26
Northern	28.495	34.074	20
Strathclyde	270.600	328.336	21
Tayside	42.734	52.536	23
Total	558.599	684.938	23

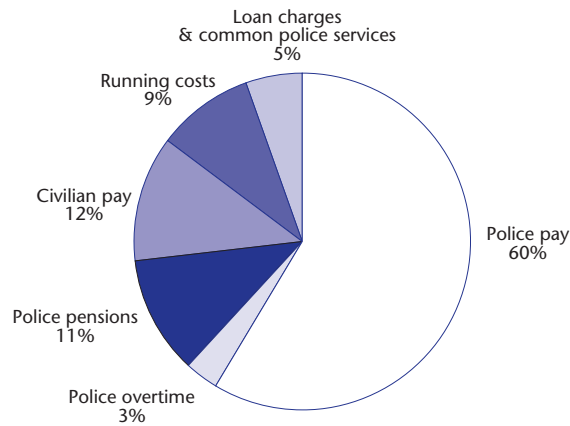
Source: Police Division, The Scottish Office.

All forces in Scotland are committed to delivering a quality service to the communities they serve. The demands on each force vary greatly, reflecting the differences in their geographic, social and demographic circumstances. The challenge for each force is to optimise the number of officers within available resources, to deliver a service that meets the policing needs of their areas. All forces produce an annual policing plan that aims to reflect these needs. Increasingly, forces are developing a problem-solving approach to policing and working in partnership with their communities.

About 86% of each force's revenue expenditure relates to staff costs - both police and support staff (Box 4). Appointments of police officers below the rank of assistant chief constable are made by the chief constable, while civilian support staff are employees of the police authority. Because of the significance of staffing costs and the operational independence of chief constables, forces have a need for reasonable stability in funding to enable them to plan for the medium term.

Box 4: Analysis of force expenditure, 1998/99

The major proportion of expenditure relates to staff costs.



Source: Accounts Commission and HMIC study fieldwork.

Support services provided to forces

Before local government reorganisation in 1996, financial and other support services were mainly provided to forces by their parent regional councils. Following reorganisation, and with the introduction of legislation giving chief constables direct control of civilian staff, there is now considerable variation in the source of support services to forces.

The two largest forces have taken most of their support services in-house. In other forces, the proportion of services taken in-house varies, with outsourced services usually being provided by one or more of the force's constituent councils. Box 5 illustrates the situation for a sample of support services.

Box 5: Forces' arrangements for obtaining support services

There is considerable variation in the source of support services.

Support service	Arrangements for obtaining support services
Financial services	The proportion of financial services provided by in-house units varies from 30% to 90% (1996/97 figures). Only one force has its own internal audit unit; several forces look to the private sector for insurance and risk management services.
IT support	Most forces have their own systems for operational purposes. Two forces have their own stand-alone financial systems and the remainder rely on council systems for their payroll and financial information services etc.
Property maintenance	Three forces have in-house units. Two forces manage the service in-house but have agreements with councils for undertaking the work. Three forces rely mainly on their council's property department for this service.
Legal services	Two forces have in-house units. Other forces have legal services provided by one of their constituent councils.

Source: Accounts Commission and HMIC study fieldwork.

3 Funding the service

Revenue

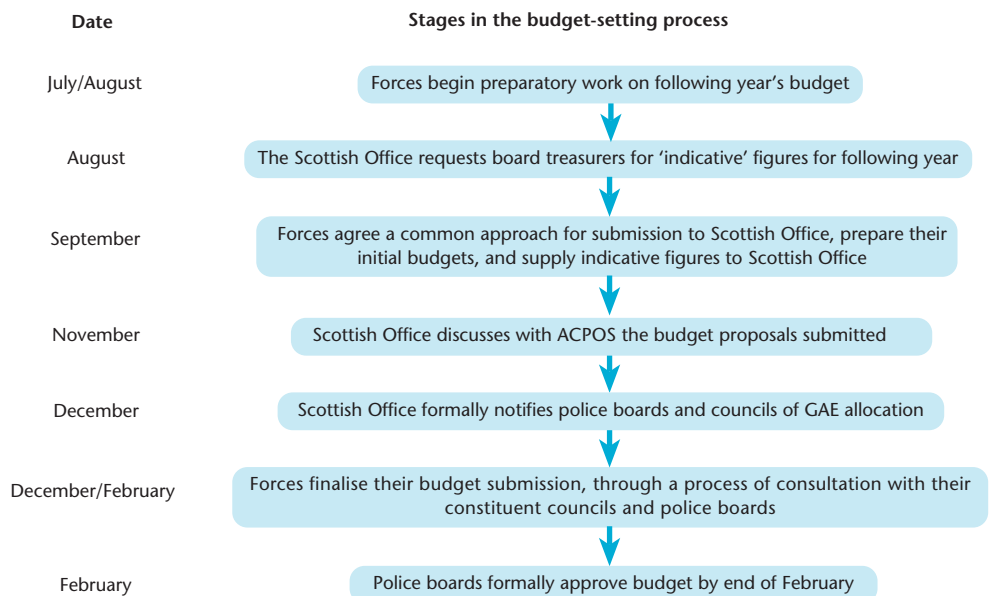
Policing is one of the few local authority services that receives a specific grant from central government (51% of eligible net expenditure up to a limit). In addition, The Scottish Office pays 51% of forces' capital finance charges and forces are charged their share of 50% of the cost of common police services. Through a combination of specific grant, revenue support grant and non-domestic rate income, central government meets about 90% of total police expenditure: only 10% is met by council tax payers.

For policing, as for all other local authority services, central government sets the level of Grant Aided Expenditure (GAE) for councils, representing what the Government considers requires to be spent by each authority to provide a standard level of service. Importantly, however, GAE allocations do not represent what an authority should spend on any service. If this were the case, The Scottish Office would effectively be determining the budgets for each local council and police authority.

Each force prepares an annual budget as its basis of planning and financing its revenue and capital expenditure during the forthcoming year. That process starts around summer each year when each force finance officer prepares an outline budget and is concluded the following February with board approval of the budget. Box 6 sets out the main events involved in the budget-setting process.

Box 6: The police budget and approval process

There are several stages in the budget process.



In voting to approve the budget, the board is determining the total amount that its police authorities will have to pay to finance force expenditure. However, as larger councils have a greater representation on the board than smaller councils, and because some councils are better placed to afford their contribution than others, it is possible for councillors from the larger councils to dominate the vote. When

interviewed, certain councillors in smaller councils were critical of this situation. They felt that they had little opportunity to influence the amount of the police budget and hence the level of contribution to the financing of their force. Equally importantly, they felt that there was weak accountability in how their force spent their council's money. Although some forces are beginning to develop closer links with their police authorities, much remains to be done. The Best Value regime emphasises the importance of consultation.

Recommendation: within the context of the statutory responsibilities of police boards, chief constables or area commanders should consult with their local councils on their local divisional policing plans and budgets. In this way, councils will better understand what they are getting for their money and local consultation will be strengthened.

GAE and police grant

The formula for determining total GAE for each force in Scotland is essentially establishment-based, rather than needs-based. It is based on forces' 1996 policing strengths, increased by their share of the additional 500 officers planned by central government. For the years 1997/98 and 1998/99, transitional arrangements have been in place which have involved ACPOS in suggesting modifications to the police GAE amounts, whilst ensuring an overall neutral effect on the total. These arrangements have allowed forces to bring their GAE more into line with their needs, but they are not a long-term solution. A more robust distribution of GAE would be one that used a needs-based formula.

In contrast, a needs-based formula is used by the Home Office for distribution of police grant to authorities in England and Wales. Box 7 summarises the arrangements south of the Border. It should be feasible to develop a new distribution formula for GAE, building on the model used in England and Wales, even though there are only eight forces in Scotland compared with 43 in England and Wales. The implementation of a new formula may require a transition period, possibly around three years, to soften the impact of changes in GAE distribution.

Box 7: The police financial framework in England and Wales

A needs-based formula is used in England and Wales.

In England and Wales, the same formula is used by the Home Office for calculating the Standard Spending Assessment for police and for distributing police grant to authorities. It is built up from a number of components based on five 'key' areas identified by the Association of Chief Police Officers (ACPO):

- Call management
- Crime management
- Traffic management
- Public order management/Public reassurance
- Community policing management

To these elements a sixth operational component has been added – 'Patrol'. Four further components complete the formula: security-related expenditure, pensions expenditure, sparsity, and police establishment. Based on a National Activity Survey conducted in 1995, weightings are applied to the various components of the formula and the weightings for 1998/99 are shown in appendix 2.

Following application of the formula, grant is paid whether the budget is fully spent or not. The boards are independent of the councils and set their budgets independently. Forces have the facility to carry balances and have been able to build up contingency reserves. HM Inspectorate of Constabulary for England and Wales sees 3% as being a safe level for these reserves.

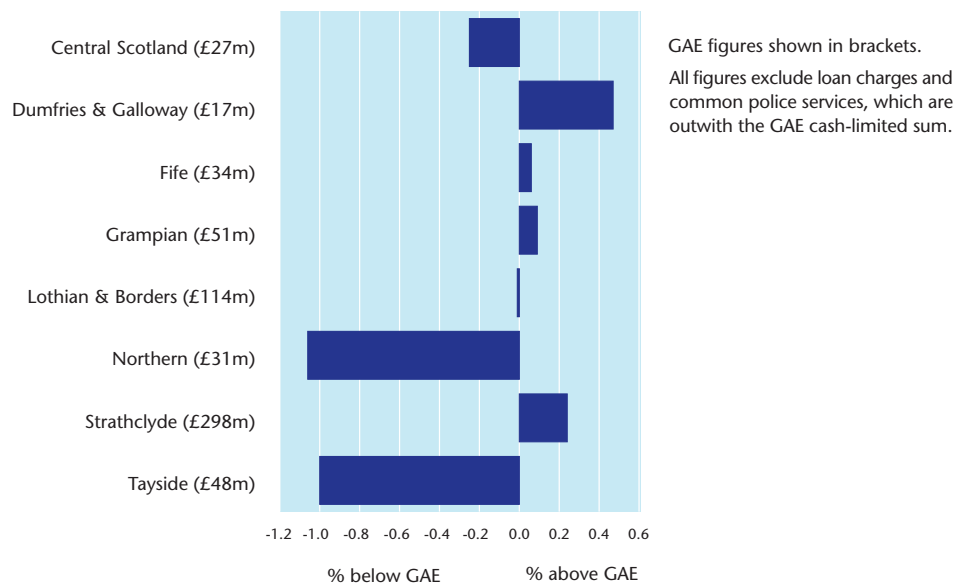
Until April 1996, police grant in Scotland was 51% of eligible expenditure with no cash limit. Since then, the maximum police grant payable by central government has been subject to a cash limit, equivalent to the GAE set for each force. GAE is not a spending limit, but it is seen as a benchmark by boards in their budget determination. The budgets of councils are subject to capping by the Secretary of State and this has an influence on the level to which boards choose to fund forces relative to GAE. Spending above the GAE limit does not attract police grant and, depending on expenditure on other services, may fall entirely on the council tax payers. If actual net expenditure is lower than the amount implied by GAE, police grant will be paid only on that lower amount. Boards take decisions knowing that were they to set police budgets below GAE, they would be planning not to take up their full entitlement to police grant.

HMIC has consistently expressed the view that forces should be funded up to GAE level, arguing that failure to spend on policing results in boards not taking up their full entitlement to police grant from central government, and this grant cannot be applied to other council activities.

The level of funding, relative to GAE, that is provided by boards varies between forces, and within forces from year to year. In 1996/97, two forces' budgets were above GAE, three were below and three were at GAE. In actual expenditure terms, four forces were above, three were below and one was the same as GAE (Box 8). For the financial year 1996/97, police actual net expenditure and GAE totalled £619.8 million.

Box 8: Forces' actual net expenditure compared with GAE, 1996/97

Some forces spent below GAE.



Source: Police Division, The Scottish Office.

For the years 1997/98 and 1998/99, for which actual costs are not yet available, the comparison of GAE against budget is shown in box 9. If the actual outturn position for these two years broadly aligns with budget, it would mean that potential police grant entitlement totalling some £7 million had not been taken up by the police service.

Box 9: Forces' GAE and budget amounts, 1997/98 and 1998/99

Forces are expected not to spend up to GAE.

Year	Budget £ million	GAE £ million	Amount less than GAE £ million	Percentage less than GAE %	Police grant entitlement not taken up (forecast) £ million
1997/98	672.029	680.000	7.971	1.17	4.065
1998/99	684.938	691.000	6.062	0.88	3.092

Budget figures exclude loan charges and common police services.

Source: Police Division, The Scottish Office.

All councils face difficult political choices in setting budgets and consider police GAE as part of their overall GAE, which is subject to central government's capping regime. Most force executives expressed the view that they would prefer boards to be given a ring-fenced GAE allocation, rather than have GAE for police services allocated to councils. Chief constables would prefer government funding of the police service to be based on a robust needs-based approach, rather than use the existing GAE mechanism. However, for various reasons, and despite various attempts, chief constables have been unable to agree upon a national formula. The adoption of a robust needs-based distribution formula for policing would provide a more persuasive benchmark to boards in their budget determination. A practical way forward might be to develop a needs-based formula that could be applied to areas within each force and built up to produce the aggregate needs of each force.

Recommendation: urgent consideration should be given by The Scottish Office, in conjunction with ACPOS and COSLA, to agreeing a robust needs-based formula as the basis of distributing the GAE for policing.

Chief constables have operational independence in deciding the deployment of officers and other resources across their area. But their forward planning is made more difficult by the national regime for financing the police service, both revenue and capital. Chief constables are critical of the lack of a robust means to provide reasonable stability in funding. Forces have generally found it difficult to predict if they will be able to meet the cost of their notional staffing strength from year to year. A number of forces have frozen their recruitment for several months to manage their resources within budget. For example, Strathclyde Police halted all recruitment for a lengthy period during 1997/98 in order to contain costs within their likely budget allocation for 1998/99. All forces would welcome the opportunity from Government to develop a medium-term strategy linked to a more assured level of funding. The Government's introduction of a three-year planning regime is welcome in this regard.

Because police grant is based on actual expenditure, there is a pressure on forces to spend up to their budget limit by the year end to avoid what they perceive is a loss of police grant if they do not do so. The pressure on forces to spend late in the year is further compounded because they cannot carry forward any efficiency savings as a working balance into the following year. Forces consider that better value would be obtained from their resources if they could carry a working balance from year to year. In combination, greater stability in funding and the ability to carry working balances would make the financial planning process more efficient and effective.

Recommendation: value for money would be improved if boards were empowered to carry working balances. It is recommended that The Scottish Office revises the rules to enable boards to carry a working balance from one year to the next (limited to a proportion, say 3%, of the annual budget for the year), in addition to specific funds, reserves and pension provisions.

Recommendation: were the principle of working balances to be accepted by The Scottish Office, it is recommended that The Scottish Office should consider a review of the basis for determining the maximum police grant payable to boards. Were The Scottish Office to pay police grant on the net budgeted expenditure for the year (after taking account of balances and subject to a cap based on GAE), rather than the board's actual expenditure, this would potentially provide improved value for money:

- *because it should reduce the current pressure for year-end spend to attract police grant*
 - *because it would make the process of budget management even more rigorous. The cost of any excess expenditure over budget would fall on the police authorities, or require to be met out of force balances*
 - *because The Scottish Office would know the amount of police grant due to be paid to boards in advance of the financial year.*
-

Requisitions on police authorities

Each of the 30 councils covered by joint board arrangements is requisitioned by its force for its share of the force's net budgeted expenditure. Each force's Combined Police Area Amalgamation Scheme Order 1995 provides that 'The expenditure of the board shall be apportioned among the constituent authorities, and the proportion to be borne by each constituent authority shall be according to the cost of the provision of services by the police force within the area of each constituent authority.'

The six forces affected by the April 1996 reorganisation of councils had to carry out a detailed exercise to allocate the costs of policing over their new constituent councils. These allocations were generally built up from individual divisions or beat areas, based on where officers were working; the costs of central support units were allocated mainly on the basis of estimates from the respective heads of departments.

However, since then only three forces have reviewed the basis of the requisition paid by their constituent councils. The other three forces advised that there had not been any significant change in the deployment of officers among divisions which would require the formula to be reviewed.

Recommendation: boards should adopt a robust but not bureaucratic mechanism for reviewing the requisitions paid by constituent councils, and the basis of apportioning police costs should be reviewed not less than every three years, or earlier if there is a significant shift in resources between scheduled reviews.

Capital

Police capital allocations are made as part of the capital finance system for Scottish local authorities under section 94 of the Local Government (Scotland) Act 1973. They are subject to ministerial decisions on a yearly basis and, in contrast to revenue, police capital allocations are ring-fenced and are provided directly to boards. Some flexibility is provided as it is possible for the two single police authorities to transfer allocations from their composite programme (ie everything except police and fire) to the police account, while joint boards can similarly transfer parts of their consents to another board and get them back later.

Box 10 shows the total amount of capital consent (section 94 and capital met from current revenue - CFCR) issued by The Scottish Office for the years 1996/97 to 1998/99. While the overall total is broadly the same, the allocation to individual forces can vary significantly from year to year, depending on the nature of each force's capital programme.

Box 10: Capital consents allocated to forces, 1996/97 to 1998/99

The allocation to individual forces varies from year to year.

Force	1996/97	1997/98	1998/99
	£ million	£ million	£ million
Central Scotland	1.234	1.173	0.693
Dumfries & Galloway	0.890	0.867	1.023
Fife	0.525	1.347	1.128
Grampian	1.250	1.738	0.994
Lothian & Borders	2.415	2.317	2.044
Northern	1.867	2.800	6.750
Strathclyde	10.126	10.098	6.250
Tayside	1.924	1.870	1.337
Total	20.231	22.210	20.219

Source: Police Division, The Scottish Office.

In recent years the level of capital allocation has reduced and in 1997/98 ministers decided to place a limit on the total use of CFCR. In 1998/99, The Scottish Office met 87% of bids. The overall capital allocation for 1999/2000 has also been reduced in order to support the level of GAE made available to forces.

There is a system of project approval under section 2(4) of the Police (Scotland) Act 1967, which requires police authorities to obtain the consent of the Secretary of State to provide land and buildings for their forces. Building projects costing less than £1.5 million do not require the consent of the Secretary of State.

The number of major capital projects that can be funded at the same time across Scotland is limited, and this has had the effect of rationing headquarters and other large projects. The point of the project approval system is to decide which large projects go ahead. It is important therefore that there should be a transparent process involving the assessment and prioritisation of the needs of individual forces for capital. The Construction and Building Control Group at The Scottish Office certify that the costs and design of major projects provide value for money and comply with the necessary requirements on the design of cells. However, there is no requirement

for forces to provide investment appraisals or business cases in support of their bids for major capital projects, although these have been requested by The Scottish Office in some recent cases. There is little evidence that a robust system for prioritising large projects currently exists within The Scottish Office.

Each year, forces are provided with details of their current year's capital allocation, usually along with an indication of provisional consent for the following year. (For large capital projects in small forces, provisional allocations will cover estimated expenditure on the project in forward years). However, difficulties are experienced because forces view the provisional consent figures as being unreliable for planning purposes. As with revenue expenditure, the annuality of the capital consent regime is not conducive to long-term planning, which is particularly important where capital investment is concerned.

The situation is exacerbated by the timing of the capital consents from The Scottish Office. It is not unusual for forces to receive final notification of their forthcoming year's capital allocation in February or March, making planning decisions difficult. Altogether, these factors combine to produce an environment of financial uncertainty.

Recommendation: it is recommended that The Scottish Office, together with ACPOS and COSLA, review the arrangements for approving and allocating forces' capital programmes, including PFI bids.

Recommendation: forces should be required to provide investment appraisals and business cases for major capital projects (those over £1.5 million) and these should be prioritised following a professional appraisal.

4 Stewardship and management of police resources

Section 3 of the report looked at the national arrangements for funding police forces in Scotland. This section looks at the arrangements within forces for managing the financial resources allocated to them by their boards.

Financial management

The treasurer to each board is responsible for the administration of the financial affairs of the board. Most boards have to a large extent devolved responsibility for managing force finances to their chief constable, subject to compliance with their board's financial regulations. These regulations cover the extent to which the chief constable can, for example, move (vire) expenditure between budget heads, and make decisions on expenditure, without recourse to the board for its approval. The level of virement allowed to each chief constable varies between forces, and is generally the subject of the following controls and approvals:

- a requirement to advise the treasurer
- a requirement to consult with the convener and vice-convener of the board where virement would be over the amount specified in the force's financial regulations. Where necessary, a report may require to be submitted to the board
- a requirement to get board approval for expenditure which would be contrary to the force's or the board's objectives, or would be likely to result in a long-term spending commitment.

While responsibility for the financial management of police resources is generally delegated by the board to the chief constable, he looks to the force's finance officer and to the treasurer to the board for expert assistance and advice. The force finance officer's primary role is to monitor the force's revenue and capital finances. This involves preparing the force's budget and monitoring and reporting actual financial performance to the force executive. The treasurer reports financial performance to the board.

Examples of regular monitoring reports used by force finance officers include:

- police pay and establishment reports to monitor payroll costs and numbers of police officers and civilians
- variance reports to monitor departures between budgeted and actual expenditure, to enable action to be taken to rectify any problems
- periodic reports from budget holders, seeking explanations for significant under- or overspends.

Budgetary control, financial performance and review

About 86% of each force's budget relates to staffing costs, and the budget-setting and monitoring process reflects this. In preparing the budget, the cost of police and civilian staff is rolled forward from one year to the next, taking due regard of the projected level of recruitment, an estimate of the number of employees leaving the force and anticipated pay settlements. Expenditure on other budget heads, eg vehicle repairs and maintenance, property, supplies and services, is estimated mainly on an historical basis.

Because of the extent to which employee costs dominate force budgets, any pressure for budget savings requires forces to review their recruitment strategy. For example, Strathclyde Police reduced its 1998/99 budget by about £6 million by halting recruitment, which reduced the number of officers employed from 7,352 to 7,152.

The cost of police pensions is increasing in significance, currently consuming about 11% of annual police expenditure. Police pensions are paid out of forces' annual budgets; there is no pension fund as in local government. On retirement, police officers are entitled to receive a lump sum (commuted pension) and an ongoing pension. Commuted pension payments are around £60,000 for a constable and increase in relation to pay. Moreover, forces' expenditure on commuted pension payments can be difficult to predict, mainly because officers can take retirement at one month's notice after 30 years' service. Also, a significant number of officers are retiring through ill-health. In Strathclyde Police, around 120 officers retire through ill-health each year, their commuted lump sums costing the force £6.6 million in the year they retire.

During 1996/97, Scottish Office Police Division acknowledged the difficulties forces have in managing expenditure on commuted pension payments. It approved that up to 2% of the total of eligible police expenditure can be set aside as a pension provision, and attract police grant - increased to 3% with effect from 1997/98. This facility has encouraged forces to create a pension provision for those officers who were expected to retire during 1996/97 and 1997/98 but did not.

However, some forces are not making a full pension provision for all police officers who are eligible to retire, on the basis that the force cannot afford to, or chooses not to do so. Where full provision is not made, the payment of commuted pensions can present a heavy burden on the force's finances in the year of retirement.

Recommendation: it would be prudent for boards to provide sufficient funding to enable provision to be made in the financial accounts for the payment of commuted lump sums and, say, six months pension to officers who are entitled to retire but have not yet done so.

Recommendation: The Scottish Office, in conjunction with ACPOS and COSLA, should explore alternative ways of financing the costs of police pensions in order to minimise the unpredictability of the impact on police operational costs.

Financial, management and other information systems

In two forces (Strathclyde and Lothian & Borders) the financial and management information systems stand alone and are not linked to any of their constituent councils. The remaining six forces use the financial and management systems of one of their constituent councils and have a direct link between that council's computer system and the police finance department. Few forces have developed a financial information system linking their divisional and central units with the central finance unit.

A few forces have developed an intranet facility that provides information to staff across their computer networks. Such information includes details of their corporate plans, strategic policing priorities, new legislation, training material and staff bulletins.

The quality of the management information is variable across forces. In some cases, weaknesses in management information are due to a failure by the force to specify properly its information requirements to the providing council.

Most forces, and their providing councils, are aiming to improve their financial and management information systems and ensure that their systems are 'Year 2000' compliant. Desirable enhancements in information systems variously identified by forces include:

- commitment accounting
- on-line access to payroll
- facility for on-line inputting of invoices
- a time-recording system, with a view to developing activity analysis
- systems to produce improved financial and management information
- networking financial and management information systems to principal budget holders.

All forces need to assume responsibility for determining their own information priorities and prepare a business case for enhancements. This will require them to negotiate agreements with their service providers to provide the information required to meet their needs.

HMIC has recently undertaken a review of force IS/IT arrangements that highlights the need for improved project management and control. The report strongly supports the Scottish Police Information Strategy (SPIS), which is designed to deliver common applications across Scotland. Financial information systems are included in SPIS as a common packaged application which will be recommended to forces. There is a pressing need for the ACPOS IS/IT Co-ordinating Committee to reach a rapid decision in this area to allow forces an opportunity to plan their approaches. In developing their systems, forces may wish to adopt a collaborative approach.

Recommendation: forces' financial and management information could be improved by their providing a clearer specification of requirements to their service provider.

Recommendation: forces will wish to prepare a business case balancing the benefits of enhancements to information systems against the cost of the investment required. Forces should bear in mind the SPIS-recommended approach in procuring systems.

Value for money/best value

The Secretary of State has announced the total police GAE for the next three financial years - in line with the decision, following the Comprehensive Spending Review, that the plans will be published for three years ahead. These allocations assume the forces achieving efficiency savings targets of 1% in Year 1, rising to 2.5% in Year 3, through taking steps like management delayering, better procurement and further civilianisation.

In April 1996, chief constables were given direction and control of civilian support staff. Chief constables therefore generally have greater freedom, along with increased responsibilities, for achieving value for money within their available staffing resources.

Forces recognise that they continually need to reassess their priorities and the way they work, in order to obtain best value from their resources. Box 11 shows examples of initiatives taken by some forces.

Box 11: Examples of Best Value initiatives being taken by forces

Forces recognise that they need to look at the way they work.

Central Scotland Police has an internal inspectorate called the Policy Strategy and Quality Department, whose role embraces Best Value and policy review. In *Fife Constabulary*, the deputy chief constable chairs a Fife Quality of Service Committee and there are quality improvement teams within each division and force headquarters. These teams look for ways to improve both internal procedures and the service they provide to the community. The force uses the European Foundation for Quality Management (EFQM) model as a framework for continuous improvement. In *Lothian & Borders Police*, the board has established a Best Value sub-committee and within the force there is a working group, chaired by the Director of Corporate Services, whose remit is to co-ordinate the force's approach to Best Value.

Source: Accounts Commission and HMIC study fieldwork.

All forces were able to provide examples where they had taken corporate initiatives that have led to value improvements, including:

- civilianisation of police duties. Most forces advised that they have already gone a considerable way towards civilianisation. In some forces, remaining areas having the potential for further civilianisation include the role of turnkeys and station assistants
- savings through membership of national and local purchasing consortia
- development of a system for enhanced control of absenteeism. Between the years 1996/97 and 1997/98, police absenteeism in one force was reduced by 5,000 days, and support staff absenteeism by 900 days
- energy management initiatives including a pilot energy management programme, and conversion of boilers from coal to gas - producing savings of over £200,000 a year in one force
- creditor payments automatically programmed to be paid 28 days from date of invoice, or earlier if required, optimising the force's cash flow
- implementation of a project management model, which systematically monitors and evaluates value for money projects. Many of the initiatives implemented have increased operational efficiency by simplifying procedures and releasing officers for other duties.

Under Best Value, forces will be expected to build on these initiatives and extend savings to the mainstream policing activities rather than just support services. The adoption of DRM will assist this process.

Achieving value for money in support services

Policing is a complex public service, with wide-ranging operational activities. The support needed to sustain these operations is equally wide-ranging, covering finance, personnel, IT, property management, legal advice, and ancillary services such as cleaning and catering.

Councils are the main external providers of support services to forces. However, some forces were critical of councils for not having mechanisms to produce detailed costs for the services provided. Forces see service level agreements as the way ahead, setting out the cost and levels of service performance. A number of forces have already negotiated service level agreements, but the picture is patchy. Some forces have well-established, client-specified agreements for the majority of the services they receive whilst others are still in the early stages of negotiation.

Scottish Office guidance sets out a range of options for the provision of support services, with the aim of ensuring best value for money. This has been given greater impetus by the introduction of Best Value, and several forces are reassessing their arrangements for support services.

However, other than property maintenance contracts, forces have generally not subjected their support services to market testing, formal benchmarking, or option appraisal. The opportunity exists to consider the private sector more than has been done to date. Forces accept that they will require to address these areas to ensure best value is obtained.

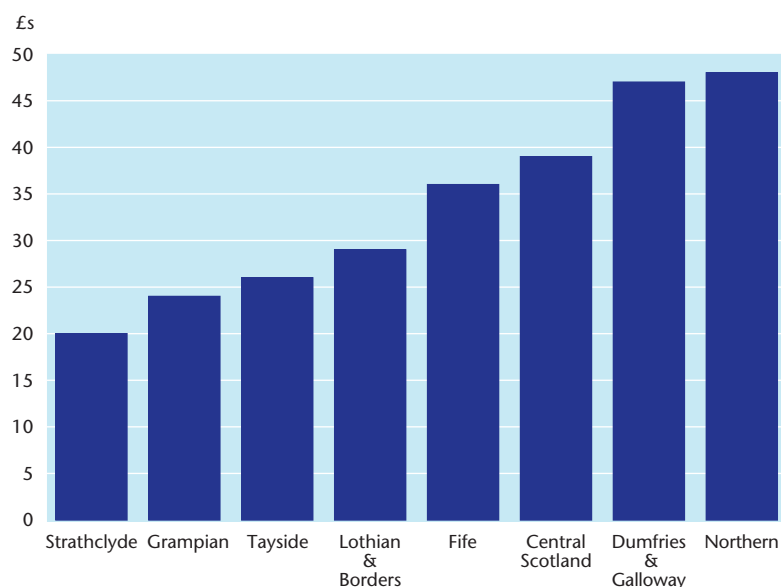
Recommendation: chief constables should strengthen their client role in relation to support services. For support services provided by councils, service level agreements should be negotiated in advance. These should clearly specify the nature of the services to be provided, the unit costs or charging basis, and the agreed standards of performance.

Recommendation: boards should, subject to standing orders, delegate powers to their chief constable to select, using Best Value criteria, who will provide support services to their force.

The study included a questionnaire survey of forces to collect benchmarking data for their financial support services. These included payroll, debtors, creditors, internal audit, and accountancy services. Box 12 shows that the cost of payroll services varies significantly between forces, by a factor of 2:1. The results suggest that there are strong economies of scale for payroll as the larger forces tend to have lower payroll costs. Certain forces may have scope to improve the cost-effectiveness of their payroll services, which in some instances may involve a review of their payroll frequency. For example, some forces have reduced their payroll frequency for police officers from fortnightly to monthly.

Box 12: Annual cost of payroll services per employee and pensioner paid

The unit cost of payroll varies significantly.



Source: Accounts Commission and HMIC survey data, 1996/97.

The survey of police financial support services identified that some forces do not have certain information on cost and quality issues. It found, for example, that:

- few forces have performance measures or service standards for any of their financial support services
- not all forces have financial procedures manuals
- most forces do not monitor quality indicators, such as numbers of errors in payroll and payments to suppliers
- few forces know the cost of their treasurer's function.

Best value requires that forces know the cost and assess the quality of the services provided to them. Otherwise, they cannot benchmark their support services to ensure best value is being obtained.

Recommendation: forces should develop performance measures to enable them to monitor the cost and quality of services provided to them, in line with Best Value principles.

The survey data from forces' financial support services will be made available to the ACPOS Finance Sub-Committee and to the external auditors of the forces. The information will assist them to make and monitor improvements in the performance of police financial support services over time.

5 Devolved resource management

Devolved resource management is a system of financial management that encourages decisions to be made not by the centre but by the most appropriate level of line management within organisations. Crucially, it involves establishing a mechanism for providing financial incentives to budget-holders to manage their resources better. These are not personal incentives, rather they generally allow budget-holders to redirect some or all of the savings to other areas of their budget.

In the context of the police service DRM can result in:

- increased responsibility placed on divisional commanders and heads of departments to manage resources effectively
- more flexibility to prioritise resources to meet local needs
- greater involvement of staff, leading to their identifying innovative ideas for improving value for money and quality of service.

Good financial management requires not only that budgets are spent efficiently and not overspent, but also not unwittingly underspent. However, DRM is not simply about better budget management. It is a part of a framework of performance management and service planning that allows managers to take full responsibility for their decisions and the impact these have. Effective use of DRM will assist forces to obtain better value from their resources.

A force's commitment to DRM is best evidenced by a clear policy statement. Box 13 gives an example of a policy statement, taken from Lothian & Borders Police.

Box 13: An example of a policy statement on DRM

A force's commitment to DRM is best evidenced by a clear policy statement.

Lothian & Borders Police's policy on devolved budgeting has the following aims and objectives:

- to improve financial information on where costs are incurred and on which items
- to align financial and operational management responsibility
- to encourage greater responsibility for financial management, and provide greater scope and incentives for practising it, amongst departmental heads and operational commanders
- to encourage innovation and greater cost consciousness, thereby improving value for money in the use of available resources
- to ensure that expenditure on items directly related to local activities is controlled locally
- to give local managers authority to vire funds, within defined limits, including savings resulting from 'good housekeeping' in accordance with local priorities.

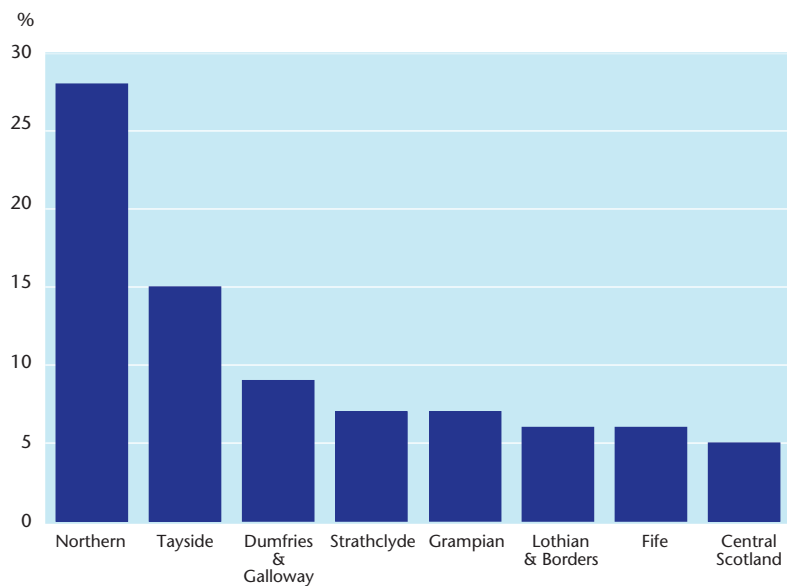
The study found that the principle of DRM is well accepted by most forces in Scotland. For many years, heads of central support departments (including finance, personnel, information technology, stores and transport) have been made responsible for managing their budgets.

However, the test of devolved management is the extent to which operational commanders have been made responsible and accountable for the financial resources made available to them. All commanders have managed their police overtime budgets for some time and the study found that most forces are now at different stages in extending commanders' responsibilities for the management of other budget heads.

The proportion of the total budget (excluding pension costs, loan charges, and common police services) that has been devolved to operational commanders varies from 28% to 5% (Box 14). The higher level of devolvement in Northern and Tayside forces reflects their having devolved a greater proportion of civilian pay to operational commanders.

Box 14: Proportion of total budget devolved to operational commanders, 1998/99

The proportion of the budget devolved varies significantly among forces.



Source: Data returns from forces.

In the Scottish Police Service, there is now a strong shift towards DRM. There is a change in culture that gives greater importance to supporting front-line management decisions, providing that these are consistent with the force's corporate strategy. Moreover, with the benefits of new technology, particularly information systems, DRM can be more easily supported. Most forces in Scotland are now at various stages towards fully implementing DRM. Appendix 4 summarises the extent to which forces have devolved individual budget heads to their operational commanders.

Forces' implementation of DRM has been approached on a phased basis, building on area commanders' experience of managing their police overtime budgets. Where budgets have been further devolved, the next stage has involved budgets for relatively low-risk items of expenditure, such as heat and light, supplies, telephone, postage and stationery.

A force's predisposition should be to delegate as much as is reasonable and practical, retaining at the centre only those types of expenditure that require to be managed by central departments. Budgets should be devolved to managers only where they have control of and responsibility for that expenditure. For example, there would be little value in delegating budgets for common police services and mandatory training, although there is value in letting managers know what their share of that expenditure is.

The final stages towards full implementation of DRM involve forces deciding whether to devolve to unit commanders responsibility for expenditure that can have long-term and strategic implications for the force. Types of expenditure that fall within this category include staffing, both police and civilian, purchase of police vehicles and capital budgets for information technology. These areas need to be covered by a framework of corporate standards and ground rules, which make explicit the responsibilities and freedoms of budget managers and providers of support services. Moreover, it is important that there is a mechanism for systematically reviewing the performance of budget managers against such standards.

Whether to devolve management of the police staffing budget is a major challenge facing forces. Devolved staffing budgets provide a stimulus for local commanders to pursue the optimal mix of police officers and civilians, and the opportunity to match resources to demands better. If the budget for police staff is not devolved, the opportunity for commanders to reallocate resources to meet local policing needs will be reduced.

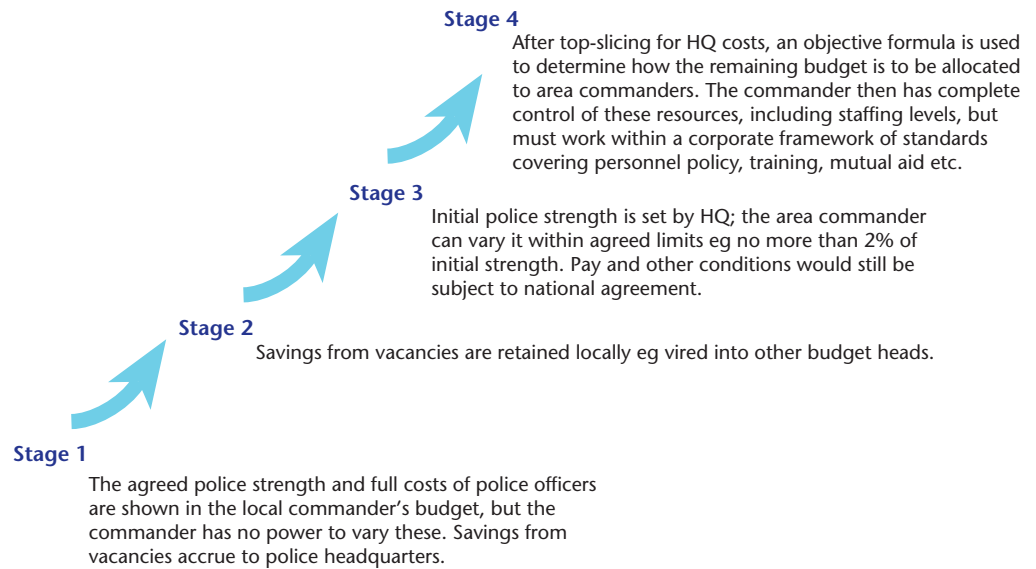
Not all chief constables are convinced about the benefits of devolving staffing budgets to the local level. Their main concern is maintaining corporate control over how many police officers are employed and their distribution throughout the force. For example, if through devolvement local commanders chose to run their divisions below nominal strength, this could undermine the achievement of corporate standards of policing. Certain chief constables advised that they may therefore decide to keep staff costs controlled from the centre.

Three forces plan to devolve the management of police payroll costs in the medium term, a further three are as yet undecided, and two forces do not currently propose to devolve management of their police payroll budget. Forces should consider allowing an element of savings from staff vacancies to be retained locally, with further progress being considered along the lines suggested in box 15. However, local commanders will have an incentive to identify savings if they can retain most of them, which would be helped by having greater certainty in funding through the three-year planning regime and an ability to carry working balances. In some circumstances, savings may be needed to meet cost-reduction targets, and therefore cannot be fully retained by local commanders.

Recommendation: chief constables should consider making further progress in devolving staff pay. An element of the savings from vacancies should be retained locally.

Box 15: Four stages in delegating police staffing budgets

A phased approach to delegating staffing budgets could be adopted.



Source: Audit Commission, Cheques and Balances.

Issues arising from implementing DRM

With increased devolvement there is the potential for tension between divisional priorities and force strategy. DRM therefore requires careful planning and should be introduced on an incremental basis. In this way, the shift in management culture that is required for DRM to work will be gradual and more likely to succeed. An incremental approach also allows the necessary skills and systems to be developed in a structured way that meets the changing needs of the force. Forces recognise that increased devolvement requires additional skills and have arranged for managers to be given training on the principles of financial management.

Budget-holders also need to be provided with financial information and have access to administrative support and financial advice. In a number of forces, the necessary administrative support has been achieved by reorganising the duties of divisional administrative staff, whilst financial advice is provided by a core number of budget advisers, located at force headquarters. By centralising their financial and management information support systems, forces have minimised the support costs that would have arisen had they chosen to decentralise these functions to individual command units.

There is a tendency for commanders to underspend during the year, leading to a late year-end spend to take up their full budget allocation. This position may be due to an initial lack of confidence - a situation that should improve over time.

Some forces have concerns that devolving budgets to operational units can:

- reduce the ability of the force to respond to major incidents
- lead to higher administrative support costs
- result in administrative tasks diverting officers away from their police duties.

All forces that have embarked on a process of DRM have shared these concerns to some extent. The first few steps have been made easier by their adopting a staged process, usually on a pilot-site basis. With regular monitoring and review, any issues emerging can be highlighted at an early stage. Box 16 shows some ways in which forces can reduce the potential for problems.

Box 16: Potential solutions for issues that can arise when implementing DRM

Forces can reduce the potential for problems.

Potential problem	Potential solution
Reduced flexibility	retain a contingency fund for major incidents
	develop a culture of mutual aid
Higher administrative support costs	centralise support services (eg payroll, IT)
	provide training to budget-holders
	provide budget-holders with the information they need on time, and the facility to access and make enquiries of centralised financial management information
	conduct regular meetings with budget-holders to give advice on common problems
	develop user-friendly guides for budget-holders
	minimise recharging (eg for mutual aid) between operational divisions
Diverted police officer time	recognise that devolved management will take up some of the time of officers and take this into account in the devolved planning process
	establish clear roles for managing devolved budgets
	delegate administrative duties to support staff
	develop good information reporting systems, to assist managers to see key points for action quickly

Delegated management involves managers being made responsible for their resource decisions. It should therefore be part of a performance management regime, in which performance against objectives is monitored, using performance indicators where appropriate. Budget-holders should be encouraged to produce local service plans to provide a framework for how they are spending devolved resources.

It is important that forces retain a strong corporate identity, supported by clearly stated goals and objectives. DRM needs to operate within the corporate framework of the force. In forces that have introduced DRM, local commanders are now important contributors to the management of the force's finances and the work of the management team. This has strengthened, rather than weakened, a corporate approach within the force.

When interviewed by the study team, area commanders agreed that budget management should reasonably form part of staff appraisal arrangements, as it was an important element of their responsibilities. Box 17 outlines how the performance review arrangements work in Northern Constabulary, one of only a few forces that review budget-holders' performance on a regular basis.

Box 17: Performance review arrangements in Northern Constabulary

Northern Constabulary reviews budget-holders' performance on a regular basis.

Since April 1998, the performance of budget-holders in Northern Constabulary is reviewed every two months. The review embraces an appraisal of:

- personal performance, measured against each budget-holder's agreed job description
- the unit's actual performance against the local service plan
- corporate development against agreed policy standards.

These reviews link personal performance to outcomes, with each service unit's performance being measured using agreed performance indicators, eg standards for vehicle fleet servicing, training etc.

Recommendation: the objective of further delegation of financial management to local commanders should be set within a wider framework of performance management.

Checks and balances

Boards are rightly concerned to ensure that there are appropriate checks and balances in place to monitor financial performance, to safeguard their assets and to approve decisions that have implications for the strategy of the force. Under DRM it is essential that the corporate centre ensures regular financial reporting of performance.

Key controls are exercised through the board's standing orders and regulations. These documents set out the rules concerning the extent to which the chief constable can authorise expenditure without recourse to the board. Any scheme of delegation requires budget-holders to comply with such rules, otherwise the chief constable's position may be compromised.

But local accountability requires budget-holders to know what is expected of them and have a clear understanding of their delegated powers and responsibilities. The overview visits carried out by the study team identified some issues that certain forces will require to address to improve their framework for supporting DRM:

- only a few forces have prepared any documented corporate guidelines for budget-holders on procuring goods and services, and on managing their budgets. Corporate standards are generally controlled by the central purchasing departments
- virement levels and limits on individual items of expenditure that can be incurred without prior approval have rarely been formally issued to devolved budget-holders
- responsibilities and accountabilities of budget-holders are not always clearly stated
- few budget-holders profile their budgets in line with anticipated spending patterns, to enable 'real' variations between actual and budgeted expenditure to be readily identified
- formal consultation on the allocation of financial resources, other than overtime, is rare. With the introduction of DRM, there is an increased need for consultation with divisional commanders.

Recommendation: chief constables should ensure that all budget-holders have been informed of their budget management responsibilities and have been issued with corporate guidelines on procurement of goods and services, and managing their budgets within approved limits.

Recommendation: forces need to develop further the framework of financial control for supporting a devolved management regime.

For the purposes of maintaining reliable systems of internal control and safeguarding the force's assets, it is important that forces have an effective internal audit review. However, the study found considerable variation in both the cost and availability of internal audit services to forces. The number of internal audit days provided to forces was found to bear no relationship to the size of the force. Strategic audit plans are produced in only four forces, and only in half of the forces are risk assessment techniques applied. With the implementation of DRM there may be a need for greater reliance on internal audit to provide assurance that the force's rules for checking and authorising expenditure at the local level are adhered to.

Recommendation: boards should ensure that forces are subjected to a systematic and effective internal audit review, which provides assurance on compliance with forces' financial rules and regulations. Where appropriate, steps should be taken to strengthen internal audit provision.

The views of budget-holders

The study team had the opportunity to interview a number of unit commanders in four forces to obtain their experiences of having been given devolved responsibility for managing their divisional budgets. All spoke very positively about their additional management responsibilities and were able to offer suggestions where further improvements would be welcome. These included:

- further training on financial management, best practice in managing finances, and value for money issues
- giving on-line access to the financial management information system at headquarters to facilitate enquiries and analyses without involving staff at headquarters
- giving unit commanders access to information on spending commitments
- introducing a mechanism within appraisal procedures that recognises good management of devolved resources
- setting prescribed, or no, limits on individual items of expenditure without prior approval
- clarifying certain 'grey areas' where the financial accountability for certain expenditure had not been made clear to budget-holders
- providing better descriptors to identify the items properly chargeable to each delegated budget head.

Recommendation: chief constables should consult with budget-holders to obtain their views on steps that could be taken to assist them to improve the management of their delegated budgets. Issues likely to emerge from this process may include:

- *further training on financial management, best practice on managing finances and on value for money issues*
 - *giving commanders access to information on spending commitments*
 - *introducing a mechanism within appraisal procedures that recognises good management of devolved resources*
 - *clarifying any 'grey areas' where the financial accountability for certain expenditure has not been made clear to budget-holders*
 - *documenting corporate guidelines to assist budget-holders to procure goods and services, and to manage their budgets.*
-

Benefits following DRM

Managers are unlikely to be committed to making DRM work unless they are given an incentive to manage their resources better. Such incentives are normally in the form of managers being given some freedom to reallocate resources to local initiatives and apply any savings to priority areas within their division. In most instances, the sums diverted for other use are relatively small, but have been spent on areas that might otherwise not have received priority.

Where police budgets have been devolved, commanders are undertaking efficiency reviews and have already identified areas where savings can be achieved. In most forces, identified examples of good practice are shared through forums such as service unit managers' and unit commanders' meetings, where budgetary control and performance management are now standing items on the agenda. Examples of good practice and of areas where commanders have identified they could get better value for money in particular forces include:

- service managers recognising the potential opportunities for income generation when they are allowed to keep the income to finance local initiatives
- participating in a pilot energy management scheme that achieved savings of around £100,000 during 1997/98; the divisions involved received 50% of these savings to spend on their own priorities
- achieving a significant reduction in vehicle repair costs following a decision to recharge budget-holders for accidental car damage
- using savings to support divisional objectives and priorities, for example:
 - adopting more proactive policing and mounting initiatives not done in the past, for example, strengthening city centre patrols
 - installing mobile CCTV cameras in police cars
 - additional televisions and videos for briefing sessions
 - purchase of fingerprint kits, lap-top computers and furniture.



Annex: Financial delegation - a management checklist

Best Value requires getting the most out of limited resources. Devolved resource management will assist forces to achieve that objective. Success will depend on effective partnerships being established between the police and central and local government, the private sector and local citizens.

This report has looked at the current situation concerning the framework for the funding and management of finances in the police service in Scotland. Because forces are at different stages in their implementation of DRM, most forces will benefit from sharing the experience gained elsewhere, particularly the good practice initiatives already being carried out in other forces.

The following checklist highlights the key issues that all forces should embrace as an integral feature of managing their finances, including devolved resource management.

Communication with stakeholders

- Do we have effective mechanisms for community consultation?
- Have we a process for consulting with councils on their local policing priorities?
- Do we communicate our local policing plans and draft budget clearly to our constituent councils?

Budget and cost allocations

- Do we consult with all heads of departments and area commanders when preparing the force's budget?
- Is there a corporate mechanism for consulting heads of central departments and area commanders on budget allocations?
- Is the basis of allocation to budget-holders equitable and transparent?
- Do we conduct a systematic review of the allocation of the force's costs over its constituent councils?

Financial and management information

- Do our financial and management information systems conform to SPIS standards?
- Is our IT system Year 2000 compliant?
- Do our financial cost centres reflect the areas of responsibility managed by each budget manager?
- Have we consulted budget-holders on the information they require?

Do budget-holders have access to accurate, up-to-date financial information?

Are our financial and other management systems sufficient to support the information needs of devolved budget-holders?

Are budget-holders provided with monitoring reports:

- within a time period that allows effective corrective action to be taken, if necessary?
- which are user friendly?
- which automatically highlight major variances and direct budget-holders' attention to where action may be required?

Support for budget managers

Are there adequate numbers of finance staff within HQ to support budget managers?

Have we established a training programme to meet the needs of budget-holders?

Do we have procedures for assessing the effectiveness of the training we provide to budget managers?

Do budget-holders have access to trained administrative staff to support DRM?

Have we prepared user guides to assist budget managers?

Have we clear and documented guidance on purchasing arrangements which cover:

- minimum corporate standards on equipment specification?
- arrangements for budget-holders to procure services, supplies, and items of equipment?

Devolved resource management

Is there an agreed plan for the implementation of DRM to operational commanders?

Does this plan:

- cover all budget heads, and include when, whether and what proportion of these will be devolved?
- include processes for monitoring and evaluating DRM over a period of time?

Do all budgets have identified individuals who are responsible and accountable for them?

Have all of our budget-holders been given documented details of their roles and accountabilities?

Framework for DRM

Is DRM adequately covered in the force's standing orders and financial regulations?

Do these include:

- limits of virement?
- limits of expenditure on individual items without prior approval?

Do we have a policy on:

- incentives for local units to make and benefit from any savings made?
- how underspends will be treated?
- how any overspends will be treated?

Are budget-holders encouraged to produce local service plans to provide a framework for DRM?

Is there a performance management framework, including performance indicators to monitor performance?

Does our staff appraisal system include an assessment of performance in managing delegated budgets?

Have we set a framework of corporate standards and guidelines (eg on personnel)?

Financial monitoring and review

Does the force executive review the force's overall financial position each reporting period?

Do we keep the board regularly informed of the force's overall financial position?

Best value and value for money

Do staff have an opportunity to give their views on how performance could be improved?

Do we provide a sufficient incentive to staff to achieve savings?

Do we have a mechanism(s) for sharing best practice across the force?

Appendix 1 Summary of recommendations

The recommendations included throughout the report are summarised here for ease of reference.

National framework

- page 13 Urgent consideration should be given by The Scottish Office, in conjunction with ACPOS and COSLA, to agreeing a robust needs-based formula as the basis of distributing the GAE for policing.
- page 14 Value for money would be improved if boards were empowered to carry working balances. It is recommended that The Scottish Office revises the rules to enable boards to carry a working balance from one year to the next (limited to a proportion, say 3%, of the annual budget for the year), in addition to specific funds, reserves and pension provisions.
- page 14 Were the principle of working balances to be accepted by The Scottish Office, it is recommended that The Scottish Office should consider a review of the basis for determining the maximum police grant payable to boards. Were The Scottish Office to pay police grant on the net budgeted expenditure for the year (after taking account of balances and subject to a cap based on GAE), rather than the board's actual expenditure, this would potentially provide improved value for money:
- because it should reduce the current pressure for year-end spend to attract police grant
 - because it would make the process of budget management even more rigorous. The cost of any excess expenditure over budget would fall on the police authorities, or require to be met out of force balances
 - because The Scottish Office would know the amount of police grant due to be paid to boards in advance of the financial year.
- page 16 It is recommended that The Scottish Office, together with ACPOS and COSLA, review the arrangements for approving and allocating forces' capital programmes, including PFI bids.
- page 16 Forces should be required to provide investment appraisals and business cases for major capital projects (those over £1.5 million) and these should be prioritised following a professional appraisal.
- page 18 The Scottish Office, in conjunction with ACPOS and COSLA, should explore alternative ways of financing the costs of police pensions in order to minimise the unpredictability of the impact on police operational costs.

Local accountability

- page 11 Within the context of the statutory responsibilities of police boards, chief constables or area commanders should consult with their local councils on their local divisional policing plans and budgets. In this way, councils will better understand what they are getting for their money and local consultation will be strengthened.
- page 14 Boards should adopt a robust but not bureaucratic mechanism for reviewing the requisitions paid by constituent councils, and the basis of apportioning police costs should be reviewed not less than every three years, or earlier if there is a significant shift in resources between scheduled reviews.

Budgeting

- page 18 It would be prudent for boards to provide sufficient funding to enable provision to be made in the financial accounts for the payment of commuted lump sums and, say, six months pension to officers who are entitled to retire but have not yet done so.
- page 30 Chief constables should consult with budget-holders to obtain their views on steps that could be taken to assist them to improve the management of their delegated budgets. Issues likely to emerge from this process may include:
- further training on financial management, best practice on managing finances and on value for money issues
 - giving commanders access to information on spending commitments
 - introducing a mechanism within appraisal procedures that recognises good management of devolved resources
 - clarifying any 'grey areas' where the financial accountability for certain expenditure has not been made clear to budget-holders
 - documenting corporate guidelines to assist budget-holders to procure goods and services, and to manage their budgets.

Devolved management

- page 19 Forces' financial and management information could be improved by their providing a clearer specification of requirements to their service provider.
- page 19 Forces will wish to prepare a business case balancing the benefits of enhancements to information systems against the cost of the investment required. Forces should bear in mind the SPIS-recommended approach in procuring systems.
- page 21 Chief constables should strengthen their client role in relation to support services. For support services provided by councils, service level agreements should be negotiated in advance. These should clearly specify the nature of the services to be provided, the unit costs or charging basis, and the agreed standards of performance.
- page 21 Boards should, subject to standing orders, delegate powers to their chief constable to select, using Best Value criteria, who will provide support services to their force.
- page 22 Forces should develop performance measures to enable them to monitor the cost and quality of services provided to them, in line with Best Value principles.
- page 25 Chief constables should consider making further progress in devolving staff pay. An element of the savings from vacancies should be retained locally.
- page 28 The objective of further delegation of financial management to local commanders should be set within a wider framework of performance management.
- page 29 Chief constables should ensure that all budget-holders have been informed of their budget management responsibilities and have been issued with corporate guidelines on procurement of goods and services, and managing their budgets within approved limits.
- page 29 Forces need to develop further the framework of financial control for supporting a devolved management regime.
- page 29 Boards should ensure that forces are subjected to a systematic and effective internal audit review, which provides assurance on compliance with forces' financial rules and regulations. Where appropriate, steps should be taken to strengthen internal audit provision.

Appendix 2 Basis of the Standard Spending Assessment for police in England and Wales

In England and Wales, the construction of the formula for the calculation of the Standard Spending Assessment (SSA) element for police is the same as the one used by the Home Office for distribution of police grant to police authorities. The application of the formula results in a distribution across authorities on the basis of estimated *relative* need. The formula is built up from a number of components but there is no intention to hypothecate funding to individual components.

As a framework for presentation of indicators of police performance, the Association of Chief Police Officers (ACPO) has divided police work into five 'key' areas:

- Call management
- Crime management
- Traffic management
- Public order management/Public reassurance
- Community policing management.

To these five areas, a sixth operational component of 'Patrol' was added for 1997/98. This framework is the basis for the analysis of the need for police resources in 1998/99. There are four further components of the formula. They are: pensions expenditure, security-related expenditure, sparsity and police establishment.

The relative weightings of the five key areas and patrol were determined by the National Activity Survey conducted in November 1995, and data on specialist and civilian posts collected by HMIC. Following an analysis of likely pensions and security needs, and taking into consideration the views expressed by police authorities and the police service, the Secretary of State decided that for the purpose of constructing the formula for 1998/99, the weightings should be as follows:

Formula component	1998/99 weightings (%)
Call management	7.597
Crime management	26.331
Traffic management	6.191
Public order management/Public reassurance	6.578
Community policing management	2.302
Patrol	15.490
Pensions expenditure	13.200
Security-related expenditure	1.811
Sparsity	0.500
Police establishment	20.000

The percentages are not to be interpreted as implying that authorities are expected to allocate resources to activities in these proportions. The figures are simply used in the construction of the formula.

Within each component of the formula certain variables have been identified that have a correlation with police workload. For example, the factors affecting crime management workload include population density, the proportion of households with a tenure of 'not owner occupied', the proportion of one-parent families, and the proportion of people unemployed for more than one year.

Appendix 3 Police forces and their areas

Following council reorganisation, with effect from 1 April 1996, the police forces for the areas of Fife and Dumfries & Galloway remained unchanged. The police authorities for these forces are Fife Council (formerly Fife Regional Council) and Dumfries & Galloway Council (formerly Dumfries & Galloway Regional Council).

The following table sets out the arrangements for the other six forces. For each of these, it lists the name of its board and constituent councils (police authorities).

Force	Joint Police Board	Police Authorities
Central Scotland	The Central Scotland Joint Police Board	Clackmannanshire
		Falkirk
		Stirling
Grampian	The Grampian Joint Police Board	Aberdeen City
		Aberdeenshire
		Moray
Lothian & Borders	The Lothian & Borders Joint Police Board	City of Edinburgh
		East Lothian
		Midlothian
		Scottish Borders
		West Lothian
Northern	The Northern Joint Police Board	Comhairle nan Eilean Siar/ Western Isles
		Highland
		Orkney Islands
		Shetland Islands
Strathclyde	The Strathclyde Joint Police Board	Argyll and Bute
		East Ayrshire
		East Dunbartonshire
		East Renfrewshire
		Glasgow City
		Inverclyde
		North Ayrshire
		North Lanarkshire
		Renfrewshire
		South Ayrshire
South Lanarkshire		
Tayside	The Tayside Joint Police Board	Angus
		Dundee City
		Perth and Kinross

Appendix 4 Extent of budget delegation to operational commanders, 1998/99

		Northern	Tayside	Dumfries & Galloway	Strathclyde	Grampian	Lothian & Borders	Fife	Central Scotland
		%	%	%	%	%	%	%	%
Staff costs	Police pay (pay, allowances, NI)	5	x	x	x	x	x	x	x
	Police overtime	>80	>80	>80	>80	>80	>80	>80	>80
	Civilian staff pay (incl. overtime)	70	55	<5	15	5	<5	<5	5
	Expenses (eg travel and subsistence)	60	65	x	5	x	40	x	x
Property costs	Rent/rates/insurance	20	55	5	10	x	45	x	x
	Gas/electricity/water	>80	35	75	15	x	70	x	x
	Repairs and maintenance	>80	<5	40	<5	x	5	x	x
	Cleaning	65	35	>80	x	x	35	x	x
Transport	Car allowances	-	45	50	x	-	65	x	x
	Fuel	>80	>80	>80	x	x	>80	>80	x
	Hired transport/leasing	65	20	>80	x	x	20	>80	x
	Vehicle fleet maintenance	35	x	>80	x	x	x	x	x
	Vehicle insurance	x	x	>80	x	x	x	>80	x
Supplies and services	Equipment/furniture/materials	60	75	70	5	>80	55	30	x
	Stationery/advertising/printing	40	20	40	5	30	50	x	x
	Uniforms and laundry	5	10	45	<5	x	10	x	x
	Communications (incl. telephones etc.)	40	<5	5	x	5	15	x	x
Training	Fees and travel expenses	5	-	x	<5	x	20	x	x
Income	Income from charges and other sources	15	20	x	10	x	x	x	x

Legend

- x denotes budget head not devolved. Otherwise, the figure shows the percentage of the total budget head devolved to operational commanders (rounded to nearest 5%; 80-100% shown as >80).
- denotes budget head not used.

Appendix 5 Study approach and methodology

A central study team comprising staff from the Accounts Commission and HMIC undertook the study.

The study methodology was developed by the central study team. It included visiting two forces in England with experience of devolved financial management (Thames Valley and Kent forces), and consulting with the Audit Commission in England and Wales. Fieldwork involved members of the study team visiting all forces in Scotland during spring 1998. This work involved interviewing:

- the chief constable of the force, or a senior member of the force executive, covering mainly policy issues relating to corporate resource management, delegated management of resources and the arrangements for finance and other support services
- the force finance officer, covering mainly procedural issues relating to the management of the force's financial and other resources
- in four forces, a senior operational officer to obtain their views on their experiences of devolved resource management responsibility.

In addition, four council leaders were interviewed to obtain politicians' views on funding and financial delegation in the police service.

The study team also conducted a questionnaire survey to collect information from forces in Scotland on the cost and quality of their financial support services. The questionnaire was based on an Audit Commission survey of forces in England and Wales.

Each force has been provided with a local report that highlights the key issues arising from the study team's review. Each report incorporates an action plan that addresses areas where the force can make further improvements.



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