



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

LOCAL GOVERNMENT AND REGENERATION COMMITTEE

Wednesday 9 October 2013

Session 4

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LOCAL GOVERNMENT AND REGENERATION COMMITTEE
26th Meeting 2013, Session 4

CONVENER

*Kevin Stewart (Aberdeen Central) (SNP)

DEPUTY CONVENER

*John Wilson (Central Scotland) (SNP)

COMMITTEE MEMBERS

*Richard Baker (North East Scotland) (Lab)

Cameron Buchanan (Lothian) (Con)

Stuart McMillan (West Scotland) (SNP)

Anne McTaggart (Glasgow) (Lab)

*Stewart Stevenson (Banffshire and Buchan Coast) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Jenny Bloomfield (Scottish Council for Voluntary Organisations)

Sarah Boyack (Lothian) (Lab) (Committee Substitute)

Councillor Barney Crockett (Aberdeen City Council)

Gary Fairley (Midlothian Council)

Finlay Laverty (Prince's Trust for Scotland)

Kenneth Lawrie (Midlothian Council)

Dave Moxham (Scottish Trades Union Congress)

Bryan Smail (Falkirk Council)

Jenny Stewart (KPMG)

Dave Watson (Unison)

Valerie Watts (Aberdeen City Council)

Steven Whyte (Aberdeen City Council)

CLERK TO THE COMMITTEE

David Cullum

LOCATION

Committee Room 3

Scottish Parliament

Local Government and Regeneration Committee

Wednesday 9 October 2013

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

Draft Budget Scrutiny 2014-15

The Convener (Kevin Stewart): Good morning and welcome to the 26th meeting in 2013 of the Local Government and Regeneration Committee. I ask everyone to ensure that mobile phones and other electronic equipment are switched off properly, please, and are not just on silent, because they interfere with the broadcasting system.

We have apologies from Cameron Buchanan, Anne McTaggart and Stuart McMillan. We are joined by Sarah Boyack, who is a substitute member for Anne McTaggart. You are more than welcome to the committee, Sarah.

I declare an interest: I am a member of Unison, from which we will take evidence later. No one else has a declaration to make.

Agenda item 1 is an oral evidence session on the Scottish Government's draft budget for 2014-15. There will be three panels of witnesses, representing local authorities, trade unions, and the voluntary and third sectors and KPMG. The witnesses have made written submissions, which members have in their papers.

I welcome the first panel of witnesses: Councillor Barney Crockett is the leader of Aberdeen City Council; Valerie Watts is chief executive of Aberdeen City Council; Steven Whyte is chief accountant of Aberdeen City Council; Kenneth Lawrie is chief executive of Midlothian Council; Gary Fairley is head of finance and human resources at Midlothian Council; and Bryan Smail is chief finance officer at Falkirk Council.

We will dive straight into the questions.

What will be the likely impact on local authority services of the settlement for 2014-15 and beyond? What measures do you intend to take to try to alleviate some of the difficulties that arise from our settlement from Westminster, which has, of course, been passed on to you?

Mr Smail, I think that Falkirk Council mentioned priority-based budgeting in its submission, and Aberdeen City Council and West Lothian Council have embarked on such exercises. I am keen to hear what you have to say in that regard.

Bryan Smail (Falkirk Council): Thank you, convener. I defer to my colleagues in Aberdeen on priority-based budgeting, as they are much further down the road than we are. In fact, we had a very helpful visit to Aberdeen to better understand how Aberdeen City Council had approached that exercise. It is part of a strategy that we, in common with many other councils, are adopting. We recognise the challenging climate that we all face with finite resources, and it is clear that we need a robust and structured way in which to allocate scarce resources. Priority-based budgeting—the title gives it away—is a means to help people to deal with that challenge. It is not a panacea, but it is of assistance. We are taking an evolutionary rather than a big-bang approach.

Another strand to the approach is to stretch the budget period from the traditional one-year period to a three-year, medium-term timeframe. How our primary funding from the Scottish Government grant comes to us is, of course, instrumental in our being able to plan properly. When we had a three-year settlement period, the two very much aligned, but we currently have only a one-year provisional position for 2015-16, which somewhat militates against effective medium-term planning. Government grants are our primary source of funding by a long way.

On the specific challenges that we face in Falkirk, our projection is that we will have a cumulative deficit in the order of £35 million over the next three financial years. It is self-evident that that will represent a major challenge for our members, who will have to make difficult decisions. That process is currently under way.

The Convener: Okay. Who will grasp the nettle first for Midlothian Council?

Kenneth Lawrie (Midlothian Council): I will, convener.

As far as the impact of the settlement is concerned, we have set out in our submission that the budget reductions over the next number of years present a real challenge. We are a relatively small council and we think that we are looking at a reduction of approximately £16.5 million over the next three years.

It is important to have a clear sense of priorities. With our community planning partnership, we have three big priorities that we are focusing right in on, and we are bending the spend towards those priorities. In our view, it is also a case of being innovative and positive in transforming the way in which we provide services in order to minimise the impact of budget reductions, demographic change and so on. Our submission sets out that we have had some success in that regard—for example, in relation to adult social care—but that we have some way to go.

I think that there will be an impact on services and on staff. Of course, we have already had a pay freeze for some time and there have been impacts on the public, but the more we can look innovatively at transforming our services, sharing things with others and taking forward the integration of health and social care, the better we will be able to deal with the budget challenge.

Steven Whyte (Aberdeen City Council): We have introduced priority-based budgeting. The key focus is to identify outcomes and to align our resources with the delivery of those outcomes. The most recent settlement period has been quite challenging for us, and the situation is likely to continue. In moving forward, we are looking at alternative ways of ensuring that we can stay within the level of settlement that we get. We will look at things such as strategic procurement and ensuring that we have proper contract and supply-chain management in place, which we hope will allow our cost base to reduce.

We also looked at the traditional way of producing a budget. In essence, a price risk is built into cost pressures. We are trying to address the risk around those cost pressures by ensuring that we price that out of the base budget. We have taken a more holistic view of how we deal with risk as a local authority. In effect, we are using risk registers and a risk fund to provide a safety net for services, to enable them to be a bit more innovative in their transformational programme over the next five years.

The Convener: Thank you.

You mentioned pressures. I think that, over the piece, one of the main pressures will be the United Kingdom Government's welfare reform policies. What measures do you have in place to alleviate the difficulties that they will cause? They will put pressure on many services.

Valerie Watts (Aberdeen City Council): I can take that.

As you outlined, welfare reform is undoubtedly one of the key challenges that all local authorities will face during the next settlement period. Financial pressures are already beginning to materialise in budgets in Aberdeen, and it is expected that they will continue to grow with the introduction of universal credit. Aberdeen City Council has already assessed the areas of service delivery that are likely to be impacted. In our 2013-14 budget, we have allowed £0.5 million for the council tax reduction scheme and £0.5 million for additional resources to address financial inclusion and to administer the welfare fund, as well as an additional £2 million for a specific welfare reform contingency budget.

Of course, the clear demographic increases, which will have a particular impact on Aberdeen,

will place additional pressure on us as a council. Increasing school rolls and the impact of measures on pupil teacher ratios, coupled with an ageing population, are also placing direct resource demands on front-line services at a time when the resources that are available are reducing.

Aberdeen City Council anticipates that it will have to deal with a number of other pressures over the next settlement period. I am happy to go into those now, but you might want to leave them for later.

The Convener: I think that we will stick with welfare reform. I am sure that we will cover a lot of ground today.

Stewart Stevenson has a brief supplementary.

Stewart Stevenson (Banffshire and Buchan Coast) (SNP): I do not know how brief the answer will be, but we will see.

I ask the question partly because, at a later date, the committee will look at what powers local government should have in future. The powers that are exercised by the Scottish Parliament and by Westminster are parallel to and interact closely with the responsibilities of local government. Are there any particular powers that Westminster or the Scottish Parliament has that would aid the ability of local government to respond to the challenge of welfare reform if it had them at its disposal?

Councillor Barney Crockett (Aberdeen City Council): I will start our response, and the officers can continue. Especially in the special circumstances of Aberdeen, which has the biggest private sector, proportionally, of any local economy in Scotland, it could be very helpful to local government to get something like city deals. For example, Manchester is being incentivised to remove people from the welfare system by getting a share of the savings that are made when people move into work or improve their economic position. That would be transformative for local authorities, particularly if the local economy is largely booming but there is a small public sector and the local authority receives a low funding settlement. Recent figures show, chillingly, that Aberdeenshire and Aberdeen are the parts of the UK that are the least affected by the impact of welfare reform, yet we are still mammothly affected.

Stewart Stevenson: We will develop this as we go along. Your answer, which I have some sympathy with, is essentially a financial answer, whereas my question was more about the powers at your disposal. In other words, if you had the powers to get the savings, would that be helpful? That is really what I am focusing on at this stage.

Councillor Crockett: The powers that would allow us to gain income from helping people to get on would be enormously valuable to us. The officers may have more to add to that.

Steven Whyte: I can speak only for Aberdeen City Council, but the criteria for discretionary housing payments, for example, are quite strict—probably rightly so. However, if the power to make discretionary housing payments was devolved to the local level, we could target those at particular areas. The focus for local authorities, over the medium term, must be on preventative intervention and understanding how we can direct resources into making people's lives better, rather than just treading water and maintaining the status quo.

The Convener: Mr Smail, do you want to address my and Mr Stevenson's questions?

Bryan Smail: I will first make a point about the context, which chimes with my previous comments about forward planning. All parties—certainly local authorities—find the manner in which the overarching approach to welfare reform and the universal credit has been rolled out by the Department for Work and Pensions somewhat problematic in terms of a constantly shifting landscape. For such a major area, that creates some challenges in my council. How Falkirk Council is dealing with the situation sits within our anti-poverty strategy, which we have called towards a fairer Falkirk. There are a number of strands to that. A lot of resource has been pumped into advisory services, in association and partnership with Citizens Advice Scotland. As has been well publicised, there is already a significant impact on rent arrears, and the discretionary housing payments to which Steven Whyte referred are helping with that. The recent announcement of £20 million in the Scottish Government's budget is very welcome. That helps, but it is not a panacea.

Kenneth Lawrie: I echo that point about the uncertainties. The process has been far from smooth. We have used the former fairer Scotland fund, focusing it primarily on the impacts of welfare reform. We have worked with citizens advice bureaux and have invested in training and in work on welfare rights, money advice and access to employment—in the council, we see employment more generally as a way of getting people out of deprivation and difficult circumstances. We have also worked with the church and so on.

Additional rent arrears of about £14,000 a week are accruing, which is quite a lot for a small council. We have yet to see the impact on those who continue to pay their rent of knowing that their benefit payments are reducing—that will have a social impact as time moves on. It is a shifting landscape, and all local authorities must have

moneys set aside to deal with it because we simply do not know what the fuller impact will be.

09:45

The Convener: You talk about rent arrears of £14,000 accruing before the introduction of the universal credit, the housing element of which will be paid monthly. What do you think the future holds if the universal credit is rolled out with the housing element paid monthly, as is currently envisaged?

Gary Fairley (Midlothian Council): We have not modelled that—the uncertainty makes that challenging. However, we expect a significant increase in our arrears, which will affect our ability to collect rental income. The impact of that will really hit our capital programme. The council has invested strongly in social housing and we have adapted that programme as best we can to meet the impact of welfare reform by building smaller houses, such as one-bedroom properties, in phase 2. The change to the universal credit puts that at risk. It also puts at risk the council's ability to invest in its existing stock, which will have an impact on our ability to make improvements in line with the Scottish housing quality standard, such as increasing the energy efficiency of the existing stock. In turn, that will have an impact on those who are least able to meet energy costs.

The Convener: If no one has anything to add, we will have another question from Stewart Stevenson.

Stewart Stevenson: I want to pick up on the issue of demographics, which has been raised several times. Midlothian Council's written submission talks of a population increase of the order of 10 per cent by 2035, which is a greater percentage increase than the projected increase for Scotland as a whole. How will that affect councils in an environment in which the Convention of Scottish Local Authorities sets its face against changing the distribution formula, which it controls? Are there particular challenges for councils where population growth is going to be higher? That is probably one of the big determinants of pressure on budgets.

Kenneth Lawrie: That is a significant issue. We have significant housing development, not least because of the reopening of the Borders railway and all that that implies. At the best of times, the formula lags behind population growth, and that gap would be exacerbated by a decision to stick with the flat cash approach rather than re-run the distribution formula. That is understandably a matter of concern to the council.

Stewart Stevenson: I suspect that it is more a question that Councillor Crockett, as the only politician on the panel, may wish to answer. Would

you be likely to advise your political leaders that it is an issue to which they should turn their attention because of the pressures that you are going to see?

Kenneth Lawrie: The political leaders are well aware of the issue from the recent COSLA meeting, but I am not sure that they are all of the same view.

Stewart Stevenson: I am sure that they are not.

Kenneth Lawrie: They are, however, clear on the issue and the impact that it will have.

The Convener: Perhaps we can hear from Councillor Crockett.

Councillor Crockett: I do not usually need an invitation to respond, but I am delighted to have one. Our demographics are obviously very unusual for Scotland, because we are experiencing a rapid growth in population that is predominantly caused by people coming from outwith Scotland. That brings a number of challenges, including pressures on our schools and pressures because people have limited English. That is all part and parcel of what we are dealing with.

The demographics will have enormous challenges for us. The huge difficulty that people find in getting housing in Aberdeen bears down very hard on us. Audit Scotland's recent housing report commented on the lack of logic in Aberdeen having the lowest allocation of all local authorities for social housing, given its massively growing workforce. Edinburgh and other places might have issues that are similar to those in Aberdeen, but ours are more extreme, in that we have a rapidly growing population in suburbs outwith the city that uses city services and infrastructure. That puts massive pressures on us and it has enormous implications for the future. We also have a particularly clamorous private sector that feels that it is investing vast amounts of money and paying a lot of tax but not necessarily seeing all the infrastructure and housing developments that it expects. That presents enormous challenges, too.

We can compare the current situation with the last time the oil industry was as busy as it is now. Then we had the Scottish Special Housing Association, for example, and national impetus for infrastructure development in the city. I would want all that to be considered in the future.

Stewart Stevenson: I find your analysis quite easy to agree with because it bears scrutiny. However, what trigger would lead you and your political colleagues in COSLA to decide that the time had been reached for the redistribution formula to be revisited? For example, there are increasing areas of pressure in both Aberdeen and

Aberdeenshire—I represent part of the latter, which is part of my constituency—where there is demand for resources; indeed, the evidence from Midlothian, which was referenced in the comments from Falkirk, is that we are seeing a shift in needs. As you just indicated, some of the need in Aberdeen is driven by success, whereas in other areas need is driven by social difficulties. What is the trigger for the redistribution formula to be revisited? From what you and your political colleagues are saying at the moment, I take it that you feel that it should not be revisited just now but that there will be a point when it will need to be revisited.

Councillor Crockett: I think that one trigger will be the UK-wide move to cities in particular having more responsibility for their own future. Scottish cities have not been isolated from that political impetus. Glasgow has made comments in that regard that we in Aberdeen would probably support. We envisage cities themselves becoming motors for the economy, and allocating to them the ability to fundraise for themselves will be one element of that. To complement an allocation formula, we need to see the Government incentivising economic growth and population movement to areas such as Aberdeen that offer good economic prospects.

Stewart Stevenson: You said that the Government needs to incentivise economic growth. What is missing from the available resources?

Councillor Crockett: We have seen a developing difference between England and Scotland in terms of cities being empowered through, for example, city deals. We have commented on the value of the new powers that the Scottish Government has received over stamp duty equivalent. We believe that that money could be hypothecated for social housing in areas where stamp duty equivalent is paid. I think that that would be a nice balance that would mean that areas that have economic growth would have a small income to spend on social housing. To be honest, I would like to see the cities benefiting more from increases in business rates than happens at the moment.

Stewart Stevenson: The point that underlies what you are saying is that if the cities had more decision-making powers in relation to taxation in the round—even with the changes, more than 80 per cent of taxation responsibility will remain at Westminster—the cities could do more and contribute more in tackling their problems.

Councillor Crockett: Absolutely.

Stewart Stevenson: There is too much power at Westminster and not enough in town halls.

Councillor Crockett: I would say that there is too much power outside the cities, and that would include the Scottish Government.

Stewart Stevenson: But you agree with me on the point about town halls.

Councillor Crockett: I would like to see the cities having more powers over the economy in their own areas, but particularly powers over taxation.

Stewart Stevenson: But those powers should come from the more than 80 per cent of taxation responsibility that is resident down south.

Councillor Crockett: I think that we should have control over the sphere of council tax, business rates and stamp duty equivalent; I also think that we should have the ability to get incentivisation for other things.

The Convener: I have a point to make before I bring in Mr Smail. After hearing that COSLA had decided not to revisit the issue of the funding formula, I had a funny feeling that the subject would come up in this discussion, so I looked at the population changes from 2001 to 2011. In that period, the population of Aberdeen city rose by 0.9 per cent, Falkirk had a 1.2 per cent increase and Midlothian had a 1.3 per cent increase. Perhaps that is food for thought for you guys in relation to any change to the funding formula.

Bryan Smail: I make the obvious point that any distribution formula has winners and losers, and that is felt more acutely in a climate in which the pot is shrinking in real terms. The existing formula endeavours to capture significant drivers of expenditure, notably population. I think that most councils would welcome such increases as they indicate growth in their areas. However, such benefits inevitably bring in their wake real spend pressure on infrastructure, whether that is schools, roads, housing or whatever.

It is important that the formula continues to recognise the different drivers, but there is always scope for refinement and fine tuning as the shapes of the spend drivers recalibrate going forward.

The Convener: Does the current formula recognise the things that you mentioned?

Bryan Smail: It endeavours to do so. Colleagues in other councils might take the view that it does not do so sufficiently in terms of, say, deprivation. However, the formula's essence and purpose is to try to capture the different drivers. To the extent that an objective assessment came to the view that it does not do that, there would be potential to review and refine the formula on the back of that.

The Convener: Okay. We might come back to that.

Richard Baker (North East Scotland) (Lab): I have two questions on how the funding settlement in the draft budget contributes to work to encourage economic growth in the witnesses' council areas. We are focusing on revenue budgets, which are clearly under huge pressure, as that is a central part of our budget scrutiny. However, I am also interested in how the capital budget affects the witnesses' work. We have already heard from you that there are pressures on housing, particularly social housing, and on the creation of new infrastructure and the maintenance of infrastructure for the purposes of economic growth. How does the capital budget settlement in the draft budget affect your approaches to those areas of your work?

Gary Fairley: We have focused primarily on our revenue budget. Over the period of the previous settlement and into this one, our capital budget has tended to focus on essential infrastructure. There are two elements to that. One is to ensure that we can make replacements and secure funding through the Scottish Government and the Scottish Futures Trust. We highlight in our submission the recently opened Lasswade centre. We are investing in our infrastructure and rationalising it to maximise its value and impact. The new school saw the closure of a number of community assets, and that rationalisation and those efficiency savings are helping us to make a much more sustainable capital plan.

We also have a significant focus on working with developers to secure essential infrastructure through section 75 agreements, which is bringing continued challenges where developers are finding it difficult to fund that essential infrastructure up front. We are working closely to maximise the benefits of the Scottish Government grant, which is limited in real terms, and to lever in resources for essential infrastructure through the Scottish Futures Trust and developers.

10:00

Bryan Smail: The capital programme is a significant component of providing the range of services that a local authority is required to provide. The distribution is somewhat clouded because of the front-end reduction in capital grant that the Scottish Government elected to make to reflect its priorities. However, that is being returned to local government, and over the period it will stabilise and be neutral.

Notwithstanding the capital grant element, which is significant, capital resources are constrained by the capacity to raise capital receipts. In the current economic climate and property market, development potential is very much inhibited and constrained. A significant line in our overall

balancing of the capital programme is held back because of that.

Another constraint is the link with the revenue budget, which self-evidently is under severe pressure. I mentioned an estimated £35 million deficit for Falkirk over the next three years. What we spend in capital flows through to the revenue budget; we cannot isolate the two. When formulating a capital programme, we have to have an eye on the downstream impact on our revenue budget, whether that is on the debt charges that we are repaying or the fact that a new primary school needs to be populated with teachers and has running costs, et cetera. That is an important dimension as well.

Steven Whyte: Within our current five-year business plan, we have a £300 million capital investment programme across Aberdeen. That is financed through a number of sources and capital receipts. We are probably not experiencing a downturn in the level of capital receipts that we get, given the economic bubble in which Aberdeen seems to operate.

We have been looking at how we fund capital through more innovative approaches. We are keen to look at a risk reward model whereby we work with the private sector to identify how we can achieve capital goals, with the council perhaps taking a larger slice of the risk and, conversely, receiving a reward for that. We have a development in the city centre that will not only provide an up-front capital receipt but could provide us with an on-going revenue stream as well.

A few years ago—three or four, I think—the Scottish Government started to give specific capital grant to local authorities, and we moved into a position of trying to reduce our overall general fund debt portfolio. There were a number of reasons for that, although we had quite low debt anyway. The impact of reducing the debt is that it frees up revenue sources that would otherwise be required for capital financing costs, so there is almost a double benefit to us. That has contributed to how we have managed to deal with the most recent settlement period and it is a key feature of the next one.

Richard Baker: I am interested in the innovative schemes that Mr Whyte talked about for driving forward investment, because I am conscious of Mr Smail's point that spend on capital impacts on spend on revenue. Everything that we hear indicates that revenue budgets are under the greatest possible pressure and that their ability to fulfil the Scottish Government's priorities is probably unsustainable.

I want to follow up on innovation and some of the points that Mr Stevenson made about what

could be done to enable councils to reap the rewards of local investment. The Scottish Government mooted the business rates incentivisation scheme. Can anyone tell us whether there has been progress in that area? I know that there has been dialogue between ministers and COSLA on that issue.

Steven Whyte: As I say, we are quite open to innovation and trying to find ways of alleviating the pressure that the UK and wider European economies are facing because of austerity measures. The concept of the business rates incentivisation scheme has a place, but it is quite difficult to analyse it because it can take two to three years to develop out a particular site because of the procurement and planning processes that we have to go through. The business rates incentivisation scheme might have a place, but it would have to be in a more medium-term environment.

On other innovation, we could look at a specific site development within a particular boundary and consider whether there is potential to look at a risk-reward scenario with the council, the local developer and possibly the Scottish Government. There could be some flexibility around the use of non-domestic rates because, ultimately, the development out of a site will result in a higher tax base. We find that the new businesses that are coming in to Aberdeen are displacements from other countries and not from within Scotland, so they do not impact detrimentally on the overall tax base for Scotland.

The Convener: Do Mr Smail and the gentleman from Midlothian want to comment?

Bryan Smail: It is clearly incumbent on councils to find innovative ways forward, particularly in the current climate. A lot is going on. In Falkirk, for example, we recently had our tax increment financing scheme approved, which has the potential to unlock a significant volume of investment directly from the council and, in its enabling capacity, for the wider economy. That is one illustration.

In previous years, there have been variants of the private finance initiative. Our council was one of the pioneers for the non-profit-distributing model for the provision of assets. With that, we need to bear in mind the fact that the outlay for such deals represents a significant locked-in element of the future revenue budget. In my council, the aggregate of our two deals comes to something of the order of £25 million per year. In a climate of austerity, when we are having to review our revenue budgets, those elements are locked in, in large measure. That forces us to redirect efforts to bridge the gap into other areas. There are therefore consequences of particular models.

Gary Fairley: On innovation, I mentioned investment in our school estate, and we are focusing our capital investment on trying to minimise the costs to the revenue account. We recently opened a new combined care hub and housing complex for elderly residents. It is about making sure that capital investments help to alleviate the pressure and high costs of care packages that we might otherwise face.

Valerie Watts: I would like to add something on behalf of Aberdeen City Council. This is an extremely topical subject for us at the moment because we are in the final draft stages of a new strategic infrastructure plan for the city of Aberdeen, with a view to bringing it to council on 31 October. That plan will include all the projects that sit within our existing capital plan, which covers the £300 million that Mr Whyte mentioned. Over and above that will be other aspirational projects for the city over the next 50 years.

We are trying to go about our capital planning in a much less haphazard and piecemeal way and to take an holistic approach over the next few years. Clearly, that needs to be underpinned by our identifying all the potential innovative and alternative sources of funding that we can tap into alongside the existing sources. That will be the critical part of the plan that comes forward, because we have to be realistic about where the money will come from to support the projects.

The Convener: Mr Stevenson has a supplementary question.

Stewart Stevenson: Mr Smail mentioned tax increment financing. Is the market for that sufficiently mature that we have an insight into what discount rate—in other words, the equivalent of interest—is associated with it? If TIF is likely to become part of future economic growth and how cities get access to that, it is important to understand the interest rates that are implicit in such selling of future revenues today to the market. I am not necessarily asking you to give us a figure, because I understand that commercial sensitivity may inhibit your doing that, but I seek to establish where TIF sits relative to other forms of finance.

Bryan Smail: Tax increment financing is a device whereby a view is taken on the potential to unlock future revenue streams in terms of rental income. Inherent in that is a judgment and view on risk. As you would imagine, a lot of detailed and intense modelling has been done to build a safety net and take a prudent view. As chief finance officer, I had to be comfortable that the balance between the benefits of the scheme and the inherent risks was right.

We are currently in an environment in which there are low interest rates. Across the whole

sweep of potential Government expenditure, that is a driver—although it is not the only one, and it is not the only factor—that suggests that this is a climate in which it is opportune to make investments. As I said, however, we need to have regard to a range of other factors that also feature in that equation.

Stewart Stevenson: May I intrude? This is absolutely fascinating, but my question was rather simpler than that. If I may say so, my waffle detector is working a little bit.

The Convener: Mr Stevenson, there is no waffle in this committee. [*Laughter.*]

Stewart Stevenson: I am genuinely just trying to establish your current view—in relation to what is at this stage a relatively immature instrument—on the market pricing of TIF as against other sources of finance that you might have. Is it cheaper or more expensive than traditional borrowing? Is it more flexible? That is the essence of my question.

Bryan Smail: Apologies for the waffle, convener.

Stewart Stevenson: I just said that I was beginning to smell—

The Convener: It was not waffle, Mr Smail.

Bryan Smail: I take the comment in good humour.

From the council's point of view, the element of borrowing that we do has the same marginal cost as any other borrowing. We would borrow from the source—traditionally, the Public Works Loan Board—and the interest rates are what the interest rates are. Whether it is borrowing related to TIF or other borrowing, it is the same marginal rate.

Stewart Stevenson: That is fine. Thank you.

The Convener: Before we move away from capital, I note that you all touched on the impact of capital on revenue budgets. Capital spend can reduce revenue budgets, sometimes over a long period of time. We are quite interested in carbon reduction. I do not know whether your councils have carbon management panels or boards, or whether a specific committee deals with the issue in your authority. Perhaps you can tell us that, but my main question is to ask what influence such a carbon management body has on your capital budget.

Kenneth Lawrie: We do not have a separate committee on carbon management. We have not spent too much time on policy on the matter. The focus is on our estate, and on better energy efficiency and carbon reduction in our buildings. Energy efficiency is one of the key elements of our forward transmission programme.

To pick up on Mr Fairley's point, I add that, when we built the extra care housing, we closed a care home. We are disinvesting from care homes because they are not a good solution. However, carbon management is just a tiny part of that; there are much bigger revenue implications in care.

Again in Lasswade, we opened a new school with fantastic facilities and closed others with lesser facilities and high carbon footprints. The former Lasswade school was the most expensive building in Midlothian to run from the point of view of energy. We closed that school and five others and we now have a much more efficient approach. Our approach to carbon reduction is focused on specific practical projects that enable us to disinvest.

10:15

The Convener: There is no separate board that specifically looks at carbon reduction.

Kenneth Lawrie: There is no separate board.

Bryan Smail: Falkirk Council has a carbon management plan and a corporate working group that drives that forward. The outcome from that feeds into the revenue and capital budgets. In terms of capital, new builds have to meet appropriate criteria, and a programme of building audits is under way to determine the scope for energy savings. There is a programme of conversion of our street lighting to LED. A number of pervasive strands are geared to this agenda.

The Convener: What about Aberdeen City Council?

Councillor Crockett: We have a long-term interest in the subject, which I suppose is natural for an energy city. Political and governance control is shared between two main committees in the council, and we also have our waste group.

The committee might be interested in taking the message about a few of our initiatives elsewhere. The heat and power system in our multi-storeys is particularly noteworthy. Two weeks ago, Aberdeen Heat and Power Company received a global award as the best small district heating scheme in the world. All of Scotland should be pleased with that. The system has an enormous impact on people's experiences. Carbon reduction can also result from addressing issues of fuel poverty—that is important.

The heating scheme is spreading beyond the initial social housing to include private housing and community facilities such as Aberdeen Sports Village and the forthcoming 50m pool in Aberdeen. We have now taken the system into the city centre so that it will incorporate the town house.

More broadly, we play an active role in the European Union side of things. As one small part of that, an initial hydrogen bus scheme will come to Aberdeen in the immediate future, with the potential of a much bigger scheme to follow. There are also plans to use hydrogen to fuel the heat and power. That will be produced by offshore wind—in somewhat controversial circumstances, as some of you will know.

We are hoping to do two things—to make a big impact on people's budgets and to make an impact on European policy.

The Convener: Do you have a separate board? There used to be a separate carbon management board in Aberdeen. Has that gone?

Councillor Crockett: Yes.

The Convener: We have sung the praises of Janice Lyon and Aberdeen Heat and Power Company on numerous occasions in the Parliament. Folk often tell me to shut up about such things but, as you say, it is an award-winning company.

Mr Whyte, you are next, I believe. I understand that your service won some Accounts Payable News awards last night. Well done to you.

Steven Whyte: Thank you.

The Convener: What do you have to add?

Steven Whyte: I was just going to add that almost 90 per cent of our housing stock meets the Scottish housing quality standard. With the recladding of our multis and so on, that will contribute to reductions in greenhouse gas emissions. That is the only point that I wanted to add.

Sarah Boyack (Lothian) (Lab): I want to ask about the financial future facing councils, given the impacts of welfare reform and of the demographic changes that people have talked about and which will need to be addressed.

As Midlothian Council's submission points out, the Centre for Public Policy for Regions has described next year's budget as the fifth year of real-term cuts, with the budget for 2014-15 being "relatively easy" and the budgets for the following few years being much more challenging. Several of the written submissions have suggested that councils might focus on statutory services and move out of discretionary services. Can you give us a flavour of which services might be under threat, if that is not too pejorative a term? Which services might you be unable to sustain in the current financial climate?

Bryan Smail: The climate that we have painted is challenging, as can be seen from the hard figures in our submission about the estimated budget gap facing Falkirk Council over the next

three years. As was mentioned in earlier comments, one way to help with bridging that gap is to focus on priorities, but that requires a clarity and a sharpening of what the priorities are. Indeed, Audit Scotland made the comment that, if everything is a priority, there are no priorities. Therefore, there is an implicit need to make hard decisions.

Our approach to the exercise has been to give all services across the council quite a high savings target, so that we can generate savings options. Those options will then be put to our members, who will decide what they are prepared to accept to bridge that gap.

I know that several submissions have suggested that there will be an increased focus on statutory services—the term “statutory” perhaps provides an inherent rationale for doing so—but, although councils are required to provide certain services, questions can still be asked about the level at which those services are provided. The fact that a service is deemed to be statutory does not mean that it is untouchable, but it must be done to a certain level.

Notwithstanding that latter comment, attention will inevitably be focused on the areas that are discretionary. When resources are plentiful, we can get into the domain of doing the things that we would all love to do, but when the flip-side prevails, as is scheduled to be the case as far into the future as we can reasonably see, we are regrettably into the territory of needing to make hard decisions.

The Convener: What is Midlothian Council's view?

Kenneth Lawrie: First, we feel that savings can be made in all areas, but we would not accept that that means poorer outcomes. The lessons from rebalancing care and from our recent work on bringing in-house the foster care provision that we had previously outsourced is that it is possible to get better outcomes at a lesser cost. We need to endeavour to do that wherever we can.

In our view, given the position looking forward to 2016-17, we will not manage to bridge the gap simply through transformational savings—although that is our ambition—so we will need to make other cuts as well. For example, in our most recent budget, where a relatively small proportion of the gap that we faced was bridged through savings, we felt that we could reduce budgets through a large number of small elements. As we go towards 2016-17 and beyond, the risk is that there will be a tendency to focus more effort on making savings in non-statutory services.

At the moment, the focus is very much on trying to bridge the gap as much as possible by changing the way that we deliver services,

whether through sharing services with others, undertaking whole-system reviews or using significantly different approaches. That will be the majority of what we do, but there will be other bits that we need to cover as well.

The Convener: Does Mrs Watts want to respond on behalf of Aberdeen City Council?

Valerie Watts: The question is very topical for us in Aberdeen City Council, in that just in the last week we have completed our budget exercise for the coming year. We are in the fortunate position that we should be able to strike a balanced budget for next financial year without having to make any service cuts.

I would not want to give the impression that that has been an easy task, as it certainly has not been easy. We have a very robust system of support and challenge that exists across the extended corporate management team for determining and dealing with, and drilling down into, each and every one of the budget lines. Again, that is part of our priority-based budgeting process. That structured approach to budgeting has stood us well over the last number of years—

The Convener: Is that all part of your five-year business plan?

Valerie Watts: That is correct. However, the five-year business plan is very dynamic in nature, in that we review it year on year and some things will drop out and others will be added in.

One exciting piece of work going on at the moment is our work with our community planning partners, who will also be under pressure over the coming years. We have done a lot of horizon scanning, so we now have as accurate a picture as possible, based on existing information and predictions, about what further budget pressures we will face particularly over the next five years.

As a community planning partnership, we know that we need to look at how we can do things differently and provide services in innovative ways. We can no longer continue to do the same old things as we did before. Therefore, as colleagues have mentioned, we need to look at where we can pool budgets, share services and go through whole-system reviews. Ultimately, that is about working collaboratively for the collaborative gain not of our organisations but of the people, populations and citizens that we serve in Aberdeen.

Sarah Boyack: I did not get a sense of what that will mean for different types of services. A lot of the written evidence suggests that local authorities will need to withdraw from certain types of service provision. Is that happening just in other places and not in your three councils?

The answer on statutory expenditure was well given, in that I can appreciate that councils could still provide statutory services while changing how they are provided, but I was thinking about the extra pressures that come from preventative spend, which some of you mentioned. For example, the Midlothian Council submission comments that the council has had to double its spend to start shifting how some services are delivered. How are councils creating the financial headroom to do that, given the cuts that they are facing at the moment?

The Convener: Gentlemen, I ask you to be quite brief in your answers.

Kenneth Lawrie: First, the use of the change fund has been critical in running preventative services alongside the existing services that need to be maintained. Secondly, preventative spend is not always a long-term issue. For example, this year we have saved £400,000 on a £50,000 investment by bringing foster care back into Midlothian Council. That was on the basis of a campaign that a Midlothian child is a Midlothian child and we can provide these services locally. Preventative spend is not always something that is on the distant horizon.

As to where the cuts have fallen, last year we took money out of our devolved school management, where there had been a long history of underspends. From hanging baskets to a writer in residence, there were a number of small savings, but there were no fundamental service changes. We think that, at least for the next two years, we can avoid the big cuts that are a source of concern through transformational change.

The Convener: Mr Smail?

Bryan Smail: As you have asked for comments to be brief, I will simply acknowledge that we face a difficult challenge, which is particularly difficult in the current climate. Were we in a more benign financial climate, we would be in a much more opportune environment in which to make a recalibration, but the current climate makes things just that much more difficult.

The Convener: Mrs Watts?

Councillor Crockett: Let me respond on behalf of Aberdeen City Council.

We need to remember that Aberdeen City Council was already a very skinny local authority, as we are the lowest funded local authority in Scotland. As the chief executive mentioned, one of the background features to community planning is that we share that position with other public bodies in the city. For example, the health board is the lowest funded per head in Scotland. We also have a diminished presence of other public bodies, so we have a small public sector overall. That

provides an incentive for us to work together, and things such as the community safety hub are instances of good practice.

We are already very focused on statutory services and spend a diminished proportion of our expenditure on other things, and the pressures will continue. As I mentioned earlier, we have a clamorous demand for our services to support the private sector. That goes beyond our statutory duties, but it is valuable for Scotland's economic development to meet that demand locally. That work puts pressure on the other things and, as you can imagine, what is left after that is a very diminished field.

10:30

John Wilson (Central Scotland) (SNP): Good morning. Mr Smail talked about financial commitments in addressing the shortfall that Falkirk Council has predicted over the next three years. I want to ask about the impact of the historical financial commitments that have landed on local authorities, such as the costs of private finance initiative and public-private partnership projects, on the recurring revenue costs to which Mr Smail referred. What impact are the financial commitments to servicing the debts that were accrued during the PFI/PPP years having on your projections of what the council will be able to spend in the future?

Bryan Smail: I will give the committee some context. One of our two PFI-type projects is an NPDO—non-profit-distributing organisation—project, so there are differences.

The Convener: Can you just clarify that, please? One of them is an NPDO project. What is the other one?

Bryan Smail: The other is a more traditional PFI deal. The aggregate annual commitments not including inflation, which is building up each year, are of the order of £25 million. If we relate that to, say, the education budget, which is around £166 million, we can see that it is a significant proportion. If we then add our commitments on teacher numbers and probationers, which are hardwired into the settlement—

John Wilson: Sorry to interrupt, Mr Smail, but I want to give you a clear direction of where I am going with this questioning. I am looking for the impact that the decisions that were made 10 years or so ago are having on your budget now and into the future. Some of those commitments will impact not only on the next financial year's settlement but beyond that.

Bryan Smail: The PFI-type deals typically run for 25 to 30 years. Not including incremental increases due to inflation, which are part of the

deal, about £25 million attributable to those deals will have to be paid out of the budget each year for around the next 10 years.

John Wilson: Is that the cost of two schools?

Bryan Smail: No, it is the cost of two deals for eight high schools. That illustrates the point that I was trying to make, which is that previous decisions to use that model have consequences for a good number of years. We are locked into those contracts.

John Wilson: So, £25 million plus inflation is added on for the next—

Bryan Smail: Until the end of the contract.

John Wilson: That is for eight schools.

Bryan Smail: It is for eight high schools. We have all the benefits of those eight high schools.

John Wilson: Yes, but you are paying substantially more for those high schools over the period of the contracts. If you bought the new Falkirk high school, say, from a developer, how much would that school cost to build?

Bryan Smail: The answer to that is multifaceted. I am not trying to be evasive—it is quite a difficult area. One thing to bear in mind is the fact that we would need to compare like with like. PFI-type deals have rolled into them a whole array of services; it is not just about the build cost.

There is literature that shows that, historically, the private sector is better at bringing in such construction projects on time and within budget, relative to the public sector. In making an assessment of costs—as illustrated by those two examples, and there are more—we need to be careful that we are comparing like with like.

John Wilson: That is fine. From the explanation that you have given, it seems that, over the length of the contract, you are talking about spending in the region of almost £700 million to deliver eight schools, at an average cost of about £35 million a school. Is that right?

Bryan Smail: Yes, but what we are paying for each year is a roll-up of an array of services; it is not just the capital cost.

John Wilson: That is a historical commitment.

Would the witnesses from Midlothian Council like to comment?

Gary Fairley: Yes. To put it in context, our budget contributions for our two PPP contracts, which delivered two high schools, a special school and a primary, are in the region of £10 million, out of a revenue budget in the region of £180 million. In that revenue budget, we also have the debt-financing cost of traditional investment in our asset

base, which, in the current financial year, sits at £8.5 million.

The benefit that we have in the revenue budget as far as the PPP contracts are concerned is the level playing field support that was secured from the Scottish Government, which contributes significantly to that cost. I do not have the exact figures, but it is built into the grant settlement and the grant distribution.

The Convener: Was that traditional PPP or was it NPDO financing?

Gary Fairley: I think that it was PFI—to throw another one into the mix.

Steven Whyte: We have our 3Rs project—reorganise, renovate, rebuild. The PPP/PFI payment to the contractor costs us approximately £12 million, and it increases by around £800,000 a year.

I reiterate what Mr Smail said: that includes the whole life-cycle costing of the building. You have to remember that, at the end of the period, the building comes back in the day 1, opening state, whereas with the traditional council build of a property we would probably just have looked at what the capital financing costs were. The whole life-cycle costing of the property would not have been built into that. Part of the attraction of the PFI/PPP-type structure with an external contractor is that at the end of the period—it is usually a 35-year period—the buildings are handed back in the same condition that they were in on the day that they opened.

The Convener: If the contract is right.

For the record, that is an NPDO project.

Steven Whyte: Sorry; you are right—the Aberdeen one is NPDO.

John Wilson: I want to stick with the historical financial commitments. I know that we have representatives from only three local authorities in front of us, but I would be interested to find out how far they have got in settling single status and equal pay claims from their staff. What financial commitments, if any, do you see being applied to that issue over the next financial year?

The Convener: We will start with Aberdeen City Council.

Valerie Watts: I am very pleased to report that we have completed all our single status negotiations. We have settled 99.9 per cent of any outstanding equal pay claims. In the local government game you can always be surprised, but I do not anticipate any further burdens arising in relation to single status or equal pay, particularly over the next couple of years.

Bryan Smail: We have largely completed settlement. Inevitably, the nature of the beast is that there seems to be a constant ebb and flow of tribunal decisions that have implications. In our accounts, we have made provision for a sum of about £4 million to cover potential future settlements, but the bulk of our cases have been settled.

The Convener: On this committee, I have found that the word "largely" can mean many things.

Bryan Smail: Perhaps the scale of the provision gives you the best estimate of what might still be outstanding.

Gary Fairley: We moved to a single status pay structure in 2009 for all previous local government administration, professional, technical and craft staff, and manual workers. We face significant equal pay claims from both sets of staff. We have settled all the claims in relation to former manual workers and we have agreed in principle settlements for former APT and C staff, with the expectation that the claims will be physically settled in this calendar year. If my memory serves me right, the total liability that we have incurred is in the region of £13 million.

John Wilson: I thank the panel for those responses. I am glad to see that we seem to be moving some way towards getting settlements at last for single status and equal pay.

Unison's written submission refers to 30,000 jobs having gone since 2008. Does the panel recognise that figure? Can you indicate how many jobs have been lost in each of your local authorities since 2008 and whether you predict further job losses in your authorities?

The Convener: Please give very brief answers. If you cannot give accurate figures now, we can accept a written submission later.

Bryan Smail: I would find it very difficult to give a figure, but the council has had a no compulsory redundancy policy, so the staff that have gone have done so by voluntary severance. However, going forward, I fear that there will be a different environment.

Kenneth Lawrie: Again, our redundancies have been voluntary. The council has had a no compulsory redundancy policy since May last year. To meet the budget challenge, we are increasingly looking to recycle our staff through retraining and having people working in different roles so that we do not face a different situation.

Valerie Watts: I am sorry, but I do not have the figures with me to which Mr Wilson referred. However, the best guesstimate that I can give is that since 2008 we have probably lost about 5 per cent of the workforce.

John Wilson: What is that in number terms?

Valerie Watts: I would not want to give a figure on that today.

The Convener: You can submit that information to the clerks.

Valerie Watts: It is in the hundreds.

John Wilson: Right.

Sarah Boyack: It would be interesting to have an analysis of the areas in which you have lost staff. I noted that a couple of you talked about the redeployment work that you do. However, other organisations, such as the Royal Town Planning Institute, have raised issues around there being an unparalleled reduction in planning staff. It would be interesting to see across the board what areas you have had to change over the past two years.

The Convener: That would be quite interesting. We would probably get different answers from everywhere, because I know that some areas are increasing the number of planning staff at the moment. If you could submit such information in writing, that would be very useful for us.

I ask you to give a brief yes or no answer to this next question. Aberdeen mentioned the co-operation between various agencies and the community planning partnership. Alongside the budget, the Government published an agreement on joint working on community planning and resources, which contains a clear direction to CPP partners that they should share budgets. Is budget sharing going on in the CPPs that your authorities deal with?

Kenneth Lawrie: A very positive joint approach to it is just starting.

Bryan Smail: At the moment, there is an alignment of budgets, which will develop.

Councillor Crockett: As I mentioned earlier, an example is the community safety hub.

The Convener: Are there plans for more?

Valerie Watts: Yes.

Councillor Crockett: I hope so.

The Convener: Okay. I thank you all very much for your evidence today. We took a little longer than we probably expected, but we had a great deal to cover.

I suspend the meeting for about 10 minutes for a change of witnesses.

10:44

Meeting suspended.

10:53

On resuming—

The Convener: We move on to our second panel of witnesses. I welcome Dave Watson, Scottish organiser of Unison, and Dave Moxham, deputy general secretary at the Scottish Trades Union Congress.

Can you tell us what impact the 2011 spending review settlement had on local authorities and your members?

Dave Watson (Unison): As you will have gathered from our written evidence, our main concern is that the cuts that have been imposed on Scotland by the Westminster Government are falling very heavily on local government. I think that that has been the trend since the financial crash and the introduction of the current austerity economics.

However, it is important to understand that the Scottish Government budget allocation is only one part of the story. If we were sitting round a table today in a local authority in Scotland for a meeting between the trade unions, the director of finance and others, part of the discussion would be about the cut in cash, but there would also be a discussion about another column, which councils tend to call “unavoidable commitments”. The numbers in that column are often three times larger than the cash cuts and relate to the issues that have already been identified around welfare reform, demographics and so on.

We are also concerned about the pressures for the next couple of years—and, indeed, the following year. I read the CPPR report, and things do not look very easy to me over the next couple of years. Certainly, there is great pressure on the revenue budget, which we highlight in our written evidence.

Members asked the council representatives a lot of questions this morning. From the finance side, you got broad-brush responses on the big numbers. We recently asked councils specific questions about specific services and backed that up with surveys of our members who work in front-line services. We often do such exercises with quite small services that do not get the publicity that environmental health, trading standards and the like get. Staff respond that they manage the cuts largely by cutting corners, cutting out reactive work and not doing work in what we would call preventative spend areas. In some cases, they simply do not do things any more; they simply cut out services. In other cases, they simply move things round in the hope that no one will catch up with the fact that something is not being done. It would, of course, be remiss of me not to point out that the bulk of the savings has come at the expense of staff pay and jobs. The savings have

come at the expense of job numbers and in the pay freezes that local authorities have imposed on staff over recent years.

The Convener: Before I bring in Mr Moxham, Mr Wilson was desperate to get in.

John Wilson: I was not desperate, convener.

The Convener: I misread the signs.

John Wilson: On the cuts, Unison’s submission says:

“30,000 jobs have gone since 2008.”

That is a headline figure for the newspapers if I ever saw one. Where have those losses happened? You will have heard me ask the local authorities in the earlier session how many losses there had been. I think that Aberdeen City Council said that there had been a couple of hundred.

Richard Baker: Hundreds.

John Wilson: Well, 5 per cent of its overall workforce. Have 30,000 jobs gone globally, across every local authority? Are they genuine job losses, or have jobs been transferred over to arm’s-length external organisations, as in Glasgow’s case, where 3,000 staff were transferred to an ALEO? I am trying to break down the figures to see whether there have been genuine job losses in local authorities or whether jobs have been transferred to other organisations for different reasons.

Dave Watson: The bald number is 34,500. That figure comes from the numbers from the Scottish Government and the UK Statistics Authority. There is a good way of testing the position for local government. By my calculations, those in local authorities make up 57 per cent of the whole Scottish budget workforce, but they have taken 67 per cent of the cuts. In workforce terms, a disproportionate number of job cuts have come from local government.

I know that Audit Scotland has tried to do some work on the matter. It has tried to take into account both the numbers in ALEOs and the numbers in the Highland care integration model. The number for local government is broad and simple: it is 34,500. Audit Scotland is trying to do some more work on that, but it is not easy. I think that its report will be published fairly shortly, and a slightly more accurate figure on staff transfers will be offered.

Dave Moxham (Scottish Trades Union Congress): I will not add too much on that specific point, except to deal with the issue of compulsory redundancies versus voluntary redundancies. Obviously, we welcome the fact that we have been able to achieve job losses through voluntary means up to this point. It is important to stress that that would be our expectation. By and large, local authorities are fairly large employers, and we

welcome the fact that they are managing to deal with the redundancies that they are implementing through voluntary means. I was slightly concerned to hear from at least one council the implication that that might not be the case in future years. However, it is important to stress that those are real job losses. Colleagues will not have someone next to them to deliver the function that they are looking to deliver.

11:00

I particularly stress that some of the impacts that Dave Watson has outlined in relation to pay—stress in the workplace and difficulty of delivery—are cumulative and will impact on the aspirations of this committee, the Scottish Government, local authorities and other public service providers to achieve positive public service reform. During the earlier evidence session, we heard a great deal about changes to systems and managerial approaches to delivering services more efficiently. At the end of the day, those services are delivered by front-line workers on the ground. Those are the people who will need the skills and motivation to be able to deliver the change that is aspired to.

The budgetary settlement is not an easy one and it is important to bear in mind the fact that its impact is not just on the day-to-day lives of the staff or the service that they are delivering today but on all our aspirations to deliver better public services in future.

The Convener: We heard from the councils that single status has more or less been implemented. Aberdeen City Council was quite specific that it was 99.5 per cent implemented. If I had been answering for Aberdeen City Council, I would have said that the figure is much higher than that. Which councils are still failing with single status, what is the impact of failure on your members, and what will the impact be on those local authorities' budgets, given that they will have a number of compensation payments to make?

Dave Watson: We set out some information on that in our written evidence. You will know that two groups of claims are outstanding. The first concerns some of the pre-single status claims, which have been outstanding for the longest time. We reckon that about 20 councils have not yet settled. In fairness, some of those councils are looking at a very small number of cases—you will be pleased to hear that Aberdeen City Council is one of them—but the cases are still there. In some cases, settlement has been delayed because the councils are waiting for the North decision, which concerns a Dumfries and Galloway Council case in which one of the outstanding legal issues was settled. As a result, we are making some progress in reaching negotiated agreement.

The second group of claims are essentially system challenges. They are essentially post-single status claims and are more difficult to quantify because they are about continuing discrimination, so there will be on-going cases to be raised.

The point is that it is difficult to find the cost. We are adding up what councils have said they have allocated, but all that will tell us is what councils have put aside—or the least that they will admit to putting aside—for compensation payments. If you go through all 32 councils and look at their reserves, and then look at the reserves that are allocated for equal pay contingencies, you will see a number. I cannot give it to you at the moment; we are looking at the situation in the context of the current budget.

The Convener: Can I stop you there? A number of years ago, there was an interesting case involving a council—I will not name it—that had allocated reserves for compensatory payments and implementing equal pay, but those reserves suddenly became unallocated and were put into something else.

Dave Watson: Yes—there is a variety of scenarios. In fairness to finance directors, it is very difficult to find the number. Essentially, they know that a big number is coming along but they do not know how much it is. Some of the legal issues might be uncertain, as are the numbers that come through and the amount of compensation. It is not easy to allocate an accurate sum of money in reserves—they might not have an accurate figure until they have paid it out. The figure that I referred to would be indicative—I will not say more than that.

The Convener: It would be fair to say that failure to settle, as well as causing people woe, adds to the local authority's financial burden because of the amount of compensation that will be required.

Dave Watson: There is certainly that to consider. I also point you to the huge legal fees that councils are paying out, usually to external lawyers, and usually because they are pursuing technicalities. They have won no cases. Essentially, all the challenges that have been made in relation to technicalities have been defeated in court. People—mainly women—are not getting their compensation and the council is paying out money to private lawyers. No one is winning from that.

Dave Moxham: I have nothing in particular to add.

Stewart Stevenson: I want to pick up an issue that I pursued with the previous panel to see whether you have a view on the distribution formula. With different pressures on different

councils—your members will be very aware of them—and pressures to come in the long term, what would trigger a revisiting of the distribution formula for such resources as are available for local councils?

Dave Watson: For any national organisation, playing with distribution formulas is always difficult. Whatever you do, there are winners and losers. The winners keep quiet while the losers make a lot of noise; that is the nature of such situations.

That said, I was an expert adviser to the Christie commission, and we looked at the issue in some detail. Needless to say, we did not go as far as recommending a new formula; there was not the time nor, probably, the political will to get involved in that morass.

In relation to spending, we need to look at the fact that the current formula is too weighted towards population and not enough towards deprivation. The Christie commission talked about the 40 per cent of spending that is failure spending. It is not just a case of giving the money to one local authority over another. We have to drill down.

When we looked at the issue, what hit us was that even within council areas, there were very particular areas of deprivation, which is where the money needs to be focused, and councils that have many areas of high deprivation will also have pockets of leafy suburbs. In our view, our councils are very large—although if you read the Confederation of British Industry Scotland's submission you will see that it does not agree with that. Councils are rarely local in that context so, on that basis, we need to narrow our focus.

Yesterday the committee clerks sent us some of the papers that have not yet been published, and the paper from Renfrewshire Council makes some valid points about education spending and how we need to focus more closely on deprivation as a factor as opposed to population, which is currently the main driver.

Dave Moxham: I echo that point, particularly in relation to deprivation. We have seen the positions that some of the cities—particularly Glasgow—have recently adopted. I was privileged to be in Orkney for the islands event a couple of weeks ago, and it is clear that the future of local government funding and powers might be asymmetrical to an extent. Dave Watson alludes to the idea that we need to focus on pockets of need, which throws open the question of how we deal with Glasgow. Our position is that, if anything, Glasgow needs its tax base to be broadened rather than narrowed any further. How can we match that approach with one that addresses the real and different needs of the islands while maintaining some level of democratic

accountability? Those approaches are not symmetrical.

Stewart Stevenson: The distribution formula is a power that lies essentially with local authorities. I and others want to empower local authorities and give them more powers—particularly when there are more powers to distribute, but generally in any event. Is not there a litmus test of whether that will work, which is for councils to tackle the power that they have now to make a decision on distribution? If councils are unable to make that decision and essentially end up delegating it upwards to Government, which might be the alternative, it becomes difficult to argue that councils should get new powers. Do you have any sympathy with that analysis?

Dave Watson: I can understand the frustration on that point. Clearly, distribution formulas are difficult when you have 32 councils. The three councils this morning would all have a different view. It is a difficult area.

Councils have about 25 national outcomes, but delivering on many of them does not simply rely on council funding or actions. I would say the same of the national health service. There is a view that health is the NHS budget. Well, self-evidently, it is not.

As the Christie commission highlighted, instead of having silos, we can start to look at some budgets differently. If we start to look at outcomes and ask how we are spending the budget to tackle health inequalities, we will begin to see the Scottish Government's budget allocations very differently and we will start to break down those silos. There is no ducking difficult decisions in the current climate, but that is a better way of looking at budget allocations than trying to persuade councils to do a deal—or a classic fix. What happens is that all the finance directors tell their politicians, "Let's work out whether we are winners or losers", which makes for a very difficult negotiation.

Richard Baker: The Unison submission focuses on how the current budget settlement allows councils to meet the needs of the most vulnerable in our communities. I want to ask two questions on that area, the first of which is on preventative spend. Mr Watson referred to his work on the Christie commission. One of the big areas of focus that came out of that was how the public sector could do more in terms of preventative spend. We have all been very supportive of the Scottish Government's efforts in that general policy area.

I got the impression from the Unison submission that that policy is being undermined because of the Government's approach to the local government funding settlement, and that a number

of preventative services are underfunded, which is potentially undoing some of the good work. Is that a fair representation of Unison's argument, Mr Watson? Could you give us more detail about the impact of that approach?

Dave Watson: In our surveys, we specifically ask staff how they are coping with the financial cuts. The one thing that consistently comes back is that service after service is actually having to cut back in the preventative areas. Let me give trading standards or environmental health as an example. In the past, rather than simply say, "You've failed regulation X," staff would go out to companies and small businesses and try to help them to comply with regulations. Many of the staff in those areas say that they no longer do that. The pile of planning applications or inspections comes first, and the preventative, educational work just goes by the board.

The same is true in areas with bigger budgets, such as care and education. Home care work is a classic example. In years gone by, home care workers would have spent part of their time with the individual. You have heard about the 15-minute care visit. Some of my home care members would tell you that that is a luxury in some parts of Scotland. They rush in, do what they absolutely have to do and rush out again. Time spent checking whether the client is okay and giving feedback to the general practitioner and to the supervisor—when they have a chance to have a cup of tea and talk to them—is largely going because people are doing just the bare minimum to get by.

Richard Baker: So the issue of staff reductions has been absolutely crucial.

Dave Watson: Yes. It is down to time. Staff do what they absolutely have to do—the things that they will be hit over the head for. I am afraid that the preventative things go by the board.

Richard Baker: My final question is on how the current approach to local government funding encourages equity in our communities. You will both be aware of the thorny debates that take place in the Parliament about whether the council tax freeze has been funded properly or nowhere near properly. The Unison submission makes the point that that policy has particularly benefited those on higher incomes in more expensive properties.

However, Unison has also uncovered evidence in a number of authorities of rising charges—charges that tend to affect some of those on the lowest incomes in our communities. Do you think that that situation is going to get more acute? What must change to ensure a fairer settlement for those on lower incomes in our communities?

11:15

Dave Watson: Our position on the council tax freeze is well known—we have debated it in a number of places. The briefing from the Scottish Parliament information centre shows that the figure for the council tax freeze is now up to more than £2.5 billion, and we argue that local government could use that money to tackle some of the inequalities and other agendas. We do not think that spending it on the council tax freeze is the best use of that money, because that clearly benefits the bigger households the most. We summarise that in our written evidence on the impact of charges—and charges also tend to be regressive, in that a lot of them hit those who need to use services the most.

My plea is a non-partisan one that recognises that nobody likes paying taxes and that tax freezes are always very popular. Inevitably, it is not popular to say, "We could have used that £2.5 billion." I am not going to stand for election, but I understand the difficulties. I think that we, COSLA and others would make a plea to you all, as politicians, to sort out local government finance. However, to be frank, if you all keep looking over your shoulder for the political advantage that another party will take from it, we will never get there. Our call is for a cross-party approach to sorting out local government finance. I refer members to the work that Peter Burt did before 2007. You might disagree with his conclusions, but his analysis is sound and thorough—I always take people back to that work. My perhaps hopeful plea is for you to try to develop a cross-party solution for local government finance, because that is probably the only way in which we will sort it out for the long term.

Dave Moxham: I will try to answer both questions briefly, but it is always difficult to speak after Dave Watson, who is complete in his answers.

I will make just a brief comment on early intervention. I know that the Scottish Council for Voluntary Organisations is represented on the next witness panel. We should not underestimate the place of the third sector and community organisations in early intervention, in which many of our members play a role. I think that we all know that the cuts to their budgets are just as, if not more, acute. Some of the best early intervention work is undertaken by our members in the third sector.

On the council tax, it is important to stress that because the council tax is not a classically progressive measure, that does not mean that it is not redistributive. I think that there is sometimes a confusion between the two issues. Dave Watson identified clearly in the Unison written submission

how the council tax is redistributive, however it is described as a tax in itself.

The question is whether the council tax freeze is being fully funded, but in a sense that does not matter. We are having a discussion that recognises that the context of local government funding, compared with ring-fenced funding for health or other areas, is that things are hard and that any lever that it is open to the Government to introduce to make things better should be pulled. The council tax freeze is such a lever, irrespective of whether it is being fully funded.

Sarah Boyack: I will just follow on from that point. The SPICe briefing is very useful because it shows the £2.5 billion that the council tax freeze costs, but it also highlights the £460 million or £480 million that is not in the system and would be required to fund it fully next year.

The question is the sustainability of local government finance. We heard earlier from the councils that they are having to reshape their statutory services and pull back from discretionary services. In the context of new pressures, Dave Watson referred earlier to the Christie commission pressures. Can you indicate what the staff implications are in terms of the capacity of local government to deal with the new challenges?

Dave Watson: To some degree, one or two of the earlier speakers from the councils hinted at this.

We all pick up on the situation with statutory and discretionary services—the Joseph Rowntree Foundation report focused on it, too. The sense that I get from our members is that the differential is not as big as is depicted. One reason is that a service might be a statutory service but the level of its service provision will not necessarily be laid down by statute. For example, there is a libraries act that says that councils must provide a library service, but it does not say how many libraries—per head of population, for example—there should be. One council said to us when we were arguing about its outsourcing to a leisure trust that its legal obligation is to have one building with one book in it. I would challenge that legal view, but it illustrates the point about the statutory requirement.

A more important differential is probably between the things that are statutory for good reason—that is, there is a requirement to deliver them—as distinct from discretionary spend on things that have benefits but for which no one will drag the authority in front of a court. The chief executive of a local authority will therefore focus on the things that they might get dragged in front of a court for, rather than on the other things.

We have recently published reports on statutory services such as environmental health and trading

standards that demonstrate that, even when there are statutory duties, councils are just dropping things. If you ask any environmental health department how many health and safety inspections it did last year, it will tell you that it did precious few. It will also tell you the same about its food safety inspections. We published a fairly detailed report on food safety recently. Frankly, the feedback from our members was horrific in terms of what they are not doing regarding inspecting food premises. Even when there is a statutory service, the level of inspection that is going on is being reduced.

Dave Moxham: Having complained that my answers were not being taken first, I do not have anything to add.

Sarah Boyack: We heard earlier in the meeting regarding the impact of austerity and welfare reform that there has been quite a sharp increase in rent arrears. Clearly, there is an issue about how councils will manage the flat cash, real-term reductions and the massive increases in pressure on their services. Do your members have a perspective on the capacity to provide services?

The Convener: Mr Moxham is first this time.

Dave Moxham: A particular concern for the STUC, on which we have been campaigning generally, is how councils will deal with the range of welfare impacts, particularly the impact of the so-called bedroom tax. We understand that the Scottish Government has made available some significant money for discretionary housing payments in order to deal with that, but I believe that local authorities are still looking for up to £20 million for that specific measure, which is of course only for the impact of the bedroom tax.

Outwith the budget, the impact of third agency policy on local authorities and therefore on housing revenue streams will be enormous. Dave Watson will probably speak about this in more detail, but there is also a specific impact on the staff who deliver the service. We are already hearing of examples of additional work pressures and about unfortunate incidents when housing staff have to deliver the policies at the sharp end.

The Convener: I want to follow up on that. The stress of welfare reform is having an impact on staff across many local authority services. It would be fair to say that a number of your members who are in work are also in receipt of some of the benefits that might go.

The Welfare Reform Committee has looked recently at the distribution of the Scottish welfare fund, community care grants and crisis grants. It seems that the percentage spend is not as high as one would have expected it to be at this moment. Do you have any feedback from staff, many of whom are new to dealing with the current type of

applications, on how they are handling that, the level of training that they have had from local authorities and whether they have the right support in dealing with the stress that they are experiencing while dealing with those very unpleasant applications?

Dave Moxham: I imagine that Dave Watson will be able to comment on the general picture for the staff who deliver the services. My comment is on the different approaches and policies that different councils have adopted.

I again come back to the bedroom tax. We have observed that housing officials are receiving very different levels of direction on how to go about the business of dealing with exemptions from the bedroom tax, with the distribution of DHP and with applications. The guidance on DHP from the DWP is very permissive in terms of what councils may do to promote it positively. One observation would be: are there enough staff to do that work? The other issue is undoubtedly directional, because a little bit of a postcode lottery is developing in how different councils are dealing with both the welfare fund and issues such as DHP.

Dave Watson: Welfare reform is often posited as being about worklessness and people who are not in work but, as you probably know, about half of the people who it has an impact on actually work. Given that local government has the biggest chunk of the low-paid workforce in the Scottish Government area, many of the staff who are dealing with welfare reform themselves face cuts in the support that they receive. They therefore have a certain empathy with the members of the public who come to see them.

On the specific reforms, as you know a number of pilot schemes have operated across Scotland to test some of the systems and so on. I have not seen all the evaluations—in a number of cases they are very late—but, from talking to the staff in some of those areas, I know that each one deals with a very specific area, so we still do not have a very clear picture about how everything will work. Guidance is therefore somewhat limited.

Another concern is obviously about the scale of budgets. Long experience of dealing with discretionary budgets of this type tells us to be cautious about spending too soon in the year, in case we run out of money. History has told us that that has been the case in the past, so there is an element of caution. A lot of our people are not involved in those decisions. They do not see or manage the big-picture budgets; they are given guidance and have to deal with the day-to-day impact.

Later this month we will publish our annual survey of violent incidents. Last year's figures demonstrated an increase in violent incidents at

the front line, because members of the public who are being affected very badly by welfare cuts are taking that out on people who work at the front line. Of course, it is our members rather than the politicians in Westminster who have to face the public's anger about decisions over which they have no control.

Sarah Boyack: I will ask about forward planning for next year, because you mentioned the extra cash that has been made available this year. One issue that was raised in the previous evidence session is the difficulty that a one-year financial settlement creates for people when it comes to forward planning. Do you have any views about the future financial sustainability of local government?

Dave Watson: Dave Moxham made the point about the voluntary sector. We have sympathy with the view that one-year settlements are a problem for that sector—they are also a problem for local government.

In essence, we cannot plan on a one-year basis. I understand the political basis for having one-year settlements, but they make it very difficult as organisations tend to have to rely on short-term staffing arrangements, which means that the staff do not get to work in an area in the long term and organisations do not develop expertise. Do people want to work in an area in which funding is for a year or in areas where funding is more guaranteed over a longer period? If things are partially funded, we get into discretionary areas—if something can be only partly funded, there have to be judgments about who gets the funding and who does not. Again, it tends to be quite junior staff at the sharp end who end up having to make such decisions.

Sarah Boyack: I have a brief supplementary question. One issue that we are looking at is the investment in resources to deal with climate change. Given that there is a reduction in the number of staff, what staff issues arise in that area?

11:30

Dave Moxham: I will make a general point that is in tune with the answer on preventative spend. If your ambition across any discipline is to maintain and enhance an employee base that is able to be aware of and promote climate change activity, one of the first things that will go in the circumstances that we are in is the capacity to do that. I do not have any particular evidence that that is currently happening, but I would be surprised if it did not.

The Convener: Do you have any idea whether any council has union members on carbon management boards or panels? From personal experience, I have found that some of the greatest

savings ideas have come from folk who have worked on the front line.

Dave Watson: Councils have pointed and will point to a number of initiatives, and members have probably seen the Improvement Service's work and other work that has been done in the area. Generally speaking, even before the current public sector duty came in, councils had a pretty good record of taking climate change initiatives. We have always said to councils that many of those things deliver savings and that there is not always a cost. Sometimes there is an up-front cost, but there is often a medium to long-term saving in doing those things.

Our one criticism—I made this point because I was a member of the Scottish Government's working group that drafted the guidelines for public authorities—is that the whole approach is a bit top down. It is what I call the heroic leadership model that is supposed to deliver everything. The guidance will say, "Chief executives will boldly go where no ecowarrior has gone before and will do all this." Frankly, that does not work. All the best schemes have been developed from the bottom up.

I was closely involved in a scheme in South Lanarkshire that was funded through the climate change fund. Not many schemes in local authorities have come from that fund, but there was very much a bottom-up effort in South Lanarkshire. Staff worked on the issue, generated ideas from other staff from the bottom up, and fed them through.

My direct answer to the question, sadly, is that there is not always staff representation on carbon management boards. There tends to be a top-down, boss-knows-best attitude that does not take always take account of the ideas that staff can generate.

Dave Moxham: Taking a liberal and policy view about facility time and the time that trade union representatives are afforded to do their duties can only help rather than hinder, but, generally, the direction on that has not been positive in recent years.

John Wilson: Before I start my questioning, I draw members' attention to my entry in the register of interests.

It is always useful to hear Dave Watson speaking on behalf of Unison members in Scotland, but I am slightly disappointed that Unite and the GMB could not provide witnesses for today's session, as it is always useful to hear from a broad range of unions. We have Dave Moxham from the STUC, but it would have been useful if the GMB and Unite were here, as well, to give us their views on what is happening.

I want to go back to Unison's submission. Under the heading "New and extra charges", it compares rental charges and the council tax, and it mentions increases in rent of £900 a year. I have looked at the figures. Over almost a six-year period, some of the charges have gone up. Unison has given a detailed example in relation to Edinburgh, where rental charges have risen by over £1,200.

How can Unison compare rent from council tenants who rent houses with the general revenue account? Rental income goes into the housing revenue account and cannot be touched by the general revenue account. I am trying to decouple what Unison's submission is trying to say. It is clear that it matters what a local authority charges in rent, but it would have no impact on the general revenue account or on whether council tax increases take place, because the accounts are entirely separate and should be operated as separate accounts by local authorities. Why is Unison making the rental incomes comparison rather than making comparisons involving other local authority charges? I know that you have made some comparisons.

Dave Watson: The first thing that I would say is that, although you are generally correct, the ring fencing of housing is only one-way ring fencing; it is not two-way ring fencing. Essentially, it is open to councils to raise rents and put the money into the general fund. They cannot take money from the general fund to put into housing, but they can do the opposite. I have no idea whether they are doing that, but it can happen.

We highlighted the impact on people's pockets of a range of charges; we did not make an automatic link between the charges and the council tax freeze. It is difficult to do that because people will give a variety of reasons for increases in charges. We are saying that there is a statistical correlation between the two—charges have been going up at the same time as the freeze has been in place. We have highlighted a range of charges in areas that are not ring fenced in any way, such as school meal charges, both in our submission and in our more detailed briefing, to which I draw the committee's attention.

Part of the problem with the charging data—which the committee is welcome to pore over—is that it is enormous, so it is extremely difficult to draw themes from it. A member of my staff spent weeks making freedom of information requests and poring over the data. There is no consistent theme on charges across Scotland, and there probably should not be, either. The material is enormously detailed, but we have given the committee a series of examples of how people are being affected. Very often, it is the people who can least afford to meet those costs who are affected.

John Wilson: I take on board your point about the housing revenue account. I was not aware that housing revenue account money could be transferred to the general revenue account. I will speak to a couple of local authorities about that, because it was my understanding that the housing revenue account was ring fenced and could not be used for general revenue account expenditure. I will check that out because, as a councillor, the advice that I received was always that that money could not be touched.

The Convener: I think that we probably require a briefing from SPICe. I understand that there are possibilities in certain areas, although everything is, of course, challengeable. In the past, some local authorities have paid for things such as grass cutting out of the housing revenue account, but decisions can be challenged. It would be a good idea for us to get a briefing from SPICe to clarify the situation.

Sarah Boyack: I agree, because one of the councils made the point that the potential increase in rent arrears could impact on new social housing expenditure. This is an area in which it would be useful for us to get some of the numbers down on paper.

The Convener: It would be a good idea to get a general briefing on the use of HRAs, including how they are used to finance capital spend on new housing.

I am sorry, Mr Wilson—I interrupted.

John Wilson: Thank you, convener.

Dave Watson is right that we can see the correlation: some local authorities have attributed the fact that some charges—such as those for school meals—are going up to the council tax freeze.

There is another correlation that can be made. A common complaint that I receive from many constituents is that, because of the transfer of council services to ALEOs and to PFI/PPP companies, some of the charges for the use of schools or the rental of facilities that they operate are a lot higher than they would have been if the council had provided them. Some of the increases in cost could be attributed to the fact that such facilities are managed through arm's-length companies rather than directly by local authorities.

Dave Watson: I suspect that that is probably not well covered in our survey. One reason for that is that the freedom of information laws do not cover contractors, although they are going to cover ALEOs.

SCVO made an argument about transparency; I notice that it did not quite say that its members should be covered by the same level of transparency, which is an issue on which we have

sparred with it in the past. The same applies to PFI schemes, in which contractors are involved. We think that it is entirely wrong that people who accept the public pound and deliver public services are not open to the same level of transparency as local authorities are. That is important.

We can only provide anecdotal evidence. The survey work to which I referred in our written evidence is largely based on FOI requests from local authorities.

John Wilson: I am on record as supporting openness and transparency on the part of all who receive the public pound.

An interesting aspect of the debate that we are having about the budget is the issue that has been raised of NHS budgets remaining constant and local authorities taking a bigger hit. Does Mr Moxham or Mr Watson want to comment on how we can redress the balance? In a finite budget, decisions have to be made about how we spend those resources. How do we provide a balance between protecting the NHS and protecting local authorities?

Dave Moxham: I will be relatively brief, because I think that, to an extent, Dave Watson has already answered the question.

This will not happen in the next year or two, but the STUC is generally in favour of an approach to budgeting that removes health ring fencing. That is not because we do not want to spend money on health, but because we view health spending in the round. You will understand that we will not say today, without a broader investigation of how it might be done, that health ring fencing should be removed tomorrow. However, the general approach must be about how we can maximise health rather than about how we can ring fence the budget as it is currently described.

Dave Watson: I think that I answered that question earlier; I agree entirely with Dave Moxham.

The Convener: I thank you very much for your evidence, gentlemen.

I will suspend the meeting for about 10 minutes for a change of witnesses.

11:41

Meeting suspended.

11:49

On resuming—

The Convener: We move on to our final panel of witnesses for today. I welcome Jenny Stewart, who is the head of infrastructure and government

at KPMG Scotland; Jenny Bloomfield, who is a policy officer with the Scottish Council for Voluntary Organisations; and Finlay Laverty, who is senior head of commercial development at the Prince's Trust for Scotland.

We heard from the previous panels about the third sector in particular. I would like to know about the impact of the local government settlement on your organisations. From my perspective, it would be interesting to hear about areas in which you are funded by more than one local authority. I will give you an example. This week, I visited Drugs Action in Aberdeen, which deals with two local authorities. One of them, Aberdeen City Council, gives Drugs Action a five-year settlement, and the other, Aberdeenshire Council, gives it grant funding for a shorter period, which will, as I understand it, shortly move on to spot funding per person that the organisation sees. What difficulties and tensions does such a situation create?

Jenny Bloomfield (Scottish Council for Voluntary Organisations): Long-term funding is a big issue for our sector. Our sector does a lot of work in areas that have severe difficulties with long-term issues such as drugs and homelessness, and we need to be able to take a long-term approach to those issues. Quite a few councils are offering only one-year funding. Some offer slightly more than that but we have to reapply every year. Those are real issues for organisations right across the sector.

At the turn of the year, SCVO did a mapping exercise on the impact of welfare reform, which is impacting severely on organisations in our sector and the people whom they support. Almost 50 per cent of the organisations came back to us and said that they cannot plan for the future because they are not getting long-term funding from councils. Since then, we have spoken to other organisations and found that that is also an issue for them. It needs to be addressed.

Your example of a situation in which one council offers three-year funding while another does not shows that the issue is not necessarily to do with the funding that comes from central Government, or from the Scottish Government; it is about what the local authorities do with that funding.

The Convener: Mr Laverty, do you have any comments to make on that point?

Finlay Laverty (Prince's Trust for Scotland): It is interesting. We have some good examples of our securing long-term funding from local authorities. Our job as a charity is to work to help young people who are disadvantaged and furthest from the labour market to get into jobs and self-employment.

When an organisation has a constructive relationship with a local authority, it can look at

how to deliver services more efficiently and how to innovate, and the relationship becomes more like a partnership. The Edinburgh guarantee is a good example. A range of voluntary organisations and statutory agencies have knitted together to come up with far-reaching solutions. Sitting behind that is a three-year funding plan for the Prince's Trust for Scotland, which gives us a bit of confidence that we can invest in and hold on to our staff, and we can work with the local authority to change what we are doing and make it fit a particular area.

I would absolutely welcome more long-term funding. There is not enough of it and it is applied inconsistently across Scotland. Where it applies, our organisation can add significant value to the thinking of the local authority.

The Convener: Can I ask a cheeky question? I have found that some funding decisions are not policy decisions per se, but come down to personalities. Is that a key factor in agreements on longer-term funding?

Finlay Laverty: It is often about how the local authority prioritises its discretionary spend. I have found youth employability and enterprise to be quite high on the agenda across local government. If we can secure relationships at the chief executive or corporate level within the local authority, the discussions are a bit easier.

Jenny Bloomfield: I agree with Finlay Laverty on that. The third sector as a whole works very hard to build up relationships. Its main concern is to support the people it works with and for—its service users and clients. Part of that involves building up relationships with local authorities, and everyone across the sector does that to the best of their ability. I do not know whether there are personality clashes on occasion. Maybe there are, but that should not impact on funding decisions.

The Convener: I was thinking not so much of clashes but of what are seen as priorities. The City of Edinburgh Council and its partners obviously see the Edinburgh guarantee as a priority. It may well be that you have a three-year funding settlement for that, but others do not have a three-year funding settlement. I was not really talking about clashes.

Jenny Bloomfield: Anecdotally, my understanding is that some areas of the sector do better than others in particular council areas. One organisation will get two-year funding from a particular council, but another organisation that works in a different area will not.

The Convener: Thank you. Jenny Stewart, do you have any comments on that area?

Jenny Stewart (KPMG): Yes, indeed. I will register a couple of interests before I comment on that. As you know, I have my public sector role for

Scotland for KPMG, and a wider UK role—there is a group of us who run our UK public sector business. I am also a non-executive director of two charities, Volunteer Development Scotland and the Royal Lyceum Theatre, and I am a member of the CBI public sector group. In the past two years, KPMG as a whole has advised more than 200 public and third sector organisations across Scotland, including 22 councils.

On third sector interaction with local government, you may be aware that the Scottish Government runs a large-scale programme called third sector development, which we and a number of social enterprise partners are supplying. Its purpose is to work with the public sector to help it to develop its procurement skills and work more effectively with the third sector. The Scottish Government has a key policy objective to develop the third sector in that way. That interesting programme has been going on for about a year and a half and it continues to roll forward. Some good examples are coming from that regarding the development of skills in the public sector as a whole, including in local authorities, and how local authorities can engage more effectively with the third sector.

The Convener: I turn ever so slightly away from the local authority aspect towards the community planning partnership aspect. You probably heard the earlier evidence about joint budgeting. Some third sector organisations have services procured from them by health and local government at the same time. Has the CPP situation helped? Is the third sector represented fairly in CPPs? Are you seeing any positive changes as a result of those joint budgeting priorities for the voluntary sector?

Jenny Bloomfield: There has been quite a lot of unease in the sector about how community planning partnerships have worked. There is a feeling that the third sector is seen as an add-on to them rather than as a partner within them. In the past 10 years, CPPs have often operated with local authorities and the NHS working together and the third sector being called in when necessary, as opposed to all the parties sitting round a table.

The third sector interfaces have helped to improve that situation. The sector as a whole, and certainly SCVO, is hopeful that, moving forward, CPPs will really work. Audit Scotland's recent report stated the problems with CPPs, and I know that the Local Government and Regeneration Committee did its own work on how local authorities work and their attitudes to working with the third sector and other partners. More can definitely be done on that and we hope that that will happen.

12:00

The Convener: Do you think that community planning partnerships could do more in relation to budget planning?

Jenny Bloomfield: Yes, definitely.

The Convener: Mr Laverty, do you have a view on that?

Finlay Laverty: I have just one point to add. As a Scotland-wide charity, we work with all 32 local authorities and our work in getting disadvantaged young people into jobs and business has an impact on welfare, health and justice budgets. In our experience, the stronger the correlation between those budgets, the easier it is for local authorities to see returns on their investment. Therefore, we would welcome any further linkages between those budgets in order to progress our case on preventative spend.

The Convener: Ms Stewart, do you have an opinion?

Jenny Stewart: On community planning partnerships, the Audit Scotland report was pretty critical about what has been achieved up to now, although there are ways forward. I think that there is still quite a bit of development to be done within the community planning partnerships.

The discussion earlier this morning did not cover health and social care integration in particular, but that is a significant issue and one in which the community planning partnerships will have a critical role to play. The thrust of the debate this morning was about how local government has coped so far and how it will continue to cope with the financial pressures. From my UK perspective, I note that Scottish local authorities have been fortunate not to be under pressure to the same extent as local authorities south of the border, but they have dealt with the pressure relatively well in their medium-term financial planning.

The community planning partnerships are a good way forward, but the benchmarking data that I know the committee has looked at before—one of the questions was on benchmarking—suggests that there is considerable scope for further efficiencies if the performance of local authorities can coalesce around a higher average than is the case at the moment. I think that there is a bit further to go on efficiencies. If the community planning partnerships can focus in on preventative spend, they could drive some really significant cost savings without impacting on the outcomes that are achieved.

The Convener: You will be aware that, alongside the draft budget, the Government has published an "Agreement on Joint Working on Community Planning and Resourcing", which

offers some clear direction. Do you see that as a positive move?

Jenny Bloomfield: It is positive that the agreement exists, but I suppose that we will have to wait and see whether it is implemented and whether it does what we hope that it will do. The tenets of the 2009 joint statement with COSLA on working with the third sector and others were very good, but they have not been implemented.

The Convener: Should the committee perhaps keep an eye on that?

Jenny Bloomfield: Yes.

The Convener: Mr Laverty?

Finlay Laverty: We have seen some green shoots emerging in the provision of shared services by local government. That has been hugely encouraging for us, given that we are currently trying to build relationships with all 32 local authorities, which has its own challenges. It is really important to recognise that labour markets and travel-to-work patterns, which is the field that we operate in, exist outwith the artificial boundaries of local government. For us, that flexibility is increasingly important both for efficiency and for dealing with the markets that we operate in.

The Convener: Ms Stewart?

Jenny Stewart: I have nothing to add.

Stewart Stevenson: This question is perhaps focused first on the Prince's Trust for Scotland and SCVO, but KPMG may wish to comment as well. Where a local authority needs to choose between providing a service in-house and having it provided by the third sector, do you think that the third sector offer is the more cost-effective solution in many instances but is not necessarily recognised as such?

Jenny Bloomfield: That is an interesting question. There are certainly numerous examples of the third sector taking an innovative approach. Third sector organisations might be able to change their way of working more easily than large local authorities can, and that can bring cost savings. However, it is often hard for third sector organisations to demonstrate either those cost savings or the benefits of their ways of working without their being given the chance to do that by being commissioned by a local authority or whatever. We find that organisations that started off quite small and can demonstrate that they have done well can often spread quite well. The Food Train began quite small but it grew and found other ways of working and brought new ideas that are now being looked at quite seriously by a few local authorities.

It is easier for local authorities to look in-house because that is what they know. Perhaps we can do better by demonstrating to local authorities the different approaches to working and the innovations that the third sector has made in both cost-saving measures and, more specifically, helping service users and improving things for clients.

Finlay Laverty: It would be useful to explore Mr Stevenson's question in more detail. It would help if we had better empirical evidence and more benchmarking of the costs and how efficiently the services are being delivered.

We have found that we work better when we work in partnership with local government. We think that we are pretty fleet of foot and innovative. We have recently gone through two mergers, so we have looked closely at our efficiency and how we can operate in an austere climate when increasing numbers of young people are looking for our services. Doing more with less has been a real issue for us during the past three or four years.

I would very much like to see figures on what Mr Stevenson mentioned, as I am not sure that there is enough robust evidence to make a fair comparison at this stage.

Stewart Stevenson: Before Jenny Stewart responds, can I turn the question around? Given that the organisations that you represent are inevitably smaller and more focused, and hence more specialist, does that contribute to better outcomes?

Finlay Laverty: Our organisation is very clear about what it wants to do, which is to focus on disadvantage and young people. That gives us a sense of purpose, and we are not easily deflected from that. Some other organisations are performance based, which can take people's eyes off the ball. You get what you see from the Prince's Trust. We focus on what we believe is the right thing to do.

Jenny Bloomfield: The other benefit is that a lot of third sector organisations are community based, so they can offer specific solutions for their local area. That will be smaller than the local authority areas, which are geographically large in Scotland. Third sector organisations can focus on their specific area. Equally, however, some of our member organisations are huge, frankly, and they also do an excellent job.

Jenny Stewart: It would be helpful to have the data that was mentioned. In the performance benchmarking data that the Improvement Service and COSLA have published, we see that the cost per hour for home care varies from £8 to £30. The report states that we do not know why that is, but it will be about the different providers. It would be

helpful to have more information about the different provision of home care, as it would mean that we could answer that question.

We need to balance the cost side with the satisfaction side, so we also need clear data on how satisfied people are with the service. I note that, in the benchmarking data that has been published, there is broad data on customer satisfaction with social work and social care together, but those are two completely different services. At only 62 per cent, the satisfaction looks pretty low to me. We need to get behind the figures and find out how happy people are with their social care services and who is providing them, and whether there is a cost differential across the sector.

Anecdotally, we hear that the smaller, third sector organisations are focused, do not have large overheads and are cost competitive. The local authorities have fixed costs and would probably argue that they have economies of scale on their side. One issue that we see—I am not sure how much of a trend it is—is that certain local authorities think that, because they have the people already, it might be better in these tough times to bring a service in-house rather than go out to the third sector.

Stewart Stevenson: I have a tiny wee supplementary question that needs a tiny wee answer. You highlighted the difference between £8 and £30 in one area. Perhaps I should know the answer to this, but I am not sure that I do. As auditors who work with 22 councils, would you say that there are wide divergences between councils?

Jenny Stewart: We have done a considerable amount of work on the variation in costs between councils, and indeed across the UK, and we published a paper on that about two and a half years ago. We have also done some work with the David Hume Institute, which was published more recently, and that picked up on the variation point.

What we find pretty consistently is that, if we have an average cost—in this case, between £8 and £30, the average cost is £19—the difference between that and the top quartile is usually about 25 per cent. We are not saying, “Let’s get everybody who’s on the bottom up to the top.” We are saying that, if we can just get the bottom up to the average, we can release savings of 25 per cent. That is why I said earlier that there is a huge way to go in providing services better and making efficiencies without necessarily impacting on outcomes.

I do not want to make it too simplistic. There are huge reasons why costs will vary across the piece, but to drag people up to the average should not be a huge stretch.

Stewart Stevenson: Will we be able to see the paper that you have published?

Jenny Stewart: Yes. There are two. I will forward them to the committee.

The Convener: If you could forward them to the clerks, that would be extremely useful. You will be aware that the committee has already looked at the new benchmarking system and will return to it after it has bedded in. The most important thing to remember is that we will not be comparing apples with oranges, as we were previously, but beyond that, we should remember that some of the data that we get will be caveated—at least, we hope that it will be. That is extremely important because the information was missing previously.

Sarah Boyack: I will just follow on from that point because the issue of health and social care is very topical. Most of the experience is of councils outsourcing rather than taking those services back in-house. It would be interesting to look at the issue from the point of view of pay and conditions, pensions and staff turnover. Anecdotally and locally, one of the huge issues with private sector provision is that it is lower cost in terms of pay and pensions. That is a distinct difference between local authorities and the private sector.

I also want to come back to the issue of discretionary services because it has come up a few times this morning. Local authorities have less money to spend and so are pulling back to their statutory obligations and cutting back on discretionary services. We did not get much of a story from local authorities about what that meant in practice. What is the perspective from external organisations about the services that are disappearing?

12:15

Jenny Bloomfield: The Joseph Rowntree Foundation did a report on that issue last year, which demonstrated that there is a real issue throughout Scotland. I do not have any data on exactly what is being cut and where, but I know that many organisations are concerned about a downward pressure on their contracts in terms of the number and the amount of money within them.

An area that often comes up in that context is community transport. It is not a statutory service, and councils often feel that it is on the periphery and not essential. However, it is the kind of service that connects people, particularly disabled and older people, to the outside world and helps them to live independently. Providing the service means that there is no need for crisis care later on, which saves money.

A long-term view must be taken in order to ensure that services such as community transport continue to be funded, because that will save money down the line. I understand that it is very difficult for local authorities to take that view at the moment, but the third sector's perspective is that it is essential for helping people to live independent lives and preventing them from needing crisis support further down the line.

Sarah Boyack: That takes us on to the whole equalities agenda, which is what the Joseph Rowntree Foundation report focused on. Finlay Lavery referred earlier to the point that what drives a lot of third sector and community organisations is social cohesion and tackling disadvantage. It would be interesting to track some of that, because we did not pick up the JRF report's focus in the session with the local authorities, whose representatives did not talk about it. It might be useful for us to come back to that.

Finlay Lavery: The investment pendulum has swung quite heavily towards youth employment. That has been a really good thing and we have seen lots of hugely positive results emerging. However, there is a group that it is vital we continue to target—it is a matter of narrowing the poverty gap and social inclusion. We see some signs that some of the investment is targeted more at the front end of the market, and it is important that we have balance in that respect.

Jenny Stewart: Let me just clarify that my earlier points on outsourcing were about outsourcing to the third sector in particular. I do not have particular data on the cost differential of outsourcing to the private sector but, looking at the UK context, I observe that the levels of outsourcing in Scotland have been relatively small. A number of potentially big outsourcing contracts in Aberdeen and Edinburgh were not pursued.

The Convener: Some were pursued.

Jenny Stewart: Yes, indeed. However, I was thinking of the corporate services ones.

The Convener: I am sure that Mr Wilson will have something additional to say about this, but there is also the situation of ALEOs, or local authority trading companies.

Jenny Stewart: Yes—although the particular question was around the private sector, so I was trying to pick up on that as opposed to the others.

Outsourcing to the private sector is clearly much more prevalent in England. My impression is that there has not been a significant shift in that outsourcing in Scotland. Services are being provided in home care and social care, but it is still relatively small scale and focused on particular local authority areas. Some areas have absolutely

no outsourcing to the private sector, while others have a higher proportion. The picture in Scotland is very different.

The second question was on discretionary services. I echo Bryan Smail's earlier comments, because I do not think that local authorities distinguish between statutory and discretionary services when they consider how to deal with the pressures on their budgets. They consider things in a different way, which is either service by service or quite holistically.

I think that there is therefore a much more nuanced debate on how local authorities make savings and try to deliver the best possible outcomes within the resources that they have. We did some significant work with Stirling Council, where the brief was to deliver 10 per cent savings to reinvest in output and therefore not affect front-line services. That was done by reorganising the management function, which was done through the management layers and refocusing people on the front line.

Richard Baker: It seems like a long time since we were debating issues of full cost recovery. Picking up on Jenny Stewart's final point, I am not sure that the picture of how savings are made across Scotland is entirely as happy as she says. Finlay Lavery rightly talked about an investment pendulum, and throughout the day we have talked about investing in preventative measures and the benefit of that for the wider social economy.

An example from my region in which the third sector used to do a lot and seems to do a lot less now is mental health services. To what extent is there anxiety about reductions in funding for the third sector provision of that kind of important service, and how do the reductions tune in with the goal that the Scottish Government has laudably set to invest in preventative measures? Is the goal really being borne out, considering some of the decisions that we see are being made about funding third sector activities?

Jenny Bloomfield: As you say, third sector organisations do a lot of work on preventative measures, and we have all spoken about the benefit that that brings to the people with whom those organisations work and to future budgets.

It is disappointing to see that preventative spend is not being made available to the extent that we might like to see it supporting organisations so that they can focus on such long-term problems. There needs to be a strategy so that we can focus on long-term spending, and that needs to be backed up with funding.

That funding also needs to be continuous. If people feel confident that it will be there for a long time, they can plan over five years or even 10 years. Someone with long-term homeless issues

who also has drug problems or is mentally ill needs long-term support and to make long-term relationships, so a three-year plan will not be sufficient for them.

Richard Baker: The convener made a good point. I was at Drugs Action as well, and Aberdeen City Council has made a five-year proposal while Aberdeenshire Council is only offering year-to-year funding. We are in agreement that more local authorities need to pursue a long-term agenda.

I want to look at the national picture as well, and I notice that SCVO's submission says that the sector is now stretched to its limits. How do you move forward at the national level in the debate on funding the sector? Is the 2009 joint statement the tripartite agreement?

Jenny Bloomfield: Yes.

Richard Baker: You are clearly saying that the agreement is dead and that we need to move on from it. What does moving on look like? Tell me, as a lay punter, in as broad a way as possible: what kind of agreements need to be in place?

The Convener: Could you add to that? You have talked about a national agreement. Should the work that needs to be done be done locally with CPPs? Would that make the big difference?

Jenny Bloomfield: Doing that would give scope to make the big difference. If CPPs worked in the way in which they were intended to work when they were set up 10 years ago, that could be the way forward. Third sector organisations certainly feel that they need to have a seat at the table for any national discussion, so that they are involved right at the beginning and can bring their expertise to the planning stages and into discussions on funding and on the organisation of support for different sectors of society.

Long-term funding also helps an organisation to plan how it retains and trains staff. Some organisations have to put their staff on redundancy notice every year, which is clearly unsustainable. How do we keep good staff when we have to do that? I really have no idea.

It is a matter of bringing the third sector to the table and recognising that it is part of the solution. It is not about muscling in and stealing jobs from local authority workers, but about saying that we already work with the third sector on the issues and that we need to bring it to the table so that we can all work together to solve the problems over the long term.

Finlay Lavery: Retaining that passion and expertise is very close to what we are trying to achieve in terms of sustainability and capacity. Some of our work is about how we can better use private sector investment. We have increasingly supplemented reduced public sector income with

donations and contributions from major donors and private sector companies. Because they want to make a difference and not a profit, they are keen to see how local government can contribute through systemic change. The third sector can bring additional investment to the delivery of services in a constructive way. There is an opportunity for the sector's conversations with CPPs to become more mature and more strategic.

Richard Baker: One point that has come to the fore is the number of mergers in the sector, to which Mr Lavery referred, to deal with budget pressures. Obviously, there are budgetary considerations in making those decisions, but are they nevertheless generally welcomed by the panel? What potential is there for organisations to make substantial efficiency savings through mergers? What potential is there for more mergers in the future?

Finlay Lavery: Our experience of merger has been a really positive one that has been widely supported by the public and private sectors in Scotland. It has brought a new dimension to what we do and broadened the range of services that we can provide for young people.

The merger also brought a hugely efficient way of delivering. More of the money that we collect from the public and private sectors is spent at the door of the young person—that is a fact—and our cost base has reduced quite significantly across our three operations. Merger has been a very positive experience for us.

Jenny Stewart: What underlines that is the importance of long-term funding for the financial stability of the third sector. Frankly, so many third sector organisations find it difficult to remain a going concern because they do not know what their funding position will be in subsequent years. That makes it difficult for them to attract additional investment or, indeed, additional expertise on to their boards. It would be difficult for people to join if there were issues with the organisation being a going concern. Financial stability is absolutely key.

Mergers will help. However, wearing my Volunteer Development Scotland hat, I would caution that a lot of organisations rely on volunteers to provide services and that many volunteers will join a small local organisation because they want to contribute to, for example, their church or their sport. If there are mega-mergers, people will not feel the same readiness to volunteer. Mergers are an interesting possibility, but financial stability is key. Organisational structure is less important than financial stability.

The Convener: I want to go back to a point that Mr Lavery raised, which is about getting private sector funding. Do think that it is easier for third sector organisations and community groups to

seek money from the private sector than it is for local authorities to do so?

Finlay Lavery: That is an interesting argument. There is perhaps a more compelling case to be made for a private sector organisation being corporately socially responsible if it works with a charity or a particularly disadvantaged group. We can have conversations with the leader of a business or with a corporate body on how the business can perhaps become more competitive as a result of being socially responsible. Ultimately, though, it is about how the private sector organisation gives something back to the local community or town in which it operates. I am not sure that such conversations are unique to the third sector, but I think that they are more easily held by charities than by local government.

12:30

John Wilson: I have to declare an interest in the issue and particularly in the third sector. Prior to joining the Parliament in 2007, I worked in the third sector for 20 years; latterly, I spent most of my time writing to the 32 local authorities asking for funding for the organisation that I worked for. Some requests were successful; others were less so.

Funding is relevant to what is happening out there for the voluntary sector. Cuts in funding are not new. Mr Lavery referred to the pendulum effect. A project can get favourable treatment one year but not the following year, as somebody else will have come along and knocked it off the pedestal.

My difficulty relates to how voluntary or third sector organisations that deliver services for local authorities can continue to deliver them given the financial squeeze that is taking place. I can recount the stories of a number of voluntary organisations that have come to me and said that their local authority funding has been cut. They are asking staff to work for the minimum wage, cutting staff hours, asking staff to volunteer more when delivering services and cutting back on expenses. Do organisations in the third sector still have that financial squeeze from local authorities placed on them which continuing to deliver services?

Jenny Bloomfield: Yes. That issue is raised constantly when we speak to organisations. Obviously, local authorities are often extremely keen to look after their own staff but they still need to make cuts, so we find some third sector organisations bearing the brunt of the cuts. Contact time is being squeezed and people are expected to do more for less money. That is a real concern for our sector, because a point will be reached where the situation cannot continue and organisations will have to say, "We can't do that

any more." We could be left with a bit of a black hole in terms of who will provide the service.

John Wilson: You referred to the annual issuing of redundancy notices, which normally happens in January, prior to a settlement being made with the local authority. Organisations issue redundancy notices to safeguard themselves. In some cases, local authorities do not allow organisations to hold reserves. They scrutinise the financial accounts of those organisations, and if they identify a sum of money that the organisation has quite rightly set aside for redundancy payments, they question the level of reserves and the commitment to deliver what should be seen as basic employment rights and the terms and conditions of those staff. I have known such situations in the past.

Jenny Bloomfield: Some organisations say that, if they deliver a contract and manage to have a little bit of underspend, the local authority will claim that back.

John Wilson: In a previous evidence session involving voluntary sector representatives, an organisation claimed that it had a 5 per cent cut in its funding allocation mid year. Is such treatment of voluntary sector organisations becoming more prevalent? Is it the SCVO's view that some voluntary sector organisations are being treated poorly by local authorities in contract arrangements, and that local authorities see the voluntary sector as the easy option?

Jenny Bloomfield: Absolutely. In fact, to go back to the point about third sector organisations being treated unfairly with regard to long-term financial planning, it is our understanding that private sector organisations are not treated in that way. They have contracts that last for five, six or seven years and—obviously, as they are private sector organisations—they are able to turn a profit and keep it, whereas that simply is not the case for many third sector organisations.

Finlay Lavery: We talked earlier about comparing and benchmarking public sector delivery against delivery by the voluntary sector. It is difficult to make accurate comparisons because of the conditions that Jenny Bloomfield has just discussed and the annual approach to running our businesses. Such issues can make it challenging to hold on to our best staff and the skills, knowledge and intelligence that we have.

It is a really interesting topic for us. We are just getting to the business planning point. We are ambitious to reach more young people—we always are each year—but we must be realistic about the funding that is available and what we are able to deliver for it.

The Convener: Ms Stewart, you nodded your head at various points when Mr Wilson was speaking.

Jenny Stewart: Yes, it was on the point about reserves, on which I have bitter experience.

The critical issue in the Scottish economy is that the public, private and third sectors are interlinked. Unfortunately, the debate is often about public versus private versus third sector provision, whereas to deliver the services that we want as a country, we need all three to operate effectively. The third sector is being asked to do more, so a thriving third sector is in the public sector's interest.

My grimace related to reserves. There is a view among funders that having reserves is profligate. However, the guidance from the Office of the Scottish Charities Regulator is that charities should have at least enough reserves in the bank to ensure that, if everything went belly up, they could cover their costs for three months and, if the worst came to the worst, they could pay redundancy.

For funders to put pressure on individual organisations not to hold reserves would place the directors of those organisations in significant difficulty. As a director of an organisation, I would have difficulty if it did not have proper levels of reserves and was likely not to be a going concern.

There are issues about ensuring that there is a healthy and vibrant third sector. On the funding side, it would not be acceptable to push the reserves point too far.

John Wilson: My experience was that, in some cases, local authorities would fund us mid year. The financial year would run from April to the following March but, by the time we had made our applications, it was sometimes three or six months after April before the grant came through.

Does that still happen? Are local authorities still delaying payments to third sector organisations? I take on board the point that they would not do that to the private sector, but Jenny Bloomfield seemed to say that they do it more readily to voluntary and third sector organisations. Is that correct?

Jenny Bloomfield: I have certainly heard of instances where decisions were not made until March, April, May or June, let alone the funding actually coming in. I do not have any data for how prevalent that practice is—I would not like to say, because we cover many organisations not only in every local authority but, probably, in all departments of every local authority. However, it still happens.

Jenny Stewart: There is an issue with ensuring that organisations know whether they are getting funding before the start of the year. That is true for

funding not only from local government, but from the Scottish Government. The Scottish Government has gradually got much better about making sure that the third sector organisations that it funds know whether they are getting funding before the start of the year, but there are still organisations that do not know until after the start of the financial year whether they have funding. The Scottish Government has improved dramatically in recent years, but such cases still come up as well as cases involving local government.

John Wilson: There are budgetary constraints and we hear from local authorities about what they are trying to deliver. My concern is that the voluntary and third sector delivers valuable services at a local level and we must ensure that those services are protected and delivered in the most efficient and effective manner.

It is clear from some of the comments—especially Jenny Stewart's final comment—that everybody who funds the voluntary and third sector must be careful to ensure that the money is available up front because, otherwise, it could be hard to retain staff and valuable services could be lost in many small communities. I am thinking not only about the national organisations. The smaller, more localised organisations, particularly in rural and deprived areas, may face the biggest squeeze.

The Convener: After congratulating Aberdeen City Council on the Accounts Payable News awards, I hope that it is seeing the voluntary and third sector okay.

I thank the witnesses very much for their evidence.

12:41

Meeting continued in private until 12:52.

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