

# **FINANCE COMMITTEE**

Tuesday 22 February 2005

Session 2

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## FINANCE COMMITTEE

6<sup>th</sup> Meeting 2005, Session 2

### CONVENER

\*Des McNulty (Clydebank and Milngavie) (Lab)

### DEPUTY CONVENER

\*Alasdair Morgan (South of Scotland) (SNP)

### COMMITTEE MEMBERS

\*Ms Wendy Alexander (Paisley North) (Lab)  
\*Mr Andrew Arbuckle (Mid Scotland and Fife) (LD)  
Mr Ted Brocklebank (Mid Scotland and Fife) (Con)  
\*Jim Mather (Highlands and Islands) (SNP)  
\*Mr Frank McAveety (Glasgow Shettleston) (Lab)  
\*Dr Elaine Murray (Dumfries) (Lab)  
John Swinburne (Central Scotland) (SSCUP)

### COMMITTEE SUBSTITUTES

Gordon Jackson (Glasgow Govan) (Lab)  
David Mundell (South of Scotland) (Con)  
Alex Neil (Central Scotland) (SNP)  
Iain Smith (North East Fife) (LD)

\*attended

### THE FOLLOWING ALSO ATTENDED:

Professor Arthur Midwinter (Adviser)

### THE FOLLOWING GAVE EVIDENCE:

Alan Denney (Prospect)  
Jim Dewar (Scottish Parliament Information Centre)  
Jim Caldwell (FDA)  
Eddie Reilly (Public and Commercial Services Union)  
Grahame Smith (Scottish Trades Union Congress)  
Matt Smith (Unison)

### CLERK TO THE COMMITTEE

Susan Duffy

### SENIOR ASSISTANT CLERK

Judith Evans

### LOCATION

Committee Room 2



# Scottish Parliament

## Finance Committee

*Tuesday 22 February 2005*

[THE CONVENER *opened the meeting at 10:04*]

### Relocation of Public Sector Jobs

**The Convener (Des McNulty):** I welcome members of the press and public to the sixth Finance Committee meeting in 2005. I remind people to turn off their pagers and mobile phones. We have apologies from John Swinburne and Ted Brocklebank.

Under agenda item 1, we will take evidence on the Executive's revised relocation guidance as part of our on-going monitoring of relocation policy. We have with us this morning representatives from the Scottish Trades Union Congress and from civil service and public sector unions. They will stay on for the second agenda item, when they will give evidence on efficient government, including civil service reform. However, the first agenda item is on relocation only. Although there are overlaps between relocation and efficient government, we have structured the agenda in that way in order to focus the evidence sessions.

Members will recall that we have agreed to submit comments to the Executive on its revised guide. I hope that the evidence session will help us to formulate our comments. Following our evidence session with the Executive, Elaine Murray, Alasdair Morgan and I had an informal session with civil servants to hear a technical briefing. That will also inform the process.

I welcome to the committee Grahame Smith, deputy general secretary of the STUC; Matt Smith, STUC treasurer and Scottish secretary of Unison; Eddie Reilly, the Scottish secretary of the Public and Commercial Services Union; Alan Denney, Prospect national officer; and Jim Caldwell, Scottish secretary of the FDA.

As we have representatives of trade unions with us, I suppose that I should declare my union membership. I am a member of the GMB and the Educational Institute of Scotland. I do not know whether other members wish to declare their union membership.

**Dr Elaine Murray (Dumfries) (Lab):** I am a member of the Transport and General Workers Union and the Association of University Teachers.

**Mr Frank McAveety (Glasgow Shettleston) (Lab):** I am a member of the EIS and the TGWU.

**Ms Wendy Alexander (Paisley North) (Lab):** I am a member of the TGWU.

**The Convener:** I invite Grahame Smith to make an opening statement, if he wishes. I would appreciate it if he can refrain from making any reference to Sunday's events—perhaps he can sort the matter out with Eddie Reilly, who is sitting next to him.

**Grahame Smith (Scottish Trades Union Congress):** I never comment on those matters.

I notice that a couple of committee members are not members of unions, so we will ensure that they get forms in due course.

The evidence that was submitted on behalf of the STUC to the committee was specifically on efficient government. The STUC has played a co-ordinating role on that matter with our affiliated unions in the public services. I am happy to leave comments on "The Relocation Guide" to my colleagues whose members are most directly affected by relocation. The committee will be aware of the previous evidence that the STUC has submitted on relocation more generally and I see no need to cover that now. I leave Eddie Reilly to lead for us and for the unions on "The Relocation Guide".

**Eddie Reilly (Public and Commercial Services Union):** PCS has submitted evidence on all the matters that are under consideration today. I will highlight a few points on top of that. As members know from previous evidence that we have submitted to the Finance Committee, we have campaigned with the STUC for some time now to have central machinery set up to co-ordinate relocation work. We certainly welcome the team that has been set up in the public bodies unit of the Scottish Executive's Finance and Central Services Department. As the revised guidance shows, the new team is not only co-ordinating and reviewing, but considering the application and implementation of relocation policy for the future.

Our union, along with the other civil service unions, will submit evidence on the revised guidance within the next fortnight. We are more than happy to send a copy of that evidence to the Finance Committee clerk for the committee's information.

I will make a few comments on the wider picture in which the relocation policy of Scottish ministers has to be looked at. Part of the melting pot is, of course, the continuing application of the relocation policy of United Kingdom ministers and their decision to target 100,000 jobs to be cut in the civil service. If we add that to the relocation policy of Scottish ministers and what is going on in efficient government, which we will come to later in the meeting, we see that there is a complex set of

policies that we have to consider specifically in Scotland. We will want to keep the committee informed of our views on the matter.

Recently, the major decision on the relocation of the transport agency was made. A questionnaire has gone out to staff who will work in the civil service part of the new organisation to get some feel for the number of people who would be prepared to consider, or who would be interested in, transferring from Edinburgh to the new location in Glasgow, wherever it is. Once we get more detail on the specific wishes of individual members of staff, that situation may well yet prove to be problematic.

I draw to the committee's attention our concerns about the Accountant in Bankruptcy. There has not been a problem with that relocation from the point of view of industrial relations because, in comparison with other relocations, it is reasonably small. However, although the Accountant in Bankruptcy was first identified as a candidate for relocation two years ago, there has still been no ministerial decision on the location. Such delays make people anxious about relocation policy generally. Some members of staff do not want to transfer to Ayrshire and are presumably looking for other jobs so that they can get out of the agency, whereas other members of staff might be interested in moving if they knew that a final decision had been taken.

It certainly appears to us that the delay is being caused at ministerial level. That is resulting in considerable chaos for the staff concerned and it does not assist the unions—which, in principle, have always been in favour of relocation, as long as it does not result in compulsory redundancies or compulsory redeployment—in carrying our members with us. The delays behind decisions such as that on the Accountant in Bankruptcy seem to be inexplicable. That is all that I want to say by way of introduction to our written submission.

**The Convener:** Following our initial inquiry, which sought to get greater transparency on relocation, the committee thinks that we have made significant progress. "The Relocation Guide" deals with some of the concerns that were identified by the trade unions and by the committee in our report, but we recognise that issues remain and that, with any relocation policy, there will always be some intractable problems. We will focus on those.

**Dr Murray:** As the convener indicated, the committee feels that many of our concerns have been addressed. You mentioned that you welcome the Executive's new relocation unit. We, too, feel that it will help to ensure that the process is transparent. How much consultation with the trade unions was there while "The Relocation

Guide" was being drafted? Were any comments that the trade unions made during that process reflected in the final draft of the document?

**Eddie Reilly:** We had a meeting with civil servants from the unit late last year, which we found to be helpful and constructive. I echo the convener's points. The fact that the Finance Committee played an important role in bringing about a much healthier and more transparent position has certainly not been lost on the trade unions. At our meeting, the civil servants gave us great encouragement to engage positively in the process. We now have the revised guidance and I am confident that we will make detailed submissions on it. Overall, we are much happier than we were a year ago with the degree of engagement that we have with the relocation process. The Executive's unit is encouraging our participation.

**Dr Murray:** You mentioned the uncertainty that staff experience as a result of the long delays in decision making on relocations. What happens during that period? Do the unions get involved in discussions with ministers? You mentioned the case of the Accountant in Bankruptcy. Although people know that that agency is going to Ayrshire, they do not know exactly where in Ayrshire it will be. How are staff and the unions being kept informed of the thinking on that?

10:15

**Eddie Reilly:** Therein lies the great problem. It is not our normal practice to demand meetings with ministers on individual cases. When we next have a meeting with the Minister for Finance and Public Service Reform, we will log such matters with him. The issue will certainly be mentioned when we put our views on the guidance to the public bodies unit but, in essence, we cannot resolve such problems with senior civil servants through the usual industrial relations machinery.

We are talking about a problem at the political level. I do not know whether the minister cannot make up his mind or whether he or the chief executive does not want to go to a particular location. There is no transparency in that part of the process. Our members feel frustrated because they will be in limbo until a political decision is taken. We can refer to that in our evidence to the public bodies unit. We can also make clear our views at our next meeting with Tom McCabe and with other ministers. We are concerned about the situation regarding the Accountant in Bankruptcy, which I think is bringing the relocation policy—much of which is good—into a degree of discredit.

**Dr Murray:** What would improve the situation from the staff's point of view? Would it be helpful for them to be given a timetable for decision

making at the beginning of the process? That would give them an understanding of the consideration framework.

**Eddie Reilly:** The experience with the Accountant in Bankruptcy is not typical. We have not had similar experiences with previous relocations, such as that of the Scottish Public Pensions Agency or those involved as part of the small units relocation policy. Discussions about the relocation of the transport agency are on-going; at least the city, if not the precise location, has been decided. Our experience with the Accountant in Bankruptcy is rather curious; it is not akin to our experience with other relocations. It seems to be the case that the minister just will not take the decision. That situation must be addressed as quickly as possible. In the meantime, all that we can do is report back to our members that we are doing our best, through the usual machinery, to get the decision made. There is not a problem as regards industrial relations; it is just a question of the decision being made on the agency's new location. Once that has been done, the proper arrangements can be made, whereby staff can opt to transfer or to move to other jobs, as happened in other cases of relocation.

**The Convener:** I want to leave aside the mainstream civil service and to consider non-departmental public bodies and other public bodies. You referred to the consultation that takes place within the civil service negotiating machinery. Is there equivalent discussion about the position of NDPB staff and other staff?

**Eddie Reilly:** Matt Smith might want to comment on Unison's view, but PCS feels that the amount of consultation and discussion that takes place with individual NDPBs is reasonable. However, one of the reasons why we were so keen for the new unit to be set up was that we felt that it was necessary to have an overview of relocation policy that extended across the NDPBs—in particular, those that are covered by the Scottish Executive's main sponsoring departments—and did not just relate to the mainstream civil service or to large local government bodies.

When we give evidence to the public bodies unit on its revised guidance, we will stress that that is the way in which we want the process to work in future. That will mean that if there is a decision about VisitScotland or—God forbid—another decision about Scottish Natural Heritage, we will be able to assess the application of relocation policy in the widest possible sense; such assessment will not take place only within the confines of the main civil service departments and agencies. If that does not happen, we could get a situation in which decisions about relocations—whether to Inverness or to elsewhere in

Scotland—taken in different public sector organisations were inconsistent with the overall policy.

**Matt Smith (Unison):** I thoroughly endorse what Eddie Reilly has said. We have been involved in discussions on the issue—I remember that at an early stage we had meetings with the then Minister for Finance and Public Services—but we have not been involved in the detail. I fully appreciate that the major concerns rest with Eddie Reilly and the civil service unions, but the process impacts on Unison's membership, too. Concern about NDPBs is one example of that, but similar situations could arise in the health service and other agencies. We are keen to continue to have involvement and we will liaise with our colleagues in other trade unions on the matter.

**The Convener:** That issue perhaps spills over into our next agenda item. I will pursue the transferability of staff of NDPBs, which is a particularly contentious issue. At present, such staff do not have the rights of transfer that civil servants have. Do you believe that that lack of transferability could militate against the Executive's taking a properly strategic approach to relocation? Is that a concern?

**Eddie Reilly:** I am really glad that I came, now.

The question is a vexed one, not least because of civil service status. The civil service commissioners' rules on open and fair competition for all posts in the civil service cannot, de facto, be guaranteed in relation to staff—who may be members of my union, Prospect or the FDA—who work in public bodies that do not have civil service status.

Annex B to PCS's written submission contains a report on the delegation that we sent to Dublin to examine the experience of the Irish unions, Irish ministers and Irish civil servants on relocation. At that time, ministers were seeking to change the law in the Republic of Ireland to ensure that there could be transferability around relocation clusters in major conurbations in Ireland, particularly on the west coast. Civil service trade unions do not oppose consideration of how transferability of staff can be achieved from public bodies into civil service departments and agencies, as long as we can solve the problem of civil service status and ensure that, when staff are transferred into the civil service, they meet the requirements of the civil service as part of that transfer.

I am aware that the UK civil service is undertaking a number of pilots in England to examine how it can deal with transferability from public bodies into the civil service. Mention has been made of the matter being examined in Scotland, too, most recently when one of the civil service commissioners spoke to civil servants in the Scottish Executive. To answer your question,

although the unions are not averse to transferability, there are a number of fundamental issues that we want to be dealt with.

**The Convener:** Some of those issues arose during the transfer of staff from Scottish Homes to Communities Scotland. Does Alan Denney want to comment?

**Alan Denney (Prospect):** At the time of the SNH debacle, there was a presumption by some ministers that we could readily transfer more than 200 staff from SNH into the Scottish Executive. They missed not only the point that Eddie Reilly made about non-transferability, but the fact that there were not 250 vacancies in the Scottish Executive to accommodate those staff. They also took no account of the skills mix; the staff from SNH were specialists and were not the type of staff who could readily be accommodated in the Scottish Executive. That point was overlooked and I am fearful that it will be overlooked elsewhere. It is assumed that there is an immediate transferability of specialist skills, but that is not always the case.

**Jim Mather (Highlands and Islands) (SNP):** On the specifics of what is on the table at the moment, I am interested to know the unions' views on the relocations that have been brought about by the small units initiative.

**Eddie Reilly:** Since the policy began, the only relocation that has caused any problems from an industrial relations point of view was that of SNH. That is not to say that we might not be in the midst of problems with the transport agency, because of the size of the relocation. However, many of the other relocations involve small units and it is a lot easier to deal with matters that arise regarding individuals who want to stay or want to go. In the case of the central inquiry unit, delays and changes of views by ministers—and, it appears, senior civil servants—created a problem; I am not sure whether that issue has been resolved yet. Overall, however, we have not encountered any industrial relations difficulties.

**Jim Mather:** Building on that, and given that PCS has taken the time and trouble to go and look in some detail at the Irish model, do you think that there might be an opportunity to blend the two approaches in an holistic way and to trigger something that might lead to larger numbers of staff moving from centralised departments of the Executive?

**Eddie Reilly:** I do not think that we would have any objection to a more imaginative approach along those lines. Of course, the Irish position is based on volunteers only. If Scottish ministers were to adopt such an approach, that would create an entirely different agenda, with which we could positively engage.

We have to make sure that we do not make a group of workers redundant in Edinburgh in order to create X number of jobs in another part of the country. That is why we have always taken the view that, even within the confines of the policies that have been set out by Scottish ministers, there is a way to manage relocation over time that will avoid compulsory redundancies and compulsory redeployment and will encourage staff to buy into the exercise in a positive way. Despite some of the obvious difficulties that we have had, that is the approach to relocation policy that the civil service trade unions have tried to take.

**Jim Mather:** I want to drill down further on that point, because it is particularly useful. If we take the small units initiative, add the experience of Ireland and the point about volunteers, and perhaps a wish list from the witnesses on what might be needed to create a better fit in Scotland, do you think that it would be possible to produce something that is more likely to persuade sufficient numbers of volunteers to relocate? That would not only be worth while from the standpoint of efficient government, but it would reactivate parts of the Scottish economy in the regions of Scotland.

10:30

**Eddie Reilly:** I have no problem at all with that approach. That is why, as I said earlier, I welcome the fact that the public bodies unit is not just monitoring the situation but engaging in a review. We want the review to be much wider and we want to get into discussions—in which the STUC will have a particular role—on the social and economic criteria. Some MSPs and ministers tell us that the policy as currently applied keeps suggesting Livingston. Why does it not suggest Coatbridge, Airdrie or wherever? There is a wider agenda: although the relocation policy has existed for six years, it has not been fundamentally re-examined to see whether it is still fit for purpose in terms of what people want from it. There is now an opportunity through the public bodies unit's reviewing role for the Finance Committee and others to consider the issue more fundamentally than just asking whether what is going on now is working or whether it is giving us problems. I hope that that kind of debate on relocation policy will continue.

**The Convener:** We have probably exhausted our specific questions on relocation. It would help us to have the responses that were mentioned from PCS and the other civil service unions to "The Relocation Guide". Our intention is to discuss any points that arise from the revised guide at next week's meeting and to draw up a draft response to the Executive on 22 March. I hope that our timetable will fit in with yours. If you can give us the information, we will consider it in that context.



## Efficient Government

10:31

**The Convener:** We move on to consider item 2, which is to take evidence from the unions on efficient government, including civil service reform. The committee has agreed that it wants to continue monitoring the efficient government initiative; it has also agreed that the issues about civil service reform that were raised with John Elvidge on 25 January should be further explored. Does anybody have any opening remarks to make, or shall we proceed to questions?

**Grahame Smith:** I will make some brief opening remarks and pick up on some of the points that we made in our submission. I know that my colleagues in the civil service unions will want to respond in detail on civil service reform.

It is important to emphasise the willingness of the STUC and the public service unions to work with Government and public service employers to achieve improvements in the quality, effectiveness and efficiency of public services. Our involvement in the creation of the best value regime and in the joint future agenda and other initiatives demonstrates that that is the case.

We had initial reservations about the efficient government initiative for two main reasons. First, we feel a degree of cynicism, born of experience of so-called efficiency initiatives that have been more about cuts than about service improvements. We wanted to take time to assess the content and detail of the impact of the efficient government initiative on services and jobs. Secondly, the launch of the initiative was confused by the Chancellor of the Exchequer's civil service reform announcements, particularly in relation to the announcement of 10,000 job losses in Scotland. It was mentioned that they would include areas devolved to the Scottish Administration, but that did not square with the statements made by Scottish Executive ministers that efficient government would not come with a job cuts target.

Those two examples explain why we did not immediately engage at the outset with the reference group that was set up to oversee the efficient government initiative. We took time to explore the detail with ministers and officials and we are now engaging at a strategic level through the Scottish public services forum and seeking ways in which we can co-operate in the implementation of the various initiatives that are identified in "Building a Better Scotland: Efficient Government—Securing Efficiency, Effectiveness and Productivity".

However, a lot of the chasing up on this matter has been done by the unions. If it were not for our taking the initiative to try to persuade Government that we want to work with it constructively, there would be no progress on trade union engagement. "Building a Better Scotland" fails to recognise the important role that trade unions can play in the implementation of the efficient government initiative.

We welcome the fact that the Executive has taken a distinct Scottish approach to public service improvement and the assurances from ministers that there will be no job cuts targets. We also welcome the increased investment in particular areas of Scottish public services. However, our main concern about local government is that there continue to be budget pressures driven by the efficiency assumptions in the recent spending review announcements.

We want efficient government savings to be achieved through reinvestment in service improvement. We do not support the shrinking of the public sector; rather, we want to see its development as a means not of draining or crowding out the private sector, but of supporting and expanding it. There needs to be another side to "Building a Better Scotland" in the form of statements from the various portfolios about where those savings will now be invested to improve services. That is missing and needs to be addressed if we are to be fully convinced that the exercise is about reinvesting in areas in which improvement is demanded.

We want to see the highest standards in employment practice applied in the implementation of efficient government, and that means full and early involvement with the unions on decisions about service change. It also means making comprehensive arrangements for staff training and development and providing enhanced job security and a commitment to no compulsory redundancies. We welcome the presumption against compulsory redundancies that the Executive has announced, but we believe that the Scottish Executive and public service employers should go further and reach an agreement with the unions that no compulsory redundancies should arise from efficiencies achieved through the efficient government initiative. The Scottish public sector should not engage in any initiatives that involve sacking workers, and committing to no compulsory redundancies will help to encourage the workforce and the unions to support organisational change. That is a crucial point for us. Unions and their members do not want to be in conflict with public service employers, but there is nothing more certain to guarantee conflict than if compulsory redundancies arise from efficiency initiatives.

The efficient government initiative emphasises the need for the public sector workforce to become more productive. A key driver of productivity in the public sector, as in the private sector, is fair employment. In the context of the efficient government initiative and improvement in public services more generally, insufficient emphasis is given to the importance of the highest standards of employment practice in order to achieve improvements in public services. Of course, the issue is mentioned in the plan in relation to dealing with change, but not as an initiative in its own right. We think that it demands such treatment.

For example, we do not suggest that the work stream that is identified in relation to managing absence is unimportant, but in that context it is important to consider that reducing absence is about addressing issues such as work-related stress and improving health and safety standards in the workplace. Greater emphasis should be given to those matters, rather than the apparent focus on tackling so-called abuse of sickness arrangements. We identified a whole range of issues in our submission and I am happy to pick up some of those in response to questions from committee members.

**The Convener:** Thank you, Grahame. We will look carefully at the identification of savings and at how money will be reallocated. That is part of our central purpose as the Finance Committee.

Before we move on to questions about the efficient government initiative, I will ask a couple of big structural questions. Some would argue that the Scottish public sector is too small to justify a separate civil service, separate structures for local government and the health service and a plethora of public bodies. Do you see any advantages or disadvantages in trying to bring those areas together in a common Scottish public service? Would that represent a positive route forward?

**Jim Caldwell (FDA):** I do not believe that it would. Indeed, the evidence that FDA, along with the other civil service unions, submitted directly to the Westminster Committee of Public Accounts dealt with that issue. Although it might be more possible in Scotland and Wales to conduct such an exercise and to have a single public sector, it would be impossible in England because of the sheer size of the sector. However, we believe that such measures would be as organisationally difficult to achieve in Scotland. I think that the permanent secretary to the Scottish Executive said in his evidence that he did not want us to spend years renegotiating terms and conditions throughout the Scottish public sector and wasting valuable time, instead of looking in more detail at other issues on which we could make greater progress and trying to break down the barriers that exist.

As Eddie Reilly has said, we welcome initiatives to move people across public sector boundaries. We have no problem with that; we welcome it. As we have said, we will seek to engage in that and to break down barriers between NDPBs and the civil service. However, we see no great benefits in having a single public sector, which would create problems. The issues that must be dealt with are political rather than organisational. Perhaps that is where the focus of the UK Government and the Executive should be.

**Matt Smith:** The convener poses an interesting question, but the idea goes way beyond what I have always thought of as the Scottish Parliament's purpose, which is to legislate. The suggestion that somehow the Parliament should take on board the administration of all those functions runs contrary to the concept of the Parliament.

I was a member of the McIntosh commission, which considered local government. Our findings were produced before the Parliament was established and we said that parity of esteem should exist between local government and the Parliament. To go in another direction would be a great loss to the services and to the democratic process in Scotland.

My trade union and the STUC have examined the different provisions of the services. We are concerned about the constant reorganisation that takes place—to an extent, that deals with the issues that the convener raised. That is why we floated the idea of public service networks, which allow greater sharing within public services without the whole process of reorganisation that is used at present.

My answer to the initial question is that I remain to be convinced and that I would be hard to convince.

**The Convener:** The question did not contain the presumption that the Scottish Parliament should take over local government. It was about having a single public service system for employees.

**Alasdair Morgan (South of Scotland) (SNP):** The committee probably accepts that reorganisations always have problems—they are a pain. However, what Mr Caldwell said contained a contradiction. I think that he said that he welcomed the breaking down of barriers but that he did not want to break down all the barriers and that he wanted to keep some. Is that a fair assessment?

**Jim Caldwell:** We do not have an issue with the mobility of people across sectors—from the civil service into other parts of the public sector and vice versa. The senior civil service increasingly has private sector secondments, which we welcome. However, the division between the civil service and the rest of the public sector in

providing support for Government should be retained. The core civil service should remain because of the advice that it provides directly to ministers and the support that it gives the Administration.

**Alasdair Morgan:** You support the present arrangement not because the transition to another system would create problems, but because having the separate systems is desirable.

**Jim Caldwell:** That is correct. However, I am aware that several organisations support moving to a single public sector. I simply pointed out that we take the same view as the permanent secretary does. If such a move were seriously on the agenda, one consequence would be interminable negotiations to harmonise pay and terms and conditions in the sector. The national Council of Civil Service Unions believes that it is sensible to have the barrier—that is probably the wrong word; I mean separation—between the civil service and the rest of the public sector and that difficulties would arise if the proposed change took place.

**Alan Denney:** The permanent secretary gave in his evidence the strong argument that retaining a UK civil service in which people can transfer between different parts benefits the Executive's work. We strongly support that. We supported that on the Parliament's establishment and we still support it. Many interchanges take place between the various parts of the UK civil service to bring expertise and skills to the government of Scotland. They would be lost if a single public sector structure in Scotland was adopted, because that would remove the UK civil service link.

10:45

**The Convener:** You anticipated my next question: what would be the advantages and disadvantages of a separate civil service for Scotland?

**Eddie Reilly:** My answer to the question might not be helpful, but I will try to answer it anyway. An MSP's researcher recently met me to discuss the problems that trade unions would have if a separate Scottish civil service was created. The answer that I gave him is the answer to the convener's question. The burden of proof is on those who believe in a separate Scottish civil service to argue why that, rather than a change to the current system, is needed. Many people argue for a separate Scottish civil service to undertake functions that the civil service can already undertake or could undertake if current practice were changed.

Before the Scottish Parliament was established, I gave evidence to the Scottish Constitutional Convention and to Labour Party shadow ministers to argue the logical case that the ideal way under

devolution to service ministers and the new Parliament was to make the civil service in Scotland accountable to those ministers while remaining part of the home civil service. If it was decided that Scotland should have independence, the argument that the civil service and other bodies should consider their position would have logic.

I have been involved as an official in the civil service trade unions for 26 years and I have seen no evidence to convince me that ministers would gain an advantage from a separate civil service, although it would not be a problem for unions. The burden of proof lies with those who believe—perhaps a bit naively and simplistically—that all of a sudden the world will change when ministers have their own civil service in Scotland that is devoted entirely to them. That is the case now. Civil servants in Scotland who work for the Scottish ministers are accountable to those ministers.

**Jim Caldwell:** Although I am sure that I do not need to, I point out that most civil servants who are based in Scotland are still directly accountable to Westminster, rather than to the Scottish Administration.

**The Convener:** I will return to the earlier question about a Scottish public service and link it to an extent with local government and health service issues, which I ask Matt Smith to deal with. Several new developments have taken place in social work and health care, such as the establishment of the community health partnerships. Proposals have been made to bring people together with new management structures. From a trade union point of view, how will that work? I seek your comments on the balance between efficiency and disruption in having to renegotiate or develop common conditions of service.

**Matt Smith:** Obvious difficulties arise, primarily in relation to conditions of service. Service delivery can be very smooth, but the employees involved can be in a difficult position. For example, people from local government and health service backgrounds who work together through the joint future scheme may do similar jobs on different rates of pay. That issue has yet to be resolved and requires much more discussion. However, that shows that the opportunity for cross-working among services is available at present without the major structural change that I assumed that one of your earlier questions hinted at. Such an approach can happen, although it creates difficulties, which we need to resolve as soon as possible. Nevertheless, the service can be delivered.

**The Convener:** Sometimes we ask a question just so that witnesses can put their views on the record.

**Mr McAveety:** Do members of the unions that the witnesses represent believe that the efficiency developments can result in improvements in services, or do they think that there is a cuts agenda?

**Matt Smith:** There is undoubtedly fear of the threat that the initiative might create. Our members lived through many years of attacks on public servants by previous Administrations—I am not talking about the current Administration. There was a view that somehow public servants do not contribute to the well-being of society, although the opposite is the case. We have witnessed many changes, so there is fear. The approach could be positive, but that positivity—if I may use the word—would be helped if, as Grahame Smith outlined, the right conditions were set, so that there was a guarantee that there will be no compulsory redundancies and an understanding that human resource issues will be properly addressed. Many people who are involved in public services are concerned not just about the future of their jobs but about pensions, about which there is currently a big debate. Such issues are very much to the fore and there is uncertainty.

However, there is also willingness on the part of people who are involved in public services, which is evident from much of the work that has happened. We talk as though the drive for efficiencies in public services were something new, but many members of the committee will know from their experience in public services that it has been going on for many years. Many of our public services are at the forefront of efficiencies in a number of areas, which is demonstrated by the fact that every year the Convention of Scottish Local Authorities holds a ceremony at which it gives awards for excellence in public services.

To return to Mr McAveety's question, many employees remain to be convinced about the approach because there is fear about what happened in the past. However, if the Executive has the right attitude to what the efficient government initiative is really all about, that fear can be overcome.

**Grahame Smith:** Members of the committee will understand that we represent democratic organisations and would not be engaged in the efficient government initiative at a strategic level or locally if our members thought that there was a different agenda. We are aware of our members' concerns and fears. As Matt Smith said, the right conditions must be in place. It is not just about giving an assurance that there will be no compulsory redundancies; it is about involving public service workers through their unions in early decision making about service change and putting in place arrangements for training, staff development and other such matters, which can

take account of the fears that people rightly have when the way in which they work changes and services change.

**Eddie Reilly:** I draw committee members' attention to the submission from PCS, which indicates that a note from our meeting in December with the Deputy Minister for Finance and Public Service Reform has just been agreed. The note goes a considerable way towards substantially reassuring civil servants that the Scottish Executive will not take the Gordon Brown approach to efficient government and say, "Here's the jobs target; we'll come to efficiency later", but will ensure that when savings can be made the money will be reinvested and reallocated to other parts of, for example, the Scottish Executive, local government or the health service. When we publish the note for our members next week, it will reassure them about the approach that the Executive is taking.

If we consider the evidence that the permanent secretary to the Scottish Executive gave to the committee in January, we can see difficulties because there are now a number of blurred lines between the cuts that are identified in the comprehensive spending review, which will not be recycled, and the efficient government initiative that is starting to get off the ground, through which savings will be reallocated. Those difficulties arise against a background in which, now that departmental running costs are being established as the outturn of the statement that the minister made in the "Building a Better Scotland" document, we are being told that there are shortfalls of £1.6 million in year 2 and £7.3 million in year 3. When we meet the permanent secretary in March, we will try to secure an explanation of why, just a few months after the publication of a fairly substantial document, there are shortfalls in departmental running costs. When we understand why the shortfalls have arisen we will seek to impress on the permanent secretary the fact that they should be met from a non-staff-costs budget. We will have a second meeting with the permanent secretary later in March to consider how the civil service can engage positively with the efficient government initiative and how we can deal with the complex picture of UK cuts in departments in Scotland, efficient government and relocation. We were certainly concerned to be told about shortfalls of such magnitude.

**The Convener:** Wendy Alexander wants to come in at this point.

**Ms Alexander:** I see smiles all round, because committee members and witnesses know that efficient government has been a recent hobby-horse of mine. Grahame Smith's introduction was very helpful, because talk of crowding out is entirely misplaced in the context of Scotland. The

issue is how we efficiently spend resources. Eddie Reilly was very persuasive in saying that the case has not been made for having a distinct Scottish civil service and Matt Smith made a helpful point about the fact that front-line members of Unison often want work reorganisation so that bureaucracy can be eliminated.

However, it will not surprise my trade union colleagues to hear me say that it is important to reflect fairly on the Chancellor of the Exchequer's announcement in July. Of course, although in Scotland the initiative has been tagged "efficient government", the commitments in the UK spending review were entitled, "Releasing resources to the front line". The plans in England involved 100,000 gross job losses and 88,000 net job losses, but a promise was made to create 250,000 new jobs—three times as many as would be lost—in the next three years. The new jobs would mainly be in health and education, which would affect Unison members, and the process would start in three weeks' time. Of course, the approach is contingent on Labour's being re-elected; if we have a different Government I presume that a quarter of a million new jobs will not be created and 88,000 jobs will not be lost—

**The Convener:** Do you have a question, Wendy?

**Ms Alexander:** Yes, I am getting there.

As the witnesses rightly say, there has been confusion in Scotland about what the spending review means. To some extent that is no wonder, because the UK spending review said that a programme "as ambitious" as the one in England would be pursued in Scotland—the phrase has been regularly repeated and mentioned in parliamentary questions in the Scottish Parliament. Given that 70 per cent of the spend in Scotland is on pay, we might assume that in a programme that is "as ambitious" as the one in England, 8,000 jobs in Scotland would be lost and 25,000 created—10 per cent of the figures for England. There is a case for calling a spade a spade. However, after we had spent six months pursuing what "as ambitious" means for Scotland, the document, "Building a Better Scotland: Efficient Government—Securing Efficiency, Effectiveness and Productivity", which we debated in December, suggested that we are committed to efficiency savings at half the level that is being pursued at UK level, which implies that potentially 4,000 jobs in Scotland would be lost and 12,500 would be created.

The start of the process is under three weeks away. In England there is at least clarity and an agenda around which people can start negotiating. If in three weeks' time in Scotland we must embark on seeking 50 per cent of the savings that are sought at UK level and if it is the case that 70

per cent of the Scottish spend is on salaries, are not many of the union members that the witnesses represent terribly anxious about what will happen in three weeks' time?

**The Convener:** I think that the process will start in five weeks' time.

**Ms Alexander:** It is five weeks—thank you.

**Eddie Reilly:** Many of our members in the Department for Work and Pensions are very anxious about the fact that they might be served with a compulsory redundancy notice in the next six months. I assure Wendy Alexander that those workers do not regard being handed a compulsory redundancy notice as "ambitious", nor do they understand that the front-line services that they provide to the most vulnerable people in society in Scotland need to be swept away into remote processing centres, so that the current Chancellor of the Exchequer can balance the books. The first duty of all the witnesses who are here is not to political parties but to the members that we represent and I am in no doubt that our job is to fight for our members' jobs. Had there been proper consultation and discussion with civil and public service trade unions prior to the Chancellor of the Exchequer's announcement to Parliament, a different approach might have been taken not just by the unions but by the chancellor himself.

11:00

I would commend to the chancellor at least the way in which Scottish ministers have sought to deal with the position on efficient government. We can argue, as you have done, about whether the cuts are big enough, but many of your constituents will be in jobs that might be cut and they will make up their mind on how they vote in the general election accordingly. Scottish ministers have shown that there is a better way to engage with the workforce and the trade unions that represent them than, in our experience, we have seen at the UK level so far.

**Matt Smith:** The committee should be aware that, in addition to our meetings with the committee today and with Scottish ministers previously, we had a meeting with the chancellor last November at which we raised a number of those issues about the different attitudes that are coming across.

On the timetable issue, I share some of Wendy Alexander's concern. In our statement we outlined the need to make progress on the issue and, as Grahame Smith said, we have chosen to do that through the public services forum meeting that is scheduled for March. We have asked for more engagement on the process. At this stage, I do not have the assurances that I require for my members before we could endorse the contents of the statement on efficient government.

**Ms Alexander:** I have one follow-up question.

I note that the helpful annex to PCS's written evidence contains the minutes of a meeting with the minister and the permanent secretary, which state:

"Scottish Ministers would hold to their approach of not setting any targets for job losses as a result of the delivery of the Efficient Government Plan or other initiatives".

My desire is to ensure that people are not saying two different things in two different places. The minister seems to have given the unions a very explicit assurance; obviously, we are regularly given assurances that the Executive is embarking on securing 50 per cent of the savings that are being pursued in the rest of the UK. The commitment to reach a target of three quarters of the UK efficiency savings starts in April. Perhaps we need to ensure that the two agendas marry up, given the circumstances that 70 per cent of the Scottish Executive's spend goes on the pay bill. Perhaps the unions can keep us in touch on that issue as we move towards 1 April.

**The Convener:** That was less a question than a statement.

**Mr McAveety:** We are talking about large-scale transformation, and any such transformation requires incredible sensitivity—for which I am not renowned. We experienced that with best value. If we consider the trajectory of best value in local government, we see that it started off with what one might fairly call initial scepticism, occasional hostility and absolute nervousness but those attitudes shifted, depending on how well the new regime was introduced. A critical element in that shift was engagement with staff and employees. We saw examples of how that was done in different places. However, the outcome of such initiatives needs to be demonstrable to the public as well as to the employees. One problem is that we assume only that different parts of government need to speak to one another, whereas we also need to think about the wider public's view, and experience, of public services.

If the unions believe, as I think that they do, that there is capacity for creating more efficient government at all levels—the expectations for savings will fall as much on Executive staff as on other staff—given that wage bills are such a dominant element of the budget and given that health, education and social work are core elements of local government spend, where do the unions believe it might be worth exploring, in negotiation, how efficiency savings might be achieved? Are there examples of good practice that could drive that forward?

**Matt Smith:** I am tempted to suggest cutting back on private finance initiatives as a way of making great efficiency and cost savings but,

having made the point, I will not go down that political route this morning.

Our members recognise that changes could be made to areas such as procurement, which has been mentioned as a key issue. However, part of the presentational difficulty lies in the terminology that has been used about front-line and back-room services. Nothing is more offensive to people than to describe their job as less effective or less important to the function because they provide a back-room service. For example, staff who work with medical records have a role that is key to the functioning of the health service, but it is seen as a back-room function. There is a clear commitment to increase the number of civilian staff in the police service to allow police officers to concentrate on what are called front-line services. Such back-room staff are important to the function. The language issue needs to be addressed in the debate.

I believe that we can have a debate about where savings could be made. Over the years, our members have identified areas of waste and inefficiency; they will continue to do that, but they need to have confidence that, in doing so, they will not put their own jobs and future in jeopardy. That is why we return continually to the requirement for agreements that are based on no compulsory redundancies and guarantees for employees' futures.

**Eddie Reilly:** Frank McAveety asked for examples. When there was talk of outsourcing the facilities management function from Scottish Executive main about two years ago, the unions made a proposal for a business improvement plan that ended up shedding something like 30 or 40 jobs. The plan involved no compulsory redundancies, was implemented over a manageable timescale and resulted in a substantial saving of millions of pounds for the taxpayer.

It is far better if the workforce is made to feel that, through its unions, it has some ownership of the process. That is how we would like to see the efficient government plan moving forward. I refer the committee to the evidence that was given by the permanent secretary on changing to deliver: it seems to me that certain parts of the senior civil service engage in so much blue-skies thinking that no one can drill down to the engine room where everything is delivered.

On Wendy Alexander's point, there are fears that, having had some degree of fairness brought back into civil service pay by Scottish ministers, we may now be entering a period of public sector pay decline. The committee does not need to ask what our reaction to that will be, as we will certainly do what we can to prevent it.

We need to consider the circle of things. In addition to the moves on civil and public service pensions that Grahame Smith and Matt Smith mentioned, we face the prospect of a period of decline in public sector pay, which might mean that, in five years' time, we will have to fight to close the gap before it becomes so big that it is impossible to fill. In different parts of the public sector, people are confused and unsure about what efficient government and changing to deliver will mean for them. They have no ownership of any part of that process, so morale is going down substantially.

**Grahame Smith:** One example of good practice is the centralisation of support services in the health service. Part of the reason why the unions bought into that is that the health service has a sophisticated range of partnership working mechanisms that enable people to engage in that initiative with confidence that it can make progress.

One of our concerns is that unions and staff should be properly involved at the outset as projects are developed and brought forward. For example, we suggested that amendments to that effect should be made to the Executive's guidance on the efficient government fund. Once I had tracked down the guidance—it was not available on the Scottish Executive's website, but I eventually got a copy of it—I found that it contained no reference to the need to engage with unions or staff in conceiving or implementing initiatives. Our anecdotal experience from the modernising government fund is that, unless staff are involved at the outset, initiatives can be introduced on which there has been insufficient consultation with the unions. When those initiatives are then implemented, overcoming the subsequent problems can cause more inefficiency than the inefficiencies that the project initially identified. It is crucial that the workforce is engaged through its unions in the conception of projects as well as in their implementation.

Another point is that we need to see the issue in the round. Efficiency is not just about making savings but about increasing productivity, which can be done by improving employment practices more generally. In our view, fair employment is a key driver to productivity. If public sector workers can see a whole package that involves improvements in their terms and conditions and identifies issues such as health and safety, training and development and family-friendly working, they will be much more ready to buy into and contribute to initiatives that aim to improve services through identifying efficiencies.

**Jim Mather:** To a large extent you have anticipated the question that I was going to ask; however, I am keen for the other panel members

to chip in. Generally, I am interested in the concerns that you might have about the search for efficiency improvements and the effect that that might have on the quality of service that is provided; on ease of access for users; and on making the working environment more rewarding and stimulating for existing staff members.

**Matt Smith:** Ease of access for users is a concern that we have flagged up in other areas. Often, although an allegedly more efficient system—resulting, for example, from the introduction of new information technology—may be helpful and cost effective, it cuts off the link between the individual and the service, which is important in the provision of public services.

In relation to the issues that you raised about persuading people that a more efficient service can be helpful to them, the creation of a better working environment is important. For many years, we have struggled with the issue of low pay in public services. The argument was always that there was no opportunity to offer better pay, although there was a will to do so. If there are genuine efficiency savings to be made, perhaps those savings can be used to address that issue and we can start to tackle the appallingly low rates of pay in many of our public services. It is appalling that the people who provide those services are often in receipt of benefits because of the low level of remuneration that they receive.

**Jim Mather:** On the technology issue, how effective are the current arrangements in ensuring that there is a reasonable balance between efficiency, value, quality and equality of access? In particular, has there been any involvement of staff and unions in departmental business re-engineering, using technology and external experience in a positive way to change radically and streamline business processes rather than simply to automate the existing processes, thereby making the operations as good as they can be? That goes back to a point that Grahame Smith made earlier.

**Grahame Smith:** I could not comment on that. My colleagues may, through the engagement of their unions' members, know of examples of that happening.

**Eddie Reilly:** There is not enough recognition by public sector employers—I am talking not about John Elvidge specifically, but about my experience of some senior civil servants in the Scottish Executive—of the fact that trade unions and workers should be involved in partnership at a strategic level, not just at an industrial level. Too often, the employer limits the agenda to industrial relations business or the effects of their decisions on staff or workers. Not enough recognition is given by the employer to the fact that they ought to engage the trade unions and workers at a

strategic level in decisions that are made. However, we have recently got agreement that the Scottish Executive main bargaining unit can have more direct access to departmental management boards, so that we can discuss such decisions at a more strategic level.

The permanent secretary to the Scottish Executive is going to be very busy with us over the next month: he will meet us three times. At the partnership board meeting that we will hold at the end of March, we will want to continue an earlier discussion that we had with him about how the unions can engage on the agenda that you are talking about. When that is done, workers feel that they can have a positive input and that they are not just on the receiving end of changes in the workplace.

11:15

**Jim Mather:** In practical terms, what can be done to improve the arrangements for involving unions and staff in the development of strategy, especially in the refocusing of resources in line with some of the valuable stuff that we got last year from Nicholas Crafts and the Allander series of lectures? Nicholas Crafts made the point that public services can be a key driver for and a key component of national competitiveness. What could we do to focus efficient government at a more strategic level with heavy union and staff involvement?

**Eddie Reilly:** At the meeting that I mentioned—which is one of the three meetings that are scheduled—I hope that we will discuss how the unions can engage with the efficient government process, not least because we want to see where the money will be reallocated as much as you do. We want to see what effect that reallocation is having and whether the money is going to the right area to have maximum effect.

The issue of how trade unions and workers in the public sector can engage more directly with employers is a vexed one. Because there has not been enough acceptance by the employers of the fact that strategic partnership is required, the word “partnership” has been brought into disrepute; perhaps for the wrong reasons, it has lost a degree of credibility. I hope that, in the meetings that we will have in the coming month, we can build that up again.

A project on electronic human resources is about to be launched in the Scottish Executive. The unions have no difficulties with that in principle, and we have accepted the invitation of a seat on the project board that will deal with how the e-HR system can be introduced in the Scottish Executive and perhaps in its internal and external agencies. However, we are concerned that, over the past 12 months, some people have entered

senior civil service jobs from the private sector who do not understand the needs of a public sector organisation and have immediately rubbished it, demotivated the staff who are working in certain areas and not got them to buy in. Once that has happened, it is difficult for trade union leaders to sit around the table and ask how we can positively engage. There are obstacles there, as there are to our taking a far more imaginative look at training budgets in public sector areas and engaging in a debate about where re-skilling and upskilling ought to take place.

**Grahame Smith:** We have recently established the Scottish public services forum, which gives the unions an opportunity, through the STUC, to engage with ministers at a strategic level on issues across the public services. As we mentioned earlier, that is the route that we have identified to enable us to have strategic engagement on efficient government. However, as has been mentioned, it is important that we begin to identify opportunities for engagement in the various portfolios as well as engagement at a workplace level across the work streams that are identified in “Building a Better Scotland”.

It is slightly ironic that, in a debate about the establishment of the Scottish public services forum, ministers proposed that we should involve public service employers in the forum. For the reasons that Eddie Reilly has identified, we were initially reluctant to do that. However, over the past couple of years, we have had extensive engagement with the Executive on social partnership generally and on how the trade unions, the Government and public and private sector employers can engage in debate about strategic policy across the range of policy issues that relate to the economy and public services. The private sector employers indicated that they were not interested in that type of engagement, which was a great disappointment to us because we felt that that type of mechanism had a lot to contribute to the general improvement of the governance of Scotland.

**Jim Mather:** Have you done any research on leading private sector employers that have carried out strategic activity involving staff at an early stage and other public service entities—perhaps in other jurisdictions—that have done that? Are there any role models that you can cite to ministers and senior civil servants?

**Grahame Smith:** As part of that dialogue, we produced a document that was based on desk research into a range of surveys of practice among private sector employers that had shown massive increases in productivity, for example, as a result of partnership working. Unfortunately, that did not convince the private sector employers that there was something in it for them if they engaged.



We have not lost hope, but we have put that matter on the back burner. We are not going to waste a lot of time in trying to persuade private sector employers that they should come to the table; the opportunity is there for them to do that if they wish. We are more than happy to engage on public service matters through the Scottish public services forum and with public service employers, if they want to work in a spirit of genuine partnership. That means not just listening and consulting; it means the real involvement of workers, through their unions, in decision making. That throws up challenges for us as well as for them, given the responsibilities that they bring, but we have openly indicated that we are willing to take them on.

**The Convener:** We have covered some of the ground that we wished to cover, particularly on the issue of front-line staff versus back-office staff, but I believe that Andrew Arbuckle wants to come in.

**Mr Andrew Arbuckle (Mid Scotland and Fife) (LD):** I have two short questions. First, do the witnesses feel that the Executive's savings targets are achievable? Secondly, if employers and employees could reach ideal negotiating and strategic levels, would the witnesses be inclined to shift the targets up or down?

**Grahame Smith:** On the first question, we have probably not been engaged to a sufficient level of detail to determine whether that is the case. We have given a commitment to engage constructively to achieve efficiencies, but we cannot comment on whether the targets are achievable. Whether or not a more detailed involvement on the part of the unions could produce additional targets is a hypothetical question. Such engagement might result in the identification of areas in which we think the targets are overambitious, as well as of areas in which productivity improvements could be made.

**Matt Smith:** If we were able to achieve the level of partnership and engagement that we have suggested we should achieve, we could have joint targets at some future date. However, we are not there at this stage.

**Eddie Reilly:** It is important to bear in mind the fact that efficiency savings often do not directly relate to staff cuts. A considerable amount could be done in relation to the amount of money that is spent on private sector consultants in public services. We would like to consider that issue in relation to the Scottish Executive, in the same way that Matt Smith would want to consider it in relation to local government and the health service.

**The Convener:** We now move to the subject of performance pay.

**Ms Alexander:** That is the convener's cue for me to ask the question that I was meant to ask

earlier. Grahame Smith has helpfully answered the question about whether the unions are opposed in principle to centralisation. You pointed out that there is a willingness to consider centralisation where it seems appropriate in the health service and in other areas.

I have been asked to ask about pay and performance. Could you say something about the need for us to consider market rates of pay for public sector workers where there is a tight labour market and where there are shortages? I am thinking in particular of planning. In other words, I would like you to say a few words about how we need to think about market rates of pay in the interests of the public sector.

My second question is probably more problematic. How do we think through the issue of performance-related pay as it concerns public services, with regard to where it might be helpful and where it is not helpful?

**Eddie Reilly:** I will deal with the second issue first. Performance-related pay has existed in the civil service for decades. That has led to changes, by negotiation, to performance management systems and so on. The most recent change was in August 2000, when a new performance management system was introduced.

We have not had a problem with considering rates of pay for our members in comparison with the market; it is a matter of getting ministers to pay those rates when they discover that our members are far behind staff outside.

It might be interesting for you to know that we hope to reach agreement on the terms of reference for a pay level survey to consider other areas of the public and voluntary sectors, the UK civil service and the private sector and to establish where existing jobs can be benchmarked against rates of pay in those areas. That survey will inform the pay negotiations in August 2005. However, as Wendy Alexander would expect me to say, there are problems with getting ministers to authorise pay increases.

**Ms Alexander:** Is an equality pay audit part of that negotiation agenda for the autumn?

**Eddie Reilly:** An equality pay audit?

**Ms Alexander:** Yes.

**Eddie Reilly:** There has been a second equal pay audit. After repeated efforts, the unions were eventually given the information just a few weeks ago and we have been invited to submit views to the Scottish Executive. I have not yet had the opportunity to see that information, but such audits are done as part of the regular pay auditing process.

**Alasdair Morgan:** You said that you have difficulty in getting ministers to pay the rates that

you think your members deserve to make their pay comparable with that in the private sector. Have you a rough idea of how much might have to be added to the Scottish Executive budget if it were prepared to pay those rates?

**Eddie Reilly:** We have no idea at the moment. We are about to commence the pay level survey. My point is that we cannot constantly be recruiting people. The Scottish Executive is a flagship employer, which looks for the best people to do the job and deliver the service. When pay for the value of their work falls significantly behind the private sector and other parts of the public sector, as the unions believe that it has just now, there will be a retention problem. People will leave and go—

**Alasdair Morgan:** I was not going to argue the point. I was just asking whether you had a rough idea of what it might cost.

**Eddie Reilly:** We do not know as yet. I expect—

**Alasdair Morgan:** You would share that figure with us when you—

**Eddie Reilly:** The pay level survey has not yet been commissioned, but I expect that it ought to be reporting by early to mid summer. Certainly we want to be transparent about our position as soon as we gather all the evidence.

**Alasdair Morgan:** In its efficient government document, the Executive says that it will

“ensure that the benefits of efficiency gains flow to the public.”

You say that any cash savings should be reinvested in the expansion and improvement of public services. Do those two things mean the same, or is there a divergence between the positions?

**Eddie Reilly:** I think that they mean the same thing. Another part of our written evidence says that our union engages in 20 sets of pay negotiations with Scottish Executive agencies and NDPBs. If that work were to be centralised because only one minister claimed the remit for all those pay negotiations, and if there were only one central set of pay negotiations that left some flexibility for different organisations to match their needs, that would create a saving. We want to have an input to senior civil servants about the areas in which we believe the front line of the Scottish Executive is under-resourced. As well as the financial resources, the human resources would be able to move within the Scottish Executive to improve the level of service that the Scottish Executive or any other part of the public sector gives to ministers or to the taxpayer.

**Alasdair Morgan:** In asking that question, I was thinking more about local government because the minister seems to imply that in the two or three

years to come, councils should use some of the efficiencies that they can gain to keep down increases in council tax. That means that they are passing on the benefits of efficiency savings to the taxpayer either by reducing taxes or at least by not putting them up as much as they could do. That is not the same as investing the efficiency savings in the expansion and improvement of public services, which is what you said. What do you think of the minister's approach? Do you think that it is valid, or are you unhappy that savings could be used to keep down increases in council tax?

11:30

**Matt Smith:** I do not want to get involved in the debate about the funding of local government, which is a separate debate that is on-going. However, there is the pressure that you suggest. The efficient government document makes the assumption that money has been lost to local government as a consequence of the settlement. If any area of public service in Scotland is under pressure as a consequence of this and other activity, it is local government. I have concerns about what the future holds two or three years down the line. I would be very concerned if efficiency savings were used merely to address problems with the means of funding, rather than to address the needs of services. You raise important issues, but they are part of the debate about how public services and local government, in particular, are funded in Scotland.

**Dr Murray:** My question is about external appointments, to which reference has already been made. It can be an advantage for someone to bring a set of different experiences that might shed a slightly different light on a problem. However, as Eddie Reilly said, people may come in feeling that they are superior to the people who already work in public service, which makes it difficult for them to engage with staff. I understand that there is in Scotland a smaller percentage of external appointments than is the case south of the border. Should there be more external appointments to the civil service? What are the benefits and disadvantages of such appointments?

**Jim Caldwell:** As I said, we have no problem in principle with external appointments to the civil service—to the senior civil service, in particular—if such appointments are made for the right reasons. We believe that the skills that are required are, in the main, already in the civil service. Where there is a requirement to recruit specific skills that are lacking—in procurement, for example—we have no problem with external appointments' being made. However, it should not be assumed that there are no professional skills inside the civil service. In Scotland, we are about to engage in

the debate on professional skills in government that Sir Andrew Turnbull of the Cabinet Office announced recently. Eddie Reilly made the point that there is a debate to be had about training and development of people who are already in the service not just at senior level, but below that.

**Dr Murray:** There is a general issue of skill shortages in Scotland. This may be a leading question in the circumstances, but one reason why people join the civil service is the good pension scheme, which makes up for the fact that pay is often not very good. However, there are proposals south of the border to change significantly the public sector pension scheme. Do you have a view on how recruitment to the civil service might be affected if that advantage were removed?

**Eddie Reilly:** Obviously, we have fears about the proposals. You are right to suggest that civil servants and other public servants have over many decades tended to take blows to their pay levels, compared with those of other workers, but they have sought comfort in the fact that when they reach 60 they can at least retire with a reasonable pension. However, it is interesting to note that the average civil service pension is not £20,000 a year, as some people think it is, but about £3,500 a year. That gives members some idea of civil service pay levels.

Recruitment may become a problem, but the issue of civil and public service pensions goes much wider. People feel betrayed because a condition that they had felt was a clear condition of employment when they started work may now be compulsorily removed before they retire. As Dr Murray suggested, people have viewed the pension as making up for many other things that go wrong. However, the current pension issue and many other issues are seriously damaging morale in public services.

**Jim Caldwell:** Elaine Murray is right to suggest that the pensions issue will have an impact on recruitment. If we go back to the Scott report, which the Thatcher Government commissioned, and to other reports, we see that civil service pay has been depressed because of supposedly better pensions.

The Government cannot have it both ways—if the Government is to give people a gold-plated pension scheme that can be paid for because of lower salaries, it cannot change that pension scheme without striking a balance in respect of pay. However, it is clearly unlikely that it will strike that balance.

**The Convener:** We have uncorked a bottle on a subject on which we could talk for several hours.

**Dr Murray:** I should perhaps declare an interest as someone whose civil service pension will mature after 2013.

**The Convener:** I want to ask a final question. The efficient government initiative implies some kind of cross-sectoral co-operation—at least in terms of back-office arrangements, which we have already talked about. We have heard evidence from the Highlands of practical examples of getting tasks done through co-operation among different public sector organisations.

I appreciate what was said at the beginning on the downside of breaking the structures of pay and conditions, but if pay and conditions can be maintained, can you see opportunities in the efficient government initiative for more co-operative working among the health service, local government and the civil service? Could that be helpful and progressive for the opportunities and working circumstances of your members, and for service delivery?

**Matt Smith:** Yes, broadly, but the changes will not come about because of efficient government; rather, efficient government will come about because of the changes because the changes are taking place anyway. The efficient government initiative may make it easier for that to happen—if the initiative is successful—but to be successful it must take on board employees' needs. Unless conditions are safeguarded and assured, many difficulties will lie ahead.

**Grahame Smith:** As Matt Smith said, long before the efficient government initiative was launched we were promoting the idea of public service networks to identify opportunities for cross-sectoral co-operation in various public services.

**The Convener:** Are you saying that, instead of having the efficient government initiative as a financial driver, there ought to be a service-development driver?

**Matt Smith:** I would argue strongly for that.

**The Convener:** At that point, we conclude our questions. I thank all our witness for coming along and for responding to questions. As we discussed during the questions, we will get additional information from you.

11:39

*Meeting suspended.*

11:46

*On resuming—*

## Budget Process 2005-06

**The Convener:** Agenda item 3 is consideration of a paper from our budget adviser, Arthur Midwinter, on the Executive's response to our report on stage 2 of the 2005-06 budget process. Members will recall that we took evidence on the Executive's response from the Deputy Minister for Finance and Public Service Reform on 1 February. Unfortunately, Arthur Midwinter was not in the country at the time, which is why he will give us his views on the key points now. I invite Arthur Midwinter to speak briefly to his paper, after which members can make comments.

**Professor Arthur Midwinter (Adviser):** I am sure that my absence was not behind the minister's appearing at that time.

There are large areas of agreement. About two thirds of the committee's recommendations have been accepted, which is a sign of further progress in how we handle such matters. However, I will concentrate on the four areas of disagreement in which the committee should not, I think, simply take the Executive's line and leave matters at that.

First, on equality proofing, I am disappointed that the valuable information that we received last year on costs in the equality section—which the committee praised and recommended to the Executive—has disappeared this year. In fact, we asked whether that model could be used for all cross-cutting approaches, but the Executive appears to have excluded such an approach in trying to co-ordinate how it does things. The result is that, in respect of equalities, we have no way of knowing how much is being spent on inequality, on economic growth or on closing the opportunity gap, as we did last year. From memory, I think that more than £400 million of expenditure was identified that clearly advanced the equality agenda. That was progress.

Secondly, the Executive has suggested that the Finance Committee and the Equal Opportunities Committee are asking for targets to be set for individual employing organisations, such as health boards and local authorities. However, that is not what the Equal Opportunities Committee asked for—it asked for a national figure and national outcomes. The Executive appears to have interpreted that request in a rather curious way. Through one of the groups that I sit on, I am privy to information that suggests to me that some data that we have requested are already available to the Executive through its gathering of statistics. Therefore, I would like the matter to go back to the Executive and to be pursued further.

If we can have data only on employment of the groups within the equality agenda for the Executive's own budget, we will have no idea whether the policy is being implemented successfully throughout Scotland, particularly given that the NHS and local authorities are such big employers. I would like the committee to agree to my chasing up what can be provided in an informal discussion with Executive officials. Otherwise, we will not be able to monitor an important element of the strategic agenda.

Secondly, there are similar arguments about the economic growth target. The absence of a national or strategic target is preventing effective monitoring. It is clear that the issue is complicated; however, targets are set for the closing the opportunity gap strategy throughout portfolios. I have always believed that it is possible to generate not necessarily a target, but some kind of growth index that would allow us systematically to measure progress. The committee might need advice from someone other than me on how best to develop that; for example, an economist who is fully up to date on such matters. Given the response that Tavish Scott gave in evidence when he offered to discuss matters further and suggested that the committee might want to make proposals, we should try between us to find a way of getting a sensible set of indicators that we can use.

Thirdly, I turn to council tax. The Executive appears not to acknowledge the pressure on council tax that is caused by cutting grant in the guise of making efficiency savings—I noticed that there was an exchange about that before I came in. By taking £200 million out of the grant, the Executive is putting pressure on council tax levels. In the 1980s, the approach that was adopted by the then Scottish Office was to set cash limits. It agreed the cost of a service and then set a cash limit—which was normally 2 to 3 per cent below the expected inflation rate—as a way of putting on the squeeze. In the 1990s, for about five or six years the assumption was that all pay and price increases would be accommodated through efficiency gains. That was the way the squeeze worked. I see the handling of efficient government within the local government budget as a continuation of that approach.

We have the new emphasis of the Executive's setting a target for council tax increases, which has been resisted in the past, but we have no exposition in the Executive's reply of why it thinks that the maximum 2.5 per cent increase is manageable. We are told simply that there is no need for increases above 2.5 per cent. Over the past five years, the average increase has been between 4 and 5 per cent at a time when the Executive was not reducing grant but maintaining and increasing it. The argument has been made

that there have been high levels of grant in recent years. The way local government finance operates is that once the levels of grant are in, they are in and they exist to meet commitments; the grants are not money that is splashing around in the system waiting to be used. What matters are the changes in the present year. If we have what is, in a sense, an inelastic tax that does not increase automatically with inflation and we want to spend above inflation, the tax will rise unless we provide compensatory grant. Reduction of the grant is liable to put further pressure on council tax. The committee should express its continuing concern about that; it is important to put that on the record so that when the council tax increases come in higher than 2.5 per cent, the committee cannot be blamed.

Finally, on efficient government, when I was away in January the committee was asked to approve a new budget that was, apparently, made in expectation that £405 million of efficiency gains would be delivered. However, you were not told how, which seems to me to be bad practice. As a result of our continuing dialogue with the Executive, it has produced a breakdown of the savings—which you now have—using the kind of single-line approach that we would use for approving budget revisions. We will have to pursue in questions what those lines mean. At least we now have the breakdown. I think that we will get much better information once the technical notes are available.

I found it difficult to fit elements into the categories that highlight what efficient government is about. Some of them are simply called “savings” and are not clearly back-office functions, except for procurement, which is identified as saving £207 million.

The modernising government fund and the efficient government fund involve small amounts of money, but they are highlighted as being big sources of efficiency savings. Are they genuine savings or is it just slippage? We need to pursue that question. Further, what is meant by the lines that say simply, “efficiency savings” in relation to the Scottish Commission for the Regulation of Care, the Forestry Commission and so on? I look forward to the technical notes, which might provide some answers to those questions.

**The Convener:** Thank you. Your paper is useful. I reiterate a point that you made earlier: we are making some significant progress and the larger part of our recommendations has been taken on board. You were also right to focus on the four areas in relation to which there are continuing issues.

On council tax, you made a point about the implications of how funding for local government is allocated in terms of the efficiency assumptions.

An issue was raised—in respect of Dundee—about population decline in certain local government areas. Do you have anything to add to what you said about that?

**Professor Midwinter:** If the report that I read was accurate, the issue related to the loss of population from the Dundee boundary into Monifieth and surrounding areas. Going by letters that I read in *The Courier* this week, I have to say that the minister will need Machiavellian skills to persuade the people of Monifieth that they ought to be part of the city of Dundee.

The local government structure is a mess: the reform was poor and there are all sorts of problems associated with it, but they are not the cause of the current crisis. The current crisis is caused by the efficiency gains—

**The Convener:** By “crisis”, you mean the council tax.

**Professor Midwinter:** The council tax increases and associated pressures are caused by the efficiency assumptions—not by the problems that there might result from mismatches that flowed from local government reorganisation.

However, the minister has pointed to an example that is not the problem but is a symptom of one of the big problems in the local government grant settlement system, which is the assumption that local authorities that face population decline—which some of the poorest areas in Scotland do—can accordingly adjust their spending pro rata. They have an element of fixed costs—they have to take care of the same number of roads, if not more, each year and they have to make similar capital investment in education stock and so on. Therefore, to assume that spending can be reduced pro rata is questionable. The issue is not about boundaries but about how population decline and the grant settlement are handled. That could be an issue that we could pursue further, particularly if we decide to consider deprivation.

I have often drawn comparisons between the way local government grant and the national health service grant are allocated and how the Executive is funded through the Barnett formula. The Barnett formula creates a stable system because the increases apply only at the margins, whereas in the local government and health service grant settlements, population change is fed in straight away across the whole grant, which means that quite significant changes can occur. The issue relates not only to the boundaries but to the broader picture. However, although such elements might help to explain variations between councils, they do not explain the likely general increases in the council tax.

**The Convener:** That is very interesting, particularly in the context of what we intend to do

in respect of deprivation. Perhaps we will talk about that more specifically. I would welcome information that would highlight the stabilisation mechanisms—or lack of them—that affect local government as a result of population decline; such information would be useful.

12:00

**Ms Alexander:** Like the convener, I thank the budget adviser for his report. I propose three technical amendments, whose aim is to clarify sections of the report. Paragraphs 15 and 16 are slightly shorthand in style. If I cannot understand them, I suspect that others might also be in the same position.

For clarification, it would be helpful if paragraph 15 were rewritten. We need to make it clear what the figure in the efficient Government document of December for anticipated savings in 2005-06 is and what the figure for the same heading in the January budget document is. If we can see how those two figures can be reconciled, that will be for the better. Am I right to assume that the £405 million figure comes from the January budget document?

**Professor Midwinter:** Yes—it is in the appendix.

**Ms Alexander:** We should rewrite paragraph 15 to say that we were told in December what the savings in 2005-06 would be, but in January we got the budget and the figure was £405 million.

**The Convener:** I am not sure that we are talking about something that we can take further. Would that information be just to inform ourselves?

**Ms Alexander:** I was going to move on to my second point about what we should do. I assume that the report will go on our website. Before that happens, perhaps we can clarify the point that I raised. What change took place between December and January and why?

**Alasdair Morgan:** The report is on the web already.

**The Convener:** The report will have gone on the website this morning.

**Ms Alexander:** Perhaps the budget adviser could write an addendum about what changed in a month and why.

My second point concerns your point to the effect that the committee should not endorse “such unquantified savings” and that we should

“continue to express ... concern over this practice”.

What happens elsewhere? Are we trying to achieve greater transparency than is the case elsewhere or are we just trying to reach the same level of transparency?

**Professor Midwinter:** There is a normative position. From the first time I spoke to the committee, I have said that the committee should never sign up to efficiency savings if the Executive cannot tell you how they will be delivered.

**Ms Alexander:** What is happening in the rest of the United Kingdom, for example? At the time of the budget spending review, did the Government say how the budget was going to be spent?

**Professor Midwinter:** It probably did not do so with the level of detail that I would like.

**Ms Alexander:** I am not trying—

**Professor Midwinter:** I am not saying that the Executive is doing anything that may or may not be happening elsewhere in the devolved Administrations.

**Ms Alexander:** I just think that my first question on reading that phrase was whether the Executive has quantified how it will spend the money. Where do we stand on that?

My final point concerns the phrase:

“The Executive has provided”

the total

“and it is attached.”

I have looked through the response but cannot find it. I note that, rather unhelpfully, it does not provide a total—I am sorry, I have just noticed that it does. The total is £744 million. Although there is no heading to this effect, I assume that that figure is for the three-year period. The text refers to—

**Professor Midwinter:** I thought that we were getting figures only for this year.

**Ms Alexander:** The overall total is £344 million.

**Professor Midwinter:** The figure must be for the three years.

**Ms Alexander:** The helpful thing to do would be to ask for a further breakdown. The budget that was published last month says that there will be £405 million of savings, but we do not have a breakdown of the figure. That is not helpful—half a billion pounds is quite big money. Let us go back to the Executive and say, “It is helpful that you have given us the breakdown of three years, but could we have a breakdown of the £405 million?”

**Professor Midwinter:** That is what we asked for—I assumed that we had got it. Unlike Wendy Alexander, I had not looked at the total.

**Ms Alexander:** Do not worry.

**Professor Midwinter:** I see that the water savings are still included.

**Ms Alexander:** Indeed. I have one last question that concerns efficiency savings in local

government. Perhaps we could be provided with a table on the subject.

You said that difficulties will be caused to local government by the demand for efficiency savings. I am confused, but only because I have not yet seen the analysis. Are the demands that are being made of local government in any of the next three years in excess of 2.5 per cent a year? Although I do not want an instant answer to the question, how fair or unfair are the demands that are being made of local government? If we are to know the answer, we will need to know on which side of the 2.5 per cent per annum figure the demand falls. I suspect that it is less than 2.5 per cent in each of the three years.

**Professor Midwinter:** Well—

**Ms Alexander:** It would be helpful to have that information to inform the debate about whether local government has been hard done by and whether it is being asked to make savings of more than 2.5 per cent in any of the next three years.

**Professor Midwinter:** It is.

**Alasdair Morgan:** The question cannot be answered, because people make different arguments about what councils are asked to provide. Councils say that they have been asked to provide certain services because of different pieces of legislation, but central Government says that it does not cost that much.

**Ms Alexander:** We are talking about grant reduction.

**Professor Midwinter:** The Executive quantified the matter in a paper that came before the committee—I remember seeing that. One difference with the present proposals is that the savings target is higher. I have not quantified the savings into percentages, but the savings in local government will be roughly half of the total savings, even though local government accounts for only a third of the budget.

**Ms Alexander:** That information would be helpful. The 2.5 per cent figure is important, because that is Gershon's formally stated position on the maximum possible savings that are commensurate with not cutting front-line services. One may or may not agree with that view of Gershon, but it is critical that we know whether the savings are to be more or less than 2.5 per cent, because that will help us to get a handle on how real the cries of pain are.

**Professor Midwinter:** The second difference is that the money is to be taken away, rather than left to be reallocated if it is saved. The money is to be taken off the grant, which is a key difference.

**Alasdair Morgan:** You are right in your assessment of the feelings of the citizens of the

republic of Angus, but we will leave that on one side.

I was interested in what you said about the difference between efficiency savings and other savings. In debate, ministers might argue that a saving is a saving and that it does not matter whether it is an efficiency saving. However, I suspect that it does matter, if it is claimed that there is some merit in being more efficient. I understand why increasing the sentencing power of sheriff courts to five years will save money for the Crown Office and Procurator Fiscal Service, but that is not an efficiency measure, it is a judicial measure. It has been decided that sheriffs will have a power that only the High Court had before, which is nothing to do with efficiency. Similarly, alternatives to prosecution are being introduced not for reasons of efficiency, but because they are a sensible way in which to proceed in the judicial system. Alternatives to prosecution might save money, but they are not an efficiency measure, because they do not mean that the same job is done more efficiently.

**Professor Midwinter:** When we get the full details, all that we will be able to do is to compare the proposed savings with the initial criteria. It is clear already that some of the proposals will not fit those criteria, which in fact probably makes the savings target more attainable than it was. Initially, I felt that the Executive could not reach the efficiency target because of the areas in which it claimed savings could be made. If, as you say, the targets are simply for savings in some cases, they become more realistic.

**Dr Murray:** I have concerns about what are described as cash-releasing projects, which is a nice way of putting it. As the trade union representatives said, it is all very well saying where the money is to be saved, but we cannot see where the Executive intends to release the cash that is saved. A number of the proposed savings are in Executive priorities. I am not sure why youth crime is placed in the education portfolio, but there is to be a saving of about £3 million on that and a saving of £1.4 million on additional support needs, even though recent legislation will increase the amount of funding that is required to support young people in schools. There is even to be a small saving on Gaelic, but legislation is going through that will increase expenditure on Gaelic. We need to see the other side, which is how the money is to be redistributed.

**The Convener:** I suppose that we will get that information in the technical notes that are to be provided.

**Professor Midwinter:** Youth crime is a budget line that is under the control of a department whose remit is wider than simply education. There

is not a big budget for that, but the proposed savings are large—the question is whether they are to be efficiency savings or just savings.

**Dr Murray:** I agree with Wendy Alexander that we should see the savings in percentages for each of the budget lines, if possible. That would give us a better view.

**The Convener:** We are supposed to get a technical note for each of the projects, so we should wait for the additional information before we decide what to do.

**Dr Murray:** I wonder whether Professor Midwinter knows whether the efficiencies in the supporting people programme are over and above the reduction that the Office of the Deputy Prime Minister has imposed. If they are not, the Executive cannot really claim additional savings.

**Professor Midwinter:** I do not know.

**Alasdair Morgan:** I thought that that was Treasury funded anyway.

**Professor Midwinter:** It is transferred.

**Alasdair Morgan:** It is transferred, but we can use it for something else. Is that right?

**Professor Midwinter:** Once it is transferred and has gone into the block, it can be used for something else. Usually—I include that caveat—Treasury money is transferred because pressure on the budget is rising. The same thing happened in relation to the provision of free care for the elderly. All such factors are open-ended to begin with. When they build up, they get transferred into the block with tight control over the sum of money.

**Dr Murray:** We do not have the technical notes, so I accept that the situation is not clear at the moment, but if the UK Treasury has reduced the amount of money available and is giving the Executive less money, how can the Executive claim a saving of £27 million unless that is over and above the saving that the Treasury has already made?

**The Convener:** In that case, the figure might come down to the Executive's argument that different local authorities put forward different charges for similar services. Again, we need to wait for the more detailed technical note.

**Alasdair Morgan:** I might have missed part of the argument, but it seemed that, basically, whatever money we were getting was being reallocated among local authorities. I must have missed the part about the total also being reduced, but perhaps that is not an argument for this committee.

**Professor Midwinter:** I think that the amount was reducing and the Executive added some money to put it back up.

**The Convener:** Yes.

**Alasdair Morgan:** And now the Executive is taking the money out again.

**Professor Midwinter:** I would rather see the detailed technical notes before saying whether that is happening. It would be helpful to come back to all of the issues that have been raised once we have the technical notes. We have noted down the points that have been raised. Once I have the technical notes, I will be able to produce a note for the committee and do some calculations for members, if they want.

**Jim Mather:** There is a typo in paragraph 8 of the paper. It should say "By contrast" rather than "By contract".

On the numbers—to echo Wendy Alexander's point about reconciliation—I have added up all the totals quickly and have arrived at a figure of £496 million, which I struggle to reconcile with the other figures.

**Dr Murray:** Have you got the third page?

**Jim Mather:** No, I did not get the third page.

**Dr Murray:** I was a bit confused until I got the third page as well.

**Jim Mather:** The missing page will undoubtedly clarify the matter.

**The Convener:** It will undoubtedly bring some arithmetical correlation; I do not know whether it will necessarily clarify anything.

**Jim Mather:** I will settle for the correlation.

Talking about correlations, I see that under the heading "Administration" we have a subtotal of £8.4 million, but the detailed breakdown of the lines that should make up that total accounts for only £6 million. Further, on page 5—

**Professor Midwinter:** The other lines that you mention are separate elements; there is a problem with the way in which they have been printed. The figures for "CAP Reform" and so on should be listed as items in their own right. The problem is to do with the way in which the document has been produced.

**Jim Mather:** I am sure that it is resolvable.

**Professor Midwinter:** I had assumed that the £8.4 million was the quantification of the commitment to freeze the administration budget in real terms. The relevant figure was something like a saving of 3 per cent per year.

**Jim Mather:** As I said, I am sure that the problem is resolvable.

On page 5, under the heading "Environment and Rural Development", the element that relates to savings in Scottish Natural Heritage, which is listed as "ERD/C3", has no figure attached to it.



I raise these concerns in an effort to boost the credibility of the document.

**Professor Midwinter:** I stress that the paper was provided by the Scottish Executive; it is not for us to change it.

**The Convener:** We can perhaps highlight areas that we are unclear about. That could be part of a debate that could go on between Arthur Midwinter and Executive officials. Obviously, the technical notes that we have been promised will provide more detail on each of the budget lines.

**Jim Mather:** I would like to make a more substantive point about the economic growth target. The argument about preventing monitoring, which is utterly sound, also masks our exposure. Not having a forecast for growth leaves it open to competitors and even people who are thinking of investing their capital or making their life here in Scotland to draw the conclusion that we are not serious about economic growth. That is as big an issue as the prevention of on-going monitoring.

**Professor Midwinter:** Does the Scottish Executive have a forecast system? Wendy Alexander would know.

12:15

**Ms Alexander:** No, not even for the minister. I am sure that people who make freedom of information requests would find that astonishing, but you get a nice little table which, as my husband has noted, usually includes, first, the Fraser of Allander Institute—I know that that pleases him—followed by Cambridge Econometrics and Experian Business Strategies. As far as I know, that is all that is available. That is certainly all that was available in my time.

**The Convener:** We have to decide what to do with the paper. Arthur Midwinter is suggesting that we should clarify the nature of our request to the Executive about equality proofing and ask for further discussion of the matter. I take it that that is agreed.

*Members indicated agreement.*

**The Convener:** On economic growth, the suggestion is that we get into a discussion with the Executive about how we might progress, and I will report back to the committee on where we get to with that.

On council tax, I am not quite sure how we reiterate our concern that problems remain.

**Professor Midwinter:** I think that you will find it reiterated tomorrow in the press. I am pretty certain of that.

**Alasdair Morgan:** Let us just emphasise that it is not our fault.

**The Convener:** It is probably worth having a note or paper on the point that was raised about the instability linked to population decline, either in the context of what we are discussing now or in the context of our inquiry into deprivation. It could be done either way.

**Alasdair Morgan:** I thought that Arthur Midwinter's point about the Barnett comparators was quite valid. At the same time as the Executive benefits from a mechanism that does not really let population shift change its total revenue very much, it inflicts a totally different mechanism on councils.

**The Convener:** It would be useful to have that set out.

Finally, on efficient government, all we can do is to seek to clarify the information that we have got, await the technical notes and resume discussion of the issue once we have that information. We expect to have it by mid March. Is that agreeable to members?

*Members indicated agreement.*

## Cross-cutting Review of Expenditure on Deprivation

12:17

**The Convener:** Item 4 is the cross-cutting review of expenditure on deprivation. We have quite a detailed paper, paper FI/S2/05/6/4, which sets out a potential remit for the review methodology and timetable. We had agreed that we would not take oral evidence until June, because of our current work commitments, but that allows us the time to do the necessary preparatory work to gear up for the review. The proposal is that we take evidence in September to ensure that the review can be completed. It is suggested that there should be at least two significant pieces of research, one by Arthur Midwinter and one done in a different way.

First of all, I offer Arthur Midwinter the opportunity to say anything that he would like to say about the paper, although I hope that it is reasonably self-explanatory.

**Professor Midwinter:** In the past week, I have been rereading some of the pronouncements that the Executive has made on deprivation since 1999. The key thing for this exercise is that we develop a clear view of what the Executive means by deprivation and of what we are examining, because phrases are used interchangeably all the time. In 2004, we had a new document that said that the Executive's strategy was to tackle poverty, disadvantage and deprivation—all in one breath—and they are slightly different things in definitional terms.

I looked at the review of local government finance that was conducted when Frank McAveety was the minister with responsibility for such issues. In that review, the Executive considered poverty and deprivation, but there were few deprivation measures in the review. Nearly all of the measures were straightforwardly to do with poverty. Deprivation is a much more complex and difficult problem than poverty per se. The committee's inquiry has the capacity to grow like Topsy, and we need to keep it focused on deprivation as a bigger problem than poverty.

In reorienting the social justice strategy towards closing the opportunity gap, the Executive has placed much greater emphasis on deprived areas than on the broad definition of poverty. I have also discovered that the social justice annual report is no more. I do not know whether the committee was aware of that, but I was not.

**Ms Alexander:** In fairness, most of the data are still available online, but it is a sad demise.

**The Convener:** Are there any other questions or comments?

**Professor Midwinter:** On the research, I am comfortable dealing with the background, the policy, the spending and the definitions that are used but, as members will see, there is a new, sophisticated multiple deprivation index, with something like 18 indicators. The last time I looked at the index there were only six, so it is a big change. We need a statistician to assess the validity of the index, rather than someone like me, who is a social scientist who knows about statistics, which is not the same thing. We really need somebody who understands the technicalities of the weightings and so on to give us a view. A team in Wales has produced evaluations of the Welsh, Northern Irish and English new indices, which it might be useful to get, but I would not feel comfortable if members relied on me to perform the exercise. The index is central to where the money goes in the end, because moneys are shifted according to the new index. Knowing that the index is sound is an important part of the exercise.

**The Convener:** There is also the issue of whether we would like the index to be amended.

Do members agree to commission research along the lines that Arthur Midwinter suggests? It makes sense to do so. If the cost is more than £5,000, we will need to go out to tender and a formal proposal will need to come back to the committee. If members agree in principle, we will take that forward through the appropriate parliamentary mechanism and come back to the committee with a more detailed research proposal.

**Jim Mather:** The objectives should include a critique of the index of multiple deprivation because, looking at it from a Highlands and Islands perspective, I can see how it would skew against the Highlands and Islands, which would score well on pupil performance at Scottish Qualifications Authority stage 4 and the proportion of the 17-plus population that has acquired higher education. Those things would show the Highlands in a positive light, but most of the children would likely be exported from the Highlands.

**Professor Midwinter:** At one time, the Executive explored whether it ought to have different measures for urban and rural areas. The index is an attempt to get over that in part, because all the access measures are new. There are now measures on low pay, as opposed to benefit claimants, as was the case in the past, because the argument from the Highlands and other rural areas such as Alasdair Morgan's was that the problem was low pay, rather than benefits. The Executive's view is that it can use the index throughout Scotland. However, we need somebody from outside to cast an eye over it and to state how they feel about that.

**The Convener:** There is a bigger philosophical question, which is how the Executive uses deprivation indicators and other indicators as proxies for assessing need. It is questionable to talk about some of the sparsity indicators as measures of deprivation. I am not sure that the Highlands are deprived, although one might argue that they need to be funded differently on the basis of sparsity. There is a broader issue within that, which is the need to strike the right balance between considering deprivation, which is predominantly urban, and considering some of the sparsity issues, which require a different order of funding. That could be part of the critique.

**Dr Murray:** This is not just about constituency interests. Deprivation is not simply a matter of poverty; indeed, the definition before us refers to “the ability to participate in social life”.

People who live in very remote communities experience a certain aspect of deprivation because they are not able to access certain facilities or services. As a result, I do not think that what has been suggested is outwith the definition of deprivation.

Although we have been given all the indicators, Professor Midwinter seems to be suggesting that there is a weighting factor. It would be quite interesting to see how they have all been weighted.

**Professor Midwinter:** Yes. Doing so would test the matter statistically, which is why the committee needs a statistician.

**The Convener:** I suppose that we could commission research that would at least provide us with factual background. Committee members would then be able to interpret and make political judgments based on that information.

**Mr McAveety:** I see that, under the heading “Employment deprivation”, the final “e” has been dropped from the word “severe” in “Severe disablement allowance” so that it now reads “Sever disablement allowance”. Surely that indicator is more severe than it should be.

**The Convener:** We should perhaps add two dimensions. First, the current system, particularly for local government, is geared towards population, which means that deprivation indicators are relatively weak compared with population indicators.

**Professor Midwinter:** Population is the best indicator.

**The Convener:** We should make more explicit the fact that we are considering not the principle, but its application in budgetary decisions.

The other crucial issue is the way in which the Executive goes about identifying new needs that

are linked in some way to deprivation. Indeed, the supporting people programme is a classic example in that respect, because it was carried out on a bid basis and then the allocation was frozen. There appeared to be no mechanism for redistributing money—although there was a rather rudimentary and arbitrary means of redistribution. Perhaps we need to pursue the question whether, when it identifies a new need or a pattern of existing need linked to deprivation, the Executive might be better at anticipating the ways in which such a mechanism could be put in place to provide greater clarity.

**Professor Midwinter:** I am not on top of the programme that you mentioned, but I would guess that Gordon Brown found the money and people were told that it was available. Bidding would have been the quickest way of dealing with the matter. Once that funding is mainstreamed, the Executive faces the question whether to continue to fund those who have already bid or whether to base funding on a formula.

**The Convener:** That is one example. We also need to remember that, in associating certain physical or social problems with deprivation, a number of people with sometimes quite expensive additional needs might reside in a local authority area that already has a high degree of deprivation and that such demand will begin to skew the allocation even more. We need to find out how the Executive identifies need that is linked to deprivation.

**Professor Midwinter:** Traditionally, the Executive has asked local authorities about how deprivation might manifest itself in a certain programme, tested their suggestions and then submitted recommendations to them. However, more recently, some matters are being raised directly with Whitehall after the event. Consultation on the distribution of funds is not the same as it used to be.

**The Convener:** Perhaps, in the interests of completeness, we should ensure that the matter is addressed as part of the process.

Do members agree to the broad thrust of the suggestions in the paper and the timetable involved? We will then have to agree to commission research. Obviously, if we have to undergo a tendering process, we will bring back a more detailed proposal to the committee. Are members agreed?

**Members indicated agreement.**

## Scottish Consolidated Fund Accounts

12:30

**The Convener:** We should be able to move through the last two items on the agenda fairly quickly. Our fifth item concerns a briefing on the Scottish consolidated fund accounts. We have received a paper from the Scottish Parliament information centre, paper FI/S2/05/6/5, and Jim Dewar is available to answer any technical questions that members might have.

**Jim Mather:** I am looking at the opening balance of £880 million on 1 April 2003, which drops to £53 million on 31 March 2004. Was that opening balance an historical high? Was the closing balance an historical low? What is the pattern? Why the dramatic shift?

**Jim Dewar (Scottish Parliament Information Centre):** I do not have all the figures to make a comparison going back a number of years, but I could get that information if Jim Mather wishes it. The accounts refer to the fact that the figures concerned were higher than they needed to be. The sum was run down over the course of the year—the drop in the amount of money was intentional.

**Jim Mather:** It would be useful to see what the pattern has been, so that we have the figures in a logical context and can see how everything falls into place.

**Dr Murray:** Looking at the balance, I have the same concern as Jim Mather. It is the sort of thing that we would get worried about if we saw it in our bank accounts. An explanation would be helpful.

I was also wondering what exactly the “Repayment of excess receipts” of £108,000 relates to.

**Jim Dewar:** A number of things fall into that category: fines and forfeitures, fixed penalties, dividends on public dividend capital, interest and sums received from the European social fund.

**Dr Murray:** Why do all those things have to be repaid?

**Jim Dewar:** It was presumably agreed under the Scotland Act 1998 that those things would go back to Westminster, in effect.

**Alasdair Morgan:** Yes.

The briefing before us has been published as a separate document this year. I think that I am right in saying that, for the two previous years, the accounts were buried in another document. Am I right? I have not been able to find the accounts for the previous years.

**Jim Dewar:** I managed to find only two years' worth of accounts. I did not go right back to 1999.

**Alasdair Morgan:** I suppose that I could lodge a question to get the information and to find out where the accounts can be found. They must be presented. Did the Scottish consolidated fund exist only from 1 April 1999 or some other point in that year?

**Jim Dewar:** I believe that to be the case. The fund comes under the 1998 act.

**Alasdair Morgan:** The money exists in a notional account—I take it that it is simply in the Treasury's books.

**Jim Dewar:** I use the analogy of the fund being like the Executive's bank statement, although it includes some transactions with parts of organisations that lie outwith the Executive, such as the Forestry Commission and the Auditor General for Scotland.

**Alasdair Morgan:** My point is that, as at 31 March 2004, there was not actually a bank account with £53 million in it, for which Jack McConnell held the cheque book. I take it that the sum is simply an entry in the Treasury's books.

**Jim Dewar:** Yes, that is my understanding.

**Alasdair Morgan:** So, it does not mean that that amount of money is just sitting somewhere.

**Jim Dewar:** No.

**The Convener:** That exhausts our technical questions on the accounts.

## Item in Private

**The Convener:** Item 6 is to decide whether to consider our draft report on the cross-cutting expenditure review on economic development in private at our next meeting and at any subsequent meetings when we discuss it. Do we agree to do so?

**Members** *indicated agreement.*

**The Convener:** I thank members for their contributions.

*Meeting closed at 12:33.*



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