

FINANCE COMMITTEE

Tuesday 4 December 2007

Session 3

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FINANCE COMMITTEE

† 11th Meeting 2007, Session 3

CONVENER

*Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

*Elaine Murray (Dumfries) (Lab)

COMMITTEE MEMBERS

*Derek Brownlee (South of Scotland) (Con)

*Joe FitzPatrick (Dundee West) (SNP)

*James Kelly (Glasgow Rutherglen) (Lab)

*Liam McArthur (Orkney) (LD)

*Tom McCabe (Hamilton South) (Lab)

*Alex Neil (Central Scotland) (SNP)

COMMITTEE SUBSTITUTES

Roseanna Cunningham (Perth) (SNP)

Ross Finnie (West of Scotland) (LD)

Murdo Fraser (Mid Scotland and Fife) (Con)

Peter Peacock (Highlands and Islands) (Lab)

*attended

THE FOLLOWING GAVE EVIDENCE:

Dr Dan Barlow (WWF Scotland)

Professor Jan Bebbington (University of St Andrews)

Martin Booth (Convention of Scottish Local Authorities)

Rory Mair (Convention of Scottish Local Authorities)

Maf Smith (Sustainable Development Commission)

Ian Thomson (University of Strathclyde)

Councillor Pat Watters (Convention of Scottish Local Authorities)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Mark Brough

ASSISTANT CLERK

Allan Campbell

LOCATION

Committee Room 6

† 10th Meeting 2007, Session 3—held in private.

Scottish Parliament

Finance Committee

Tuesday 4 December 2007

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

The Convener (Andrew Welsh): Good afternoon and welcome to the 11th meeting of the Finance Committee in the third session of the Scottish Parliament. I ask everyone present to turn off any mobile phones and pagers.

Before we begin today's business, I want to say something about the events of last week. Members will be aware that, following the committee's discussion in private of Professor Bell's briefing paper, *The Scotsman* ran articles on parts of Professor Bell's paper on Wednesday and Thursday and *The Times* ran an article on Thursday. All that occurred before the briefing paper was published. The first article specifically said that the paper was leaked.

The draft briefing paper was given to the committee in good faith by our adviser and, by agreement, discussed in private. There can be no doubt that that private and confidential paper was then made public. That breach of good faith and confidentiality strikes at the very heart of the efficiency, integrity and trust that are essential for the committee to do its work on behalf of the people whom we represent.

I remind members that unauthorised disclosure of confidential committee material constitutes a breach of section 7.4.3 of volume 2 of the code of conduct. I am disappointed and concerned that this situation should have occurred and do not want it to happen again. Such is my concern that I may take the matter further. If members wish to intervene they may do so, but given the clear restraints about further comment that are contained in the code of conduct, I suggest that no further comment should be made by any of us at this stage, and that we move to the business on today's agenda.

Decision on Taking Business in Private

14:17

The Convener: Under agenda item 1, we must decide whether to take in private item 5, on consideration of the draft guidance to subject committees. We considered that part of the paper from the budget adviser in private last week. Does the committee therefore agree to take the item in public?

Members indicated agreement.

Budget Process 2008-09

14:17

The Convener: Under item 2, we will take evidence on the draft budget 2008-09 from experts in the field of sustainable development, and from the Convention of Scottish Local Authorities. It gives me pleasure to welcome to the committee Professor Jan Bebbington, professor of accounting and sustainable development at the University of St Andrews and vice-chair in Scotland of the Sustainable Development Commission; Maf Smith, the director in Scotland of the Sustainable Development Commission; Ian Thomson, reader at the department of accounting and finance at the University of Strathclyde business school; and Dr Dan Barlow, acting director of WWF Scotland. Would any of our witnesses like to make a brief introductory comment?

Dr Dan Barlow (WWF Scotland): I commend the Finance Committee for exploring the sustainability implications of the budget. This level of assessment is a first. From our perspective, it is a key component of how we manage to achieve a more sustainable Scotland—one in which we reduce our footprint and climate emissions impact by considering how we invest money and how we allocate resources. I very much appreciate the committee's consideration of this issue.

The Convener: Thank you. It is very much part of this open Parliament and its work for the people.

Professor Jan Bebbington (University of St Andrews): One addition to my job title is that, from 2001 to the end of the previous session of Parliament, I sat on the Cabinet sub-committee on sustainable Scotland. During that time, I had the experience of reviewing two budgets against sustainable development criteria. I hope to bring some of that experience to the committee.

The Convener: Thank you.

What specific strategic objectives is the Government signalling by giving John Swinney the title of Cabinet Secretary for Finance and Sustainable Growth?

Maf Smith (Sustainable Development Commission): It is worth reminding ourselves what sustainable development seeks to achieve. There is an international framework on sustainable development, which is signed up to by each of the Governments in the United Kingdom through a joint document called, "One Future—Different Paths", and is delivered on through different Government strategies. As a result of that, we in Scotland have a sustainable development strategy. There are five principles of sustainable

development: living within environmental limits; ensuring a strong, healthy and just society; achieving a sustainable economy; using sound science responsibly; and using good governance. Sustainable growth relates to the third principle of achieving a sustainable economy.

We seek to note the outcomes in relation to how we are trying to achieve the objective of sustainable development. The two key outcomes are the principles of living within environmental limits and achieving a strong, healthy and just society. The tools by which we will do that are the other three principles—they are not goals in themselves, but ways to help us achieve what we really want.

Defining the cabinet secretary's role in terms of sustainable growth—and using the terms to which I have referred in the strategy—helps us to focus on what we want to achieve and how we will do that. The key question is how we measure that so that we will know when we get there. There has to be monitoring of achievement by current and future generations in Scotland.

Professor Bebbington: It is important to recognise that by defining the portfolio in terms of finance and sustainable growth, the Government is not talking about growth as usual. That signals the fact that, strategically, there needs to be a move away from the current development pattern. Using that terminology suggests that one is not seeking economic development as usual.

That is to say not that current forms of economic development are always unsustainable, but that elements of them are unsustainable. Bearing in mind some of the other strategic objectives of Government and the current state of scientific concern, our continuing to emit high levels of greenhouse gases is a good indicator of the way in which we are economically unsustainable, because we are generating that side impact. That is not to ignore the fact that there are social outcomes of the current development model that are not equitable. Mr Smith is right, but we must also realise that we are not doing what we aspire to do at the moment.

Ian Thomson (University of Strathclyde): There is a potential contradiction between "sustainable" and "growth". In many ways, using the term "sustainable growth" is a symbolic gesture in that it places sustainability before a powerful committee and qualifies the notion of growth—it is not growth for growth's sake but a particular type of growth. The term has symbolic power and provides a qualifier that allows people to reflect on whether growth is simply about increasing gross domestic product in line with benchmarking. Whether there is much logic to it is debatable.

Elaine Murray (Dumfries) (Lab): Do you think that the overall direction of the budget is focused in a way that is sufficient to meet sustainability objectives?

Dr Barlow: There is much to be welcomed. The identification of a national performance framework that sets out a clear set of outcomes that we are seeking to achieve in Scotland is welcome. From my perspective, there is a step missing in the budget to ascertain whether it will deliver sustainability, which is that there is no assessment of what the budget means for our climate emissions or footprint. Although spending has been allocated under a set of headings, it is unclear what the outcomes of those spending commitments will be. It is hard to ascertain whether the budget will take us further towards sustainable development.

In that sense, the budget does not identify where there are conflicts—there will be times when the pursuit of one objective might conflict with the pursuit of another. Part of sustainable development is identifying options for achieving both objectives in a win-win manner, for example through energy efficiency measures whereby we could cut our climate emissions and footprint and reduce fuel poverty. The budget does not necessarily provide a framework that will enable us to consider the impact of one spending commitment against the impact of another spending commitment, or to assess whether it has been managed appropriately so that the net outcome will take us further towards sustainable development.

Professor Bebbington: Dr Barlow is correct in saying that one cannot tell from the draft budget whether the sustainable development objectives will be met. Several elements make that difficult, the first of which is timescale. Some things could be quick wins, but others are on a long timeframe while others will take longer still. For example, certain elements of fuel poverty could be dealt with quite quickly. Moving to a zero-waste society is one of the current Government's aspirations; that is commendable and in line with sustainable development, but the process will take much longer than two or three years. Achieving the 80 per cent reduction in greenhouse gases by 2050 will, by definition, be a journey towards 2050. Many of the spending commitments are on different timeframes, so it is difficult to analyse them and to indicate whether that target will be achieved, although some of the measures will certainly lead us on a pathway towards it.

The question that arises in my mind is whether the indicators that have been set in the performance framework are sufficiently robust at that high level to give us a thorough picture of where we are and whether progress is being made

on the various elements. There are many issues about whether the indicator set would allow that to be judged. Having a set of indicators is one thing, but a decision-making process must sit behind it. For example, how will the desire for sustainable growth be translated into difficult decisions when it comes to making choices about transport infrastructure? That process is not transparent.

In respect of decision making in particular, there may need to be some proofing mechanisms—for example, having a carbon balance for the whole of the Scottish economy and attaching a carbon impact to every decision. If that is what we see as one of the key challenges for sustainable development, for this country and the world, perhaps it is unwise to present a financial picture without having a carbon picture that shows the outcomes of the actions. A lot more data would be required to do that than we have in the system now, but without that data it will be difficult to know whether we are heading in the desired direction.

I have a final point on what makes it difficult to know whether we will meet the sustainable development objectives. Fairer, greener, stronger and smarter are all very grabbable objectives—they make sense when people hear them. However, there are issues with them. First, they all end with “er”, so if we are slightly greener but still hopelessly unsustainable, we have not achieved sustainable development. Likewise, we could be fairer but might not meet equity criteria that are implicit within sustainable development.

Finally, I reiterate Dr Barlow's point. Where there are tensions, there must be a decision-making process through which you decide what wins. Without such a process, what you do next as you go forward will be left to chance. That is a difficult task for politicians and decision makers, but it must be tackled at some stage.

The Convener: The situation is complex and actions have knock-on effects, but you seem to seek some unifying factor or measurement to judge whether progress has been made. Is that fair?

Professor Bebbington: Yes. The factor that we currently use to judge progress is GDP. That gives us a picture of throughput in the economy, but it does not give us a picture of all the activity in the economy—there are other ways of measuring that. Dr Barlow would be much better placed than me to talk about the ecological footprint, which is another way of measuring those things.

Another relatively straightforward way of measuring progress would be to have a carbon account of what was happening, which would in any case be required to make the proposed climate change bill work, in relation to the targets that have been set. That is one currency that could be put into the equation.

The Convener: A queue is forming, but I think that Elaine Murray wants to continue the line of questioning.

Elaine Murray: Mr Thomson and Mr Smith may want to comment.

Ian Thomson: It is important to point out that there is no budget identified for greener, fairer or wealthier. It is very difficult to work out exactly where sustainable development fits in with those objectives and to track down spending on it. I had a go at doing that and the best estimate that I could come up with was that about 8 per cent of expenditure could be seen to go on sustainable development. If one was to be slightly nasty, one could take that to mean that 92 per cent of expenditure will not be sustainable. It is not possible to relate what is in the action plan to the outcomes, because the necessary information is missing. The figure of 8 per cent might be an overestimate or an underestimate. I got it by combining the information that is provided in the pack with my knowledge of sustainable development and working my way through the budget picking out every item that is to do with sustainable development. That process is difficult, because subjectivity comes into it; people could come up with different answers. The figure was dropping over the three years.

The indicator set acts as the balance for the money. To be honest, I cannot see how sustainable development could be measured using the indicators in the spending review. The previous indicators were arguably better—although they were not necessarily good, to pick up Professor Bebbington's point about the "er" ending—than those in the spending review, with the exception of the ecological footprinting indicator.

14:30

The Convener: Is there a set of best-value indicators that could be taken off the shelf and applied? What you aim to do is a difficult task. Are there examples of best practice?

Ian Thomson: There are many indicator sets on sustainable development that could be used. They are relatively standard and are used for international benchmarking. For example, Eurostat and the United Nations have sets of sustainable development indicators. None of them is perfect, but basic principles underlie their construction. I would not argue that it is desirable to have a single indicator. We want a set of indicators that is coherent and which ties in with the basic principles. Such indicators are not provided in the spending review.

Maf Smith: Related to the issue of the level of spending on sustainable development and

whether it accounts for 8 per cent of the budget is the key issue of the overall budget and whether the weight of spend, the policy decisions that are made and the scrutiny of those decisions by the Parliament take account of sustainable development, such that when civil servants and ministers consider policy options, they are aware of the ramifications of their decisions as they relate to a wider indicator set.

As well as the overall indicator of GDP, there are the tests for solidarity, cohesion and sustainability. Sustainability is defined purely in terms of carbon emissions, which are only one part of sustainable development. If policy decisions take all those aspects into account and one can track over time that things are going in the right direction in those areas, one will know that the delivery of government is becoming more sustainable. Let us cast forward four years to the end of the present session of Parliament or to 2050—the climate change bill aims at that date—and imagine looking at a graph that quantified those four factors over that time. If we found that there had been an increase just in GDP and that the other three indicators showed a decrease, we would know that we had achieved only one of the four objectives that sustainable growth seeks to achieve. It is a question of having confidence that the Government has the tools to bring the three other tests into play. The use of a wider indicator set ought to help us, but we must achieve a balance with those indicators and the Government must use them seriously.

Dr Barlow: I will comment briefly on the high-level purpose targets that are identified in the performance framework. The two targets on sustainability relate purely to carbon, but they relate to carbon emissions rather than carbon consumption. We would be deemed to be making progress if we were to carry on consuming carbon at the same rate but were to simply outsource where carbon-consuming products were generated, such that those emissions would add to another country's emissions account rather than ours. In theory, we could make progress towards achieving the target to cut our climate change emissions by 80 per cent by 2050 or the target to cut emissions by 2011 without reducing the use of carbon with which we are associated through all the products that we consume.

That is why, for some time, WWF has supported the case for the use of an ecological footprint, because it measures emissions of consumption. Carbon is key to determining our ecological footprint, but it is about how many resources we consume and how much pollution we generate. We welcome the fact that our ecological footprint has been identified as one of the more junior set of indicators, but we suggest that it could be elevated to be included in one of the high-level purpose

targets, as that would certainly improve the extent to which we could assess whether we were making progress in delivering sustainability.

Elaine Murray: I found all three written submissions extremely interesting, but I was interested in particular in some of Mr Thomson's comments. Your submission states:

"Spending Review 2007 does omit some of the deeper aspects of sustainability present in *Choosing Our Future*",

which was the previous Executive's document, published in 2005. Are we going in the wrong direction for sustainable development if we are losing some of those deeper targets?

Ian Thomson: A lot of the deeper elements were present in the document "*Choosing Our Future: Scotland's Sustainable Development Strategy*", but many were not enacted in the action plan, although they were on the books as being real and part of the sustainable development commitment. When we consider what is happening, we see that a lot of them are missing. You might expect that in a spending review document, which obviously details budgeting, and some of the deeper aspects appear to back off in previous spending reviews. If anything, there is move towards education and economics.

There were deeper aspects in the 2005 strategy, although a lot of them were not matched by actions. The question is whether the new Government will drop the level of commitment to some of the deeper aspects in "*Choosing Our Future*". I thought that it was worth flagging up that those aspects are missing.

Elaine Murray: So we could not claim that the 2007 spending review is making Scotland greener.

Ian Thomson: It would be difficult to make that commitment on the existing evidence. As I think the SDC submission points out, we are spending a bit more on some sustainable things, but we are spending a lot more on unsustainable things, such as roads and removing tolls.

Many of the academics who have been examining the subject have said that it would be nice to come up with one measurement that shows whether we are moving in the right way to be sustainable. As is the case with any numbers, there is a balancing act. We have to read all the figures and evaluate progress, and we will be up in some and down in others. I would find it difficult to make a judgment based on the available information, and in terms of the performance measurement framework, I do not see how that judgment could be made in the future.

Joe FitzPatrick (Dundee West) (SNP): I was interested to hear from Professor Bebbington about the idea of carbon balance being part of the budget. There is clearly some difficult work to do

to make that happen, although that is not to say that we should not try. Are there any examples of other Governments that have managed to add carbon balancing into the budget process? Is there any best practice that we could follow?

Professor Bebbington: That was highlighted as a possibility in the previous Government's national transport strategy, so there has already been an indication in this country that carbon balancing should be done. The idea was to calculate the total carbon in transport, allowing the Government to do anything as long as the pot of carbon kept squeezing down by the percentage that it needed to squeeze down by.

I believe that some other countries have such accounts. I have never seen anything in the public domain, so we have to take people on faith when they tell us that they have them. For example, the New Zealand Government tells me that it can make a fairly good guesstimate on whether a decision will increase or decrease carbon and on what basis. It is appropriate to ask civil servants the question, but I believe that such data are being assembled in the transport, in particular, and climate change teams. Data will have to be assembled for the climate change bill to have an evidence base on which to make commitments and to guide decisions on how systematically to work through the various carbon reductions that are required.

I suspect therefore that, if you have not already got the data set in Scotland, you will not be far away from it. The plea would be to take that data set and incorporate it more systematically into these activities because, at that point, you will start to get the robustness. That deals with only one aspect of sustainable development, but if that aspect is not solved, many of the other aspects become academic.

Joe FitzPatrick: So, it is something that we could not do just yet, but which we could add in the future.

Professor Bebbington: You might well do it quite quickly.

Maf Smith: The other thing to note is that the Treasury green book already contains guidance on what is called the social cost of carbon. That relates to the Stern review—the UK Government review of earlier this year—which considered the economics of tackling climate change. Therefore, guidance to the Government, when it is considering policy options, should look at the relative cost or the social impact of different choices. That does not mean that the Government necessarily has to choose the policy option with the lowest carbon impact, but at least it allows it to scope out the options. It is meant to help policy to become more co-ordinated with the issues.

The next step for the Parliament in its scrutiny of the Scottish Government, assuming that we have the carbon targets and greenhouse gas targets coming through, is to ask how the Government will know what the options are in choosing those that will, cost effectively, help to reduce carbon emissions while allowing economic development. Similarly, although the Government is already factoring in some of those things and trying to work the language of carbon into its thinking and decision making, the issue is how wider society can start to think those things through. The business community, local government and other public bodies must start to understand the importance of those things and how they can deliver to meet the targets. Wider society needs firm signals that are not mixed up if it is to help to work out and deliver the things that the Government is promising.

Dr Barlow: There is much to be welcomed in the budget, in terms of the outcomes that it seeks to deliver on climate. There is a clear recognition that the budget has a strong role to play in cutting Scotland's carbon emissions, but it is difficult to ascertain, from the transport proposals, what the impacts will be. I am not saying that they will necessarily take away from delivering progress, but there are significant commitments to invest in public transport, motorways and trunk roads, which amount to more than the public transport investment. Given the level of detail in the figures, those commitments will most likely be based on distinct projects that the Government will propose.

I would have thought that it would be possible to ascertain the climate implications of those projects or at least be able to make an informed judgment about their impacts. As we have heard, it is not that the budget should be used categorically to stop any project that is negative; it is about ensuring that the net effect is a positive trend towards sustainability. If we accept, for example, that, for a number of reasons, the savings in emissions from transport will not be as great as the savings that we want to make in total, we could consider, for example, how much more we could achieve if we invested a bit more in energy efficiency in the building stock over a 10-year period and whether we could make up in different ways the shortfall that we might see in some transport projects. The concern at the moment is our inability to see how those decisions are made.

Ian Thomson: Carbon accounting is one of the best-developed sustainable accounting techniques. Technically, a lot of the issues have been resolved regarding the values and the mechanisms. It would be a case of assembling best practice from lots of different things, but that is feasible and it would provide a nice opportunity.

James Kelly (Glasgow Rutherglen) (Lab): The budget states that we should look at the policy impacts and use the latest techniques to appraise the policy options in terms of their carbon impacts. Do you feel that that has been adequately taken into account in the preparation of the budget?

Professor Bebbington: It is difficult to say because very little information is available. It is also a matter of timing—there is a new Government that has had to put a budget together. There was, no doubt, an opportunity to consult an expert set of stakeholders on whether the indicators are the most appropriate ones to use, but there was not the opportunity that we had in previous years to have a standing committee in place that was tasked with scrutinising the budget against the environmental targets.

14:45

The Sustainable Development Commission was not invited to scrutinise the budget, but perhaps the timeframe would not allow people to let us contribute in that way. It is hard to tell. It must have been put together with input from the Council of Economic Advisers in some form, or maybe that input leaked through from the economic strategy. If proofing has been done, I do not know who did it—that is probably the easiest way to answer your question.

Alex Neil (Central Scotland) (SNP): I accept that there is no perfect way to measure growth, but if we take the list of countries that have the highest GDP per head and compare that with the list of countries that come out best in the UN human development index, which takes into account economic output, educational standards, life expectancy and the condition of the environment, we see the same countries in more or less the same ranking. Does that not suggest to you that, despite its imperfections, GDP by proxy is a fairly good indicator of human happiness?

Professor Bebbington: There is extensive research on that. Unfortunately, it does not. In particular, it does not give an indication of sustainable development, because that kind of GDP correlates highly with CO₂ emissions per capita.

In the civil service, there is a working group on alternative measures of progress. I sit on that group, which has done a variety of work. One of the alternative measures of progress that it has considered is the ecological footprint, which tells us a particular story about the ecological condition that is created by a particular pattern of GDP. It is an entirely different measure that is a long way from GDP, but there are measures that are closer to GDP. One is the index of sustainable economic welfare, which tries to consider welfare rather than

just throughput. The genuine progress indicator is another measure that is used extensively around the world.

Alex Neil: What about the UN human development index, which is the best of the lot?

Professor Bebbington: It is not the best for the comparison that we are trying to make. The human development index puts together the things that you mentioned. Countries whose GDP per capita is above the baseline score well on the index, so at the top end it does not distinguish tightly and determine whether GDP leads to happiness and well-being.

The other indexes are more experimental because they are more complex than the human development index. They take GDP as their base and add to it unpaid work, which is sometimes done by men but is predominantly done by women who take care of children and elderly parents. The indexes deduct expenditure on negative things such as car accidents and expenditure that people necessarily incur in protecting themselves from crime—in other words, defensive expenditure.

Throughout an array of countries and time series, what the indexes show depends on the country. For example, in the United States, the two measures started to decouple from about the 1950s; GDP continued to rise, but the index of satisfaction or happiness levelled off. In the Netherlands, the two things correlated closely until the 1980s, but are now diverging. There is a lot of academic and policy literature on the matter.

Broadly speaking, developed countries look good in relation to GDP and the human development index, but a much finer grain analysis is needed between the two. The HDI is excellent at identifying countries that do not have adequate spending on health, education and basic human development needs, but it is much more difficult to distinguish between countries at a higher level.

Ian Thomson: A problem with GDP is that it does not capture key things such as the inequality of wealth distribution within a country. Even if we accept that it gives a general picture, it works at only one level. It can mask massive inequalities. It is possible to make things worse on every indicator but still have an increase in GDP. In such a case, there would be a false positive reading.

Alex Neil: I put it to you that the countries with the highest GDP per head have the fairest distribution of income and wealth, by and large.

Ian Thomson: No.

Alex Neil: I disagree entirely. The countries with the highest GDP per head, such as Norway, Sweden and other Scandinavian countries, are also the fairest of the countries with developed economies.

Dr Barlow: One challenge is that many countries with high GDP have very high emissions that go way beyond what we know to be sustainable. We are not saying that GDP measures something that we might not want to measure—financial throughput—but the challenge is to accompany that with a set of indicators that monitor issues such as the economy's quality, which is just as important as, if not more important than, the quantity.

In the long run, we are surely trying to create an economy that fits in the framework of the resources that are available sustainably on the planet. At the moment, the economy pushes beyond the boundaries in which we can operate on a 30 or 40-year timescale. Often, the economy is predicated on generating more pollution than we know is sustainable and on using more than our fair share of resources. It is time that we identified that we need an economy that fits within environmental constraints. We are still trying to fit the environment into an economic model.

The Convener: That raises the quest to measure whether people are happy.

Maf Smith: The targets of cohesion, solidarity and sustainability that the Scottish Government has set provide some opportunities to test the presumption that we have. As Dr Barlow says, we are not saying that GDP cannot measure things—it can, and it is useful—but a challenge for the Government is how it uses those tests and integrates them into policy.

The committee has a similar challenge in how it examines the integration of those tests with financial delivery. Given what Professor Bebbington said about existing work in the Scottish Government on alternative measures of progress, an opportunity exists to use and pilot those measures to find out whether they provide a better reflection and to do some of the learning that will be important to delivering sustainable development as part of the commitment to sustainable growth.

Alex Neil: The question boils down to deciding between being among the poorest people in the world, in Malawi, with practically zero emissions, and being among the richer, better-off people in the world, in Sweden, which has its emissions under control.

The Convener: We are looking for evidence rather than a debate, but somebody can respond.

Professor Bebbington: We are looking at different developed countries. The suggestion is not that Scotland can be Scotland or Malawi; the aim is to have a Scotland that works economically, gives people welfare, allows them to have meaningful jobs and live good lives in that respect, and fits within its ecological constraints. The option

of being Scotland or Malawi is a polarisation that is not particularly useful.

Tom McCabe (Hamilton South) (Lab): Most people would sign up to the generalisation that we need to be greener or sustainable, by which most people mean that we need to be concerned about future generations' inheritance, but the subject can be difficult to reach out and touch. I say with no disrespect that even the discussion that we have had so far might be difficult for people to relate to practicalities in their lives.

I will give a couple of examples. I represent a constituency in which too many people are in families that for two, three or four generations have not experienced work, although that does not describe the majority, fortunately. If I had the opportunity tonight to provide meaningful or gainful employment for every one of those people, I would grab it with both hands, but that would probably push the drive towards consumerism further and add in some way to our detrimental impact on the planet, particularly if they all got jobs producing consumer goods, for example. People might ask what we are supposed to do—do we demur and try to discourage such employment?

The demographics of Scotland have changed. More people are older and have better economic means than ever before. More people of retirement age can travel much more than my parents and my parents' parents dreamed of. I do not necessarily mean low-cost flights to the warmer parts of the world, but the policy of free travel for pensioners. That policy may encourage travel on trains or buses, which is more sustainable than travel by car, but if we increase the volume, the law of diminishing returns must kick in at some point.

In practical terms, what is our view of such issues? What do they really mean to people? Do people need to revert to a lifestyle that is more akin to that of their parents, or can we achieve sustainability in another way, that does not reduce people's level of opportunity?

Professor Bebbington: Fuel poverty is a good example, as it is closely linked to fairness, which you mentioned. Sustainable development means fair development, not unfair development. It is entirely appropriate and necessary for households in fuel poverty not to be fuel poor, to increase their consumption of fuel and thereby to increase their carbon dioxide emissions. It is entirely incorrect to say that that should be disallowed because of a green agenda, because we are talking about per capita environmental impact. The poor have low CO₂ levels per capita; richer people have higher levels, because they have more opportunities to buy things, to buy food that has been flown further and to fly further.

On an international scale, we should pursue contraction and convergence as part of the climate change agenda. Those who are consuming a great deal through a variety of means—I will come on to those means, to which the second part of your question relates—need to reduce their consumption; those who are consuming too little, such as the people in Malawi, need to increase their consumption, and we should come together at a point that is sustainable in the long term.

I have forgotten the second part of the question.

Dr Barlow: Tom McCabe made some valid points. The situation that he described is part of the transition to an economy that can operate within sustainable limits. The previous Government is to be commended for the lead it showed with the development of the green jobs strategy, which identified exactly how we can create opportunities that can help to reduce our environmental impact. Through energy efficiency, we can increase our productivity as a country, because being more energy efficient would reduce costs, emissions and fuel poverty and it would create jobs. As we know, there are plenty of opportunities for us to improve our efficiency, but we have still to grasp them. We must manage the transition to sustainability, which the budget can support.

Although there are some limits on travel that we must accept, I agree with Professor Bebbington that people with the least often have a much smaller carbon footprint and there are perfectly justified reasons for their consumption and emissions to increase somewhat. The challenge is to produce an economy that, as a whole, operates within sustainable limits. We can make that transition, and a budget in which the implications of the decisions that have been made are fully assessed can assist it.

Maf Smith: Tom McCabe spoke about making choices and looking for economic opportunities. If there were a decision to be made about inward investment that would directly benefit your constituents, you would make it, but if someone said that making that decision would create an economic disbenefit for another group in your constituency or in another part of Scotland, the decision would become more complex. That is what we are trying to help to quantify in respect of sustainable development, which has social, economic and environmental aspects. We speak about them as three separate things, but the way society and the economy works makes it hard to disaggregate them.

I take the example of carbon. The Stern review does not talk about carbon, greenhouse gas emissions and climate change as an environmental problem, because they affect the strength of our society and economy. The Stern

review's overall conclusion is that if we are to maintain a strong economy, it is better to take action on climate change earlier rather than later, because taking action now will cost us less.

When we consider sustainable growth, we are in effect asking, "Which decisions can we bring forward and what changes can we make now, so that we do not build up or ignore problems?" We are used to and, in general, good at doing that in relation to economic development. We need to finesse and add an extra layer to such decisions.

15:00

Tom McCabe: I am not trying to challenge your assertions unnecessarily. You are right to say that the poor are probably on the lower end of the energy consumption scale. Unless we are determined to subsidise people even more, surely we can enable people to afford energy consumption only by making them economically active, which in itself has an impact.

Ian Thomson: We should consider the local and global environmental impact of production and consumption and how we finance work. We outsource businesses to all over the world and we fly in goods from all over the place. We subsidise the technology that replaces labour—we penalise labour—but an awful lot of the technology and clever logistics that we have has a major negative environmental impact. If we became a bit more local and closed the loop a bit more, we could generate many jobs.

Not every job increases carbon emissions and not every purchase is damaging. For example, energy efficient systems can be installed in the homes of people who are in fuel poverty—there are many jobs in that. We want to become a centre for renewable energy and to build up forestry. There are jobs in those sectors, which arguably have a lower environmental impact. If we are sensible and think differently about the issue, many things will be achievable.

Professor Bebbington: I agree with Mr McCabe. The best route out of poverty is not to subsidise lousily insulated housing and unemployment but to ensure that people have jobs. Of course that will have a knock-on effect, but the bigger picture is that if we can better design the economy that people join when they take up new jobs, we will have an opportunity to make the whole economy more sustainable. There is no gain in having ghettos in which people are not economically active and cannot spend.

We can also ensure that people spend money on products that are as energy efficient as possible, as a result of design, construction method or other technological advances—we often talk about that as coevolution. The answer is

to have a better overall economy so that anyone who becomes economically active has a lower footprint than they would have done. It should never be inferred from a discussion on sustainable development that keeping people poor is a good idea—it is not a good idea at all.

The Convener: Derek Brownlee has been patient.

Derek Brownlee (South of Scotland) (Con): My question is fairly simple. So far, we have mostly talked about the incremental impact on sustainable development of individual budget decisions or directions of travel. Can the witnesses put the issue into a broader context? I am thinking about the extent to which the Scottish Government can influence economic policy, given that almost all decisions on tax and spending on social security, defence and other matters are not in its remit. Is it possible to assess the budget on a basis that is consistent with policy decisions that are taken at Westminster and in Europe, or are we trying to apply different standards to different levels of spending?

Ian Thomson: It would be possible to do that; I do not see it as an insurmountable task. I do not know anyone who has done such comparative work. Budget spending tends to be partitioned from the rest of the world—I am speaking as an accountant—and is a creature that not many people want to talk about. Building in accounting and doing the sort of comparative analysis to which you refer is problematic, but it is possible.

I would argue that this budget is for holding people accountable rather than planning for a more sustainable world. The purpose of this budget is as much about control and holding people to account as sensibly working out programmes to achieve outcomes. If you took the outcomes and started to measure costs and impacts in the context of the powers of the Scottish Parliament, nested within the powers of the United Kingdom and European Parliaments, you could carry out the analysis to which you referred. Arguably, that is what should be done. It is certainly not what is being done here. There is almost a dismissal of it, because of the way budget spending is partitioned. If you are trying to measure sustainability properly, that is the sort of activity that you would want to carry out—it would be possible to do it.

Derek Brownlee: We are trying to judge the impacts of spending on sustainable development, but there might be things happening in other Parliaments that have a greater impact and which are not being assessed. Are we in Scotland further on or further behind in this regard? Is spending here just not comparable in practice? You said that it is comparable in theory. When spending

plans at UK level are announced, this sort of discussion never seems to feature.

Professor Bebbington: If we knew how to do it, we would be doing it. That is part of the difficulty with sustainable development and other really wicked problems with complex elements. I have not seen in policy documents or in the academic domain an analysis that tells us where the best lever is. There are certainly some things that we should do globally, such as in relation to the Kyoto protocol and some things that we should do locally—Tom McCabe gave examples from his constituency—and there will be all sorts of influences in between.

The sort of work to which you referred could be done. It would be interesting, but it would take some time and there is plenty to be getting on with in your sphere of control and accountability. However, Ian Thomson is right to say that some things are best nested in with what is happening at other levels. Aviation is a good example of an issue that cannot be resolved even at UK level—there needs to be analysis of it at least at Europe level. Post Kyoto, aviation and shipping will undoubtedly become part of the carbon regimes that are in place. This is not the place to set policies on those things, but you should ensure that what is happening here fits within the wider agenda.

Maf Smith: Although that sort of work has not been done for the totality of spend in this area, it has been done in certain parts of it, such as inequality and carbon. Carbon emissions is an issue that is partly being delivered on through the use of markets. At Europe level we have the emissions trading scheme, which aims to make carbon emissions part of the economic process by giving them a cost. That work will become more cohesive over time and more relevant—carbon emissions will be factored into everyday decisions.

We already have data that allow the sort of comparisons that Alex Neil asked about. Some economies have been better at decarbonising and thereby maintaining wealth and prosperity without the high carbon impacts. A lot of the Scandinavian countries are good at doing that. The United States, Canada and Australia have been poor at it. Scotland is perhaps somewhere in the middle. We need to aspire to the good examples. In the longer term, that will create the opportunity to beat the economically prosperous countries, because we will be on the right side of the curve when the international limits start to bite through the markets, high prices and trading schemes.

The Convener: We are under time constraints. I want to cover the full range of topics, so I ask for sharper questions and sharper answers.

Liam McArthur (Orkney) (LD): There has been some talk about the netting effect and competing

demands. That bites most intensively through the budget, but there are on-going pressures of that nature. You also referred to the Cabinet sub-committee on sustainable Scotland, which was set up by the previous Executive. What assurances would you seek on the mainstreaming of sustainable development? Professor Bebbington referred to economic strategy going through the filter of economic advisers. Is there also a mechanism through which some conflicts might be resolved at a political level? I am thinking specifically of the budget, but the question would also apply to broader topics over the longer term.

Professor Bebbington: It would not be appropriate to repeat the Cabinet sub-committee example, which was a different structure altogether. One way of ensuring that sustainable development was considered would be for the Government to have public consultation with people known to be well-informed in particular areas. For example, the Council of Economic Advisers does not contain an expert on sustainable development, but perhaps it should. People were pleased when the council was created, but the choice was made not to have an expert on sustainable development.

On the question of mainstreaming, it may be that parts of the performance framework for governance could be revisited so that it takes more account of sustainable development.

You should never ask an accountant such questions, because we are into rules. There may be structural rules, processes or tests that you could put in place within the Government. That would apply on the parliamentary side too, for scrutiny. If that happened, the equalities agenda would be considered when the time came for a decision on a particular issue, because questions would have been set. Similarly, questions could be set on sustainable development. That task would fall to Government and Parliament.

Maf Smith: The Parliament has a duty on sustainable development: when it scrutinises legislation, it is meant to consider aspects of sustainable development. However, that has not been done well so far, as was noted in the assessment of progress that we published earlier this year.

Local government also has a duty on sustainable development, as part of best value. Audit Scotland is already scrutinising how local government delivers Government policy, and sustainable development is one aspect of that. That is assessed, and a report goes back to you and to the Government.

Ian Thomson: The key is to be systematic and comprehensive, so that any checks or appraisals of sustainable development are applied

everywhere. Evidence of good practice exists, but it is applied selectively. Some issues, such as the transport strategy, are scrutinised. About two years ago, a good job was done on that. If you are systematic and comprehensive, you will have equity in your evaluations.

Elaine Murray: In your written submissions, you raised certain concerns—which you have raised again during the meeting—about the way in which data are presented. Mr Thomson said that data are presented in a disjointed fashion with no apparent links between the different levels of the logic model. Dr Barlow has also expressed concerns about the lack of a systematic framework.

One role of this committee is to make constructive suggestions to the Scottish ministers on how the presentation of data can be improved. Today's debate cannot go on all night, unfortunately, but would it be possible for any of you to put in writing some suggestions that we can put to ministers so that the links can be made in future budgets?

The Convener: Could we have a volunteer? Dr Barlow?

Dr Barlow: I will happily do some work on that. I am sure that, between us, my colleagues and I can compile something we agree on.

The Convener: You, and Mr Thomson, and your other colleagues.

Maf Smith: We are currently working on advice for the Scottish Government on decision making—for example how to integrate decision making on sustainable development into policies or programmes and how to quantify different aspects of that. It will be published early next year. We could share it with the committee.

The Convener: That offer and the others are much appreciated.

15:15

Alex Neil: I will ask about roads. You seem to suggest that increased expenditure on road building is damaging to the environment. I live in Ayr; the upgrade of the A77 to the M77 has been a great benefit to people who live in Ayrshire. I will leave aside the fact that that has already saved a significant number of lives because it has made the road substantially safer. Could it not be argued that, because cars travel at a more economic mileage on such roads, investment in upgrading such as happened with the M77 under the previous Administration has contributed to reducing carbon emissions? Remember that roads account for less than 0.3 per cent of the land mass in Scotland.

Dr Barlow: We must recognise that transport constitutes a quarter of Scotland's emissions. It is a matter not so much of the land mass that roads cover but of what the emissions are from transport. Road transport is the principal component of that. One of the big challenges with road building is that it often has a traffic inducement impact—that is, in time, roads fill up with traffic—and there are plenty of reports that highlight the impact that building a road has by encouraging traffic growth.

I was not suggesting at all that every bit of road expenditure is automatically a disaster for sustainability. The challenge is whether we have worked out what the impact will be and decided whether it is appropriate in the context of the other challenges that we face, particularly with regard to sustainability and cutting our carbon emissions. In the absence of that knowledge, we make decisions that might jeopardise those commitments.

We might have to accept that some strategic decisions will increase our impact on the climate but are important for saving lives. We understand and recognise that point, but the information must be presented so that decision makers can know what the impacts are and therefore be sure that they have managed them in the context of the challenges that we face with climate change. However, that information is not presented at the moment, and I am concerned that substantial money is allocated to motorways and trunk roads in the budget—more than to public transport—without there being an assessment of what that might mean for carbon emissions in Scotland and the imperative to cut emissions from the transport sector.

Alex Neil: Surely the problem is not the roads themselves but how the cars and other vehicles on them are powered. If they were all powered by electric means, for example, the roads would be perfectly sustainable. It is not the roads per se.

Maf Smith: It is not. To answer your original question, yes, road building can be sustainable. Dr Barlow is saying that we need to know what we want the roads to do. In the example that you gave, there have been substantial cuts in accidents and deaths, so—to go back to the original discussion about how we account for such things using alternative measures of progress—the lack of deaths has led to a GDP cut because fewer accidents are happening. That is a good thing.

Alex Neil: The lack of deaths would increase GDP because the folk are still at their work.

Maf Smith: But there is a clear social benefit. Alternative means of travel and alternative vehicle fuels would certainly help, but there are issues to

do with congestion, which can have social and economic disbenefits. It is not that we cannot build roads, but we must know what we are trying to do with them and must be able to measure it.

Alex Neil: Exactly. Therefore, if the road budget is going up faster than other budgets, it does not automatically mean that the budget is any more or less sustainable.

Maf Smith: No, it does not.

Alex Neil: You must be intellectually rigorous about this.

Maf Smith: We can use carbon balancing. There is a commitment to do that in the transport strategy. Delivering on that commitment would allow the Scottish Government to make the decisions that we have been talking about. It would help to prioritise decisions and clarify what different choices would mean. It does not necessarily mean that the Government would decide against a certain road and in favour of a certain railway; it could also mean a different choice being made between two road options. If carbon balancing were done, we would know where we had got to and the Government would be better able to deliver the associated commitments that it will have on carbon emissions under the climate change bill through its economic decisions.

The Convener: At a moment when time is short, Alex Neil has bestirred academia.

Professor Bebbington: I would reiterate that, if the pattern of CO₂ to road building were to hold for all roads in the future, carbon emissions would increase if you built more roads. However, we are appealing more for a mechanism by which you can have a carbon balance and judge whether, when you are making proposals about a variety of options, they will increase or decrease carbon emissions. A proposal may increase carbon, but you might agree that that is an appropriate outcome because of other benefits. However, in this budget and current decision-making processes, we cannot make those judgments. If we knew the evidence base, it would make the debate much freer and easier. This is a plea for evidence.

Ian Thomson: I was going to make basically the same point. Considering the current figures, you cannot assume that road building will be sustainable. You need the evidence base.

Alex Neil: Similarly, my argument is that you cannot assume that road building is not sustainable, which is what I think you guys are trying to do.

Ian Thomson: No.

Alex Neil: That is the point.

Ian Thomson: The point that I actually made was that we could not include motorways in the judgment on what was sustainable considering the evidence that is provided. All the prior evidence on road building indicates that it will not be sustainable.

The Convener: If Joe FitzPatrick is very quick, he can ask the last question.

Joe FitzPatrick: I will be very quick. In talking about transport, we have talked a lot about roads, but there is an increasing problem with CO₂ emissions from air traffic. One Government proposal is to end the air route development fund. Will you give us your thoughts on that?

Dr Barlow: I would commend the Government's decision to end the route development fund subsidy. There has been no assessment of its impact, but the chances are that it was contributing to more people flying and thus increasing our CO₂ emissions at a time when we know that we have to cut emissions and aviation is a huge concern.

In the past, the route development fund was presented to us as enabling people to fly directly from Scotland rather than having to travel via London, but there was never any evidence to suggest that it was doing that or that it was in any way advantageous to Scotland in CO₂ terms. The chances are that it was detrimental.

Tom McCabe: Sorry, but there is evidence. Previously, if someone wanted to go to the United States, they had to go to London, but now there are numerous direct flights from Scotland to the US, so there is evidence.

Dr Barlow: Sorry, I meant that there was no evidence that demonstrated to me the carbon impact of the route development fund investment in Scotland. I never saw any evidence of that.

The Convener: Academia, in turn, has bestirred the committee members.

Liam McArthur: It is a matter of record that the reason for doing away with the air route development fund had nothing to do with sustainability and everything to do with European Union requirements. Ministers have indicated that they are considering ways of dealing with the fund tapering off and replacing it with something else. Would you advise that there should be no replacement, in any shape or form, of a route development fund?

Dr Barlow: That would certainly be our advice. Let me be clear that we are not trying to impact on flights to islands in Scotland that are a much-needed part of the economy. I am talking about investments through the route development fund that facilitate people to make far more short trips, particularly within Europe or the UK, that could be

made by alternative means. With the imperative to cut our emissions dramatically because of climate change, we do not think that the route development fund is an appropriate mechanism.

The Convener: This will be the last, very short point.

Maf Smith: We would say that if you have to take any such decisions, including on the route development fund, you need to factor in the carbon and social impacts so that, if there is going to be a net gain in carbon, you know what it is. I am saying not that you cannot take decisions that will increase carbon but that you need to know what the impact is, so that it can be balanced by decisions made elsewhere to reduce other carbon emissions. That can be done cost effectively across different objectives.

The Convener: Time has defeated us. I deeply regret that because this has been an interesting and wide-ranging evidence session. I have to bring it to a close, but if we can submit the remaining questions to the witnesses for written answers, that would be very important for the committee. I hope that that will be acceptable.

I thank the panel for its expertise, experience and advice, which has been very helpful to the committee. There will be a short interlude before the committee continues.

15:24

Meeting suspended.

15:27

On resuming—

The Convener: I welcome representatives of the Convention of Scottish Local Authorities. Councillor Pat Watters is the president of COSLA, Rory Mair is the chief executive, and Martin Booth is head of finance.

I ask Pat Watters whether he wishes to make an opening statement.

Councillor Pat Watters (Convention of Scottish Local Authorities): Thank you, convener. I will take the opportunity to give some background information and explain how we arrived at the situation that we are in.

Before the election, in March, we in local government were acutely aware of what the financial situation was going to be. We discussed with the previous Executive the fact that a tight financial settlement was on its way. We decided to tackle it in a different way from before. We wanted to have a proper negotiation with the Government and, as well as getting the financial settlement right, to get other parts of the settlement right. If a

tight settlement was coming, we wanted the flexibility to be able to deal with it. We agreed on that tactic as a way to take things forward. We would not do it on a line-by-line basis. We would consider how to get our base established, both in revenue and in capital, if we could manage that, and would then consider the other areas that we wanted to discuss with Government. After the election, that tactic was agreed to by the new COSLA—you will understand that there had been quite a lot of change in COSLA. We entered the discussion with the Government with that approach in mind.

The Convener: I will start with a factual question. How many local authorities have agreed to the terms of the concordat? How many have noted its terms? How many have neither noted nor agreed to the concordat? What is the state of play?

15:30

Councillor Watters: We took the concordat to our leaders meeting last Friday, where all 32 authorities accepted the agreement as the best position that we could manage to achieve from negotiation. They agreed to take it back for consideration. As you will know, COSLA as an organisation is not in a position to enter into an agreement on behalf of the 32 authorities. In light of the settlement that they receive, the 32 authorities will either accept or reject the deal. The leaders have agreed to take the concordat back to their authorities for consideration in light of our saying that it was the best that could possibly be negotiated under the circumstances.

Rory Mair (Convention of Scottish Local Authorities): The cabinet secretary will make another announcement on 13 December about the distribution of resources. Clearly, councils will not make individual decisions until they know how the resources will be distributed. The position just now is that COSLA has noted the concordat as the best that can be achieved, but individual councils will wait to see how the money is distributed before they make a final decision.

Joe FitzPatrick: I understand that COSLA has decided that the concordat represents the best deal available in a tight settlement. Will you confirm that the 32 leaders also agreed—at the meeting last week that Pat Watters mentioned—that the concordat is the best deal that could be achieved?

Councillor Watters: Yes.

James Kelly: Following on from that, will you clarify the length of time for which the concordat will apply?

Councillor Watters: The concordat will apply for the period of the settlement, but not all parts of it will apply for the whole period. For instance, we are clear that the £70 million for the council tax freeze applies for next year and that authorities will take council tax decisions with that in mind. For future years, Government will need to enter into further discussions with us. Most of the concordat is for the three-year period, but that part will need to be discussed with Government on an on-going basis. We will not freeze council tax—if that is the decision that an authority makes—for three years; we will do that on a one-year basis once we know the settlement after the announcement is made on 13 December.

James Kelly: Going into the negotiations, COSLA had a set of costings on specific commitments. What was the value of those costings?

Rory Mair: This year, we said that we needed our base budget along with inflation, funding for some elements that we feel require more money and, beyond that, funding for other pressures on council budgets. We expressed those as pressures rather than as straightforward bids because, when we included all the pressures, the total came to more than the money that we realised would be available in the settlement. There was no point in asking for more money than we could possibly get, so we decided not to do that. We had a range of figures between about £10.8 billion and £11.5 billion. As you can see, £11.14 billion sits somewhere in the middle of that range.

James Kelly: What is the cumulative cost of the commitments that local government has signed up to in the concordat?

Councillor Watters: That depends on what year you look at. Different costs will arise in different years because the commitments will be phased in over a period of three years. There are different values in each of the years. If you want to know about a particular commitment, I can get to that.

James Kelly: Can you give specific values for each of the three years?

Martin Booth (Convention of Scottish Local Authorities): Including the council tax freeze, the cost of the commitments in each of the years is £109 million, £212 million and £351 million. Those are cumulative figures. It is difficult to break those figures down because the commitments form an overall package, which includes all the flexibilities as well as finance. The issue is not just as simple as, "This is the amount of money and this is what it will cost."

Derek Brownlee: My question relates to our strategic role in assessing the local government

settlement and its adequacy. I understand your point about going with the pressures and being more realistic about what you ask for. Presumably, councils can always find additional worthy things to do with whatever additional money Government allocates. Is it fair to say that, from a COSLA perspective, the overall settlement for local government is reasonable in the context of the spending review, but that it will not be possible to take a view on whether it is adequate at individual council level until council allocations have come through and councils have taken a view, based on local circumstances, on their adequacy?

Councillor Watters: I will deal with the first part of the question before asking the chief executive to comment. The job of COSLA, as a member organisation, is to get the best deal possible and to keep it on the table for as long as possible, so that when setting their budgets local authorities have the opportunity to choose what to do. If you are asking me whether the cash settlement is enough, I will always tell you that, no matter how much money Government gives us, we can find services to develop and improve with it. There are many things that local government would like to do, but we must look at what finance is available before considering how to deliver. This is not the best cash settlement that local government has ever had, but we always knew that it would be tight. We believe that we have got the best deal possible under those circumstances. You are right to say that, when local authorities come to set their budgets, they will have to consider in detail the financial settlement that they get and whether it can accommodate their services and the manifesto commitments that the Government requires councils to address.

Rory Mair: In answer to a previous question, I said that we would have preferred to get £11.5 billion, as that was the top end of what we aspired to get. We realised that there was a negotiation and wanted to pursue a range of issues, but we did not think that we would get everything. As we did with the previous Government, we tried to break away from having COSLA and the Government blame each other if sufficient resources are not available. We did not say, "We need this and if you do not give it to us, we cannot do our job." We did not want the Government to say to us, "We have given you everything that you need, so get on with your job." In the negotiation, we took joint responsibility for getting the best possible deal in the circumstances of Scotland's settlement.

Derek Brownlee: That is a key point. In the past, there have always been tensions between the tiers of government, which is not surprising when so much funding comes from one to the other. When we get to 13 December, or whenever the individual council allocations are published, will

it be possible for anyone to form a view from an external perspective on whether individual councils have been given adequate finance? We can see that overall spending has increased by a certain percentage and can decide whether that is reasonable in the context of the overall settlement. However, it is difficult to form a view on whether the settlement is reasonable for 32 local authorities that have different pressures, demographics and council tax levels and which are trying to accommodate different services. Other than leaving it to individual councils to say yes or no, is there a way of assessing whether the settlement is reasonable?

Rory Mair: I do not know of an empirical way of doing that. The one thing that would drive a wedge between COSLA and its members would be for us to conduct a negotiation that put councils in the position of saying that something was not okay when we had said that it might be. Going into the negotiation, and when the president presented the package to our members, we had to be acutely aware that it was not our job, as a membership organisation, to dump any member in the position of being unable to function.

Our job is to be as sure as we can, so we have got the collective input from the directors of finance and leaders of all the councils and we have come up with a view that this is a doable deal. How it will play out with individual councils, we have yet to see. We have also said—the president has been clear to cabinet secretaries about this—that this is a marginal deal and is not a great settlement, which is why we have built in a review process that will enable us to continue to talk to cabinet secretaries if we encounter a difficulty. We do not know what difficulties we are going to encounter.

You raised the issue of pressures. We know that there is a demographic pressure in Scotland, but we did not cost that into every line of our bid. We simply said, “Look, we all have to recognise that there’s a demographic pressure here and the only way that we can cope with that is if there’s sufficient money in the settlement to allow us to take that on board.”

Tom McCabe: Mr Mair, one of the particular pressures that you will already be aware of is the impact of demographics on councils. The cabinet secretary has said that he would wrap up various sources of finance and effectively distribute it, mainly by population. That accentuates some problems that some councils face. For example, in Dundee, economically active people tend to move out to neighbouring council areas, which means that, in Dundee, there is a disproportionate call on certain council services, such as social work. In what way did you factor that issue into the negotiations? Will that be part of the review

process if individual councils—some of which, as you know, were complaining bitterly already—come back and say that they have been hit even harder than they were before?

Councillor Watters: In our discussions with Government, in which we were trying to include as much flexibility as possible and take out as much ring fencing as possible, we were acutely aware that it would be wrong to take a big-bang approach, as that would disproportionately affect some authorities. We realised that there needed to be some phasing. We expect the money to come to local authorities, under this settlement, much as it came to local authorities under the previous settlement. In the first year, therefore, we will look to ensure that, in that single package, authorities get what they expected to get. That will ensure that authorities do not experience a swing that would cause problems for individual authorities.

Rory Mair: I can confirm what the president said. One of our difficulties, which we would have had regardless of who formed the Government, is that we are right up against the negotiations for the spending review and its implementation in April. Anything that put volatility into the system—distribution always means taking money from somebody to give to someone else—would not be welcomed by members, who wanted to keep the settlement much as it was.

Remember that the only money that is being distributed any differently is the money that will not now be ring fenced, which is by far the smallest proportion of our budget. Some £2.7 billion was ring fenced and a portion of that will not now be ring fenced. We have said to Government that we would like that to be distributed on the same basis as before for the foreseeable future, so that we can work with Government to work out a fair and equitable distribution method. The only difficulties with that are in those areas in which we have un-ring fenced a bid fund. How do we distribute something that was previously a bid fund? That is the discussion that we are currently having with Government. We want to determine how we deal with, for example, the fund for flooding and the fund for derelict land. Clearly, some councils expect to be getting that money but, if the funds are split up 32 times, the councils will not have enough money to do anything with any one of those 32 funds.

I think that we will have to revisit distribution, as we probably would have had to do regardless of who was in government, to ensure that we iron out the issues that need to be ironed out.

The Convener: James Kelly has the last question on the subject, but Liam McArthur will ask a quick question first.

15:45

Liam McArthur: I will follow up Tom McCabe's questions. A separate issue is the disparity in funding per head of population for the islands authorities. Are you saying that that disparity will be locked in for the spending review period? What timeframe do you envisage for further work to unwind some of that?

Rory Mair: Examining the distribution mechanism is such a huge issue that we have said to the Government that we need to give councils certainty of funding for the next three years. We must work during that period to prepare plans.

Joe FitzPatrick: Tom McCabe does Dundee and Dundee City Council in particular a disservice. The problem that he talked about has been a reality that Dundee has experienced for several years, but people there from across the political spectrum have worked hard to bring economically active people into the city and they have had some success. The city of Dundee has turned the corner, so his comments were a bit unfair.

The Convener: That was a comment, rather than a question.

James Kelly: The capital budget will decline in real terms over the settlement period. What is your view on that? What impact will that have on authorities that have continuing school building programmes?

Martin Booth: In the first year, the capital budget will have a 13.37 per cent increase, which is baselined in the following years, although the increase above that in years 2 and 3 is small. The capital budget will increase substantially—by an additional £115 million—between the current year and next year.

James Kelly: So you are saying that in 2008-09, the amount will rise to £949 million.

Martin Booth: The figure will be £975 million.

James Kelly: Okay—I accept what you say.

Elaine Murray: The £70 million fund has been mentioned. It has been reported that local authorities will receive that additional £70 million, but is that offer on the table? Is it conditional on all councils freezing council tax? What will happen if one council refuses? Before the negotiations, the Conservative leader of Dumfries and Galloway Council said that unless the council received £14 million over the next two years, it would have to make hundreds of people redundant.

Councillor Watters: The £70 million is a pot of money. If it were not set aside, would it be in local government's budget? It probably would be, but the Government has decided to keep it as a fund that is lying there, which local authorities will access only if they freeze their council tax.

Elaine Murray: Will the fund operate collectively or will each council receive its share of the money if it freezes council tax?

Councillor Watters: The decision will be for individual local authorities. That is one reason why I have said that neither the cabinet secretary, the First Minister nor COSLA can freeze council tax. The only people who can freeze council tax are councillors, and they will decide on that when they set their budget. They will compare their share of the £70 million with what they need.

Elaine Murray: If one council does not freeze council tax but all the others do, will none of the others receive their share of the £70 million?

Councillor Watters: No. It is a matter for individual authorities. One authority would not bring down the whole pack.

I make it clear that although the cabinet secretary has built the £70 million into the three-year funding arrangement, the issue will have to be renegotiated with us next year. We are not saying that the £70 million will be enough next year.

Tom McCabe: What is the basis on which councils will access the £70 million fund? If a council decided to freeze council tax, would it receive the equivalent of what it would have raised if it had increased council tax by the rate of inflation?

Martin Booth: The allocation proposal that will go to COSLA next week for agreement is based on councils receiving a percentage of the money that they raise through council tax in the current year. A percentage of the total council tax budget for this year will be taken and the £70 million will be allocated on the basis of that percentage.

Tom McCabe: But what will that percentage be? Will it be the rate of inflation? Will it be based on the retail prices index?

Martin Booth: If council X had 5 per cent of the total council tax budget, it would receive 5 per cent of the £70 million.

Tom McCabe: That does not really answer my question. Let us say that Glasgow City Council would generate £5 million by increasing council tax by the rate of inflation. Would it get £5 million from the £70 million, or would a different basis be used for the amount that it would get?

Martin Booth: A different basis would be used.

Tom McCabe: What would that be?

Martin Booth: The calculation is based on a percentage of the band D assessment, taking into account COSLA's view of inflation at the time. The figure would work out at somewhere above 3 per cent—it would be around 3.2 per cent—but the figures would vary slightly council by council.

Alex Neil: That touches on the question that I want to ask. I take the point that Pat Watters made—we are talking about the financial year that starts in April 2008. If everything else was equal and the £70 million fund was not available to fund the council tax freeze, what percentage council tax increase on average would there be across Scotland?

Councillor Watters: There is no way that we can know that.

Alex Neil: In the light of the answer that was given to Tom McCabe, the increase would have to be just over 3 per cent. That is the logic of what was said.

Councillor Watters: No. That is based on what has happened this year.

Alex Neil: That is what I am saying.

Councillor Watters: Councils will not set their council tax rates until they set their budgets, which will be some time in early February. They will know what they will need only after the cabinet secretary makes an announcement on 13 December.

Alex Neil: I understand that, but Tom McCabe made a fair point. I think that he and I agree on the matter. The assumption is that it will take £70 million next year to freeze the council tax. That is the quid pro quo. If the council tax across Scotland increased by £70 million in cash terms, what percentage increase on average would that represent for the nation?

Councillor Watters: On average—that is different.

Martin Booth: That would represent an average increase of 3.2 to 3.4 per cent.

Alex Neil: So without the £70 million, council tax rates would rise on average across Scotland by around 3.3 or 3.4 per cent.

Martin Booth: Yes.

Alex Neil: Great.

Elaine Murray: I want to consider efficiency savings, but I am slightly unclear about Martin Booth's answer. He slightly implied that Glasgow City Council would get 0 per cent of the £70 million as a result of freezing its council tax last year.

Alex Neil: The witnesses are not saying that.

Elaine Murray: Are you saying that calculations would be based on last year's council tax rises?

Martin Booth: Councils' budgeted income from council tax as a whole, not their percentage increases, would be considered. The actual take—the amount of money taken in by the council—would be considered.

Elaine Murray: Indeed. The other approach would be eminently unfair on councils that had kept council tax down last year.

Alex Neil: The Government would not be unfair, Elaine.

Elaine Murray: Let us move on to efficiency savings. As you know, the target for efficiency savings—which, of course, councils will be able to retain—has increased to 2 per cent. How realistic is that target? What balance will there be between cash-releasing and time-releasing savings? Will all authorities manage to achieve 2 per cent efficiency savings? I am thinking about evidence that we took when the previous Administration introduced the efficient government initiative. Some councils were concerned. They thought that they had been efficient in the past and that they had already slimmed down and cut out the fat, and therefore that they would find it even more difficult to make efficiency savings. Is the target realistic? What will the cash-releasing and time-releasing savings split be? Can all authorities meet the target?

Rory Mair: I think that you are asking me for an opinion on how councils will behave. We have been speaking to councils about the efficiency savings target. One of the difficulties in the last round of the efficient government initiative was simply gearing up to measuring efficiencies accurately. We did not have all the input data on the baselines. It was difficult to separate efficiencies from savings. I think that we have cracked that problem now—councils have a clear idea of their baseline costs.

I believe that most councils are saying that they probably can achieve a 2 per cent saving over the next three-year period. Forgetting about any target that the Government sets, many councils will have built that saving in simply to make their books balance according to their own workings. Councils are telling us that they cannot carry on driving out 2 per cent savings forever. However, we feel that we can drive out 2 per cent efficiencies over the coming period.

Joe FitzPatrick: Do you think that the Government's decision that local government will be allowed to keep any other efficiency savings will drive some councils to go further than 2 per cent, on the basis that they will be able to keep it and spend it on other front-line services?

Councillor Watters: They would do that above 2 per cent anyway. The Government is only talking about 2 per cent. Anything above 2 per cent—even if the Government was taking 2 per cent—we would be able to retain.

If you consider the track record of local government as a whole over the past four or five years, taking account of how we have dealt with

the whole quality agenda and how we have drawn in good practice, you will see that we are a shining example in the public sector of making efficiencies and savings at the same time as improving services. We are continually looking at how we do things, who we do them for and how we improve what we do.

Rory Mair: The key to continuing the drive on efficiencies, which Mr McCabe will be aware of, is to make those efficiencies across the public sector. However, the ability to continue to drive out 2 per cent savings just within the confines of a council will be limited. The question is how we do business between councils and agencies in ways that allow us all to be more efficient. That is going to be the key for the period that we are entering. Simply working towards internal council efficiencies will not continue to drive out 2 per cent savings; we require to get better at interagency co-operation and efficiency to make it work.

Alex Neil: Will COSLA lead by example and make 2 per cent efficiency savings in its own budget?

Councillor Watters: We are at the pinnacle of achieving efficiency within local government.

Tom McCabe: Is that a yes?

Rory Mair: In a sense—

Councillor Watters: Do not bother answering that, Rory. *[Laughter.]* As I say, we are at the pinnacle of achieving efficiency savings in local government.

The Convener: I invite Elaine Murray to finish this section of questioning.

Elaine Murray: You say that you now have systems in place to monitor efficiency savings, whereas you did not in the previous period of the efficient government initiative. Do you believe that you made the efficiency savings the last time round?

Rory Mair: The difficulty was that, from a standing start, authorities did not know what their baseline costs were. If a reduction in cost was made, it was difficult to know whether it was a saving or an efficiency. I am talking about getting the same output for less money. It was difficult for us to be sure about that. We think that we underestimated our efficiencies, because the tendency was not to claim an efficiency unless we were absolutely sure that we had achieved it. We examined six councils in depth, and we found that they were underclaiming efficiencies, not overclaiming them. I am sure that we did make the level of efficiencies that was asked of us.

The Convener: We will now consider single outcome agreements.

Liam McArthur: Do you expect single outcome agreements to be in place throughout the course of the spending review period? You spoke earlier about moving away from a blame culture in which national Government blames local government and vice versa. Will local government be judged on its success in delivering national outcomes or targets?

To use a specific example, the Cabinet Secretary for Education and Lifelong Learning, Fiona Hyslop, suggested that the class size reduction might be achieved through retaining the current staffing levels in teaching and through recycling efficiencies, given that, as COSLA agrees, there has been no additional funding for the class size reduction. Do you agree that that reduction is achievable? Do you agree that it is the role of the cabinet secretary to direct local authorities in how they should channel their efficiency savings?

16:00

Councillor Watters: I will take the first part of the question and hand over to the chief executive to deal specifically with the single outcome agreements.

We are very clear about what has been agreed in the concordat. You are right that no additional funding is being provided for the reduction in class sizes, although retaining teachers year-on-year is keeping additional money in education. We will see a year-on-year improvement throughout Scotland, but obviously it will be different in different authorities. The reduction in class sizes will only be achieved where there is a demographic shift, and there will be no demographic shift in some areas. As a matter of fact, we are seeing an increase in school rolls, not a fall, so the reduction in class sizes will not happen in every single authority or school. Will there be an improvement and a move towards the reduction? Yes, there will be, because some areas have falling school rolls and surplus staff can be used to drive down class sizes.

It will take longer than was first stated when the Government said that it wanted the class size reduction to happen within this session of the Parliament. It cannot be done within that time, because we would need many more resources. In addition, as has been said, there is some evidence to show that reducing class sizes is not the only way to achieve improvements in education in Scotland.

Liam McArthur: Moving away from the blame culture, it seems from what you said that some recasting of the commitment is needed to ensure that there is an agreed outcome for the single outcome agreements, otherwise you will be

debating the point of first principle or the point of departure.

Councillor Watters: There are areas in Scotland where we would like to see a reduction in class sizes, which would improve children's education. In other areas, there is already high achievement, and the local authorities might not see reducing class sizes as the best way to spend their money. However, we are agreed that, if there is a demographic shift in an area, we will reduce class sizes there. The outcome that we are seeking is an improvement in children's education—we in local government have seen long-term, on-going improvements in education. I will hand over to the chief executive to deal specifically with the point about outcome agreements.

Rory Mair: Two things are being confused here. One is the commitment on class sizes that we made in the concordat. The wording is absolutely explicit and it has been agreed between the president and the cabinet secretaries. We will move

“as quickly as is possible”

towards class sizes of 18 in primaries 1, 2 and 3 and

“it is recognised that the pace of implementation of class size reduction will vary across authorities depending on local circumstances and needs.”

That is what we have agreed to. In addition, the national outcome agreements say nothing about class sizes, but they do say something about educational attainment.

So, we have signed up to two quite different documents: the concordat, to which we signed up in order to complete the negotiation on the spending review, which says that we will make an effort to move towards class sizes of 18 in primaries 1, 2 and 3 as quickly as possible; and we are currently negotiating the national outcome agreements, which do not make any specific commitments on that.

You have seen the five major areas with subsequent sub-outcomes. Those outcomes are not a way of Government holding us accountable; they are a way for the Government to hold the whole public sector accountable so that it focuses on the same set of national outcomes. Just as we agree that local councils will make an effort to achieve the national outcomes, we expect that cabinet secretaries will sign up to all the rest of the public sector that is under their direct control working locally to deliver the same outcomes. There is a joint agreement. We are not just saying, “We will do this for you.” Cabinet secretaries are also saying that they will use the bits of the public sector that they control to operate locally in a certain way.

For the first time, the whole public sector will be aligned around a common set of objectives and outcomes, which will make issues such as community planning and using resources across local organisations that much easier. That is why we have been pressing for those objectives for some time, and why they were an important part of the negotiation.

Derek Brownlee: COSLA is negotiating with the Government on the national issues, and individual councils will negotiate on local issues council by council. I presume that, once the national outcomes are agreed, every council will have the same core of national objectives.

We are dealing with something that is quite different from what we have seen before. How do we measure—or how are you thinking about the measurement of—success or failure in the delivery of the outcome agreements? Will you need to deliver all the national outcomes and then leave it up to the local authorities to deliver local outcomes successfully? Are any assessment criteria emerging?

Rory Mair: We have got the national outline. We believe that each council is being asked to say what it is prepared to do to help to deliver improvement in the national outcomes. We think that not all councils will try to address all the outcomes equally. For example, East Renfrewshire Council should probably not be looking at increasing children's attainment in exams, but it might want to examine what happens to students who have had a good education. Do they get jobs or not? Each council must come to Government with the package of effort that it thinks it can pursue to push up attainment of the national objectives.

Some councils will concentrate on the green elements. I expect that the Government will want an element of each of the areas to be addressed by every council, but councils will not make the effort on an equal basis. There will be a genuinely individual agreement between each council and the Government, which will reflect local priorities in the context of the national outcomes that we have signed up to dealing with.

Derek Brownlee: So, to some extent, there will be a local element to the national application.

Rory Mair: Absolutely.

Derek Brownlee: What happens if, despite the best efforts, the objectives are not met? What sanctions will be applied, or is the new approach a move away from sanctions?

Councillor Watters: It is a move away from sanctions. I do not think that we have ever seen a legislative approach in Scotland such as has existed in the rest of the UK. Delivery is very much

a matter of trust. Local authorities are accountable not to Parliament but to their communities, and their communities judge whether they are meeting their targets. Councils will set the targets jointly with the Government, and we will make best endeavours to ensure that they are met.

When was the last time that Government—either the present Government or any other Government—told a local authority that it was not delivering something? That has not happened. We will not go down the road of allowing Government to step in and say, “You’re going to have to deliver X, Y or Z.” The removal of ring fencing is important to us, because it gives us the flexibility to ensure that local priorities are addressed. Authority X is not the same as authority Y: they are different authorities with different priorities and needs, and they must have the flexibility to meet those needs.

The Convener: We now turn to the reduction of the ring fencing of funds.

Elaine Murray: As a representative of somewhere that suffers from flooding, I was relieved to hear that some of the rolled-up moneys for the cities growth fund and the flood prevention moneys are still being discussed. It would be manifestly unfair to distribute such funds on the basis of population. Concerns have also been raised about some of the other rolled-up specific grants, such as the one for victims of domestic violence and the supporting people fund. Will there be outcome agreements to ensure that support for vulnerable people is not lost in the general pot?

Councillor Watters: I will ask Mr Mair to answer that question. You are absolutely right: we are conscious that not everything is divided by 32, and local authorities are conscious of the fact that some areas are a higher priority than others for some funds. That is why we are still discussing with the Government how we can sensitively deliver to local authorities what they expect. We are trying to do that within tight constraints—there is never enough money to deal with everything, and we must be sensitive to that. The Government needs to be sensitive to that, too. We must ensure that areas with acute problems, such as flooding, and areas where there was bid funding are dealt with properly and do not feel that they are being picked on or that other people are getting a share of money that they do not need.

Rory Mair: There will be only one outcome agreement—it is a national outcome agreement—therefore there will be no separate agreement on vulnerable people or anything else. We will have to say how we will deal with vulnerable people in the context of that outcome agreement.

The call for a reduction in ring fencing has been misinterpreted in the debates that we have had, including by our own side. It is a difficult subject. I sit here with a list of about 50 separate ring-fenced

funds. Our major difficulty with those funds was not what the money was being spent on, but that we got a specific dollop of money with which we had to do a specific thing and then we had to report on it separately from all our other resources. Therefore, we had to produce 50 separate reports for money that represented less than a quarter of our budget. We said that that was becoming inefficient. It was denying us the opportunity to put the money together in more innovative ways and to use it in the context of our total budget, because we had to report on it separately.

You will not see any great change—certainly not in the next three years—in the target audience for the money that has been un-ring fenced. However, it will be easier for us to use that money in better and more efficient ways to ensure that vulnerable groups get a better service, because we will not have to separate it out and report on it entirely separately from all the other moneys that we use to support vulnerable people. We wanted to get rid of ring fencing not because we did not want to spend the money on the subjects for which it was ring fenced, but because we did not want the money to be separate from the rest of our budget and to have to report on it separately from all the other money that comes to us under the best value regime that we have agreed with the Government.

Elaine Murray: I take your point about the inefficiencies of having to report on 50 targets. That is an issue throughout the public sector, and it is one issue that will be considered under efficient government. However, because councils have different pressures and coalitions of different political compositions, some of them might consider the support of vulnerable people to be more important than others do, and there is concern that there is now no safety net if a council decides that the activities that have been undertaken under the supporting people fund are not terribly important to it.

Councillor Watters: That is called democracy, Elaine. Local authorities are elected to distribute funds and to deliver services, and they are accountable to the local people. If the local people are unhappy about the way that their local authority does that, they will let it know. The Government and Parliament have a role, but Parliament’s role is to scrutinise ministers, not to scrutinise local government. That is what we are elected to do as councillors.

Elaine Murray: The First Minister said at question time last week that he was fairly certain that all councils would sustain their spend on, for example, domestic violence, but that is not necessarily the case.

Councillor Watters: What council is he a member of?

Elaine Murray: Mr Salmond?

Councillor Watters: Yes.

Elaine Murray: He gave an assurance at First Minister's question time that the commitment to addressing domestic abuse would continue.

Councillor Watters: I am sorry, but the Government cannot give an assurance on behalf of 32 councils. We are independently elected to look after our communities. That is what we do—and we do it very well, I might add.

Liam McArthur: Elaine Murray mentioned flooding. As somebody who represents a number of low-lying islands that are wedged between the Atlantic and the North Sea, I am more aware than most of the risks of flooding.

On lifting ring fencing, you might be aware that Orkney Islands Council has been dealing with joint services across NHS Orkney, Orkney Enterprise and the council. My understanding is that the challenge funding that the council has tapped into for that work will now simply be rolled up and distributed across the board, which probably means that councils that are not nearly as advanced as Orkney Islands Council is will draw on that money.

I will also comment on collaborative effort. Elaine Murray mentioned the cities growth fund. Some of that money was being used to incentivise work across councils. I suppose that if it is divided up and dished out to councils, they may choose to join together and collaborate, but do you have any comments on the lack of incentive in that distribution model?

Councillor Watters: I will ask Rory Mair to answer that because he chairs the shared services board.

16:15

Rory Mair: Under the previous Government, there was a fund for transforming the way in which we did business and a number of pathfinder projects were resourced in order to prove that people could work across organisational boundaries. To get the money, people had to sign up to opening up the project to scrutiny by everybody else, so that we could all learn the lessons from the projects. As Liam McArthur said, Orkney got resources from that fund to do that.

When we felt that we had proved that the pathfinder projects worked, we decided that money had to go to every council, so that they could all do what had been done in those projects. The remaining part of the efficient government fund was used to give every council some capacity to take on board the lessons of the Orkney, Edinburgh and Glasgow pathfinder projects.

Liam McArthur: How confident are you that that is where the money will be directed? Will the lack of available funding prevent other councils from getting to the point that Orkney reached?

Rory Mair: I chaired the board that dealt with the projects before the matter went to the minister for approval. The projects' business case is that, by doing the work that they are doing, they will generate such significant savings that they can afford to fund the work that is necessary. At some stage, efficiency works only if we do not have to carry on pump priming it. The business case says that, after a certain number of years, the projects will start to see returns for the investment that Mr McCabe made. All we are saying is that that is the deal that we made with the Government and that is the money that was put on the table; now, every council has to be given an incentive to start the process and get to where Orkney was. That was seen as a bigger priority. However, we understand from the new Government that there will not be a fund. What will happen is that, in order to get the finance for the work that has to be done to get a project started, each business case will have to demonstrate that, by doing things more efficiently, it will be possible to get a payback in a sufficiently short period of time. That is just a harder-edged business case. However, we are further on in the process. Local government is better at this now than it was three years ago.

Joe FitzPatrick: I entered politics in 1999 as a councillor, when the Scottish Parliament was brand new. A large number of MSPs had been councillors and there was an expectation that that would result in parity of esteem between councillors and parliamentarians. However, during my eight years as a councillor, that parity of esteem never materialised. To what extent do you think the removal of ring fencing and the granting to councils of the ability to make their own decisions—which goes along with an assumption that our councillors are the best people to make decisions about, say, vulnerable people in their area—will make that parity of esteem more likely? Do you agree that it is damaging to say that the Government does not have confidence in local government's ability to make such decisions?

Councillor Watters: We have had parity of esteem on our agenda for quite some time, although I do not think that that is what we would call it. Latterly, we have examined ways of developing partnerships with Government. I believe that we were on the road to developing those partnerships prior to the election and that we are still on that road. We have an understanding with the Government that we must discuss how we can take forward the governance of Scotland. I firmly believe—and have dedicated myself to saying—that we are part of the governance of this country. We are not part of the problem; we are

part of the solution. We should, therefore, be able to work with the Government to deliver for Scotland.

Elaine Murray: On the point that Mr Mair made about vulnerable people, it is quite correct to say that councillors are locally accountable. As you know, I was a councillor before I became an MSP. People have to be accountable at all levels and I frequently tell my constituents that I cannot tell the council what to do and that I do not intend to do so. However, in relation to the point about services for vulnerable people, I must say that the vast majority of the electorate are not vulnerable people. Most people are not drug addicts who require support or victims of domestic violence, which means that there is not a great deal of electoral comeback if the council does not provide an adequate level of support for people with those problems. There is an issue about the way in which funding is directed to sections of society that are not popular and which include people who possibly do not even take part in the democratic process.

Councillor Watters: Are we saying that, to provide those services, ring fencing—directing funds so that local authorities can spend the money only on those services—is necessary? Alternatively, should it be left to the local authority to take the decision on how it delivers services in its community, bearing in mind that it represents the whole community and not just bits of it?

The Convener: This market day is wearing late, and we have a fair bit of material to go through, so I would like quicker questions and quicker answers. Alex Neil will ask about the council tax freeze.

Alex Neil: I think that we have covered most of the ground, but I have a specific question for Pat Watters.

As you know, anyone who earns more than £59 a week—which is not a film-star salary—does not get council tax benefit. Do you think that, although the council tax itself is not—in my view—an ideal form of tax, the council tax freeze will relieve some of the hardship of those who otherwise would have seen what for them would be a substantial increase? I am talking about people who earn perhaps £100 or £120 a week. Given that the rules about earnings of £59 and the qualification for benefit are social security rules rather than local government rules—or even Scottish Government rules—should we demand that that limit of £59 be substantially increased to try to relieve the hardship of some people who are on pretty low incomes but still face fairly substantial council tax bills?

Councillor Watters: That was a veiled political question. The level of salary that we are talking

about is the level of a councillor's salary, but I will not go into that in great detail—we are only part time after all, and I am conscious of the time.

We need to look at the matter realistically. We have the council tax at present, and I have to say that it has been a successful tax. I come from an authority in which we collect 96 per cent of all our taxes, and we strive to collect all our taxes.

Alex Neil: But at what social cost to some people?

Councillor Watters: I do not think that you will find that the authority has ever taken any individual to task. We are very supportive and deal with people using different methods—involving social work and money advice, for example.

Alex Neil: You should come to North Lanarkshire.

Councillor Watters: The council tax increase—the £70 million that you are talking about—would work out at about 71p a week for an average band D property. That is hardly a king's ransom—it would not even buy you a Sunday newspaper.

You are absolutely right that people do not want to pay an increase in tax—I do not want to pay an increase in tax—and, therefore, people will not want to pay that 71p a week increase in tax.

Alex Neil: If we had the council tax freeze over three years, you are talking about £1.50 or £1.60. That is not a lot to you and me—probably a lot more to me than to you—but it is certainly a lot to the people who are earning the kind of money that we are talking about.

Councillor Watters: You mention a three-year council freeze, but a three-year freeze has not been agreed, so we are talking about next year—one year—and we are talking about £70-odd per year. If I could get away with paying an increase of £70-odd per year, I would be delighted. I am not taking away the impact of the increase, but there is a long way to go before we link that to the change in the tax system and so on.

Alex Neil: Presumably you agree that the local income tax, when it comes in, will be a lot fairer?

Councillor Watters: Sorry, but I do not.

James Kelly: You have mentioned the £70 million that is allocated for the council tax freeze—you said that that is 71p of savings for band D properties.

Councillor Watters: Ish.

James Kelly: Ish—okay. Which bands are the main beneficiaries, in cash terms, of that £70 million?

Councillor Watters: The higher the band, the more money people would save.

Alex Neil: As a percentage of their income?

Elaine Murray: That does not matter.

Alex Neil: It does.

Councillor Watters: I have no idea of knowing what percentage of income that would be for someone who lives in a big house.

The Convener: We seem to be having fewer questions and more debate. Can we stick to questions please, so that we can hear the expertise of the witnesses? We will move now to consideration of single status agreements.

Derek Brownlee: We all know that single status agreements are one of the biggest pressures on local government—perhaps the biggest. I appreciate that the patterns will be different in councils across the country, but can you give us an update on the projected timescale for resolving the issue? To what extent, if any, does the budget settlement for local government allow you to make progress?

Councillor Watters: I cannot give you an update. We thought that we were coming here to talk about the three-year settlement, which was not part of the discussions that we had with Government on single status. If we had known that your question would come up, we could have looked into it in detail.

However, authorities are making progress—some faster than others. Is it costly? Yes, it is. Are there time constraints? Yes, there are. Some authorities have already been taken to industrial tribunals. Decisions have yet to be taken on those cases, and we wait to see what happens. I cannot go into any more detail at the moment. If we had known about the question, we could probably have done some work and given you more information.

Derek Brownlee: Would you be able to come back in due course with some information?

Councillor Watters: Certainly.

Derek Brownlee: Thank you.

The Convener: We sent a letter in September but we still await a reply. Could an investigation be made so that we can receive a reply?

Councillor Watters: It might be a short reply.

The Convener: If it is informative, that would help.

Councillor Watters: I jest, convener. We will get the information to you and will be happy to come back here to discuss it.

The Convener: Thank you. That brings us to the end of this evidence session. I thank the president of COSLA and his officials for sharing their expertise and experience in local government.

Public Sector Pay

16:27

The Convener: Item 3 is consideration of pay policy as it relates to senior public appointments in Scotland. At our meeting on 30 October, we considered a paper that set out the operation of pay policy for senior staff in the public sector, and we agreed that we wanted to consider the issue further by way of a one-off evidence session. We therefore asked the clerks to produce another paper giving more detail on the mechanisms for approving pay, and to suggest some approaches for the one-off session.

Members have received a paper with suggestions for evidence, a paper on approval mechanisms for staff other than chief executives, and the paper that we considered on 30 October, which has been reissued. Members have also received hard copies of the relevant Scottish Government policies.

Alex Neil: As I think we agreed before, it would be useful to invite both the cabinet secretary and the officials to our evidence session. Before the session, it would also be useful to ask the Scottish Parliament information centre to do a bit of research into the facts, figures and trends of public sector pay, relating the research to the previous Scottish Executive and the present Scottish Government. It would be useful to know what percentage of total costs is represented by pay in certain key areas.

It would also be interesting to know the trends in the pay of senior people. There is quite a lot of concern—Derek Brownlee was quoted in the weekend press—about some aspects of the pay of senior people. We should know whether bonuses—and all the rest of it—are caught within the policies. A briefing from SPICe would be helpful.

16:30

Tom McCabe: I have said before that the emphasis must be on the year-on-year uplift in the pay bill as opposed to the mechanisms for deciding awards. There is a world of difference between the two and most of it is encompassed in what Alex Neil has just said. People move through pay increments and promotions are made in year. Once all that has happened and we take a backward look at the upward lift in the overall pay bill, the figure will bear no resemblance to the negotiated figure that is published. That often happens.

On public sector pay, we also need to remember that when local authorities were reorganised in 1995, a range of chief executive salaries was

established with a pyramid below them, particularly for senior officers. That pyramid was then set. Whether it was set at the right level is a different question, but the fact that it was set means that, if it is wrong, the error is compounded year on year.

The subject is much more complex than considering the outcomes of the negotiations or the mechanisms behind them each year.

The Convener: Those points are well made and will help us in our consideration. The clerks have a note of the suggestions. Do members agree for research to be sought on those matters?

Members indicated agreement.

The Convener: We must decide from whom to take evidence: officials only, the cabinet secretary only, or officials and the cabinet secretary. What is the committee's preference? Would members prefer to have an overview instead of separate evidence-taking sessions, especially given the extra information that we are seeking?

Tom McCabe: I am not entirely sure that we want to take evidence from either. I do not mean any disrespect to the cabinet secretary, because he is in a difficult position in that job. Officials from the various organisations will not vote for an early Christmas if we have them sitting like turkeys before us. We need to try to get a more objective view of the situation from economists or academics. They can look at it from the outside and give us a colder judgment of the economic impact of salary movements in the public sector.

Alex Neil: That is a good idea.

The Convener: The idea is to take evidence from officials from the finance pay policy team. Does that address your objection, Tom?

Liam McArthur: They would still be turkeys voting for Christmas.

Tom McCabe: I do not detect a great incentive for those officials. The evidence must come from somebody who is more outside the system.

Alex Neil: That is a good idea.

The Convener: Who do you have in mind?

Tom McCabe: Economists, for example.

Alex Neil: For some aspects of the matter, it might be appropriate to take evidence from the Low Pay Commission. It has a Scottish member. Also, the Labour Research Department—not the Labour Party research department—which is headquartered in London, has done a lot of work on public sector pay and might be able to give us some comparisons between Scotland and other jurisdictions. There are also people in academia who have done a fair bit of research on the matter.

I agree with Tom McCabe. A cross-section of those people would be helpful.

Liam McArthur: From what Alex Neil and Tom McCabe said, it would be unrealistic to get officials to suggest that they all ought to offer up a pound of flesh. However, it may be unfair not to hear from officials after we have taken evidence from others, so perhaps we should break the witnesses into a couple of separate evidence-taking sessions.

The Convener: That is useful. I suggest that the clerks come back to us with suggestions that are based on this discussion. We can then reconsider our approach.

Tom McCabe: Is there a high pay unit? It would know more about the matter. [*Laughter.*]

The Convener: I would not know. We will await the appropriate paper.

Public Health etc (Scotland) Bill: Financial Memorandum

16:34

The Convener: Item 4 is to decide whether to do anything further on the Public Health etc (Scotland) Bill in light of submissions that we have received. We decided previously on level 1 scrutiny for the bill, but the submissions that we have received raise some substantive issues. The clerk's paper suggests two alternative options for the committee to consider: that we forward the written evidence to the lead committee with a recommendation that the issues be raised with the Scottish Government; or that we take evidence and produce a report.

I remind the committee that we are pretty constrained in when we could take evidence: 22 January is really the only possible date because we have a pretty hectic timetable. However, we already have evidence on the Crerar review scheduled for that day.

Elaine Murray: I have a suggestion. I presume that we wrote to all the health boards, but only two of the 14 were sufficiently concerned to write back to us, and only one of those expressed concerns. Therefore, we should follow option 1 in the paper. We should raise with the lead committee the concerns that have been expressed and not go to level 3 scrutiny, as the concern that has been reflected is insufficient for such a change. We will also be extremely busy at the beginning of January with other business, as you have said.

The Convener: That is an excellent suggestion. Do members agree with it?

Derek Brownlee: I agree with Elaine Murray's analysis of the response, but that response concerns me. We do not know whether NHS Lothian has taken a different view because it has considered the financial memorandum at a different depth or because it has pressures that are different from those of other boards, which it may well have. We should consider the depth of its concern.

I accept that taking extra oral evidence may be inconvenient, but that should not stand in the way of our looking into the matter. We may have only to get evidence from NHS Lothian and seek additional written evidence from the other health boards if that is appropriate. It has been suggested that we could pass the evidence on to the lead committee, but we should be careful about our approach in view of the strength of opinion that is expressed in NHS Lothian's submission.

The Convener: I certainly agree that a substantive issue has been raised. We should

consider how to get some purchase on that issue and ensure that it is properly scrutinised. However, if we pass the evidence on to the lead committee, surely we would do so with a recommendation that it should take on board what has been said and scrutinise it appropriately.

Derek Brownlee: I presume that we must report on the financial memorandum. I wonder whether we will get enough evidence to fulfil that role.

The Convener: We will not report on it because level 1 scrutiny has been adopted.

Derek Brownlee: Right. However, on the basis of what has been said, the question is whether level 1 scrutiny is appropriate. We have sought and received evidence, and half of the evidence in front of us shows that there could be a significant problem. On that basis, and given that financial memoranda have often been significantly wrong in the past, should we not take a cautious approach?

The Convener: What do you suggest?

Derek Brownlee: To be frank, I am firmly leaning towards option 2.

The Convener: So you want the committee to take oral evidence. It may be a while before we do so. We could consider the financial memorandum in a specialised way, and the lead committee could simply be alerted to the responses. Committees have their own finance advisers now—

Derek Brownlee: I think that they are for the budget process.

The Convener: What are committee members' views?

Tom McCabe: I take Derek Brownlee's point, but in view of the totality of organisations that could have responded, we must put the response in perspective. One organisation has expressed reasonably strong concerns, but it is on its own.

Derek Brownlee: One might not expect some of the smaller health boards to be as concerned about the potential implications of the bill as the larger health boards, such as NHS Lothian. That is where my concerns lie. Perhaps NHS Lothian has simply taken a view that completely diverges from those of the rest of the health boards. I do not know.

Alex Neil: I suggest a compromise. I am good at compromises.

The Convener: Go for it.

Alex Neil: Why do we not write to the other health boards? We would have to write to only 12 of them, as we have also received a submission from NHS Ayrshire and Arran. We could enclose a copy of NHS Lothian's comments and ask whether

they agree that the situation is as serious as NHS Lothian has said it is. We would not send out a general invitation—we could ask them to reply before Christmas and we would chase up replies. If the other health boards say that NHS Lothian is absolutely right, it would be incumbent on us to take oral evidence, but if they say that they do not share its concerns and that its concerns are exaggerated, we should go with option 1.

The Convener: That would work.

Derek Brownlee: NHS Lothian's submission also refers to the Scottish directors of public health. That group's evidence might also be helpful.

The Convener: Are members agreed that we take that action?

Members indicated agreement.

Liam McArthur: Will we write to NHS Lothian about this decision? After all, we might as well flag up to the board that we are going to use its evidence to go on this fishing exercise.

The Convener: That is fair enough. It should not be a problem.

Budget Process 2008-09

16:40

The Convener: Item 5 is consideration of draft guidance for subject committees on the budget process 2008-09. As members might recall, when the revised guidance was circulated by e-mail, there was disagreement over one particular part of it. Given that we have not yet reached agreement on it, the clerks' original draft has come back before the committee. Do members have any comments?

Alex Neil: I have a general point. When the convener and the clerk ask members for comments on drafting and are then delegated to finalise the paper, problems can arise if any new substantive points are added. If we follow standing orders to the letter, we can see that any such issue requires the committee's agreement. Irrespective of the merits or demerits of any change—after all, there is a big difference between a drafting change and a substantive change—we should operate by that general rule.

The Convener: The committee tends, on the whole, to reach agreement on these matters, although we can have some minor disagreements. However, if disagreement arises over a substantive point, the matter should come back to the committee.

Do members have any other comments on the paper before us?

Joe FitzPatrick: As we have already agreed the clerks' original draft—which did not contain the amendment that was made without discussion—I am happy for that to go ahead. I am prepared to compromise on Elaine Murray's alternative amendment, if it helps the process. My concern was that last week, after we had agreed points that had been debated and added a point that Derek Brownlee had brought up at the last minute, we found that an amendment had suddenly been made on a matter that we did not discuss. That should not have happened.

The Convener: I, too, am concerned about that.

Liam McArthur: As far as paragraphs 9 and 10 of the draft guidance are concerned, I imagine that we will all take slightly different perspectives on whether the response from the Cabinet Secretary for Finance and Sustainable Growth addresses all the issues that we raised. However, irrespective of the advice that we might give to subject committees, they are already expressing concern about the level of detail. Unless we reach some sort of agreement—whether on Elaine Murray's suggestion or something else—it will to some extent become a moot point anyway.

The Convener: The committees are masters of their own houses, and one would hope that they would look in great detail at whatever comes before them.

Elaine Murray: When we discussed the paper last week, we had not received the cabinet secretary's response, about which different committee members might well have different levels of satisfaction. When the convener and I discussed this matter, we wondered whether a paper copy of his response should be attached to the guidance instead of being made available through a hyperlink.

The form of words that I have circulated is intended not to lead the subject committees to say, "There's something wrong with the level of detail", but to allow them

"to comment on whether the changes in presentation compared to previous budgets have affected their ability to scrutinise the budget or to consider alternative spending proposals".

Under that proposal, the committees can say, "We are perfectly happy that the level of information provided hasn't impeded our scrutiny", or they can decide that the lack of GAE or some level 3 figures has altered their ability to scrutinise the budget. I simply wanted to find some way of alerting people to the fact that the issue should at least be considered. After all, we will want to make suggestions to the cabinet secretary for future budgets.

16:45

Tom McCabe: As Elaine Murray has pointed out, when the original paper was discussed, we had not received the cabinet secretary's response. I believe that that makes a fundamental material difference to what should be put in the guidance. However, although I feel that it is advisable to have a more explicit reference in the guidance, I am quite happy to go along with the revised wording. There is no point in having a big split-up over the issue.

That said, nothing makes the case for revising the wording more than the evidence that I have just heard from COSLA. People are entitled to their views on the matter, but we have just been told that what happens to a third of the Scottish budget is actually nothing to do with us. Indeed, not only that—the outcomes are nothing to do with us, either. The situation is pretty serious. After all, we could well find ourselves on the receiving end of concerns expressed at our community surgeries, without any ability to confirm how spending is being tracked. This issue is nothing to do with politics or the removal of ring fencing; the fact is that there might be a substantial change in the pattern of expenditure that would be very hard to identify or prove.

The Convener: Our common objective is to achieve the maximum scrutiny of budgets and to receive answers to our questions. Does everyone have Elaine Murray's suggested form of wording?

Elaine Murray: I e-mailed it to everyone, but I do not know whether everyone has managed to read it.

The Convener: I will read it out again for the record. The suggested wording is:

"Committees are invited to consider the presentation of information in the Draft Budget and to comment on whether the changes in presentation compared to previous budgets have affected their ability to scrutinise the budget or to consider alternative spending proposals."

We are, after all, encouraging the maximum scrutiny of these figures and ensuring that they are thoroughly trawled through so that we reach good solutions. Do members agree with that wording?

Members indicated agreement.

The Convener: We have reached the end of our agenda. I thank everyone for their participation.

Meeting closed at 16:47.

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