

FINANCE COMMITTEE

Tuesday 12 May 2009

Session 3

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FINANCE COMMITTEE

12th Meeting 2009, Session 3

CONVENER

*Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

*Jackie Baillie (Dumbarton) (Lab)

COMMITTEE MEMBERS

*Derek Brownlee (South of Scotland) (Con)

*Linda Fabiani (Central Scotland) (SNP)

*Joe FitzPatrick (Dundee West) (SNP)

*James Kelly (Glasgow Rutherglen) (Lab)

*Jeremy Purvis (Tweeddale, Etrick and Lauderdale) (LD)

*David Whitton (Strathkelvin and Bearsden) (Lab)

COMMITTEE SUBSTITUTES

Murdo Fraser (Mid Scotland and Fife) (Con)

Kenneth Gibson (Cunninghame North) (SNP)

Lewis Macdonald (Aberdeen Central) (Lab)

Liam McArthur (Orkney) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

Richard Ackroyd (Scottish Water)

David Caldwell (Universities Scotland)

Frances Duffy (Transport Scotland)

Gordon Edwards (Aberdeen City Council)

Susan Goldsmith (NHS Lothian)

Kirsten Gooday (Community Care Providers Scotland)

Michael Levack (Scottish Building Federation)

Andrew Livingstone (Skills Development Scotland)

Craig Marriott (NHS Dumfries and Galloway)

Baillie Gordon Matheson (Glasgow City Council)

Ian McLaughlan (Scottish Pre-School Play Association)

David Middleton (Transport Scotland)

Douglas Millican (Scottish Water)

Liz Rowlett (Scottish Disability Equality Forum)

Ruchir Shah (Scottish Council for Voluntary Organisations)

Ella Simpson (Rock Trust)

Chris Travis (Association of Scotland's Colleges)

CLERK TO THE COMMITTEE

James Johnston

SENIOR ASSISTANT CLERK

Mark Brough

ASSISTANT CLERK

Allan Campbell

LOCATION

Committee Room 2

Scottish Parliament

Finance Committee

Tuesday 12 May 2009

[THE CONVENER *opened the meeting at 14:07*]

Strategic Budget Scrutiny Inquiry

The Convener (Andrew Welsh): Good afternoon and welcome to the Finance Committee's 12th meeting in 2009, in the third session of the Scottish Parliament. I ask everyone present to turn off mobile phones and pagers. The only item on today's agenda is to continue our programme of evidence taking as part of our strategic budget scrutiny inquiry. Our focus is on the effects of the recession on public sector budgets in Scotland, the immediate pressures on the 2010-11 budget and likely future trends.

I welcome the first of our four panels of representatives of local authorities and health boards. Gordon Edwards is corporate director for resources management at Aberdeen City Council, Susan Goldsmith is director of finance at NHS Lothian, Bailie Gordon Matheson is city treasurer of Glasgow City Council, and Craig Marriott is director of finance at NHS Dumfries and Galloway. All the witnesses are welcome.

Due to pressure of time, we will go straight to questions rather than hear opening statements. I will start. What are the pressures on the budgets of individual public bodies as a result of the recession? How can the Scottish Government's budget best be used to mitigate those pressures?

Bailie Gordon Matheson (Glasgow City Council): The pressures that Glasgow City Council is facing include a reduction in asset sales, which we estimate will be reduced by £60 million between 2008 and 2011. We had expected to have an additional £60 million of capital income from land value sales over that period. Associated with that, planning income is down by £2 million. Although inflation has reduced, food prices have not, so there is a further pressure on us of £1 million. There are other pressures on us but those ones are most associated with the recession.

The other pressures include loan charges that are associated with our school estate building programme, the extra £3.5 million we had to find in 2008-09 for police pensions, and the investments that we have made in our clean Glasgow campaign and our apprentice programme, in which we have offered every school leaver an apprenticeship. Those are the political priorities that we have set. There is a combination of

inflationary pressures, the effects of the recession and the areas in which we have chosen to invest.

Susan Goldsmith (NHS Lothian): The most obvious immediate effect of the recession on health and for us is the impact on receipts on our capital programme. That was probably the first thing that we noticed. We have a 10-year capital programme that is reliant on contributions from the Scottish Government health department and is supplemented by receipts. We have had to examine the profile of our capital investment programme over those 10 years to acknowledge the risk around the timing and value of the receipts. There has been one positive impact, which is that we are experiencing more applications for vacant posts. In some areas in the public sector we struggle to recruit, but we have seen an increase in the number of applicants for posts. Those are the most immediate impacts, but looking forward is a different issue.

Craig Marriott (NHS Dumfries and Galloway): In terms of immediacy, our endowment portfolio is the key thing that has been affected. Each health board holds a substantial endowment portfolio, which is a combination of investments in cash and equities. NHS Dumfries and Galloway's portfolio has reduced by 20 per cent. Obviously our investments are long term, but there will be a short-term dip due to the recession, after which—we hope—those values will continue to pick up.

As a national health service, we are demand led. This is a period in which we are looking to see what impact we are actually having on services. One area that we are keen to monitor is mental health, specifically that of men. It is not something that we envisage will come through yet, but the longer the recession lasts, the more it will be a key issue for us. It is something that we have to watch. We are also examining the number of referrals to the acute sector to measure the impact on primary care.

In the long term, we hope that there will be a benefit for procurement but we do not envisage that coming through at present. We have issues with currency fluctuation for the items that we procure from outwith the United Kingdom. Some of those fluctuation levels are approximately 10 per cent. There is a mixed portfolio in terms of where we see problems coming through. The longer the recession, the greater will be the impact on our demand-led services.

Gordon Edwards (Aberdeen City Council): Some of the most immediate impacts have been on our asset management and property portfolio. There has been a writing down of approximately £30 million of the values of that portfolio and anticipated capital receipts. We have taken those out of the capital programme because of uncertainty about the timing and the value of the

capital receipts that may accrue, which has put considerable pressure on our remaining capital programme and how we will fund it within affordable limits.

Other aspects that have been touched on already are planning and building standards and fees income. We will deal with a downturn in development activity and there is a reduction of approximately 16 per cent of budgeted income in 2008-09.

Another issue that has affected us directly in Aberdeen as a result of difficulties in the private sector is in our schools public private partnership project, in which the financier ran into some difficulties. The council provided interim loan finance from its own resources to keep that project going and has incurred considerable expenditure in taking financial and legal advice on how we close off that deal. Those are the immediate matters affecting Aberdeen City Council at present.

The Convener: You have presented a range of problems, some of which are very specific to your sectors. There are some mitigating factors. What is your biggest worry or fear as you look to the future?

Susan Goldsmith: As Craig Marriott said, health is very much demand led. NHS Lothian is one of the few boards in Scotland that has had significant increases in population—we are seeing evidence of that in a range of areas, such as primary care, accident and emergency, and maternity services. Our immediate concern is the level of uplift that will be available to the NHS. The basis on which the resource is distributed means that NHS Lothian is currently £60 million away from its NHS Scotland resource allocation committee target. Our prime concern is probably our ability to respond to the demand with lower levels of uplift.

14:15

The Convener: Are you all caught in a rigid trap? How much flexibility do you have to meet those problems?

Bailie Matheson: I have already indicated the pressures on Glasgow's budgets for 2010-11. The effect of those pressures is that Glasgow is already anticipating having to achieve £30 million of efficiencies. Politicians and staff are working on 20 service reform streams in order to plug that gap. The £30 million target assumed an uplift in 2010—we expected an inflationary increase. If we do not receive that, we will have to find a minimum additional £38 million. Straight away, we are more than doubling our efficiency targets.

Another fear is that instead of a standstill settlement—which is what is being suggested and which is, in simplistic terms, “You got £5 last year; you'll get £5 this year”—the total allocation to local government throughout Scotland could be frozen, and be put through the sausage machine of the grant distribution system, which disadvantages Glasgow. We receive the fifth-smallest percentage increase. If the allocation went through that system, we would be looking at £99 million. We have a good record on service reform and generating efficiencies—we have had to, not least because of the costs that are associated with equal pay and the pay and benefits settlement in 2005. We cannot meet those kinds of targets in 2010 through service reform and efficiency, which is why I recently suggested that a pay freeze would be an essential contribution to the situation.

The Convener: Are those problems replicated in Dumfries and Galloway, and in Aberdeen?

Craig Marriott: From a smaller health board's perspective, we are in a unique position in that we are trying to move forward with a clinical strategy, which for Dumfries and Galloway involves investment of the best part of about £150 million. Our revenue costs are £8 million to £10 million. As a board, we are proactively planning to be able to free up the resources to fund that revenue position. That will not come from NRAC gain, but from efficiency.

We also have to deliver the 2 per cent efficiency target. When we add up the individual components, our concern is that delivering that level of savings will involve a substantial commitment. Obviously, we want to protect front-line services at every opportunity, but as the required efficiencies increase, doing that becomes more problematic.

We have robust governance provisions in place, and we have a five-year financial plan and a 10-year capital plan. We have just signed off our revenue plan on the basis of an assumption about a 3.15 per cent uplift over the next four to five years. When we start to change those forecasts, it has an impact on other service improvements that we would like to take place throughout the organisation.

The Convener: I hear “efficiency savings”. Does that mean that you have to have been very inefficient in order to maximise your efficiency savings? Are your targets realistic? Will you deliver them? How efficient can you get?

Craig Marriott: I suppose that it is about the balance between efficiency and disinvestment. We are considering a number of different techniques, one of which is the lean approach. We have used other non-recurring funds to support some of the national work—national efficiency groups are

helping to support us, and to consider benchmarking of services.

The important issue is the length of time in which we will be asked to make the efficiencies while providing ever-increasing levels of service. We have to keep afloat while we try to improve the level of service that we currently provide.

Gordon Edwards: It is probably fair to say that, so far, the economy of the city of Aberdeen has, because of the oil industry and the energy sector, been less affected than the economy of other parts of the country. However, if the global economy does not pick up, if the oil price remains low, and if there is a real downturn in the industry, the impact on the 40,000 oil-related jobs in Aberdeen and Aberdeenshire could be severe. In turn, that would impact on many council services. For example, there would be extra costs for social care services.

In Aberdeen City Council, we have prepared a medium-term financial plan that takes account of a range of potential reductions in grant funding. We are considering the kind of services that the council will be able to deliver. We are always looking for efficiency savings, but over the years the ground has been getting less fertile. We have already driven a lot of inefficiency out of the system. We will therefore have to consider shared services—working with partners such as other public sector organisations. In some cases, we will have to make hard choices on what services we can still provide. We are therefore doing a lot of benchmarking with other authorities, to see whether what we are providing is in line with other authorities. As we develop the scenarios within our medium-term financial plan, we will have to take a lot of hard decisions.

As I said, a big worry for us will be the impact on the energy sector in Aberdeen if there is a real downturn.

Joe FitzPatrick (Dundee West) (SNP): Cuts will be coming to us in the 2010-11 budget, and efficiency savings will be required. Bailie Matheson suggested that one way of achieving such savings might be a public sector pay freeze. Was that just hot air over the weekend, or is Glasgow City Council seriously considering it? Has a paper been produced? Is the council's executive considering the idea seriously?

Bailie Matheson: That there should be a pay freeze is the position of the administration Labour group on Glasgow City Council. I am not speaking on the hoof here—the position was agreed previously within the administration. More discussions will have to take place before the council or the Convention of Scottish Local Authorities takes a final position. We are making a serious attempt to raise the issue and put it on the agenda of others beyond local government.

As I have said, we are already looking for £30 million of efficiencies in order to have a balanced budget next year. One of the few givens is that local government will deliver a balanced budget. We have no choice.

Over the past three years, since we reached our equal pay settlement, we have achieved £100 million of efficiencies. That means that our budget today is £100 million, or 10 per cent, less than what it would have been if we had not put those efficiencies in place. We are looking for further efficiencies, and I think we can do more. We are looking for £30 million of efficiencies for 2010. That is already ambitious, so to expect us to double or treble that figure in one year is unrealistic. We cannot do that through strategic service reform. The cost to Glasgow would be an increased wage bill of £21 million, which would be a significant contribution—that is £15 million for administrative, professional, technical and clerical staff, and roughly £6 million for teachers. That would also help us to buy time to allow more sustainable reforms to be put in place.

If anyone has other ideas on how we can achieve what could be between £60 million and £99 million of efficiency savings in 2010, we are an open council and we want to hear those ideas.

Susan Goldsmith: We all face the challenge of making efficiency savings. It is not for us to say whether there should be pay uplifts or not, but in health it has been helpful to have a three-year pay deal. That gives certainty and allows people to plan ahead. Efficiency issues become very difficult when they are required year on year and without a strategic overview of, say, three to five years. Uncertainty causes difficulties, so three-year pay deals are beneficial to planning.

The Convener: You weaken the system if you do not know where it is going.

Susan Goldsmith: Yes.

Joe FitzPatrick: At last week's meeting, a witness from the housing sector told us that the Barnett consequentials should, in effect, be spent as they are allocated. I am sure that we will hear later from other witnesses that that should happen. The quid pro quo is that negative Barnett consequentials would also have to be allocated directly. Part of the £500 million cut that will come to us next year is a £129 million cut in the health budget. If that £129 million negative consequential was applied to health budgets here, how would that impact on the ability of NHS Lothian and NHS Dumfries and Galloway to provide front-line services?

The Convener: I think the question is how you will deal with having less money, if that happens.

Craig Marriott: There is no easy answer. As I said, we have signed off our financial plan, with a recognition that we must deliver on-going 2 per cent savings. A sudden step up from 2 per cent to 4 per cent will be that bit more difficult. As you will hear from colleagues today, that will involve difficult decisions and ensuring that we have political support. It will be extremely difficult to make 4 per cent savings on a recurring rather than a non-recurring basis. That will require turning round organisations so that they are forward thinking.

Every service design will have to be about not spending more money, but creating efficiency to deliver the same or an improved level of service with fewer resources. That is not an easy process. In Dumfries and Galloway, we are trying to ensure that managers and clinicians understand how difficult it will be, because we cannot do it in isolation. We are keen to ensure that, by the end of December in the current financial year, we have plans in place on recurring savings of 4 per cent. To come back to my previous remark, the longer that goes on, the more difficult it will be. The board has had to make 2 per cent savings for several years, but I have grave concerns about stepping up to 4 per cent on a recurring basis, although we could perhaps do it as a one-off.

Bailie Matheson: The reform agenda is absolutely here to stay. The challenge for us all is to focus on our priorities and to deliver efficient services in the years ahead. One area that we have not exploited fully is the shared services agenda. To give an example, I have not spoken to my fellow witnesses today about this, but I know that transport budgets have been busted in the past year or so. We can make significant efficiency savings on transport, but we need to consider the issues not only between departments in a council, but jointly with our NHS partners and neighbouring councils. We must consider how we procure and design vehicles and how we deploy and use vehicles and staff throughout the day. We have taxis running all over our cities delivering patients and pupils, but it is not being done as efficiently as it should be. To gross the efficiencies, we need to increase the scope of the service beyond any one council department or service. That possibility should be exploited.

Another issue is the public's attitude to, and expectations of, public services. For example, we have spent an extra £3 million to clean up Glasgow—the city is cleaner than it has ever been—but we cannot keep Glasgow clean simply by spending more and more on street sweepers. We have therefore, in order to try to change attitudes, increased significantly the number of community clean-up days and we have fined hundreds and hundreds of people for throwing away litter. We are considering giving money back

to communities that achieve clean targets to spend on services or the environment in their areas. We need to change expectations. We need reform throughout the public sector.

The Convener: Which services are most amenable to being shared?

Bailie Matheson: Personnel, human resources—I do not know. There are swathes of expertise that we could share. I spoke about transport. Many millions of pounds could be saved. We will not optimise the savings if we try to achieve them only within departments or services, however innovative we are.

14:30

Gordon Edwards: Aberdeen City Council and Aberdeenshire Council have a shared head of procurement, and some big savings for both councils are being made in the procurement of goods and services as well as in agency staffing and transport. We are achieving economies of scale from the shared services agenda, but we must expand that if we are to make the efficiency savings that have been targeted for us to make. The sharing of services and posts between neighbouring authorities and other public sector bodies is one way of driving the efficiency agenda while, importantly, trying to maintain the level of service.

More widely, when considering cuts of the size of those that are on the table in the projected financial settlements, local government must revisit the concordat that has been established with the Scottish Government. What are the priorities? Can we afford to deliver them all? Probably not. We need to revisit them. We must be realistic about the priorities that are being set for local government and which we set for ourselves, to ensure that they are maintained within the overall funding envelope.

Susan Goldsmith: We have a shared services project that is looking at shared services in finance across NHS systems; a huge amount of progress has been made on that over the past couple of years. The sharing of services across organisations will be successful only in areas where the organisational boundaries get in the way of good service delivery. Transport is a good example of that. If we can do more work in such areas, we will have more chance of success than if we simply say, "Go and get your HR departments together."

Craig Marriott: Another shared service that we have in health is national procurement. We have a national distribution centre in Lanarkshire, which operates very well for NHS services and allows us to share best practice between the different areas.

The question is how we bolt on in terms of the local authority aspect. In Dumfries and Galloway, we have shared management in learning disabilities, mental health and children's services. The challenge for us all is not to go into silo mentality. Once we get into a difficult financial regime, it is easy to start passing the costs between different bodies. We need to work closely to prevent that. The joint delivery of services to achieve efficiency savings will secure a win for both bits of the organisation.

Jackie Baillie (Dumbarton) (Lab): I wonder whether I could explore with you the urban myth of the £500 million of cuts that Joe FitzPatrick is keen on parroting. I understand that the extent of the efficiency savings is about a quarter less than that figure. Even allowing for that, the departmental expenditure limit baseline, which is the Scottish Government baseline, will rise by 0.5 per cent next year. I have no doubt that that still represents a tightening of the financial circumstances that we are in; nevertheless, it is a different picture from the one that is being painted.

On the back of the comment about general efficiencies, do you think that it is appropriate just to bolt on an across-the-board efficiency or would you like to see things targeted in a way that would generate more savings in one particular area?

Bailie Matheson: In Glasgow, we do not apply a salami-slice approach to efficiency savings; we focus on our priorities. I recommend that that approach be followed across the public sector in Scotland.

Our written submission highlights a couple of areas in which council services have a direct impact on other budgets. For example, research—the details of which can be provided to the clerks and committee members—shows that every £1 that local government spends on treating addictions saves £9.50 in the health and criminal justice budgets.

We need to look holistically at the outcomes that we are trying to achieve and the responsibility on us at all levels to engage in service reform in order to ensure that we do not impose cuts. Cuts are non-strategic; they are made when people do not have the money to pay for important, prioritised and necessary services and when they have not undertaken proper and strategic reform. Glasgow's approach needs to be taken increasingly throughout the public sector. Salami slicing is an abdication of responsibility.

The Convener: That is within and between local authorities. You have also linked the issue to other public authorities.

Bailie Matheson: Yes. There should be the outcomes that people expect.

Gordon Edwards: We strive for efficiency savings in all service areas, but we can always look further for such savings. Given the magnitude of savings that we are looking for, we must be honest with ourselves, target specific areas and consider where spending more will generate more efficiency savings further down the line. I will give an example. Through spending more to build children's homes and accommodation in Aberdeen city we can incur a capital spend, but we can then bring back within the city children who have been placed outwith the city and for whom we have to pay expensive fees. Doing that will cost us less in the revenue budget.

We must be imaginative in spending to generate efficiency savings in the medium to long term. That means that specific areas must be targeted, and that people must know their services well and know what drives them; people must also be clear about where they can best target resources to generate income further down the line.

The Convener: Does what has been said strike a chord with the NHS?

Susan Goldsmith: It does. The improving health agenda, for example, is a long-term agenda; its payback will be in the long term. Taking a salami-slicing approach to that would therefore not be appropriate.

Craig Marriott: In some ways, it is easy for us to sit here and talk about plans for the future, but there will probably be a combination of what has been described. It will probably be a matter of linking in with managers and services and saying, "Have a look at your service. Where do you think you can create efficiencies?", and of people looking at some of the big macro bits in their organisations or other bodies that they can work with locally. We must ensure that the organisational culture exists to recognise that efficiencies must be delivered.

The Convener: There is a queue of members who want to ask questions. Questions should be very brief so that we can move on.

Jackie Baillie: I have a question about the facts. On the potential £129 million reduction in the health budget, my understanding is that the Treasury has agreed on the ability to draw down end-of-year flexibility. If that happens, will that neutralise the effect?

Susan Goldsmith: I do not think that we know at this stage.

Derek Brownlee (South of Scotland) (Con): I have a question specifically for the health board representatives. Obviously, a political decision must be taken at the Government level on whether and the extent to which a funding reduction will be fed through to the health budget. Another

discussion must take place about, and a decision must be taken on, the extent to which a reduction will feed through to individual health boards.

NHS Lothian is underneath its NRAC total, but I think that NHS Dumfries and Galloway is in the opposite position. Does the prospective change in the amount of money that is distributed to health boards alter your view on the transition to the NRAC approach as the appropriate mechanism, or is it simply a matter of having to get on with things?

Susan Goldsmith: We recognise that because of the different financial position that we are in, it would be hugely ambitious to assume that we will get an additional £60 million tomorrow. However, we argue strongly that, in considering levels of uplift, a differential approach needs to be taken to systems that are further away from NRAC totals. By definition, NHS Lothian has a lower cost base. It has less money to spend and provides the same level of services, and is therefore more efficient. Therefore, we argue strongly for a differential approach to the level of uplift, recognising that achieving NRAC's proposals tomorrow is probably now compromised.

Craig Marriott: The key on NRAC is the pace of change. The health boards have been involved in the process and support it. From the perspective of NHS Dumfries and Galloway, I am concerned that we would be a net loser. The issue is the pace of change and how we reflect that. Large-scale changes of the size that NHS Lothian would require to get back to NRAC parity are just not feasible.

Jeremy Purvis (Tweeddale, Etrick and Lauderdale) (LD): I want to ask some questions about the presentation of figures—uplifts and baseline information, in particular. As you have all seen, the Scottish Government's method of presenting the budget for the next two years is to baseline this year's accelerated capital expenditure to demonstrate that that money will not be available in the succeeding financial years. Have any of the local authorities or health boards had discussions with the Scottish Government about what they will be able to do? Will you baseline the accelerated capital that you will spend this year when you make requests for uplifts next year?

Gordon Edwards: We have had some discussions with the Scottish Government about what projects we could bring forward that would represent good use of money, such as the spend-to-save projects that I mentioned earlier, if we were allocated additional capital grant, but we have not yet been informed that we will get additional Scottish Government grant as part of that initiative. We would ensure that any spend-to-save money that we were given would be spent

wisely so that we got a good return on our revenue budget. We would warmly welcome such an increase in capital grant, if it came through.

Craig Marriott: The NHS probably works under a slightly different regime. We have a five-year capital plan. The boards' capital programmes are pulled together at a macro level by the Scottish Government's health department and any flexibility is played back to boards to help them meet their aspirations, so it is not a question of an in-year change.

Linda Fabiani (Central Scotland) (SNP): I want to take the discussion back to the realities that everyone faces. I am interested in the enlightened discussion that has ensued about the reform agenda, the sharing of services and collaboration. Have such discussions been taking place, not just from a geographical perspective, in relation to cross-boundary services, which Susan Goldsmith mentioned, but on a thematic basis? I am thinking in particular of the recent Government initiative on the procurement of electricity. There are many good examples. How far advanced are the discussions? Have they been going on for some time? Is COSLA engaged as regards the sharing of costs and services by local authorities? Have the various NHS boards across Scotland voluntarily set up a strategic group to examine such issues?

There is also the issue of all public service being public service. How is that working across sectors? We must consider the relationship with the voluntary sector, too. When I refer to the voluntary sector, I mean both the community engagement that Bailie Matheson talked about and the extremely efficient and professional organisations that fall under the voluntary sector umbrella. How do relationships with those organisations mutually benefit the delivery of services?

The Convener: I say to members that a barrage of questions rather takes away the focus. However, who wishes to deal with that?

Bailie Matheson: That area needs to be exploited further—the potential exists to develop that agenda. That said, progress has unquestionably been made across councils in Clyde valley and by Glasgow's community health and care partnership. We have an extremely robust community planning partnership, too, so we are engaged in considering how we can work together optimally to deliver shared outcomes and generate efficiencies while protecting the front line. Many of the structures are in place, but there is more that we can do across the various sectors.

The Parliament has set the direction of travel by creating community planning partnerships and community health and care partnerships. The

clear intention is that we work together in a less compartmentalised way than we might once have done.

The Convener: Are the health services doing anything similar, or are you all compartmentalised?

14:45

Susan Goldsmith: We have focused a lot on the internal agenda across the NHS but, as Bailie Matheson said, we have to work jointly through the community health partnership and CHCP vehicles with our local authority partners in particular. That is still at the early stages. The current financial position will probably provide a good push for that.

Craig Marriott: Another aspect is single outcome agreements—how we take them forward, embed them, implement them and obtain the benefits from that process.

The Convener: Linda Fabiani has a quick supplementary question.

Linda Fabiani: Bailie Matheson talked about structures. Sometimes, structures that are already in place can act to prevent collaborative working. Are national bodies—from the Government down to COSLA and other umbrella organisations—doing anything to loosen up structures? Could they do anything innovative in that regard?

Gordon Edwards: The introduction of a power of public sector wellbeing that allowed and made it easier for public sector bodies to work together and to share resources, assets and services would be helpful. Such a general power of public sector wellbeing would help, as it would generate more efficiency savings and best value in the services that we deliver to our public. People are not really worried about who delivers a service—whether it is a health or local authority service—as long as it is well delivered, efficient and effective. That general power would be a major step forward. It would send powerful signals that we are working closely together and it would remove some of the existing barriers.

Jeremy Purvis: I think that I heard Mr Edwards say that we must revisit the concordat. Is that the official position of his council's administration?

Gordon Edwards: No, it is not an official position—I was presenting what I feel must be done because of the size of the potential budget reductions that we face. If we are to deal with that in a structured way, we must revisit the concordat. That is not the council's official position; that is my interpretation.

Jeremy Purvis: I note from answers to parliamentary questions about uplifts in NHS board funding that the uplift in NHS Dumfries and

Galloway's indicative capital level for 2010-11, which was set before the UK budget was announced, is below inflation at 1.1 per cent—the figures go from £9.2 million to £9.3 million. Is that correct?

Craig Marriott: That is the indicative budget that we have been offered and of which we have been advised.

Jeremy Purvis: So even before any discussions about greater efficiencies or reductions in capital and before the UK budget, you expected a below-inflation uplift for capital from the Scottish Government. That is a different context from expecting big growth that is now supposed to be reduced. You were to have a real-terms cut.

Craig Marriott: The issue is really about setting that in context. What we are given as part of our financial settlement and for our financial planning is an indicative allocation for our capital resource limit. I tried to highlight the fact that we in Dumfries and Galloway are taking a much wider view, through a clinical strategy. As part of that strategy, potential capital investment of about £150 million is to be made. Some of that funding will be from our continuing £9 million of recurring capital resource limit and some of it will be from central funds. Just comparing individual years might not provide the true relationship on the size of the investment.

Jeremy Purvis: I understand. Is it correct that the revenue uplifts for NHS Lothian and NHS Dumfries and Galloway were rebaselined from the indicative figures that you were given last year? The Scottish Parliament information centre has told me that, as against the published 2008-09 figures, the 2009-10 initial funding baseline shows a 2.15 per cent average increase, rather than a 3.3 per cent average increase across the board, as the Government took money away from boards because of reduced generic drugs pricing and other payments that it meets centrally. Is it correct that the revenue is being rebaselined so that it looks 1 per cent higher than it is?

Susan Goldsmith: I do not recognise those figures—our uplift was 3.7 per cent. However, you are right to say that, where savings have been made on prescribing from renegotiation nationally, those moneys are going back to the centre. I do not know what they translate to in percentage terms, if they are netted off the uplift.

Jeremy Purvis: We may be able to follow up on the issue.

The Convener: If you have anything to add, please do so in writing.

James Kelly (Glasgow Rutherglen) (Lab): My question is for the two council representatives. Much of today's discussion centres on budgets for

2010-11, in the context of a recession and real-terms growth in the national budget of 0.5 per cent. One policy that the SNP Administration has pursued in relation to councils over the first few years of the spending review is a council tax freeze. What are the budget implications of the freeze for year 3 of the spending review period? Should it be pursued in that year?

Bailie Matheson: As members know, Glasgow City Council established a council tax freeze two years before a freeze was adopted at Scottish level. There are a number of other ways in which Glasgow is leading the way. A 1 per cent increase in council tax would generate £2.4 million in Glasgow. As I indicated, next year we are seeking £30 million in efficiency savings. However, if there is a standstill, rather than the uplift that we anticipated, an additional £38 million, at least, will be required. No doubt the clerks will do the maths, but an inconceivably large increase in council tax would have to fill the gap.

Another issue is the way in which the council tax is frozen at the moment. I understand that, if we were to increase council tax by 0.001 per cent in Glasgow, we would lose £7.5 million of funding from the Scottish Government, because we receive that funding only if we set a zero increase in council tax. We would need straight away to increase council tax by 3.5 per cent, in order to break even; we do not intend to go there. Instead, we will pursue the reforming and shared services agendas, work with our communities on expectations and work across the public sector. We look for the Scottish Government to engage in service reform to precisely the same extent that Glasgow City Council has done in recent years. That would be a more fruitful route forward than expecting the taxpayers of Glasgow easily to foot the bill.

David Whitton (Strathkelvin and Bearsden) (Lab): I refer Bailie Matheson to paragraph 1.2 of Glasgow City Council's submission. You have just spoken about the shortfall that you face in 2010-11 and the shortfall in the grant distribution system. Is it correct to say that, in your view, the worst-case scenario would be a reduction in funding of about £99 million and the loss of 4,000 jobs?

Bailie Matheson: The figure of £99 million equates to 4,000 jobs—we are not saying that its loss would necessarily result in the loss of 4,000 jobs. I will illustrate the point in another way. Ninety-nine million pounds is the combined net cost of delivering crematoria, parks, roads, lighting and cleansing services in Glasgow. I am not saying that we would cease to fund those services if funding was reduced by £99 million, or that we would lose 4,000 jobs—I am showing what the figure equates to. However, there is no doubt that such a reduction would have a significant effect on jobs and services.

David Whitton: You do not have to worry about the illustrations—the Parliament is well used to financial reductions being equated to massive job losses, although that is another matter.

On the pay freeze suggestion that you have now come up with, we are halfway through a three-year pay settlement, so how on earth are you going to get a pay freeze through with the trade unions?

Bailie Matheson: There has been an unprecedented banking crisis since our pay agreements were put in place. A pay freeze would contribute £21 million to Glasgow's budget for next year. The alternative is that we find that—

David Whitton: Excuse me for interrupting, but yours is the council that came along and said, "Let's have £7 an hour as a minimum wage." Now you are saying that the workers should have a pay freeze. Their wages are either going up or being frozen—which is it?

Bailie Matheson: It is both. The priority in Glasgow is to look after those with low pay, which is why we think that it is right to aim for the living wage—it is affordable—but the call is for everyone across the public sector who is above the living wage to take a pay freeze next year. Why is it only local government that needs to make the tough decisions? I am confident that COSLA will negotiate from a starting point of there being a pay freeze. If the alternative is to lose jobs and services, I would expect the Scottish Government also to take a pay freeze approach across other areas in the public sector.

David Whitton: Should I take from what you say that the administration in Glasgow has gone for a pay freeze—I think you said that there was an administration agreement; unlike Mr Edwards, you do not speak for yourself, because you are the city's elected treasurer—to try to push the SNP Government to impose a pay freeze across the whole public sector?

Bailie Matheson: We have gone for a pay freeze in the interests of Glasgow because the alternative is to find an additional £21 million. We expected to be able to deliver that, but we also expected an uplift in our settlement. The indication now, though, is that there will be a standstill budget. Our pay agreements were made in a different financial climate. If other services across the public sector can absorb a standstill budget and not have a pay freeze, I question their efficiency.

The Convener: How many people would qualify for the £7 an hour wage proposal?

Bailie Matheson: I do not know the figure for the public sector.

The Convener: How many would qualify in the city of Glasgow?

Bailie Matheson: We have been generous payers anyway, but I think that about 700 staff members in Glasgow would have to be lifted up.

The Convener: You can write to us with the figures.

Bailie Matheson: I think that the figure of 700 is accurate, but I will certainly provide the figure in writing. The £7 an hour wage is affordable and progressive. In the current circumstances, I think that a pay freeze for those who earn more than the living wage is appropriate, too.

The Convener: We are running out of time, but David Whitton can come back in, to be followed by Joe FitzPatrick.

David Whitton: To be fair to Bailie Matheson, it has been suggested in previous witnesses' written submissions that because wages take up—I think—60-plus per cent of the Government's budget, an obvious way of saving money is to impose a pay freeze. Bailie Matheson is the first witness who has been brave enough to say that in public. It will be interesting to see whether COSLA—or even the Scottish Government—picks you up on that.

Witnesses at last week's meeting told us that some universal benefits—among other things there is free transport for the over-60s, and we are heading towards free prescriptions—will have to be revisited. Do you agree? Will hard choices have to be made in the health sector and the public sector?

Bailie Matheson: Unquestionably. That is why we support a living wage in Glasgow and a pay freeze for those who are above it. We need a targeted approach. We are clear in Glasgow which areas we will continue to prioritise: education and early years, skills and the economy, and targeted support for the vulnerable. We need to get smarter at focusing on our priorities. That involves targeting. Going for universal benefits means subsidising people who can afford to pay their fair share. In the current climate, that approach is not affordable, and I argue that at no time is it progressive.

15:00

The Convener: I see that notes have been handed to the witnesses. I do not want that to happen. It interrupts the flow of the meeting. Further information can be supplied to the committee in writing.

Joe FitzPatrick: Bailie Matheson said that a 1 per cent increase in council tax would generate £2.4 million. A quick calculation suggests that if you rejected the council tax freeze and the reform agenda, you would have to put up council tax in Glasgow by about 15 per cent. What would a 15

per cent increase in council tax mean for the average person in Glasgow?

Bailie Matheson: That is not on Glasgow's agenda, so the figure that you ask for is not in the front of my mind. Service reform that generates efficiencies and allows us to focus on our priorities is Glasgow's agenda.

Joe FitzPatrick: That is good and will be welcomed by Glasgow's citizens. However, people are arguing that we should get rid of the council tax freeze, so it would be reasonable to compare what people currently pay—as you said, Glasgow froze the council tax two years before the rest of Scotland did—with what they would pay if council tax were increased by the 15 per cent that would be needed to generate £38 million. If you have not done that calculation yet, it would be useful to hand it in later.

Bailie Matheson: We have not done the calculation simply because that is not on Glasgow's agenda.

The Convener: We are in danger of getting into a dialogue that leaves out the other three panel members, which is not right or fair.

Jackie Baillie: Mr Edwards said that the concordat needs to be revisited, which was interesting. What is Bailie Matheson's view on that? Do single outcome agreements also need to be reviewed in light of financial pressures?

I understand that the health improvement, efficiency, access and treatment targets are the Government's main way of setting its health priorities. Do the witnesses from health boards want the HEAT targets to be reviewed in light of the financial pressures that you are facing?

I ask all the witnesses, which of the existing priorities that you share with the Government should be reviewed?

Gordon Edwards: It is a bit difficult for me to respond, because I do not speak on behalf of the politicians. I emphasised that if we are talking about budget reductions of the size that seem to be on the table, we must review all existing agreements, so that we can be honest with ourselves about what we can and cannot afford to deliver. That is the point that I tried to make. I do not want to get into specifics, because that is part of the political process. I merely said that everything would have to go back on the table, because of the size of the problem that we face.

Bailie Matheson: If the focus remains on outcomes, we can secure more agreement. Some of the lines in the concordat do not appear in the single outcome agreements, because they are not outcomes. For example, the capital and revenue costs of reducing class sizes to 18 for all primary 1 to 3 classes in Glasgow would be £47 million—the

figures have been provided to the Scottish Government and I can provide the details to the clerks. That is just a fantasy, and it is not an appropriately targeted response to aspirations to raise educational attainment and increase opportunities. In Glasgow, we have 58 nurture classes, which are very small, to support the most vulnerable children and families, and we have 140 teachers—more than the rest of Scotland put together—who support children and young people whose first language is not English. Such targeted use of our resources reflects our political priorities. If I had the £47 million, which has not been and never will be provided, to reduce class sizes to 18, I would not do it; I would focus on other, educationally more robust priorities.

Susan Goldsmith: There is a range of targets in health. The waiting times targets and HEAT targets cover the biggest area. We absolutely support the agenda to deliver reductions in waiting times, but the issue is choices, and we might want to get into a dialogue about the timing around meeting waiting times targets.

The Convener: Mr Marriott?

Craig Marriott: I do not have anything to add. The key issue that will utilise resources is the step change with regard to waiting times. Obviously, there is the opportunity to review HEAT and delivery attainments against waiting times. We would need to look at that.

The Convener: The problems that councils and the NHS face are not small by any manner of means; they are complex and difficult. The committee wishes you all well in your stewardship of those resources. Thank you for your evidence.

15:05

Meeting suspended.

15:07

On resuming—

The Convener: Our second panel represents infrastructure interests. I welcome Richard Ackroyd, chief executive, and Douglas Millican, finance and regulation director, Scottish Water; David Middleton, chief executive, and Frances Duffy, director of strategy and investment, Transport Scotland; and Michael Levack, chief executive, the Scottish Building Federation.

Derek Brownlee has the first set of questions.

Derek Brownlee: My questions are for Scottish Water. In earlier evidence sessions, it was suggested—with a bit of imagination—that the Scottish Water model, particularly in terms of the independent economic regulator, is capable of wider use. What are your thoughts on the pros and

cons of the regulatory regime under which you operate? Will you give us a flavour of how much internal resource is deployed to meet regulatory requirements and deal with the regulator?

Richard Ackroyd (Scottish Water): The pros are twofold—or principally twofold. First, there is a clear, independent external assessment of what the business is doing. The regime also sets targets and applies sticks and carrots to improve performance. In our experience, those are valuable tools that support management in improving the performance of the business. Secondly, our performance is compared and measured against water companies that do similar things in England and Wales, so there is a reasonably fair and objective assessment of how good, bad or indifferent Scottish Water is.

Obviously, there are cons. There is a cost involved in dealing with the regulator. I cannot supply you here and now with a figure for how much the process costs or how many people are involved in it, but we could supply a figure in writing if desired.

Derek Brownlee: It does not need to be a specific figure, but it would be helpful to get a flavour of how much senior management time is consumed in dealing with the regulator. I presume that it fluctuates over the regulatory period and that, if you did not have a regulator, you would do other things with that time. It would be helpful to get that information as a comparator.

Douglas Millican (Scottish Water): Most of our dealings with the regulator are about supplying information to enable it to monitor performance in every four-year period, so that it can calculate efficiency improvements, determine the cost of investment plans and set prices. By and large, most of the information that we must submit to the regulator is a subset of the information that we need to run the business. We could ask what it costs to provide all that information, but the issue is the marginal cost of the information that we supply to the regulator over and above the information that we need to run the business. To be frank, it is probably a fairly small proportion of the amount that we spend every year.

Derek Brownlee: Are you able to quantify which of your efficiency savings are related not to what you would have done anyway but to what you had to do because the regulator asked you to?

Douglas Millican: That is probably hard to quantify objectively. The only contrast that we can make is between the efficiencies that were generated in the water industry in Scotland before economic regulation was introduced and those that have been generated since. Those that have been generated since economic regulation was introduced are a quantum leap ahead of what was

generated before. Although the pressure of economic regulation can be a burden on the business at times, it is definitely good at driving performance forward, particularly where there is no direct competitive pressure because there is a monopoly.

Derek Brownlee: Could the economic regulation model be transferred to other parts of the public sector as a method of driving further efficiencies?

Douglas Millican: There is scope for that, but a lot depends on whether it is possible to make fair and robust comparisons. The model relies on having solid, reliable data and being able to make meaningful and robust comparisons.

Derek Brownlee: That sort of thing would ideally fit into Transport Scotland's remit. Perhaps Transport Scotland can indicate whether it would find the model helpful or an additional pressure in making the assessments that it must already make.

David Middleton (Transport Scotland): I do not feel qualified to give a full answer. We deal with the trunk road network and the rail network regimes. There is a regulator for the rail network in the United Kingdom as a whole, although he deals with Scotland in respect of the moneys that we pay over to Network Rail. I would not like to speculate on an alternative institutional model.

Derek Brownlee: It is perhaps a bit unfair to ask you that question if you have not gone through the water industry's regulatory regime in detail; I suppose that people do not do that unless they have to.

In its submission, Scottish Water made a couple of points about the impact of the recession. One was about potential non-payment of bills. Is there any reason why that should be at a different rate from non-payment of council tax?

Richard Ackroyd: Our bills from household customers are collected with the council tax, so we would expect the rates to be similar.

Derek Brownlee: I will ask about something more fundamental for Scottish Water. In the autumn, there will be a statement from ministers on objectives and principles for the four years up to 2014. If we believe the evidence that we heard from the Centre for Public Policy for Regions in the first evidence-taking session of the inquiry, in that period there could be real-terms reductions in Scottish spending of up to 13 per cent—that was the highest figure. Obviously, that would involve significant change, and there is a degree of uncertainty—and a great deal of scope for political debate—about what the figure might be. However, it strikes me that in drawing up that document, which will in effect set the agenda for Scottish

Water for four years during a period of significant pressure on public spending, ministers will presumably be biased towards providing less investment rather than more. Is Scottish Water proceeding on the basis that ministers will simply roll forward the current charging principles or assuming that it will be subject to a broader squeeze, given the pressures elsewhere on public spending?

15:15

Richard Ackroyd: First, we are part way through setting the prices for customers for that four-year period. That process will not conclude until the autumn, so anything that I say is subject to the outcome of that process. As set out in the plan that we published last year, we are working on the basis that we will run with a capital programme of around £500 million per year. That matches the obligations that were specified in the draft statement of ministerial objectives, which was published a few months ago. Secondly, we are also working on the basis that we will meet the ministerial guidance on charging. Explicitly, that guidance requires us to provide stable charges to customers. Implicitly, I think, the guidance requires us to ensure that those charges do not rise above the retail prices index.

The third key parameter is our level of borrowing from the Scottish Government, which has been running at around £182 million per year. We have proposed that our borrowing should be reduced to just under £150 million a year in the 2010 to 2014 period.

That equation all balances, but we have not yet seen the outcome of the price review process of the Water Industry Commission for Scotland. Depending on the view that the commission takes on efficiency targets and other factors, the answer might be slightly different. Ministers might be asked to revisit the priorities. We have yet to see.

Derek Brownlee: From Scottish Water's perspective, a great deal of its activities are regulated and it is required to try to adhere to the priorities that ministers set. With no direct control over the degree to which its funding comes from charges or from the public purse, Scottish Water is very much—albeit indirectly—in the control of Government and its priorities. Is the starting point that there will be a reduction in annual investment because Scottish Water has just come through an investment programme and no longer needs to invest as much, or is the reduction because the organisation is becoming more efficient and can get more for less? What are the underlying factors?

Richard Ackroyd: There is a combination of factors. Our investment programme was always

planned to peak in the current period, and that is exactly what has happened. In the year that has just finished, investment ran at about £680 million. We expect that investment levels will reduce principally because much of the investment that was needed to renew treatment plants has already taken place. That will also reduce our capital maintenance requirements, because we now have a greater proportion of modern, functioning assets. We had always planned that investment levels would reduce.

Clearly, investment involves a big discretionary element, which is where the role of ministers comes in. Ministers specify what they would like us to achieve with the discretionary element of the investment programme. As I said, they have not finalised that, but it is undeniable that, under the current model, we will need borrowing from the Scottish Government to fulfil the plan. Currently, around 85 to 90 per cent of our cash requirement comes from customer charges and the remaining 10 to 15 per cent comes from borrowing from Government. That will be a big question in the price review process at the end of the autumn. We expect that the Water Industry Commission for Scotland will issue a draft determination of charges, which we and the Scottish Government will then consider. At that point, we will draw conclusions about how much borrowing will be required and ministers will take a view on whether they can commit to it. From the board's point of view, it is important that we have a commitment from ministers that they will provide borrowing at the agreed level throughout the four years to support the plan. It would not be good if we had sudden fluctuations part way through the plan.

Derek Brownlee: Even if we might take a different view on borrowing, I understand the need for stability.

Traditionally, in recessions and downturns, capital investment in infrastructure is one of the areas that gets squeezed first. However, if we are concerned about getting a return on our investment, in terms of its longer-term economic impact, we probably ought to protect it. Can the panel suggest why capital investment should be protected as opposed to the things that the other witnesses have suggested should be protected, such as health spending, revenue spending and so on? Can you give any other reasons, beyond the basic economic argument, why we should do what was not done in previous downturns and try to preserve investment in capital spend?

The Convener: Who would like to start? Mr Middleton?

David Middleton: I am happy to start, although it is difficult for me to debate these matters too widely, as I represent an executive agency of Government.

The obvious attraction of capital investment is its long-term benefit to the economy. Plenty of people argue that spending on transport infrastructure would be particularly beneficial in the long term. However, although I am happy to argue in favour of the considerable programme of transport projects that are either under way or at the planning stage, I fully understand that other parts of the public sector will apply pressure and make demands as ministers move into a period in which they will have to take decisions on resource allocation.

Michael Levack (Scottish Building Federation): The construction sector does not receive any grant subsidy; all that we look for is a steady stream of work. Clearly, things are difficult in the marketplace. In recent years, many client bodies in the public and private sectors complained about not getting value for money. They found it difficult to get construction companies interested in their projects and were concerned by tender prices. However, on the basis that the industry has cooled down severely in the last year, there is clearly now great value to be had.

If we have the ambition to achieve sustainable economic growth at some point in the future, we must invest in capital infrastructure. In March 2008, the Scottish Government published an ambitious infrastructure investment plan, and now is the time to get building. We fully appreciate that there are constraints on public funding. I do not know what was said by previous panels, but I listened to the representatives of the local authorities and the health boards and I did not hear them say that they were going to be spending much on construction projects. However, it is currently possible to get excellent value, whether the construction involves affordable housing, transport infrastructure, schools, hospitals or our built environment, which we must not forget in this year of homecoming.

We need to protect capacity in the industry, because if we do not we could be faced with rampant construction inflation when we come out of the recession.

The Convener: Can you give us an idea of the extent to which the industry cooled down in the past year?

Michael Levack: Because the industry is quite fragmented, it is difficult to get a handle on the numbers. However, we are comfortable quoting the figure of 20,000 job losses in Scotland last year. The numbers move by the day, however, and I suggest that we have not yet seen the worst, because many major projects that are currently under way—schools and so on—will be handed over in the late summer, and there are no projects to replace them.

The Convener: It is difficult to turn your industry on and off like a tap.

Michael Levack: Absolutely, and there are other concerns. Earlier, we heard about local authorities' significantly reduced income from planning fees and building warrant fees. Further, developer contributions have reduced significantly—almost to nothing—and we are worried that investment in planning departments, building control departments and, indeed, the college network, which is important in terms of protecting apprenticeship training for the construction industry, will be insufficient. If insufficient numbers of young people come forward, colleges will have to make tough decisions. That happened in the previous recession, when college capacity for construction trades was turned off and diverted to other sectors.

The Convener: I would like to widen out the discussion. The recession is now looming over everything. What pressures is the recession placing on your budgets and how can the Scottish Government's budget best be used to mitigate those pressures?

David Middleton: The pressure on our budget is to complete the number of projects that we have been asked to undertake. There may come a point at which things require to be revisited by ministers—we have all alluded to that. There is pressure on Transport Scotland to deliver because of the number of jobs that we support and because of what we contribute to the economy. Those considerations were, to some extent, why we were the beneficiary of a small amount of accelerated capital, which we have been able to devote to projects. Others have talked about pressures on services, but there is probably no direct link between the effects of the recession—significant though they are—and what we do. The pressure comes from the expectation that we will deliver all the projects that we have been asked to deliver.

The Convener: On the positive side, you could help to mitigate the recession through those projects.

David Middleton: The arguments for that are well rehearsed.

Linda Fabiani: I understand that Mr Levack has the sometimes difficult task of talking on behalf of the federation's membership. However, as we have received no written submission from Transport Scotland, I wonder whether we can have a couple of minutes' presentation on Transport Scotland's own strategic budget scrutiny—on how it has addressed efficiencies and so on in the organisation.

David Middleton: We did not produce a written submission, but I would be happy to provide further information if the committee would like that.

We are an agency of the Scottish Government and have addressed our approach to efficiency in that context. We have to meet the overall 2 per cent target and we have a range of measures for doing that, which are on the record. For example, we are doing that through the third generation of contracts for the operating companies for the trunk road network. We also link into the efficiencies that are being sought by the rail regulator from Network Rail and ScotRail as deliverers of rail services in Scotland.

Where we are delivering capital expenditure, the debate is different from the debate on the delivery of services. We aim to get our capital improvement as good as it can be; to keep estimates as close as possible to ultimate tender prices and outturn; and to manage our capital programme so that we make the maximum impact on the Scottish economy. Through the variety of activities that we undertake, we support around 13,000 jobs. Ninety-five per cent of those go to the private sector. We aim to maximise our efficiency to achieve the greatest impact with all those resources.

The Convener: If there is any information that any of the witnesses wants to add to what we have been given, they should please submit it in writing.

Jeremy Purvis: I want to pursue the point that Mr Levack made about the delivery of capital investment. My question also follows on from Mr Brownlee's questions.

I will start with Scottish Water. Will the delivery method for the investment be subject to scrutiny? Last week, in a debate about the Royal Mail, the Minister for Enterprise, Energy and Tourism pointed not only to the ownership model of Scottish Water, but to its delivery of efficiencies. What proportion of overall delivery on, for example, sewerage or sludge in Scotland is managed through private finance initiative contracts?

Douglas Millican: We have nine PFI contracts, which were all created back in the late 1990s by the previous water authorities. We inherited them and have not added any since we came into being. Those nine PFI contracts are typically in the large conurbations, and although they cover 20 waste water treatment plants out of our 2,000 sewage plants throughout Scotland, or only 1 per cent of our total number of sewage works, they account for about 45 per cent of the waste water by volume that is treated and about 80 per cent of the sewage sludge that is treated and disposed of.

15:30

Jeremy Purvis: Those are significant figures. Will the infrastructure delivery model for Scottish Water Solutions still be a public-private partnership, in which there is profit with regard to private sector equity? Is that the model that is being considered for the next round of investment, or has the Scottish Government said that it does not like that model and that it wants you to do something else?

Richard Ackroyd: The Scottish Government has not said that to us. We think that Scottish Water Solutions has been successful in the current investment period. We are part way through a competitive tendering process to replace that model with a refined model for the next period. The model is similar in principle but has some differences in detail. That will deal with only half our capital programme; the other half is delivered by a more traditional route, whereby we have people employed in-house who will organise design feasibility and then let contracts to contractors in the marketplace to do the construction.

Jeremy Purvis: I want to ask Transport Scotland about some of the projects that it is anticipating that it will deliver. I think that Mr Middleton said that the focus is on ensuring that the projects that Transport Scotland has been tasked to deliver are delivered. One of those projects—the Borders railway—is in the heart of my constituency. Have there been discussions with the European Investment Bank about potentially borrowing from it to deliver the project?

David Middleton: I cannot comment on whether there have been discussions with the European Investment Bank. Perhaps my colleague Frances Duffy knows.

Frances Duffy (Transport Scotland): As part of the development of the Borders railway, there have been a number of discussions with the private sector and funders to test the market appetite for the work. We have on-going discussions with the European Investment Bank about a number of our projects; we have done so for a number of years.

Jeremy Purvis: Is the bank a potential funder, or is it involved simply in an advisory capacity?

Frances Duffy: It may be a potential source of funding.

Jeremy Purvis: At what stage will it stop being a potential source of funding? When will the Government decide how to deliver the project? It is a £300 million capital project, is it not?

David Middleton: It is of that order.

Jeremy Purvis: When will a decision be taken about how it will be financed?

David Middleton: The time to make that decision will be when market conditions indicate that it is most favourable to raise that sum.

Jeremy Purvis: This is relevant to the debate, because—

The Convener: Please be quick, because other members are waiting to ask questions.

Jeremy Purvis: I am intrigued by Mr Middleton's answer. On what basis do you decide when the market or the environment is right?

David Middleton: As Frances Duffy said, we talk to a number of parties to form these judgments. The right time will be when we think that we can get the best deal to progress the project.

Jeremy Purvis: Are any other transport capital projects waiting for such a decision?

David Middleton: There is a range of projects that we hope to pursue by the non-profit-distributing model. There are roads projects as well as the Borders railway. We want to get the right deal for those projects and to achieve the timescales. We still hope to achieve the published completion date for the Borders railway.

We also have to take account of the international financial reporting standards changes that have been made, which relate to how such projects are treated in accounting and budgeting terms. Our Scottish Government finance colleagues are in touch with Her Majesty's Treasury about these matters, because the Treasury has produced draft guidance on the accounting and budgeting treatment of these issues. They hope to conclude discussions with the Treasury so that we can clarify matters. Clearly, ministers have to be in possession of the full range of information about the implications of such decisions before they proceed down any route for any project.

The Convener: I think that we have taken that as far as it can go. Joe FitzPatrick can ask a question, as long as it is relevant to that issue.

Joe FitzPatrick: Transport Scotland needs to find finance for several projects, some of which are legacy PFI projects. How difficult has it been to raise capital for those projects?

David Middleton: The most recent one, which was just before my time as chief executive, was the M80 project. In general, that deal has been widely praised by the commentators who have observed the terms that we got. Frances Duffy is probably better informed than I am about that.

Frances Duffy: You are right that the M80 was a successful contract that was awarded fairly recently.

Joe FitzPatrick: How has the money been raised for that?

Frances Duffy: There is a consortium of funders, but I do not have the details.

David Middleton: We could provide that information, if that would be helpful.

The Convener: That would be very helpful.

Derek Brownlee: It is not appropriate to ask the Transport Scotland witnesses about some issues, as they are politically sensitive. However, political decisions will be made on relative priorities for the coming period. Transport Scotland has just been through the strategic transport projects review, and there was no great disagreement over the theory of that review. Within that process, or any other process that Transport Scotland has been through, was there an objective and transparent cost benefit analysis—or whatever phrase you want to use—that can be applied to projects so that politicians can argue about the priorities and so that we can engage the public? It is important that we can have a mature discussion with the public about the priorities and the consequences of the various options. However, very often in transport projects, it is easy to get lost in the depths of such issues. Is there a relatively straightforward prioritisation ratio that can be used to compare projects?

David Middleton: It is not as simple as that. A cost benefit analysis is always carried out for individual projects, but how we compare projects depends on how people value the benefits of those projects, their scale and how they relate to the rest of the transport infrastructure. Frances Duffy led on the STPR, so she might have something to add.

Frances Duffy: One key point about the appraisal of transport projects in Scotland is that we have for some time pioneered an appraisal system that goes far wider than a straightforward cost benefit or economic analysis. We have tried to ensure that we capture and fully understand the environmental impact of projects and we are moving to monetise some of the carbon benefits. We have also ensured that people can clearly see the wider impacts such as those on safety and social inclusion. That gives us a better picture, but it moves us away from the straightforward numerical listing of projects. Through our appraisal system, we can understand the potential implications of a project, which allows decision makers to make decisions on prioritisation in the full knowledge of how all those issues are balanced. We do not follow, and never have followed, a straightforward numerical-only approach.

Derek Brownlee: I understand that the analysis covers more than just costs and benefits, but is it

done at a sufficiently high level to allow the public and politicians to engage in a general discussion about where one transport project fits relative to another and relative to other types of project?

Frances Duffy: It is difficult to compare one project with another. With all the projects that have been taken forward, we publish the Scottish transport appraisal guidance report that has been produced, which shows the cost benefit analysis, the economic impacts and the other assessments. In the technical appendices to the STPR report, people can see the analysis for every suggested intervention, although some of the information is more detailed, depending on the stage of development or design of the intervention. That information exists, and we publish it for each project.

David Whitton: Mr Levack mentioned the pipeline of projects drying up. That is certainly true in my constituency, where six school projects are about to finish and house building has almost stopped. Has there been any sign of the Scottish Futures Trust?

Michael Levack: No, there has not. Obviously, you will be well aware that Mr Barry White has been appointed as chief executive from 1 May. We hope to have early discussions with him. I look forward to hearing some actual news—I was going to say positive news—and a little bit of certainty; the importance of a bit of certainty has come through in some of the comments made by my colleagues in this evidence session and by local authorities and NHS boards in the earlier session.

The construction sector fully appreciates the demands that have been placed on public sector finances but we want some certainty so we can plan our businesses for the next couple of years. Planning is very difficult at the moment, given the vacuum that is being created by the lack of major projects coming forward, following delays with the Scottish Futures Trust. We estimate that, in the six-month period over the summer, £1 billion-worth of projects will come to a conclusion.

David Whitton: According to Scottish Water's evidence, its investment from 2006 to 2010 was running at £700 million, and it was always planned that that would come down to £500 million from next year onwards. It is supporting 40 per cent of the civil engineering industry, and there has been a reduction in connections to new homes, with 39 per cent fewer new properties in the first quarter of last year. Was any thought given to switching Scottish Water's capital programme? There might be fewer houses, but there is still plenty of repair work to be done. Scottish Water could have kept its capital investment at a level that would have continued to support construction and civil engineering.

Douglas Millican: Given that we are financed over a four-year period, the overall investment that we will make over the four years—in creating new capacity to support housing through water and waste water treatment works and through connecting properties to our system—will run ahead of what we originally expected. Because of growth in the past two to three years, we delivered more connections in those years than we envisaged: we were up to approximately 25,000 connections a year, and even in the year that has just ended we did 18,000 or 19,000 connections. It is purely in the final year of the regulatory period that we envisage the number of connections dropping off. If we look across the four-year period for which we are financed, the level of growth in new connections has been broadly in line with original expectations for that four-year period.

However, in framing our plans for the period from 2010 to 2014, it is very difficult to project with certainty exactly what the level of growth will be. As an organisation, we are committed to meeting the demand that ultimately materialises. Certainly, we have reduced our projections at this stage relative to those that were in the first plan that we published in May last year. As the economy starts to recover, we will adjust those plans and increase activity accordingly.

David Whitton: You are jumping about a bit. From where will you get the money if you are suddenly told to rack work up because five housing developments in East Dunbartonshire need to be connected to the water supply?

Douglas Millican: We endeavour to make sure that we plan our capital investment over a four-year period. That gives certainty to the construction industry—that was referred to earlier—and helps us to drive greater levels of efficiency. We try to plan over the longer term. For example, in our plans for investing for growth in the next period, we will take into account the expected increase in demand through to 2018. We do not just provide for the immediate requirements of a site; we look at what the demands of that particular community might be over the next nine or 10 years.

David Whitton: Yes, but in your industry there are leakages in the system: people complain about the amount of water that is wasted because it just runs out the pipes. Obviously, you have an on-going maintenance programme, but ministers can also turn to an industry such as yours in a time of recession when they are looking for a capital project to get some money spent. They can tell you that you must have a couple of projects that you can start on fairly quickly. Have you been asked for that?

15:45

Richard Ackroyd: There is always a list of below-the-line projects, if I can put it that way, but we do not actually have the cash—we are cash constrained, like any other organisation. All our resource for the rest of this period is committed.

David Whitton: So a minister's wish list would have to be accompanied by a large cheque.

Richard Ackroyd: Such a project, whatever it happened to be, would have to be backed up by appropriate means of financing it.

Douglas Millican: Perhaps fortuitously, we are at an absolute peak in investment, which coincides with downturns elsewhere. Over the past year and the current year, we will be investing about £1.4 billion, which is an absolute record.

The Convener: But rigidity is inbuilt in budgeting. A four-year budget leads to certain constraints, although it brings you the advantage of knowing where you are going. Is that four-year rigidity there because of the nature of what you do, or is it assisted—or hampered—by what you do? In other words, is there a chance of some flexibility, or are you in a very rigid budgetary system?

Richard Ackroyd: We think that the system is very flexible; it is an awful lot better than an annual budgeting system. It enables us to take longer-term views. With the regulators, we work on a four-year cycle, but our plans take a much longer view than that. We have a reasonably clear view of what needs to be done beyond the four-year period, which can inform debate with ministers. You should also bear in mind the fact that, in terms of pounds per head of population, Scottish Water's capital programme is the biggest in the UK water industry.

The Convener: The very last question goes to James Kelly.

James Kelly: My point has already been covered.

The Convener: That being so, we have reached the end of this evidence session. I thank our witnesses very much for their presence and for the information that they have given us. If there are any other pieces of information that you wish to add, do not hesitate to write to us.

15:47

Meeting suspended.

15:50

On resuming—

The Convener: I welcome our third panel of witnesses, who are David Caldwell, director,

Universities Scotland; Andrew Livingstone, director of finance and audit, Skills Development Scotland; and Chris Travis, chief executive, Association of Scotland's Colleges.

Due to pressure of time, we will not take opening statements but move straight to questions. Throughout our inquiry, witnesses have mentioned the need to maintain and enhance spending on skills in the current climate. How should any such spending best be targeted? Which spending areas could be targeted to suffer any compensating reductions?

Chris Travis (Association of Scotland's Colleges): The college sector is experiencing unprecedented demand for college places in the academic session that starts after the summer. That demand is both from school leavers and from individuals who have been made redundant and are looking to modernise or change their skill set to gain employment.

Providing colleges with resources will enable them to deliver skills development into sectors of their local industries where demand is evident now and into the future. It was interesting to hear Michael Levack's point on the possible dearth of construction skills as we come out of recession. Some colleges are experiencing a downturn in demand for construction courses. There is also the issue of redundant apprentices in the construction industry.

On the question of targeting, if resources are pushed to the front line, local colleges will know where to put those resources. Local colleges are closely attuned to the needs of employers in their area.

David Caldwell (Universities Scotland): A tenet of faith of mine in asking for more money for universities is never to do that at the expense of others. For that reason, I am not prepared to answer your question directly, convener. I have always felt that colleges need additional investment, just as universities do. We should not be set in competition with each other. That belief is reflected in the way in which our submission is presented. As you will have seen, we begin by saying that we are not asking for more money. We know that we will face an incredibly tight public funding situation for at least five years and possibly for as long as 10 years. There will be no additional money.

At the time of the last spending review, when additional resource was available, I was quite content to make a strong case for universities—indeed, there was a strong case to be made. When no additional money is available, as at present, it is up to us to make the best use that we can of such resources that are available to us.

The greater responsibility lies on you as politicians. Clearly, in these circumstances, it is your responsibility to look at everything that you spend money on and analyse extremely carefully where the best value will be found. In that context, I am extremely happy to make the case that universities give excellent value, in the ways that we set out in our submission. Above all, universities produce highly skilled people—adaptable people with creative skills who can innovate and sustain business renewal—who will be crucial if we are to come out of the recession successfully and make the most of recovery. A case can be made in that regard but, at the same time, we are realistic and know that no additional funding is available at this time.

Andrew Livingstone (Skills Development Scotland): The other witnesses and I did not discuss the issue beforehand, but there is a certain degree of overlap between the description that they have given and how I perceive matters. Our role is to act as a catalyst. In our written submission, we referred to a range of activities that the Scottish Government has asked us to develop and that we have developed under our own steam. They include both activities that are forward looking and activities to deal with current economic conditions. Looking forward, we have made a range of attempts to join up the services that are provided by colleges and universities, in particular, and by all sorts of partners from the third sector, other parts of the public sector and the private sector.

The partnership action for continuing employment initiative involves all sectors and includes a lot of activity to integrate employment and skills, working with the Department for Work and Pensions through Jobcentre Plus, which is not devolved. A number of the initiatives that have been developed to deal with both small and medium-sized enterprises and larger employers in Scotland will allow us to gather the information that will enable us to work with colleges and universities to target and join up skills demand and demand from employers.

The Convener: I appreciate David Caldwell's point that all three sectors are interlinked and that they offer different services, courses and assets. However, with a limited budget, it is important to know where to target money; that is part of our problem.

David Whitton: I will start with Mr Caldwell. You say that you will make the best use of the resources that are available to you. Are universities considering productivity improvements, such as a longer university year, shorter courses of three years instead of four or two years instead of three, and perhaps even reducing principals' salaries?

David Caldwell: The last of those measures would make little difference to the overall picture. However, you make some serious points. Universities' record on productivity and efficiency is not too bad—that point is highlighted in our written evidence. I can think of no other sector that has doubled its productivity in a generation, as universities have done on teaching. The question is whether we cut close to the bone and risked quality by in effect doubling class sizes. People get excited about class sizes in schools, but they seem less concerned about the effect of doubling class sizes in universities, which has happened. Universities have delivered everything that was asked of them in the various efficient government initiatives of recent years.

The length of undergraduate degree programmes is a serious issue. The four-year honours degree in Scotland is a strong product. Dispensing with that would have a number of damaging consequences. It would not assist social inclusion, because the people who benefit most from four-year degree programmes are those who come from families with no previous record of university education and from more deprived social backgrounds. We would rapidly see disproportionate damage to those current beneficiaries of the system. However, we need to be more flexible and to be able to offer a three-year honours degree experience to people who come already qualified; at least two universities are seriously piloting such arrangements. We will see more of that, as we must operate more efficiently.

In recent years, I have taken great pleasure from being closely associated with the Scottish credit and qualifications framework, which is a device that helps to articulate different learning programmes better, so that there is less duplication and loss of time. The approach ought to enable people to achieve their qualifications more efficiently and quickly.

16:00

David Whitton: Many universities offer the same courses. Perhaps we could focus a little more and say, for example, "Go to Glasgow if you want to do law," or, "Edinburgh is the centre of excellence for medicine." There might be productivity gains from concentrating courses on certain establishments.

David Caldwell: There is already quite a lot of specialisation. If your suggestion were taken up, we would lose the creativity that emerges from interdisciplinary activity. Interdisciplinarity is a key feature in the modern development of learning. The less comprehensive the range of subjects that a university offers, the more difficult it is to achieve a high degree of innovation and creativity.

Our universities are all large businesses. In the cities in which they are located they are nearly always the largest employer—they are sometimes the second-largest employer, after the NHS. In a country in which we take enormous pride in having an economy that is made up almost entirely of small and medium-sized enterprises, it strikes me as slightly surprising that we continually ask some of our larger businesses why they do not merge with each other.

David Whitton: Mr Travis, you mentioned the increase in demand for college places. Yesterday, in my constituency I visited the Kirkintilloch offshoot of Cumbernauld College, which is experiencing a 100 per cent increase in demand for certain courses. You said that you try to match demand to local need. How closely is demand being matched to skills shortages in certain areas?

Chris Travis: There is significant increased demand. In our submission, we said that there is a 35 per cent median increase in college applications, but more recent figures suggest that the increase is well over 40 per cent, and some colleges are experiencing increases of several hundred per cent.

Colleges respond to demand and do their best to adjust provision. For example, some colleges are considering moving provision away from short, non-vocational courses into longer, vocational courses, which have a higher skills element and lead to qualifications. However, the level of increased demand is such that no amount of wiggling around the edges will soak up all the individuals who are looking for college places.

David Whitton: I think that the principal of Annesland College said this morning that she will have to turn students away.

Chris Travis: There is actual and anecdotal evidence from college principals throughout Scotland that their "house full" signs will be up before the summer is out. In some instances, courses will be full before the current batch of school leavers receive their exam results, which means that school leavers might struggle to access college places. Universities are also experiencing an increase in demand, although it is not quite at the same level.

David Whitton: Would colleges have the capacity to cope with the increased demand even if you were given the finance to enable you to do so? Do you have the classrooms and staff that would enable you to cope?

Chris Travis: We probably could not cope with all the increase in demand. However, recent investment in the college estate has resulted in significant expansion of the physical capacity of colleges—I am talking about not just space but the efficient use of space. The biggest single

constraint on taking additional students is the number of staff who are available to teach courses. Some colleges will find it easier than others will to expand their lecturing provision. People in the community who have vocational skills could be brought into colleges to deliver courses. However, ramping up provision by 30, 40 or 50 per cent is not an easy task. If there is going to be any realistic attempt to do that, investment in the college sector needs to take place now, before the end of the current session, so that colleges can be ready to take in additional students in August. As you may know, we are arguing for the £29 million of Barnett consequentials from the UK budget to be passed directly to the colleges through the Scottish Further and Higher Education Funding Council.

David Whitton: Good. You have anticipated my next question.

The Convener: That is a problem at my local college, where there is increased demand. I guess that the situation is the same throughout the country. Can you give us a clearer picture of the demands that are now faced by Scotland's further education sector?

Chris Travis: We have data from about three quarters of the colleges. In some areas, the uplift in demand is quite modest. At Aberdeen College, for example, it is up by only about 16 per cent, probably because Aberdeen is, to a certain extent, cushioned from the current recession by the oil industry. However, at Cumbernauld College, demand has increased by nearly 300 per cent in some areas. At Coatbridge College, the increase is 200 per cent; at South Lanarkshire College, it is 100 per cent; at Jewel and Esk College, it is 50 per cent; at Langside College Glasgow, it is 70 per cent; and at Kilmarnock College it is 87 per cent. We collected those figures from the colleges three or four weeks ago. The level of demand appears to be increasing pretty regularly throughout the country.

The Convener: If you could give us that information in writing, that would be helpful.

Chris Travis: We will submit it to you.

David Whitton: Am I right in saying that the level of demand varies from course to course? For example, the number of applications for health sector courses at Cumbernauld College has gone through the roof. I suspect that that is partly due to the fact that most of the jobs that are currently advertised are in the health and caring professions.

Chris Travis: The health sector is one area of Scotland's economy in which it can be predicted with some confidence that there will be an increasing demand for labour, as we have an ageing population. There is clear evidence of that

increasing demand. The colleges are entering into partnership with NHS Education for Scotland to secure a steady supply of appropriately skilled individuals for the health sector.

David Whitton: You mentioned the Barnett consequentials of £79 million for 2009-10 and almost £25 million for 2010-11. You said that you would like all of that money to be spent in the education sector. I take it that you concur with that view, Mr Caldwell.

David Caldwell: I return to what I said at the beginning. This is a time when all public spending will be under extremely severe pressure. You must consider the evidence and reach conclusions about where the money can be spent most effectively. I do not envy you that task. We have made a contribution towards helping you by gathering together a team of 11 of the leading economists in Scotland, who have produced a piece of evidence-based analysis called "What was/What next". That is a serious contribution. I am not aware of any other evidence-based study that has been undertaken so far, but I acknowledge that it is not necessarily the last word. You have an extraordinarily difficult task ahead of you.

I would not come here and tell you to use all your Barnett consequentials for education. I would say, however, that there is an extremely strong case for investing in education, as that is crucial in delivering a sustainable rate of economic growth. You have some very difficult choices to make.

David Whitton: I have a final question for Andrew Livingstone. You mentioned the investment that has been required in the PACE teams. I suspect that demand has outstripped supply. Is there increasing demand? How much extra cash would you need to enable PACE to meet the demands that are being made of it?

Andrew Livingstone: Obviously, PACE reacts to changes in economic conditions, particularly redundancies. One of the key aims of PACE is to protect people from becoming redundant. However, in reality, most of the work recently has been about dealing with those who have been made redundant and are trying to find ways back into employment. That has involved a lot of access to Careers Scotland, Jobcentre Plus and a range of options such as the training for work programme, which allows people to be supported for a period as they gain experience.

It is very hard to identify demand in advance, because demand for training for work, by definition, comes from people who have been made redundant. Although the Scottish Government has suggested that people who have been made redundant should not have to wait before they qualify for such training, there is still a

time lag in people coming forward to us. At the moment, our expectation is that most of the resource that will be required will be for guidance, but demand figures are extremely hard to come by.

However, to address that, we have been able to come up with some projections that suggest that we would need another £4 million to £6 million—

David Whitton: In the current financial year?

Andrew Livingstone: Yes.

European social fund bids have been made. I understand that the lowlands and uplands bid, which was for just under £1.4 million, has been approved and that that is kicking in. We do not yet know the outcome of the Highlands and Islands bid, which is worth between £500,000 and £600,000.

The Convener: The committee's task is to gather the facts, as far as that is possible, on the basis of which decisions can be taken. If you wish to provide any additional information in writing after the meeting, please do.

James Kelly: I, too, have a question for Mr Livingstone. The importance of skills to economic development and of prioritising that area in a recession has been acknowledged by previous witnesses and in some of the submissions, so it is a bit of a surprise that the budget for Skills Development Scotland is planned to drop from £188 million to £182 million in 2010-11. What are the implications of that for your work programme?

Andrew Livingstone: It is a budget profile that we would not necessarily choose to go with. Only around 10 per cent of our budget is purely discretionary. I hesitate to use the phrase "semi-fixed", but the other elements of our budget are inflexible in how we can utilise them. Fifty-two per cent of it relates to the provision of the national training programmes—modern apprenticeships, skillseekers, get ready for work and training for work. A further 20 per cent or so relates to staff costs, most of which are forward facing.

As I said earlier, we must find a way of acting as a catalyst. It is estimated that investment in the training and education sector in Scotland amounts to between £5 billion and £6 billion per annum, less than half of which is provided through the public sector, so we must work to leverage some of the private sector investment. By definition, the national training programmes will help to drive the economy. David Caldwell mentioned that we have around 300,000 SMEs in Scotland, a number of which are private training providers that could make an impact; third sector training providers could make an impact, too. It is partly about leveraging existing activity, although we would have to find ways to act more cleverly in how we utilise the NTPs in particular.

The Convener: How would you do that?

Andrew Livingstone: We must look at the skill sets that are required. The information that we are getting in conjunction with the universities and colleges, and through the community planning partnerships, is helping us to determine demand on a national and regional basis.

At the moment, it is hard to say what the average cost of a modern apprenticeship is, because we cannot simply divide the total cost by the number of apprenticeships. The public sector in Scotland is not paying for those apprenticeships; we are making a contribution towards them. There is a great difference between our contribution towards the cost of a more admin-based apprenticeship, which might be about £1,500, and our contribution towards the cost of an engineering or a highly technical apprenticeship, which might be closer to £9,000, but the employer is the one who benefits. It is purely by historical accident that the true cost is offset by the public sector. We should look to the private sector for more investment.

16:15

The Convener: Is demand not established on a national and a regional basis at present?

Andrew Livingstone: We do not have access to information that gives us those data at present.

The Convener: Who would have that information?

Andrew Livingstone: We believe that it will be gained through working with sector skills councils, local authorities, universities and colleges.

The Convener: But no organisation gathers together that information now.

Andrew Livingstone: Not that I am aware of.

David Caldwell: The universities collect that information systematically. We can therefore say that demand for university programmes has increased by 5 per cent on last year. That figure is not anything like as dramatic as Chris Travis's figures, but it is nonetheless significant. There is a good reason why it is smaller: it represents people who expect to be qualified for university entry. There will not suddenly be a huge number more people with three highers than there were in the previous year. In annual terms, the increase is pretty big. It is also significant for skills.

There is a point that I need to make about skills. There is a danger that we sometimes have too narrow a definition of skills. In particular, we hugely underestimate the importance of the higher-level skills that graduates take with them. That matters particularly in this time of economic recession, because there will be a huge change in

the shape of our economy. The one thing that we can predict is that when we eventually come out of the recession, our economy will look substantially different from how it looked before, although we cannot so readily predict exactly how it will change. As one person has put it, we will need a lot of people who are able to do jobs that do not yet exist using technologies that have not yet been invented to solve problems that we do not yet know are problems. Therefore, there is a high premium on the adaptable graduate whose intellect has been developed and who will be able to address the new problems. Of course medium-level and lower-level skills are important—the basic skills are hugely important—but sometimes the higher-level skills are forgotten, and they should not be.

The Convener: You said that the universities have a model for collecting information, which is the basis of rational planning. Would that model be applicable elsewhere? Could it be shared with other organisations?

David Caldwell: Absolutely. It is called the Universities and Colleges Admissions Service and is there for people to see. UCAS has existed for decades, and its existence means that reliable data can be used to compare the demand for university programmes from year to year. I think that colleges could adopt that model relatively easily, although it would not be as simple for them to use it as it is for universities, because they deal with a much more diverse group of applicants. In fairness, using it would be even more difficult for Skills Development Scotland, which is trying to gather data relating to a number of different sectors. However, we certainly need to work to create rather more reliable information about overall national demand.

Linda Fabiani: I have a question that neatly follows on from the points that David Caldwell has made about higher-level skills. Universities Scotland's submission refers quite a lot to the value of high-level skills in research for stimulating economic recovery and expresses concerns about the dangers of not realising their value. It refers to President Obama and José Manuel Barroso, which is great. At the research level, how are things going with universities obtaining as much grant funding as possible from the European Union? Are opportunities being maximised? Is funding on the increase? Scotland's universities have punched above their weight in framework terms, but could more be done at the Government level to promote them?

David Caldwell: Things are going really well in that regard, although we would like them to go even better. That funding is a good example of the leverage that we have highlighted. Public funding for research enables Scottish universities to lever

in research money from a number of other sources. Some people have estimated the leverage to be as good as 5:1—with five times as much being obtained from other sources as the additional public money going in.

This is just an illustration, but some of the money comes from the funding that a number of charities provide for medical research. Scotland does particularly well and is very strong in that area. That has direct economic benefits, as it spins off new, highly innovative companies in various research-dependent areas of the life sciences. That is the sort of business renewal that we particularly need at a time of recession.

The research side is going well, and Europe is one source that is tapped. An interesting development—which applies across the UK and not just in Scotland—is that the UK seems set to do particularly well out of the recently established European Research Council. It should get much more than its proportionate share, and I certainly hope that the Scottish universities will perform well in that regard. We are especially strong in scientific and medical research, which is where a lot of the big money is available.

The Convener: To what extent does that apply elsewhere?

Linda Fabiani: That was my next question.

The Convener: Sorry about that.

We hear that universities are taking advantage of such funding and resources, but how much does that apply in other sectors, if at all?

Chris Travis: The college sector has worked very hard to lever in European funding, and it continues to do so. The colleges in the west of Scotland have formed a partnership, the nicely entitled WOSCOP—the west of Scotland colleges partnership—which is specifically designed to help colleges work both individually and collaboratively to access European funding and to enhance the level of resources that they get from Government.

Andrew Livingstone: As we said in our submission, it is our aspiration to use that partnership far more in future. The legacy parts of Skills Development Scotland have utilised European funding, although the level has tended to be less than £1 million. As I have said already, we would like the PACE initiative to leverage something closer to £2 million. We should be looking for bigger sums from other sources. The Scottish Government recognises that more clearly now, and a bid is under way for a project in which we would participate but not lead. That bid seeks funding for the support of apprentices who are made redundant and therefore cannot continue under the current rules of the schemes.

The Convener: The interrelationship that was mentioned at the start is becoming clearer as we take evidence.

Linda Fabiani: I am interested in the collaborative partnership working aspect that we have heard about. There have been concerns for decades about all levels of educational institutions and business not interacting very well in joint research projects and endeavours. I know that there have been issues about intellectual property and so on, but I wonder whether times such as these concentrate minds. Is that interaction starting to come together a bit better? I would also like to know about how that relates to—dare I say it—venture capitalism ideas.

David Caldwell: Minds have been concentrated for some time, and relations between the academic and business communities are improving all the time. One of the most successful initiatives in the university sector in recent years has been a project called interface, which helps small and medium-sized enterprises in Scotland to access academic expertise through a single door, with a group of highly expert staff who know exactly how to make the connections. That has proved to be a very successful enterprise, and we hope to announce its expansion in the near future. It is a priority, in these times, to facilitate such connections.

I say seriously that the universities regard as a key part of their job doing their best to contribute to helping the country out of the economic difficulties that it is in.

Chris Travis: I will make two points about collaboration. The first is a general point about collaboration between the college sector and universities. We support the universities' position on the need for higher-level skills, and over the years we have worked hard to develop strong articulation links between colleges and universities to allow students who might traditionally not have secured a place at university to progress from college to university to develop those higher-level skills. We continue to build on those articulation links, and we look forward to having further conversations with Universities Scotland about its research for the "What was/What next?" report and about how we can ensure that further and higher education delivers for Scotland's economic future.

Secondly, as I said at the beginning, colleges have strong relationships with their local employers—primarily in the SME sector because, as we have heard, 300,000 businesses in Scotland are in that sector. Colleges are increasingly working in partnership with businesses on knowledge transfer projects to help businesses operate more effectively and efficiently. We recently launched the colleges

mean business campaign—if members have not seen promotion of that, it will appear on a screen near them shortly. Just last month, we held a successful event at which businesses acknowledged the work that colleges do on their behalf. That relationship is strong. Some of those business relationships are linked to work with our colleagues in universities.

The Convener: I am much cheered by that. The traditional Scottish system was one system all the way through from elementary education to university, in which each element had its part to play.

Andrew Livingstone: As the committee has heard, colleges and universities have developed a range of funding sources, but it is clear that a key amount comes from the Scottish funding council, whose budget is about £1.6 billion. About £200 million is being invested in Skills Development Scotland. It is significant that, in the past few months, it has been agreed that a funding council member who is also a member of SDS's board will chair the council's skills committee, with a view to joining up activity a bit more.

Jackie Baillie: I sign up to the concept that economic success is partly driven by the knowledge and skills that we have, but sufficient funds need to be available to achieve that, notwithstanding what you might generously say about funding settlements.

I am struck by the practical problem that you guys will face in August, when most exam results are published and there is increased demand in every sector. The colleges have been very effective at lobbying; Clydebank College has also written to me about its 60 per cent increase in demand. Given that demand across the board and the fact that people cannot go anywhere else because of that demand, if you do not receive more money how will you prioritise who gets in? Will it be the person who has just left school or the newly unemployed or mature person? What courses do you prioritise? You have an upcoming problem to deal with, irrespective of what the Government decides.

The Convener: Who wants that nice easy question?

David Caldwell: The issue is straightforward for universities, but only in a sense. We are obliged to operate fair admissions policies so, if we have to select, we select the best-qualified person. That is not quite as straightforward as it sounds: it does not relate just to examination qualifications; a judgment must be made about which of the candidates has the greatest capacity to complete successfully the course for which they have applied. Examination results are perhaps the best single indicator of that, but they are not the whole

story. This autumn, a significant number of applicants who are almost certainly able to complete a course successfully will be disappointed because places will not be available for them.

We show a preference for certain subjects up to a point. I am sure that it will continue to be easier to get into science or technology courses than certain others because universities have regarded it as a priority to improve the numbers of graduates in those subjects. I should say that Scotland does better than the rest of the UK in that respect and that the universities are responsible for more than 90 per cent of the higher education provision in those subjects. They are and will continue to be a priority, and it will be more difficult to get into courses in the arts, humanities and social sciences.

16:30

Chris Travis: Like universities, colleges select the people who they think will benefit most and will be able to complete the courses that they start. The increased demand tends to be for full-time education. Many colleges have significant roles in part-time education because they take block or day-release students from local employers or because individuals are sponsoring themselves to improve their own skill set through part-time courses. Filling the full-time courses will be the priority because much of the uplift in demand is from young people who are leaving school. Given the precarious state of the labour market for unskilled young people, the alternative is that they would not be in education or training.

Jackie Baillie: NEET.

Chris Travis: Yes, NEET—I hate that acronym.

You may have heard the principal of Anniesland College being interviewed this morning. She mentioned the concern among college principals about a lost generation of people who will be unable to get into either university or college. In the past, some of the people who applied to university and were not successful looked to colleges as another route into higher education. That route is likely to be blocked this year because, by the time they have gone through the university application process, college courses will be full. Given the constrained nature of provision, by the end of the summer a significant number of individuals will have neither a college place nor a university place, no matter how clever we are with the selection process. The selection for colleges is a bit more complicated because they have intakes all the way through the year, but we expect the full-time courses to be full pretty soon.

The Convener: Mr Livingstone, can you help?

Andrew Livingstone: I am not sure that I can add much. If what Chris Travis says is so, the only other provision that we will have in Scotland is the third sector and private training providers, most of whom tend to deal less with highly qualified people and technical skills and more with soft skills or basic introductions. That would certainly create a supply issue.

Jackie Baillie: I heard the tail end of the interview with the principal of Anniesland College this morning. Somebody paraphrased the Minister for Schools and Skills as saying that he shared your pain and would try to do something about it, which was quite a positive comment. Does a dialogue take place to ensure that you are not faced with making some of the hard decisions that you might need to make come the autumn? Has there been any indication of whether the consequential from the budget are likely to head in your direction?

Chris Travis: All that we have been told is that the Government is examining the Barnett consequential. We understand that there is a degree of sympathy for our case, but it is clearly up to the Government to determine how to allocate the funds. We have not got into any detailed discussions. If the Government is minded to pass the £29 million Barnett consequential—or some of it—on to the college sector, we would get into detailed discussions with it and the funding council on how best to allocate those resources to ensure the maximum impact on skills production for Scotland.

David Caldwell: Universities Scotland has had no detailed discussions with the Government about that, but we hope that it will understand that there is a short-term and long-term gain to be achieved if it finds some way of financing a modest expansion in the universities and colleges. The short-term gain is fairly obvious—the number on the unemployment register would be slightly smaller—but much more significant would be the long-term gain of upskilling our workforce so that we are well placed for the recovery when it comes.

I reiterate what I said at the beginning: we understand the extreme pressure on public funding, and we simply hope that our arguments will be understood. There are many pressures and, if student numbers increase, there are implications for the student support budget, too. These are serious issues.

Jeremy Purvis: Borders College and Jewel and Esk Valley College are in my constituency, and the principals have both written to me. In Borders College applications are up by 20 per cent, and in Jewel and Esk Valley College they are up by 72 per cent.

Decisions on indicative levels for last year were set during the 2007 spending review period. For colleges, the levels were flatlining. The written submission from Universities Scotland says:

“Funding decisions made in the 2007 spending review meant that the period 2008/9 to 2010/11 represented the tightest funding round for universities since devolution. This has already forced the sector to make difficult decisions”.

We have an increased demand in recession, and we have the Scottish Government’s tightest funding round since devolution. In that context, I would expect the sector to be banging on the cabinet secretary’s door and saying, “This is outrageous”, but the response seems rather meek. The Government is doing what it is doing and, if David Caldwell is saying that he understands that there is going to be no money, I am quite taken aback—

Linda Fabiani: They are sensible people, Jeremy. Learn from them.

The Convener: Gentlemen, you can see the dangers that we get into. This committee deals objectively with the facts until moments like these. Would anybody like to take up the question?

David Caldwell: Yes, I am happy to answer the question.

Jeremy Purvis: Can anybody tell me if I said something that was factually incorrect, because I am—

The Convener: It was a political statement. Rather than getting into politics, we are looking for information.

David Caldwell: It was a very tight funding settlement and, when it was announced, the universities made no secret of the fact that we were disappointed by it. We made that point, and since then circumstances have changed very much for the worse. We are facing a serious economic downturn in which—as I said at the beginning—we know for certain that there will be severe pressure on public funding for at least five years and, very possibly, closer to 10 years.

I will continue to make the case for investment in universities because the provision of graduates and the discovery of new knowledge, which form the basis for business renewal, represent two of the essential rungs that will help us out of recession. Investment in them will have a very big pay-off. I will make that argument extremely robustly, but I will not break down the cabinet secretary’s door to do so.

Chris Travis: You will not be surprised to hear that we are in close agreement with Universities Scotland. When you know that there is nothing behind the cabinet secretary’s door—no pots of money to be liberated—there seems little point in breaking it down.

We talk to our colleagues in the Scottish funding council, who act for the Government in this area, about the best way of allocating resources. I was at a meeting with the funding council yesterday in which we talked about the funding mechanism and process, with a view to getting more resources to the front line. If more money is made available, that is the process that will be used to deliver it.

Like David Caldwell, I will argue for more and more investment. In the college sector, we believe that further and higher education and skills development across the range of skills not only are fundamental to Scotland’s current success but will be essential to its future.

The Convener: Mr Livingstone?

Andrew Livingstone: I am not sure that I can add much to what has just been said.

The Convener: When resources are scarce but demand is tremendous, the danger is that we take a deil-tak-the-hinmost approach, which would be a disaster for everybody. You have all stressed the need to find the best solution that spreads across the whole education system. To use very scarce resources in the best way possible, we should be addressing the complete education system.

We have reached the end of our questions. I thank our witnesses for their contributions, which have been very helpful to the committee.

16:40

Meeting suspended.

16:43

On resuming—

The Convener: Our fourth and final witness panel comprises representatives of the voluntary sector. I welcome the witnesses: Kirsten Gooday, policy and development manager for Community Care Providers Scotland; Ian McLaughlan, chief executive of the Scottish Pre-School Play Association; Liz Rowlett, senior policy, information and parliamentary officer for the Scottish Disability Equality Forum; Ruchir Shah, head of the policy and research department at the Scottish Council for Voluntary Organisations; and, finally, Ella Simpson, chief executive of the Rock Trust. They are all welcome.

As I have already said, due to pressure of time, there will be no opening statements, so we move straight to questions. Do the witnesses have any evidence that, in the current economic climate, commissioning authorities are looking after their own services before funding those that are delivered by the voluntary sector? Who wants to answer that?

16:45

Kirsten Gooday (Community Care Providers Scotland): I can do so. Community Care Providers Scotland regularly surveys its members on their experiences of how local authorities commission services. The majority of our members' work is under contract to local authorities, so we have amassed a fair amount of evidence, much of which we can make available to the committee in written format. It is not our normal modus operandi to name and shame individual councils, but I can give the example of a council that has put two papers to the main council meeting in the past month that categorically state that the lack of inflationary uplift given to contracted service providers in social care has been used to offset demand for other services. They also state that services that are provided in house will be given a particular uplift in order to cover pay settlements that have already been agreed.

Ruchir Shah (Scottish Council for Voluntary Organisations): Our written submission mentions research that the Scottish Executive commissioned on the impact of full cost recovery. That research was part of the previous strategic funding review initiative, which involved partners from the Government, the third sector and local authorities. The idea was to consider the extent to which services that were provided through the third sector were subsidised, as opposed to being services whose costs would be fully recovered. It was found that voluntary organisations were making quite substantial subsidies from their reserves, donations and so on. That was documented in that research, so we have evidence.

The difficulty is the extent to which local authorities see the deployment of services through the third sector as a cheap option. There could be a driver both ways—either to keep services in house, or to put services out, which might be seen as a way of saving money. Therefore, the answer to the question is not always clear cut.

The Convener: Is that the general view?

Ian McLaughlan (Scottish Pre-School Play Association): In the past couple of years, we in the early years sector have recognised on a number of occasions that local authorities have been considering taking in house support services that were once provided to the most fragile small pre-school centres by organisations such as the Scottish Pre-School Play Association. There is evidence that, after many years of strong partnership working, a couple of local authorities have considered for the first time taking those services in house. The reasons that have been cited for doing so are based on costs. It has been said that it would be more cost effective to deliver

the services in house. Perhaps there is an opportunity for the Finance Committee or the Scottish Parliament to look into that matter in more detail and analyse how those costs are derived. Infrastructure costs for the voluntary sector have to be up front and considered, whereas local authorities can perhaps find ways to absorb some infrastructure costs. We have found that to be a new experience.

The Convener: Is that approach widespread or particular to one region or area?

Ian McLaughlan: It is widespread. Like Kirsten Gooday, I would not like to name and shame local authorities. We have strong partnership working with our local authority colleagues, but we have been a bit alarmed and concerned that a couple of our strong partners have considered taking services in house, although they have not done that so far.

Ella Simpson (Rock Trust): The Rock Trust is a direct service provider in Edinburgh and the Lothians, where we have seven contracts. We have renegotiated those contracts over the years, but we have been unable to apportion full overhead costs to several of them. We directly subsidise two of them, and cover all our costs in only two of them. Things depend on where we are in the lifespan of those contracts.

Jackie Baillie: I would like to explore that a bit further. Some witnesses from whom we have heard have said that, at a time of recession or when there are tight financial budgets and there is to be no increase in funds, people become more innovative and consider new models of service delivery, which could involve the third sector. What might that mean to you in real terms? Do you anticipate that the kind of thing that is happening in Glasgow will happen elsewhere, rather than what Ian McLaughlan has outlined as his experience of some local authorities?

Kirsten Gooday: Certainly, in the experience of CCPS and its members during the past few years, it has been the norm to not have a budget uplift, particularly in relation to inflation but also in relation to additional requests that may be put to an organisation.

We are particularly concerned about the process of retendering for services that are already provided by a voluntary organisation. The driver for that appears to be to get the cost down as far as possible, and we are concerned about the potential effect of that process on the quality of services. We do not think that it is fair to the people who receive those services that costs are continually pushed down. As 80 per cent of social care costs are staff costs, it is difficult to push the prices down much further without impacting on the level of service.

Liz Rowlett (Scottish Disability Equality Forum): We have anecdotal evidence that our members are suffering from a poorer quality of service as a result of costs being driven down. In my submission, I discussed equality proofing budgets and the impact that that will have on some vulnerable groups. If equality proofing does not happen and services are provided on a cost basis, that will harm not only the organisations in the voluntary sector that provide good service, but the service recipients—it will have a huge impact on their quality of life.

Ruchir Shah: The issue is not necessarily about overall funding to the sector. The difference in the voluntary sector—especially given the recession, which will accelerate some of the problems of a tightening funding environment—is that individual voluntary organisations are susceptible. One often finds that individual voluntary organisations, particularly those that deliver services, have short-term contracts or contracts in which they have not been able to secure pay rises each year. They will have a problem, in that any efficiency savings that they may generate will not necessarily be passed on to them.

The voluntary sector's problem is that it finds it hard to walk away from contracts because its mission is not about examining the profit margin, but about pursuing a cause, so it will try to subsidise where it can. We have recently found that many voluntary organisations have started to walk away from contracts, so it is clear that the sector is on the wire and that organisations are not able to subsidise in the way that they have done before. That is a real issue.

Ella Simpson: To go back to the original question about whether a recession is the mother of invention, reinvention and rethinking, it is good that we continually rethink how we deliver services, whether we are meeting the right needs, and what our priorities are. That cycle of learning is a good process. If our priorities are driven by the pound, we are in danger of putting finance before the outcomes for the service user.

My organisation works with young people in transition to prevent re-presentations, which we hope will have an impact on their ability to contribute to the general wellbeing of the community and the economy. We need to think carefully about how we target what we are doing, and we need to think smarter about the points—the hotspots, if you like—at which we invest in people's lives so that they become net contributors to wider society. Some good work can be done on that in partnership between the statutory and the voluntary sectors.

Linda Fabiani: I was interested to hear Ian McLaughlan's comment about councils choosing to take services back in house. It strikes me that a

lot of people complain about councils outsourcing and not keeping things in house. Why would you necessarily think that a council deciding to do something in house was a bad thing?

Ian McLaughlan: There is a good debate on that to be had in Parliament and in our sector. In Scotland, there has been a rich relationship between the various sectors in delivering quality services for people in communities.

I do not subscribe to the view that services, particularly early years services, should be provided by any one sector alone. The early years sector started off as a parent-led movement to deliver quality care and learning for young children. It seems to have gone much further in Scotland than elsewhere in the UK, in that 70 per cent of pre-school education here is delivered by statutory provision. That is good, but there are still parents in our communities who choose to send their children to private, independent or voluntary sector providers, so I always promote parental choice in that regard.

Linda Fabiani: When councils outsource services, they are outsourcing them more and more to private companies rather than the voluntary sector. We should never fall into the trap of thinking that the voluntary sector consists entirely of people who do things for nothing, because there is an element of business in it as well, which we must recognise. What added value does the sector offer as a service provider over and above that offered by the pure private company model?

Ruchir Shah: I return to Jackie Baillie's point about innovation. Particularly in a tightening funding environment, the voluntary sector innovates in two ways: it finds new ways of getting money, and it develops new services to produce better outcomes. Many organisations are being driven down the first route, whereby they have to be innovative in finding new ways of getting money—new ways of presenting their case to funders—which takes them away from the other kind of innovation.

To answer Linda Fabiani's point, one strength of voluntary sector organisations is the way in which they can collaborate with other voluntary sector organisations, statutory partners and, in some cases, private partners. Unfortunately, some of our funding models, and some funding tendencies, drive the sector towards a much more competitive model. Competitive retendering is an example that several of us have picked up. It is not necessarily the best way of achieving value for money but, unfortunately, there is a belief that, if someone wants value for money, they simply need to retender a service. Continual retendering is costly, not only for the voluntary sector but for the public sector. A lot of savings could be made if we used

the collaborative model that the voluntary sector can offer. That is part of its added value.

Kirsten Gooday: Added value is always extremely difficult to quantify. I do not want to be too broad brush, but if we look at the areas of service provision in social care in which the voluntary sector is active and those in which the private sector is active, we find that the private sector goes where there is profit to be made, and will not go where there is no profit to be made, because that is the model under which it operates. Therefore, the added value that the voluntary sector provides is that it will go into areas in which there is a need for complex care and demanding services. However, it is difficult to say that the voluntary sector is better at one thing, in-house provision is better at another, and the private sector is better at yet another. We need to ensure that we have the appropriate model of service delivery for each service.

As we are at the Finance Committee, I suppose that we have to talk about best value as well. Community Care Providers Scotland has an issue with the fact that in-house provision is not subject to the same rigours of best value as the services that are tendered out. When voluntary sector services are retendered, there is vigorous consideration of how low the cost can be made, whereas the services that are provided in house are not openly subject to the same rigours, so it is difficult for us to know whether the same consideration is given to lowering their cost.

Ella Simpson: It is horses for courses: different providers will be right for different sectors at different times. One factor is underestimated in the discussion: although the voluntary sector is professional, has business models and, on the whole, provides quality services, the fact that people volunteer in it makes connections back to communities, which builds individual and community resilience. Voluntary organisations add social capital to the fabric of the community, which would not necessarily be uppermost in the mind of a straightforward private provider.

17:00

Ian McLaughlan: The early years framework that the Government introduced towards the end of last year includes the need for strategic partnerships between the voluntary, private and statutory sectors. Added value can come from that. We are at our most innovative and creative when strategic partners in local authorities, in health and in various other sectors work alongside us, creating quality services for, in our case, young children. I have voluntary sector colleagues around the country who interchange with local authority colleagues and with statutory providers. Such creativity and innovation add value to the whole process.

The Convener: Can you give us an idea of the extent of such partnerships in practice? Are they growing?

Ian McLaughlan: In the economic downturn, we are finding things challenging. People are looking after their own budgets and things are getting tight. However, I know of one area where my colleagues work alongside child care partnership colleagues from the local authority. They go out and find out the needs in the area and then create services; colleagues from the local authority and our own organisation go out together to assess needs and find the best solutions.

I can give you another very good example. A local authority nursery was attended by very few young children, whereas the local playgroup was bursting at the seams. The local authority therefore decided to close down the nursery and put more resources into the playgroup. Sadly for us, such examples are not widespread these days, but that is a good example of a strong strategic partnership. I would like to see more examples like that.

The Convener: Are such examples specific to, or more prolific in, certain areas, or are they pretty uniformly spread throughout the country?

Ian McLaughlan: Members of organisations such as the SPPA can be found in every local authority area across the country, and in all types of socioeconomic area. However, it is fair to say that, because of restrictions in funding, capacity and buildings, and because of the need to get best value for the public pound, there is more creativity and joint working in rural communities than in other communities.

Liz Rowlett: As Ian McLaughlan says, the voluntary sector can be more flexible and innovative than others. It often goes into areas and discovers gaps in service provision, and then spends time and resources working on services to fill those gaps. Those services can later be mainstreamed when they are shown to be valuable.

David Whitton: I will address my first question to Kirsten Gooday. The submission from Community Care Providers Scotland says that you provide support for about 160,000 people, attracting an income of just over £1 billion. However, at the foot of the same page, the submission says that 79 per cent of the respondents to a survey of your members in 2008 reported

“a deficit in one or more of the services that they provide”.

A similar number of your members had

“discussed the financial viability of services at board level.”

Also, 24 per cent of respondents had

“closed a service or served notice on a contract”.

These are services to people with learning disabilities and to children and families with mental health issues. The survey was carried out in 2008, but we are now in 2009. Has the situation got worse?

Kirsten Gooday: We repeat the survey every year, usually in the months of May and June, after providers have had their budget discussions with local authorities. I therefore cannot give you an update at the moment.

David Whitton: So the survey will be going on just now.

Kirsten Gooday: Yes, it will.

David Whitton: Will we be able to hear the outcome once you have completed the survey?

Kirsten Gooday: Yes—that would be no problem.

David Whitton: You have raised the issue of constantly having to retender. Is that about e-tendering, or is just about being asked to tender again and again to provide the same service?

Kirsten Gooday: E-tendering has been used on occasion, but it is not the overall problem. Tendering in itself is not necessarily bad if it is done properly, so we have been working with the Scottish Government and other stakeholders to put together guidance on how it can be done in a more acceptable way. There are examples of bad practice.

Our concern is that the process is driven primarily by the finance aspect. In some tender exercises, although not all, sight is lost of the quality of the service that is being contracted for, which has an adverse effect on the people who use the services and the staff, because of the uncertainty that the tender process causes.

David Whitton: You said that the same rigorous approach is not taken with in-house services as it is with those that are contracted out to the voluntary sector. How widespread is that?

Kirsten Gooday: Sorry—how widespread is what?

David Whitton: Does every council do that? You did not name a council, but you should feel free to do so. The committee is happy to hear of recalcitrant councils.

Kirsten Gooday: Are you asking how widespread retendering is?

David Whitton: Yes. Is it a widespread practice among local authorities not to bother too much about what they provide in-house, but to take an inordinate interest in what the voluntary sector provides? A simple yes or no will be sufficient.

Kirsten Gooday: Yes.

David Whitton: That is fine.

Liz Rowlett’s submission states that, under the concordat with local government,

“many voluntary sector and equalities groups are now struggling for funding. Organisations that work with disabled people are seeing cuts in service provision as local authorities tighten their belts.”

Can you give examples of that, please?

Liz Rowlett: Yes—although the evidence so far is mainly anecdotal. I spoke to someone this morning about a council that was represented earlier in the meeting—

David Whitton: That narrows it down to Glasgow City Council or Aberdeen City Council.

Liz Rowlett: Yes. There have been cuts in service provision, with care services being amalgamated into a single service. People have lost their care managers and support. The changes have had a particular effect on people with learning disabilities. The same council has decided, as part of a cost-cutting exercise, to remove the taxi card from people who receive the high level of the mobility component of disability living allowance—the people who are most in need of extra mobility services. That was done purely to cut costs and it was done in the face of an adverse impact assessment.

One of my comments about equality proofing the budget was that we must reconsider the way in which budgets are decided so that we think about the adverse effect that they will have on particular populations. There is a disparity between the national Government targets on issues such as transport and independent living and what happens when the budget is devolved to local authorities, where there is a lack of transparency. There seems to be a disconnect between the national policies on a wealthier, healthier, smarter and fairer Scotland and what happens to people at the other end in local authority areas. Derek Brownlee touched on a lack of transparency in budget setting. I would like more questions to be asked about the impact on specific groups of the spend from the top down. I would like that information to be disaggregated for gender, sexual orientation, disability, belief and race, which could lead to better-targeted services that would meet people’s needs.

David Whitton: I guess that that brings us back to the first question that the convener asked, which was about whether voluntary providers feel that, in these straitened financial times, voluntary sector services are feeling the impact more than in-house services are.

Kirsten Gooday: I would say that they are, but with the caveat that there are structural reasons

for that. Local authorities are in three-year pay settlements, whereas voluntary organisations have not been given the opportunity to do that within their contracts with local authorities. Also, pension entitlements are more onerous on the local authorities. So there are commitments that the local authorities must honour, which arise from measures that they do not pass on to contracted service providers.

Ruchir Shah: It is a very uncertain time. We—and, as our surveys suggest, the rest of the voluntary sector—feel susceptible because of short-term contracts and the overall short-termism of funding compared with other parts of the public sector infrastructure. The sector feels vulnerable because, in many cases, the structure is more vulnerable.

David Whitton: My final question is for Mr McLaughlan. Linda Fabiani touched on the fact that, in your submission, you say:

“SPPA services are under threat as local authorities consider taking them in-house without ... scrutiny”

and without consulting employees or taking into account Transfer of Undertakings (Protection of Employment) Regulations “and redundancy issues”. Has that actually happened yet?

Ian McLaughlan: It has not happened to our organisation yet, but a number of local authorities are actively considering it. It is a concern, because we have had excellent working relationships with those authorities. However, the outcome of strategic reviews of early years services that has been undertaken by local authorities in the past year is, as Linda Fabiani highlighted earlier, that those services should perhaps be taken in-house. On a couple of occasions, we have felt that there has been a lack of consultation and sometimes a lack of awareness, particularly with regard to TUPE. For example, some local authorities were not aware that if they were to take a service in-house, they would have to transfer the staff whom we had employed to continue it.

David Whitton: I want to pin this down. I can understand local authorities taking services in-house if they were going to provide them cheaper—after all, we all pay local taxes. However, you seem to be saying that they are taking into local authority provision services that are already being provided cheaper, regardless of whether by doing so they make them more expensive.

Ian McLaughlan: The local authorities in question said that they would be saving money. One local authority said that it would save £6,000 by taking services in-house, even taking the TUPE regulations into account. However, that figure might require further analysis of the infrastructure costs of running the services. In delivering

services, voluntary organisations have a fairly efficient and lean head-office operation to deal with finance, HR and other aspects, whereas local authorities have, from the chief executive office all the way down, heads of departments on whom they can fall back for back-office support services. We have to cost those elements and put them up front in our tendering bids.

David Whitton: If services were taken in-house, would the provision to the general public be more expensive?

Ian McLaughlan: We believe so—

David Whitton: In other words, would parents have to pay more to put their children in nursery?

Ian McLaughlan: I do not think that it would cost more at the sharp end. In general, the taxpayer would have to cover the costs.

Jeremy Purvis: I have been struck by how much the Rock Trust’s evidence links with the evidence that was given by the previous panel, particularly with regard to the prospect of the number of college places not growing to meet demand. In that context, the principal of Jewel and Esk College has written to me, and says:

“I am very aware that young and older

people

“that do not get into College do not look for alternatives. I call this enrolling in Inertia College; they stay untrained, in low level jobs and on benefits”.

Meanwhile, in another letter, the principal of the other college that serves my constituents, Borders College, has told me that

“Young people who are defined as requiring “More Choices, More Chances”, and who often face considerable challenges when accessing education, may be among the most vulnerable.”

I think those comments broadly reflect your comments about the pressure of the recession on the social care and voluntary sectors. What response do you get from your local authority partners or, indeed, from Government when you indicate that you might well face increased pressure in the future if training and other services that we expect the public sector to provide are reduced?

17:15

Ella Simpson: The young people with whom we work have always found it difficult to access further education, employment or training, even in times of high employment. They have traditionally—for want of a better word—been the people who have failed in the school system, and a lot of the work that we do with them concerns trying to rebuild some of that learning, although we have concentrated most on building their social

skills. Increasingly over the past few years, we have started to try to build up hard elements of their CVs by engaging with schemes such as the Duke of Edinburgh awards, the millennium awards and the youth achievement awards, which give the young people something to work towards.

We are also increasingly working with employers to mentor young people into training. For example, we will work with small businesses to provide the support element of training and placements, which the business might not have the capacity to provide. In times of economic recession, those businesses tend to concentrate on their core business, which is getting the job done. That means that, at the very time when we need young people to contribute and participate, we are going to struggle quite a lot to get young people into those businesses.

Those young people also have the highest attrition rates in colleges—many who manage to get into a college will drop out. We are in dialogue with colleges to find ways of working with them to support the young people who are in the greatest need.

Jeremy Purvis: Applications to colleges have gone up by 75 per cent or even 100 per cent this year, and colleges would prefer it if students to whom they give places did not drop out. I raise that as an issue; I do not say that it will have an impact.

Your relationship with Government and councils is often even more direct than MSPs' relationships with them. What discussions have you had with them about the social consequences of the current economic situation, particularly with regard to the likely increased pressure on the voluntary sector, if it does not gear up to match demand?

Ruchir Shah: We are in a bit of a paradox at the moment. During a recession, when pressure on the voluntary sector is at a peak, our funding—from all sources, not just statutory sources—is squeezed. There is a lot of demand being placed on the sector in relation to debt services, employability services and so on. Accordingly, we have been trying to present the sector not just as something that is going to be hit by the recession but as a solution provider during the recession. For example, on employability and community need, we have recognised that the discussions around welfare reform and the future jobs fund create an opportunity for the creation of an alternative community-based option, which would involve making a connection between the needs of people who are long-term unemployed, particularly the harder-to-reach section, to get into jobs and the idea of meeting community need directly. That is not just about improving employability and thereby improving the sustainable economy of Scotland; it is also about simultaneously meeting

community need immediately. That is an example of the kind of quick win that is part of smarter budgeting.

We believe that the committee needs to explore how it can encourage Government and others to examine smarter budgeting. Some quick wins are available and, by having a bigger debate around some of the budget setting, we can start to achieve some of them, particularly when we are in a recession.

Jeremy Purvis: Almost all the submissions referred to the concordat and the single outcome agreements, which is understandable. Aberdeen City Council's director of finance said that he believes that the concordat must be revisited with a view to changing the priorities that were set. Do any of you agree with that? I am not saying that that is the council that Liz Rowlett was referring to earlier, by the way.

Liz Rowlett: I was not here to hear that witness speak, but I can say that there is a mismatch in terms of equalities issues, the national performance framework and the concordat. There is no good way of measuring performance on equalities issues. We are talking about skilling people up and reducing disadvantage through education at the same time as others are talking about education cuts that will result in a reduction in student support.

Aberdeen City Council's director of finance is right to say that we need to reassess what the national priorities are, examine how they work locally and find out more about what councils choose to report on and whether they have a proper grasp of how they can reduce inequality in a way that ensures that everyone can make the most of the opportunities that will result from the next spurt of economic growth, which I am sure is just around the corner.

The Government's target is to achieve a wealthier, smarter, fairer Scotland, but the budget cuts will mean that the disadvantaged groups that we represent will suffer more serious disadvantage.

Jeremy Purvis: Does the SCVO agree with Aberdeen City Council's director of finance?

Ruchir Shah: The key issue for us involves measuring impact and scrutinising spend, but we do not know how the budget decisions were made in relation to the concordat, because everything happened behind closed doors. One of our big messages to the committee centres on transparency in the budget-setting process. We have made suggestions that build on the submission of the CPPR, which talked about a challenge function that would operate as a sort of internal check within the Scottish Government. However, we recommend that there be an external

mechanism that would report to Parliament through this committee and help to ensure that we have much more transparency around budget-setting processes that involve Scottish public money, including money that makes its way through the concordat. We ask the committee to champion our call for greater transparency. We want to ensure that all the best advice and input can come together, which will ensure that we will end up with a strong and powerful budget that will meet the needs of Scotland, particularly during a recession.

James Kelly: The Scottish budget is in excess of £30 billion, and the local authorities get in excess of a third of that. The money that goes to local authorities is passed down to other organisations, but a feeling has developed over the past two years that, as Mr Shah said, there is a lack of transparency around that process. The Government has put in place single outcome agreements to try to bring some clarity to the process. Mr Shah's feelings on that matter are quite clear, but do the other members of the panel feel that the single outcome agreements are not up to the task of providing transparency and displaying whether performance measures have been met? Do you feel that the Parliament and the Finance Committee should take a more hands-on role in monitoring the local government portion of the Scottish budget?

Kirsten Gooday: At this stage, there are two things that we do not know about single outcome agreements, which makes that quite a difficult question to answer. One is how exactly they are going to be reported on and performance against them monitored. That is key, and once we have clarity on that we will be a bit further forward. The other is how the second iteration of outcome agreements has responded to the fact that we are now in a recession. If people have slightly reined in what they propose to do and what their priorities are, that will be important. If, however, they continue to say that they will be able to achieve X, Y and Z without recognising the budget implications, that will be dangerous.

We have done a lot of work on single outcome agreements in CCPS with regard to how social care is covered. We have found that social care has not been receiving the level of priority that we would have hoped for, and we have highlighted the implications of that for monitoring. Social care services are fairly invisible within single outcome agreements. I understand that, now that SOAs are supposed to be strategic, social care services sit below the waterline—to use the unfortunate phrase that has been bandied about—and there are difficulties with monitoring how social care services are provided.

There is a real disconnect between budgets that are set on the basis of inputs, and monitoring on the basis of outcomes. That makes the task difficult for Parliament, the Finance Committee or whoever. Somebody needs to examine the level of service provision—by local authorities or provided on their behalf—on a national basis. I am not yet sure whether single outcome agreements are the right vehicle for that.

The Convener: I invite Linda Fabiani to ask a quick last question.

Linda Fabiani: My question is in two parts. Will I put them together?

The Convener: Very quickly.

Linda Fabiani: You gave me a row last time for asking too much in the one question.

The Convener: Put the two parts together.

Linda Fabiani: Okay. Listen carefully: I will say this only once. In earlier evidence today, there was a lot of talk with the council and health board witnesses about partnership and collaboration. It is perhaps because I asked too much, but I noticed that none of the panellists mentioned the voluntary sector in their responses, even though I specifically asked about it. Is there still a feeling among the voluntary sector that there is not true partnership, particularly when organisations are dealing with local authorities? I should ask about the relationships with any public body—I should not single out local authorities. What has happened with the voluntary sector compact? I have a distant memory that, many years ago, something was put in place to make all of that right.

In difficult times, everybody is saying that we need to consider new ways of doing things. Is there a push in the third sector for collaboration, whether it is geographic among voluntary organisations, or thematic, seeking to share services through membership bodies, perhaps? Would that be a useful way forward?

Ella Simpson: In some ways, our organisation has been quite lucky in that we have had some really good experiences of developing and reviewing—and, to an extent, monitoring—strategies around homelessness in particular. We have had some good partnerships. There is a disconnect, however, between that and the commissioning process. There is a gulf between them, which is in some ways understandable. I will be bidding in the tender processes: there must be some way of dividing the strategy and the reviews, and then monitoring the outcomes from the commissioning process.

There are some really good examples of work: the homelessness strategy had more than 300 service users participating in the process, for

example. Right down to that level, people are using the services that feel motivated enough to participate in the reviews. There is some good stuff around. There is some other stuff that seems to come out of left field, and we just think, "Okay, let's see what we can do with this."

We have, within the voluntary sector, collaborated for years, and I do not think that we have given ourselves enough credit for what we have done. The umbrella bodies that are represented here are to do with collaboration. Increasingly, a lot of collaboration is going on in bidding for funding—whether it is local authority bidding, trust funds or whatever—in order to dovetail the expertise of different organisations to present an holistic proposal. That has been really interesting and productive. Some interesting stuff will come out of that over the next couple of years, as synergy starts to emerge from that work and as we start to monitor some of the outcomes.

That said, such collaborative work requires resources. Collaboration does not necessarily mean efficiency savings.

17:30

Linda Fabiani: It can, however.

Ella Simpson: It can mean efficiency, but not necessarily. We need to find ways of ensuring that we know what we are looking for when we are working together. Do you know what I mean?

Linda Fabiani: Yes I do.

Ella Simpson: Rather than just say that we have to do it, there must be real synergy in terms of the benefits for organisations and the service user.

The Convener: This market day is wearing late. Are there any final comments?

Linda Fabiani: I would like to hear more.

Ian McLaughlan: I find it interesting that Linda Fabiani referred to the two local authorities that gave evidence earlier. Those two authorities have been strong partners of SPPA and many other voluntary sector organisations, as have all 32 local authorities; perhaps it is a bit unfortunate that you have not heard all the examples of the creative and innovative work that is going on.

The challenge, when times are tough, is that there is perhaps a bit of a disconnect. In Scotland, there is still a debate to be had—which is perhaps worthy of being brought to the surface—on whether the state will provide some of our public services. There are many continuing examples of excellent practice. I gave the example earlier of true partnership, but how true is a true partnership? The funders have all the cards in their hands but, over and above that, collaborative work is still taking place.

With regard to the point about third sector organisations working together, I say in my submission that perhaps there needs to be greater collaboration among organisations. The child care sector has worked well with many organisations, both at the local level to deliver local services and at the strategic national level.

I think that we can do better—I say that as a self-criticism of our sector—in sharing some of our resources. There are a lot of charities and voluntary organisations in Scotland, so we would benefit from more collaborative working. Where it does work, as Ella Simpson said, it works extremely well, but there are areas in which we could do even better.

Kirsten Gooday: Some voluntary organisations operate primarily in a marketplace, which must be taken into account in considering collaborative working. There are some occasions on which the organisation with which we might most naturally collaborate is our main competitor in a competitive marketplace.

Equally, there are examples of situations in which local authorities have said, "We would really like you to bid for this in consortia—we would like you to come together to do that." There is a place for that, but some organisations have been asked to do it within the space of—I believe—six weeks, which is not the way to set up collaborative working. If we are going to do it, we need to do it properly and not just on a whim.

Although we can do more, those of us who operate in a competitive marketplace need collaborative working to sit within that environment, and sometimes it is just not appropriate.

Liz Rowlett: I will jump in to say that we are not a service provider in the same sense as the other organisations on the panel. My organisation is the umbrella body for the access panels, which work well in a voluntary capacity with all the local authorities and many other public bodies—such as the NHS—to help them to consider disability needs and fulfil their statutory obligations under the disability equality duty.

Although that service is not tendered and paid for, we must not forget the very experienced and worthwhile contribution that is made. It shows that different voluntary organisations can work well with public bodies even when resources are extremely limited.

Ruchir Shah: A pilot project—funded by the Scottish Government—is currently under way to examine public social partnerships. That is the more formal end of collaboration, and it is one to watch, because it will consider cost savings and implications as part of its examination of collaborative working. It is worth checking out.

The Convener: Thank you.

Meeting closed at 17:34.

That draws our proceedings to a close. I thank everyone who has contributed; we wish you all well in the work that you do in the communities of Scotland. Thank you for your evidence.

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