LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

Tuesday 1 September 2009

Session 3

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LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE
20th Meeting 2009, Session 3

CONVENER

*Duncan McNeil (Greenock and Inverclyde) (Lab)

DEPUTY CONVENER

*Alasdair Allan (Western Isles) (SNP)

COMMITTEE MEMBERS

*Bob Doris (Glasgow) (SNP)
Patricia Ferguson (Glasgow Maryhill) (Lab)
David McLetchie (Edinburgh Pentlands) (Con)
*Mary Mulligan (Linlithgow) (Lab)
*Jim Tolson (Dunfermline West) (LD)
*John Wilson (Central Scotland) (SNP)

COMMITTEE SUBSTITUTES

Brian Adam (Aberdeen North) (SNP)
Paul Martin (Glasgow Springburn) (Lab)
Alison McInnes (North East Scotland) (LD)
Margaret Mitchell (Central Scotland) (Con)

*attended

THE FOLLOWING GAVE EVIDENCE:

Professor Alan Alexander
Jo Armstrong
Professor Stephen Bailey (Glasgow Caledonian University)
Professor Richard Kerley (Queen Margaret University)
Right Hon Henry McLeish
Angela Scott (Chartered Institute of Public Finance and Accountancy in Scotland)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

David McLaren

ASSISTANT CLERK

Ian Cowan

LOCATION

Committee Room 4

Scottish Parliament

Local Government and Communities Committee

Tuesday 1 September 2009

[THE CONVENER *opened the meeting at 14:03*]

Decision on Taking Business in Private

The Convener (Duncan McNeil): Good afternoon and welcome to the 20th meeting in 2009 of the Local Government and Communities Committee. I ask members and the public to turn off all mobile phones and BlackBerrys. Apologies have been received from David McLetchie and Patricia Ferguson.

Do members agree to take item 5 in private? Item 5 is consideration of the evidence from today's round-table session. Do members also agree to take in private future consideration of the themes that arise from evidence sessions in the local government finance inquiry?

Members *indicated agreement*.

Local Government Finance Inquiry

14:04

The Convener: Item 2 is the first evidence session in the committee's inquiry into local government finance. As members will recall, the remit of our inquiry is to assess the potential effects of the current economic situation and other pressures on local authority finances and to identify the key challenges that local authorities are likely to face.

Many of those who are with us today are known to the committee and have given evidence in the past, but we have a slightly different format today. We hope that it will be successful. We are pleased to welcome the right hon Henry McLeish, Professor Alan Alexander, Jo Armstrong, Professor Richard Kerley, Professor Stephen Bailey and Angela Scott, who is head of the Chartered Institute of Public Finance and Accountancy in Scotland. I thank them all for the time that they are giving the committee.

Our session will be split into three themes and the aim is to spend roughly 40 minutes on each. Obviously, some parts of the session might move more quickly than others, in which case we will have more time for the other themes. The three themes are: how local government is currently funded; the different ways in which local government might be affected by the current economic situation; and how potential problems can be mitigated. I will introduce each theme and then open it up for discussion.

The aim of the session is to have a discussion rather than formal questions and answers. All members and witnesses are free to ask one another questions, to ask questions of the whole meeting, or to make general contributions. I request that contributions be made one at a time through the convener. The discussion will be most useful if everyone gets plenty of opportunities to take part, so everybody is encouraged to keep their contributions relatively short, given the time that we have.

The first theme is how local authorities are currently financed, focusing on the balance between central Government funding and self-generated funding. I hope that looking at that first will give us a better understanding of where the biggest financial pressures are likely to be. We will then discuss that under the second theme.

I open the discussion by asking some questions. What is the balance of funding in local government? Does it allow enough flexibility to deal with any financial pressures that arise? What

financial pressures do local authorities face that predate the onset of the recession?

I see Stephen Bailey nodding, so I invite him to comment first.

Professor Stephen Bailey (Glasgow Caledonian University): Other countries have a much broader range of local tax powers than exist in the United Kingdom, where local taxation consists solely of property tax. If we wanted to change the balance between centrally and locally sourced funding, we would have to give local government increased tax powers. However, the various proposals in Scotland, plus the council tax freeze, involve giving local government severely reduced tax powers. The proposed local income tax is not a local income tax at all but an assigned revenue. It is not a local tax because local government would have no control over either the tax rate or the tax base, both of which would be determined by central Government. The way things are going, local government in Scotland is becoming more dependent on the centre for finance and not less.

Professor Alan Alexander: I agree with almost all of that.

You mentioned flexibility, convener. If we go back 40 years, we see that local government has never had enough flexibility. Gradually, it has given up its powers to tax or has had them removed. If we add on to that general position the alacrity with which councils sold the jerseys in December 2007 when they agreed to the council tax freeze, we see that its capacity to respond to a crisis whose dimensions nobody at that time anticipated is materially reduced. If a local authority's local tax base is frozen at the level that it was at two years ago, its capacity to respond to the effects of recession on its area is constrained by its inability to raise the level of taxation to a level that is higher than it was set at before the problems arose.

That leaves aside the big issue of the degree to which the Scottish Government is entirely dependent on money coming down a pipe from SW1, which does not look set to increase in the next 10 years or so. A huge proportion of local government's spending also comes down a pipe. Sometimes it has conditions attached, sometimes it does not and sometimes it pretends not to have conditions but does. That reduces local authorities' flexibility and helps to create a structure in which it is difficult to point to any one of the 32 local authorities and say, "This is how you might respond to the way in which the recession is affecting you."

The two subsequent themes are subsumed into the very big theme of the dependence of local government on the centre. At the risk of saying something that you might have heard me say before, nothing that comes from another level of government comes without strings. That creates dependency and inflexibility.

Alasdair Allan (Western Isles) (SNP): You talked about the limited range of solutions to this problem. Are the solutions to the problem of local taxation constrained by the tax powers of the Scottish Parliament?

Professor Alexander: That is a complex question. I agree with Stephen Bailey that the narrowness of the tax base is exaggerated by having only one tax.

As I understand the devolution settlement—I am subject to correction on this point—it is at the hand of the Scottish Parliament to decide what taxes local government can levy. That means that you could introduce commuter taxes, bed taxes and all the other taxes that are used in Europe and North America. However, where politicians send the message that tax, per se, is a bad thing, it is difficult to get an intelligent debate on the forms of taxation.

Jo Armstrong: Professor Alexander said that there is less flexibility now than there used to be. I suspect that, depending on what demands are put on them, local authorities will argue that they never have enough flexibility. However, they want to have an underpinning arrangement whereby money will come from the centre in the event that their tax base collapses. There is always a trade-off between what local authorities get from the centre and what strings are attached to that money, which has an effect on what it is possible for a local authority to do in its area.

It is true to say that, through the Scottish Parliament, other local taxes could be introduced. However, local authorities have the ability to raise charges and additional fees. There are other ways of raising funds beyond council tax. Mechanisms exist whereby income could be increased, but the question is who wants to be seen to be raising taxes. That is an issue at the UK level, the Scottish level and the local level.

14:15

Right Hon Henry McLeish: I endorse the comments that have been made so far and make the reasonable point that we need a debate in local government about local government's future. The big issues that you have highlighted are being discussed by the Parliament, Government and other institutions. However, there is a deafening silence from local government itself.

I would reinforce what has been said about inflexibility. However, local government has been creating a lot of inflexibility for itself, especially in

the past two years. All the concordats, single outcome agreements and other initiatives, culminating in the council tax freeze, suggest to me that local government is becoming more aligned with central Government. It could be argued that, in terms of positive policy outcomes, that is a good idea. On the other hand, there might be inflexibility around finance.

The relationship between local government, as a democratic entity, and central Government is becoming strained. The council tax freeze is causing most councils considerable difficulties. Once the freeze has happened, nobody will go back on it. How can it be continued? By having central Government pay less into local government, thus making local government's problems worse, which impacts on other services.

Aside from the structural and financial issues that we will discuss, it is important that we do not lose sight of some of the bigger issues that have never been tackled, such as the need to agree what services local government should provide. What priorities should local government identify? Might we have to consider some more radical solutions in view of the worsening economic situation?

The Convener: We will get an opportunity to discuss that later.

Professor Richard Kerley (Queen Margaret University): I do not disagree with any of the points that have been made, although I take a slightly different view on some of them. I start from the premise that, for many decades, it has rather suited central and local government throughout the UK to pretend that everything is the other lot's fault. It is almost a Faustian pact. If you give money to a supplicant, they will always say that you have not given them enough money and that they could do more if only you would give them more money. Similarly, the Cabinet Secretary for Finance and Sustainable Growth has performed an interesting tightrope act, constantly reiterating that it is the choices that are made by local authorities that are resulting in services being reduced and activities shut down.

I agree with the general proposition that local government has an incredibly narrow tax base. However, I think that such discussion as there has been on replacing the council tax has focused on replacing it with a mechanism that will raise something like the quantum that the council tax currently collects. We might need to have a far broader discussion that starts from the point that Alan Alexander and Henry McLeish alluded to, which is that we cannot separate finance from function. In other words, until we know what we want local government to do, we cannot know what measure of money it needs to collect in order to do that.

I am more and more inclined to the notion that we should be thinking in respect of a variety of means of public service support from the bottom up—that is, we should examine what we collect and what the community contributes to the centre, whether that centre is here or, in relation to reserved functions, Westminster.

If you look at the most famous laboratory for democracy, the United States, and consider the variety of charges, fees and taxes that are levied throughout the various states, you end up with your head swimming with confusion as you try to work out what allowances are made available and so on. However, none of that complexity has helped California—one of the largest economies in the world—to stop having to issue IOUs to suppliers. Even a spread-out tax base is not necessarily an easy solution, and it certainly does not address the broader, tidal effect of a global economic crisis. Let us face it—if local authorities in Scotland were really hit by a huge fallout from the current economic crisis, many of them would be swamped regardless of what they could do to raise money.

Angela Scott (Chartered Institute of Public Finance and Accountancy in Scotland): I would like to pick up on the point about financial flexibility and consider it from the expenditure side. To be blunt, there is not enough money to go round. No matter how we look at the financing of local government, the pressures that it is under are tremendous. Therefore, it would not matter how much flexibility there was to generate income through tax, for example. Raising income through tax in the world that we now live in is difficult. We should consider the expenditure side and the financial commitments that local government faces. Some 50 per cent of most local authorities' budgets goes on salaries, and there is not much flexibility in that. There are significant long-term financial commitments through contracts. It is therefore important to consider both sides. We should consider flexibility on income but also the fundamental, long-term financial commitments that local government faces regardless of the concordat or the single outcome agreements.

It is important to recognise that ring fencing has been removed, which is a significant change given the levels of ring fencing that there have been. The removal of ring fencing gives local government some flexibility, as do its prudential powers. There are things in the system that give local government flexibility.

Jim Tolson (Dunfermline West) (LD): I have been involved in local government in one way or another for quite a while. Most of us know about the huge squeeze that it has always felt itself to be under, even before the current recession. We have heard for years that budgets and services

are being squeezed and that changes must be made. Political pressure from Governments in the past two decades is partly responsible for that.

Alan Alexander referred to a 10-year period. Who knows? If politicians are not prepared to work together, the period could be much longer than that. That is a concern for all of us if we want the services that we are trying to get delivered by the Parliament or any Scottish local authority on behalf of the public to be delivered. I do not know how the barriers can be broken down, but I hope that we will discuss that. I would like to see how politicians of different political hues, including my own, are prepared to work together to break down some of the barriers, to act on the good ideas that we hear around this table and in other discussions with some of our eminent colleagues, and to really make a difference for Scotland. That is what we need to do.

Mary Mulligan (Linlithgow) (Lab): We constantly hear that the pressures and demands on local government are increasing. At some stage, we need to discuss what local government is for, what priorities it should have and what roles it fulfils.

As Angela Scott said, salaries are one of the biggest items of local authority expenditure. The committee has considered issues to do with equalising pay and so on. Throughout those discussions, it seemed to me that local authorities have not got to grips with salaries. It seems that we always increase that burden, which reduces the amount that we have to spend on providing services. How have we got into that situation? How can we get out of it so that we can concentrate on local authorities' service priorities rather than just on what we can afford?

The Convener: I take it that those questions are for Angela Scott.

Mary Mulligan: Angela Scott raised the matter, but anybody can answer my questions.

Angela Scott: I am not old enough to explain why we have got to where we are; I will leave that to others.

Mary Mulligan: And I am?

Angela Scott: We are where we are. Long-term financial planning is an issue. A nuance of local government is that it works within a four-year political administration, and the financing system has tended to drive it to one-year budgeting rather than to take a longer-term view of what the longer-term financial commitments are, and in turn to make provision for them. Basically, we are where we are. That is a fudged answer to the first part of your question.

The financial envelope is going to shrink considerably, so we need to ensure that the workforce is as productive, effective and efficient as possible. It is a big overhead, but we must ensure that staff are engaged in the right level of activity, that any waste or duplication in the system is removed and that we look at how technology might be used to deliver services.

Local government is now beginning to think about all this. After all, the question is how we protect services, ensure that the current workforce does not increase and find ways of using it to meet all the demands in the system. That will involve being more productive, which is not necessarily about releasing cash but about how we work. Again, this is before my time, but I suppose that I am talking about what has traditionally been called organisation and methods. In other words, we have to examine our processes. Given that today's local government is a result of the earlier reorganisation, we should consider whether we can eliminate any processes or systems that might be taking up time but might not be giving value to the customer. As I say, some fundamental redesign work can be carried out on how with its current workforce local government can deliver on the demands made on it.

The Convener: We might be getting ahead of ourselves. We will deal with those issues when we discuss the second and third themes.

Professor Bailey, I believe that you wish to come back in on the earlier discussion.

Professor Bailey: I want to make two points. First, on Mary Mulligan's question about how we got into this situation, the fact is that, although we always have ideas for new services, which require more employees to provide, we never have any ideas for closing down services that were set up in the past but are no longer required. That is largely why the labour force has grown.

Another more controversial proposition is that local authorities have created a dependency culture. People now sit back and, for example, think that they do not have to look after their elderly relatives any more because the council will send in social care staff. We private individuals are passing on more responsibilities to the council, which is trying to respond by improving social care and so on.

In response to Jo Armstrong's comment that local authorities could make more use of service charges, all I can say is this: could they really? The Burt report dismissed charges out of hand with the one-liner that there was no scope for further or increased use of charges. It gave no formal consideration to them whatever. Moreover, it has been a long time since Audit Scotland and the Accounts Commission last looked at the role of charges.

On the other hand, we should look at what the Lyons report said about the greater use of charges, particularly in achieving environmental objectives. It suggested, for example, introducing charges for disposing of household waste that could otherwise be recycled. In January, the Audit Commission for England and Wales produced a major report on how local authorities could achieve their social objectives better if they used their service charges in a cleverer or more sophisticated way. We should remember that not all service charges are paid by individuals; quite a large proportion is paid by profit-seeking organisations. Resources on the Audit Commission's website, including a charges calculator, help local authorities estimate the amount of money that they would raise with a given charge and the incidence and benefits of reductions in charges related to means testing.

It is not only that local government has become more dependent on the Scottish Government; the Scottish Government has made itself more dependent on finances from Westminster by abolishing and continuing to abolish charges. At the same time, it is saying that it needs more responsibility for its own finances. One might ask why, in that case, it is abolishing charges so freely.

14:30

The Convener: It is a difficult job, as you can understand. I think—I hope everyone agrees—that our discussion has moved on naturally from the first general proposition about funding and flexibility to another area that relates to the main pressures on local government services and communities that are likely to arise in the current recession. I have a wee list here of the people who want to ask questions and I will try to get everyone in.

Professor Alexander: I am glad that the discussion has moved quite quickly on to the need to talk about inputs and outputs, because that is really important. One thing that the recession will do is exaggerate the existing pressure that comes from having open-ended commitments that are funded by closed-ended resources. I am thinking of things such as social care for the elderly, education and most aspects of social work. All those are demand led, and the demand for them is almost certain to increase during a recession.

The written submission from the City of Edinburgh Council has a useful list of the type of things for which the recession will lead to an increase in demand. It is a cliché, but there is a perfect storm facing local government. It faces that increase in demand and it knows that it cannot raise council tax and that there will be little if any real increase in the money that comes from the centre. That pushes the argument very hard towards looking at outputs as well as inputs.

I will say something that my friends in local government have never liked me to say: I do not think that there are any credible drivers for efficiency in either of the sources of funding. It has been assumed during the past 10 or 20 years that if local government wants to make services more efficient, it should contract them out. That might work—the Confederation of British Industry's submission is a masterpiece of one-club golfing: "Let's just put it all out to tender. That will make it more efficient and get the private sector in, with a nod to the third sector as well." However, we have to drive efficiency in areas of local government that are not capable of being put out to tender.

Two things are going on that could have efficiency drivers in them, although we do not make the most of those drivers. I find it difficult, under the single outcome agreement process, to see where the efficiency drivers are in individual institutions and services. It is an outcome-driven process, and little attention is paid to how one induces, persuades and pressurises local authorities, as large spending institutions, to spend their money more efficiently.

Drawing on my experience in the Accounts Commission, I think that best value could be used as a positive driver for efficiency, but the Accounts Commission and the Government have both been afraid to use it in that way. The really controversial thing that I want to say is that what we are looking for in local government, when there is no more money, is a surrogate for the type of fierce external economic regulation with which those of us who have worked in regulated businesses have had to work.

I apologise for using the example of Scottish Water, but it took 40 per cent out of its operating costs in its first four years of existence. As I said at the time—it did not go down well then; it will still not go down well if I say it again—if that 40 per cent saving was available to Scottish Water, it beggars belief that it was not available when water was run by local government.

I do not say for a moment that we can apply exactly the same standards to an investment-led, capital-intensive single service provider as to a multiple service provider such as local government, but I do not concede that there is nothing to learn from having a clear regulatory framework that asks why it costs one local authority more to do a job than it costs another.

I have a final point—I know that I have gone on a bit. I was a nearly a lone voice on the Accounts Commission in being in favour of some kind of comparison between local authorities. An undertaking had been given that we would not go

down the league table route, but everybody has their own league table anyway. Every local authority asks how it compares with all the others and we can build on that. If we face a period—I take Jim Tolson's point; 10 years was plucked out of the air, but it could well be 15 or 20 years—in which public expenditure at best flatlines in monetary terms and, therefore, is likely to decline in real terms, we need to find some ways of reducing what it costs to deliver whatever services Scotland decides local authorities should deliver.

Jo Armstrong: I do not find myself in many audiences in which somebody steals my thunder on Scottish Water, so I thank Alan Alexander for exploring what is, even two years on, a difficult subject that most people do not want to turn to. What Scottish Water has achieved is amazing, and local government needs to turn its mind to that.

We have just completed a piece of work that shows that, if education and health spending are ring fenced and we continue with two to three-year pay deals, the services that still get public funding outwith those two budget headings could face a 40 per cent real-terms cut in the next three years. That is not a small cut. A lot of service provision faces that significant reduction in income, including social work, which covers the people who are probably least able to shout for themselves. I am in favour of considering all sorts of charges, but stealth charges for the provision of care services are coming through. I am not saying that I am in favour of increasing such charges, but they are being increased, and they ought to be increased explicitly and accountably rather than by stealth.

The pressures that local authorities face are not symmetrical: there is potential for some local authorities to do better than others because they do not have the same demographic pressures, public finance initiative commitments or contractual commitments. It is clearly not the case that all local authorities will suffer in the same way. The committee might want to consider where the balance of pressures lies. Inevitably, it will be in the smaller local authorities, rather than the larger ones. I suspect that the City of Edinburgh Council and Glasgow City Council would not like to think that they will do relatively well. I do not know, but I suspect that it will be relatively easier for them than for some of the smaller councils.

Alan Alexander talked about contestability among local authorities. It is not necessary to put services out to the private sector to generate efficiencies—Scottish Water is not in the private sector. The Accounts Commission has lost an opportunity to make use of an amazing wealth of information about efficiency, effectiveness and service provision across all local authorities. If resources are scarce and demand is rising, until a council has said that it will not provide services, it is not acceptable to say that it will cut them if they are double the price of those in another council.

The debate must be about what we want local authorities to provide, which authorities are the best of the bunch at providing that and how we can translate what is transferable to those that are doing less well to ensure that we avoid a huge postcode lottery, because a postcode lottery will probably exist where those who are least able to shout for themselves find themselves facing stealth tax increases.

Henry McLeish: I hope that it will not be too tedious for us all to agree with one another, but I endorse Jo Armstrong's point that, although there are huge pressures from the recession in the short term, they will be insignificant relative to the pressures that local and central Government will face over the next decade. Social care is one area that faces those pressures. The demographics are frightening.

Linked to that is the point that was made earlier: the more society evolves, the more we become dependent on government. If there is any problem, we turn to government. The responsibility, community and do-things-differently agendas do not seem to exist now, so the more government provides, the more it creates dependency, which is expensive today.

I was leader of Fife Regional Council in the old days between 1982 and 1987, and I was in local government for 13 years. Although we shuffled the deckchairs following the Tory review that got rid of the regions in the mid-1990s, and we have talked about local income tax and other issues, we have not had a significant debate about service provision priorities.

Jo Armstrong raised a point about service charges, and I think we should talk about service regimes. There are many different ways to provide services, but there is no discussion or debate about those. It seems to me that local government has to look at the return on its investment. I do not mean that councils should run themselves like businesses or that they should mimic privatisation; I mean that we are custodians of a huge sum of public funds, and we should be seeking the maximum return on that investment. To do that, local government should not be looking to central Government or the Accounts Commission, which is deficient because it does not have a strategic role. Local government should take itself more seriously and say, "Look, we've a huge budget, we employ 300,000 people on a full-time equivalent basis and we are providing more and more services."

For example, why does it make sense for economic development to be stripped from a changing Scottish Enterprise and given to 32 councils? There are not 32 labour markets in Scotland. In fact, some of the councils operate in exactly the same environment. When I say that local government should take itself seriously, I mean that sometimes it might have to say to central Government, "No, we can't do that," or, "No, that doesn't make any sense".

I have two points to make about shared services. I think that Arbuthnott is doing a review of some services at the moment. I do not think that we should change the structures because that would be a waste of energy. We have 32 councils, and shared services look important, as do backroom services. During the period that I spent in local government, it was always easier to cut manpower at the lower levels than it ever was to cut it at the higher levels. The coalescing of vested interests was powerful, and it remains as powerful today.

We have 32 this and 32 that, but we have to balance local democracy and local accountability. The obvious point is that every service could go to central Government. However, I am not arguing for that; I am arguing for a better sense of what we need to provide and what we are providing so that local government can be world beaters in the service provision areas that it is good at. Other areas have different service regimes, attitudes and mindsets.

There are 32 types of provision in social care. Perhaps, in 2009, we have reached the point at which central Government and the Accounts Commission could give a lead, but as someone who loves and has a passion for local government, I believe that it—not central Government or the Accounts Commission—has to take more responsibility and come up with more solutions to its problems.

The Convener: John Wilson will go next. I have got to get some of my committee members in because I have to be here with them next week.

John Wilson (Central Scotland) (SNP): Thank you, convener.

I find it interesting that three members of the panel have mentioned Scottish Water and what it achieved when that role was taken away from local authorities. I am not so sure that the work that Scottish Water does as a service provider always meets the needs that local authorities want it to meet. There is a balancing act involving what Scottish Water is doing and the water services that local authorities delivered previously, and how they met or exceeded the demands that were made. We hear often that many major housing developments cannot go ahead because Scottish Water says that it does not have the resources. That impinges on what local authorities can deliver, and on a number of other areas. There is a debate to be had about the 40 per cent savings that Scottish Water made.

14:45

If the panel members think that some local authority services could be delivered better by someone else, who would they get to deliver them? We have mentioned care for the elderly, and a lot of that care is delivered not by local authorities but by the private sector. What services would the panel members like to be contracted or handed out? It is certainly not a case of taking services from local authorities and giving them to central Government; we would want to put those services elsewhere.

If the panel members think that there are services that can be put out to contract or delivered better by others, they should put their cards on the table and let us discuss that. We have to look at the economic circumstances in which we find ourselves. As Jo Armstrong said, it is fine to say that some local authorities will continue to deliver services well, but others, because of the size and nature of their areas, might not be able to continue to deliver the services that are required for their communities. I often think about comparisons between Glasgow and Edinburgh. If we compare the levels of deprivation in the two cities, we might ask what we could cut back on in Edinburgh in a way that could be replicated elsewhere. There are issues that we need to consider carefully around social work and care services.

As a society, we have developed local authorities to their present shape and, as Angela Scott indicated, if we could begin again we would not start from here. How do we go forward and get the debate out among local authorities, the Scottish Government and Westminster? The questions of what services we are going to deliver and who should deliver them impinge on all those bodies. As has been said, the funding comes from Westminster and goes to the Scottish Government, which then distributes it to local authorities. It is when we start to take out services that we must ask who pays for them. In some communities, it will not be possible to pay for the level of services that need to be delivered because of the nature of the local economic circumstances.

Angela Scott: It is a challenge with round-table discussions that, by the time an issue comes to you, the debate has been had. I have wanted to make a number of points; I also want to respond to some of the points that John Wilson raised. I will rewind first, if I may, and then I will come back to him.

Local government is debating issues around the Scottish Water model. As members know, local government collects the water charge, and there is a view that cross-subsidisation is going on. I throw that point on the table.

I was struck by Professor Alexander's comments about the Accounts Commission acting as some sort of driver. The spirit of best value includes continuous improvement. League tables are perhaps a blunt instrument to use. In a private sector setting, how does business go about using them? Does it need a regulator? No—it can do that itself, through its own management.

One of the challenges for local government is how it develops best value, using benchmarking, for example. To support that, we need better cost information so that we can make comparisons and drive efficiencies.

The Crerar review represents a bit of a lost opportunity. It advocated having one public sector scrutiny body, and the Public Services Reform (Scotland) Bill does not really develop that. If we are addressing efficiencies in the system, they must be considered across the piece. It is a missed opportunity for public sector reform if we do not accelerate the pace of change and release some money into the system.

John Wilson is right to ask about who could deliver services. The issue is partly about how we view the role of local government. For a long time, it has been a deliverer of services. Is that the future, or should councils be commissioners of services? Depending on which way we look at it, that answers Mr Wilson's question.

The issue is also to do with the chain of service. Some chains of service cut across three or four different public agencies, so how do we examine them? We need to concertina the customer's experience. It is partly a question of organisational changes and partly a question of redesigning the present system and putting the customer at the centre instead of having a sectoral approach.

Bob Doris (Glasgow) (SNP): The thing about coming into a discussion late is that sometimes people have already made the points that you wanted to make. Mr Alexander mentioned the debate about whether there should be league tables for local authorities that provide similar services, some more efficiently than others. If some local authorities are performing better than others, case studies should be carried out and comparisons made, which could take the form of league tables.

As a politician, I want to know whether improving the performance of one local authority service and bringing it up to a similar standard to that of another affects wage levels, staff levels and service provision. Is it a question of procurement, is it about the level and range of provision, or is it about different local authorities moving to the provision of shared services? We need to know what the beef is when it comes to service design, and what that means for individual services. I do not think that it is possible to have a catch-all discussion that just involves talking in general about the services that local government provides. We might have to drill down, do a case study of each service and make direct comparisons.

As well as talking about how to drive change, we are talking about local democracy. Local income tax has been mentioned. If one local authority decides to go its own way, is it the job of this Parliament to direct it, through legislation, to go in a different direction, or should we give local authorities a free choice? We talk about sharing best practice, but if a local authority thinks that it is better to have higher staffing levels, should we, if we decide that it has a particularly inefficient service design, have the right to tell it to change its ways?

Professor Kerley: There are so many things that one could say; let me throw in three or four. The nature of the discussion means that they are a wee bit discontinuous.

I entirely agree with the proposition that aggregation is not necessarily helpful. A few years ago, David Bell and Donald McKay, whom I respect a great deal, combined to produce a document that I thought was pretty poor. It claimed, for example, that if we reduced undercapacity in schools throughout Scotland, we would save £3 million on the education budget. That ignores the fact that people in the Scottish Borders would probably not be too happy about 60 per cent of their schools closing and their kids having to go 20 miles on a bus. Aggregation does not work; problems flow from it.

My particular bête noire is the use of the phrase "postcode lottery", which Jo Armstrong mentioned. First, it is technically incorrect; secondly, it is used to describe a local choice. If a council spends more on recreation than on social work, that is a deliberate choice. I argue that councils should understand that they make such choices—I observe that, in many cases, they do not—and should be willing to defend them publicly, instead of saying that they are the fault of John Swinney or Gordon Brown.

We have great difficulty in handling performance information. I am always driven back to a phrase that was coined years ago—it is not one of mine—when people wrote about performance information being both a dial and a can opener. It was a dial in the sense that it told authorities what they would do and how much they would spend on it. The can opener aspect is one that is not often used by authorities. Henry McLeish's point was that

councillors and/or officials should ask why they spend three times as much collecting council tax as the folk next door. That should be investigated. I could give very good reasons why the collection rate in Orkney is far better than the collection rate in Glasgow. One would not have to have an IQ of 15 to work that out; it is easy to do. However, there are areas in which councils do not do that—they do not drill down into the figures, realise that they should be doing as well as other councils and ask why they are not.

No one is advocating the CBI line—I am certainly not, Mr Wilson—which is that we should contract things out to various people. However, we should see what we can learn from the contracting process. I will give you my favourite example, which people laugh at. I have been examining the management of urban car parking. It is indisputably the case that, in terms of urban car parking control on the streets, the use of deregulation legislation has generally involved bringing in a contractor. Enforcement, fine collection and general practice improve, but I argue that they do so not because of bringing in a contractor but because of a different way of looking at what we are doing.

There is one exception to bringing in a contractor, which is that—it pains me to say—private institutions are better, for various reasons, at getting rid of non-performing employees than our public institutions are. In every sense and form, if you are an employee of a local authority—or, for that matter, an employee of a university, as I am—your rights of appeal typically go way beyond statutory provision. Senior officials in a number of local authorities in Scotland who have taken disciplinary action against staff commonly report that they know that there is no point in pursuing it to a final appeal because the appeal will be upheld and the man or woman will not be dismissed. One of the tropes of being a good employer is that you never get rid of people. However, if you refuse to get rid of people who manifestly do not do a good job, you encourage everybody else to think that performing under the line is acceptable.

Generally speaking, I do not think that there is any great virtue in contracting out. Indeed, the very interesting though slightly axe-grinding evidence that the committee has had from Community Care Providers Scotland illustrates how, where local authorities have contracted out, they have often pressed the burden of cost reduction on to the contractor, whether it be a religious, voluntary or private body. Community Care Providers Scotland is not the only organisation in that situation, but it is the only one to have the courage to tell the committee about it. Across Scotland, the burden of cost reduction is being shovelled out the door of local authorities, and charitable and voluntary bodies are being told to bear the burden.

Alasdair Allan: Henry McLeish made interesting points about trying to find a balance between local democracy and avoiding replicating services—or, rather, replicating bureaucracy. We always have that debate in a kind of isolation, but I understand that Scotland has relatively large local authorities compared with many European countries. I am not suggesting that we go down the route of Belgium, which has one local authority area with a population of 62, but are there lessons to be learned from other countries? How do they manage that balancing act, if their local authorities are smaller than ours?

Professor Alexander: That fits well with what I want to say in response to what John Wilson said earlier. He threw down the gauntlet and said, "Okay, what might local authorities not do?" I wonder whether we have thought clearly enough in post-devolution Scotland about the opportunities that having a devolved Government gives us in terms of how we deliver services. The reason that local government has the range of services that it has is not always because the services must be delivered at the local level, but because we must have somebody who is accountable for the expenditure of public money. Until 1999, the only source of accountability in Scotland in that sense—sorry, I am looking at Henry McLeish as I say that, so let me be clearer—the only credible source was local government, because the Scottish Office was vice-regal rather than democratic. However, we now have a democratically elected Parliament. If people wanted to think seriously about it, that could open up a number of possibilities.

15:00

I am not proposing the following but simply suggesting it as something to think about—it was stimulated by John Wilson's comments on social work. If we consider the difference between the way in which education—by which I mean primary and secondary education—and social work are delivered in Scotland, it is much more important for the latter to be able to respond to local changes in economic performance, recession and so on than it is for the former. Therefore, it is possible to conceive of a national education system that is held to account via the Parliament and its committees. One effect of that would be to change the pattern of local services so that they came closer—this picks up Alasdair Allan's point—to what is found in Scandinavia, the United States and elsewhere, where local government typically does not look after the big spending services such as education, which might be dealt with by regional boards or on a national basis.

All that I am saying is that in Scotland we have the possibility of maintaining a credible public accountability by changing the location of particular services. If we did that, the argument about having too many local authorities would begin to weaken. Once we say that local authorities are for doing things where the local is key to the proper nature of provision, there is every justification for having 32, or 64, authorities. I am sorry to say this, but I do not think that we can have that argument without giving some consideration to the effects of finance, service provision and service mix on the decisions that are taken regarding the structure of government and the path of accountability.

Henry McLeish: Let me just amplify on that and also pick up on Alasdair Allan's point. At the county level of government in the United States or in other European countries, things are often highly local but not much is provided compared with the breadth and quality of services that our local authorities provide. In some parts of the southern United States, a county of 100,000 people might elect three people, who will meet really just to agree on procurement policies. They are elected, so the process is democratic, but they do not get involved in doing surgeries and dealing with housing complaints and other difficult things. Arguably, that model works, but it is very simplistic and is not a model for us.

To take up Alan Alexander's point, I think that there is a lot of debate just now about having citizens rather than consumers. We have always wanted—I have been party to this, as has everyone else round the table—to become good consumers. Everything has been about consumerism. However, there is some material flying around that suggests that, while becoming good consumers, we have become lousy citizens. That links into the issue of local government accountability, which I think is very confused. The cradle-to-grave services that are provided by the best local authorities in Scotland are first class and very vital—socially, personally and in their effect on the economy—but the level of knowledge and debate among the Scottish public about central Government services and local government services is incredibly low. Part of this rebuilding of local government, as we consider different taxes and different service provision, must be to get to a point where we regain the idea that people in local government areas are citizens, not just consumers.

That leads on to the point—I will touch on this briefly, convener—about this dichotomy that we have. Some might talk about having a postcode lottery, but there are others—as Richard Kerley said—who might say, "The good people in that area have decided to have good services, whereas this lousy council provides lousy services." That is the postcode lottery.

For example, on the issue of social care that John Wilson mentioned—I will finish on this, convener—I do not think that anyone is suggesting that contracting out services will act as some magic wand to make services suddenly efficient and effective so that they provide a return on investment. We have shown that that does not work. However, we might ask why, in Scotland in 2009, personal care is viewed any differently from national health service care? Such care is provided free at the point of need. What is so different about somebody being cared for in hospital under the NHS—which most of us are very proud of—that we should have such huge problems delivering free personal care? For example—this is perhaps a long-term debating point—why cannot the national health service be the national health, personal and social care service? That would take us into a different argument. Instead of having 32 councils with their various regulators and this, that and the other interface with the private sector, we could develop a different concept.

I am not arguing for any specific service. All I am pleading for is for us to have a debate, in a modern Scotland, about how we can face some of these huge challenges and for us not to get overawed because we have 32 councils—are there too many?—or because local government does not have enough money. It will never have enough money. Local government should be knocking at your door, convener, and at the Government's door and saying, "We need to take some big decisions ourselves and we'll get on with it." That is not happening.

The Convener: What should the role of local government be? We have touched on whether councils should be the deliverer or commissioner of services. Is there a view on that?

Professor Alexander: There is a prior question: do you want local government or do you want local administration? If you want local government, you have to leave councils with a basic level of discretion and accept—this goes back to Bob Doris's point—a degree of differentiation among the services that are delivered. If, on the other hand, you take what I have been describing for the past 25 years as the instrumental view of local government, which every UK Government since the war has taken and which I think the present Scottish Government takes rather aggressively, you say that local authorities are for delivering national policies. The whole SOA procedure is redolent of the idea that local authorities are there to deliver a national policy. I do not think that that is healthy from a democratic point of view.

However, there is a debate to be had. Do you want local government? If so, tax, discretion and really quite aggressive regulation, rather than oversight, are required to ensure that it is performing well. If you want local administration, you simply have local offices that are outstations of the Scottish Government, which I do not think would be healthy. Everybody refuses to have that debate.

Jo Armstrong: I agree that there is a role for local government in ensuring that services are delivered, although I do not know that it necessarily has to be the delivery agent anymore. In the event of no one else being prepared to provide a service, there is a role for local authorities as a provider of last resort. However, if local authorities step in and provide services, they distort what is available for someone else to deliver. I am not arguing for privatisation of services but for value for money for scarce public resources. Acting as an intelligent procurer of those services seems to me an extremely important role for local authorities to perform. They know what is required; they can identify need; they can ensure that provision is as uniform as possible; and they can manage contracts for the provision of services efficiently and effectively. However, if a local authority is providing a piece of the service, other providers out there are scrabbling around and trying to ensure that they can operate effectively with less than 100 per cent of the market open to them.

I agree with John Wilson that the majority of residential care for older people is provided by those outside the local authority sector, whether in the private sector or the voluntary or not-for-profit sector. It is distorted to the extent that the local authority has to have its own services full. The pricing mechanism and the mechanism for allowing individuals to have the right service for them—we are supposedly going down the personalisation route—are seriously distorted by the current approach.

Local authorities could perform a very important function by ensuring that services are provided and that the outcomes are delivered. They do not have to be the deliverer of services if other people out there could provide the service more efficiently and effectively. I agree that there is a role for strong oversight. That is the role of the scrutiny bodies, whether there are one, three or five; I do not know how many bodies it would make sense to have. There is a role for a strong scrutiny body. The private sector does not get it right all the time. The financial services sector is acutely aware of that.

We need strong, effective regulation. If you do not have that, you will have what you have at the moment. All local authorities might have their own league tables, but that does not necessarily effect change in service provision, because no one is forcing authorities to make changes. Scottish Water was forced to make the changes. That was not comfortable or what people necessarily wanted—Alan Alexander is more aware of that than me—but it was essential to make the service delivery more efficient and effective. It improved quality while it increased output and reduced charges. We are now fourth in the league table for the whole UK.

I agree that it is not perfect or universally applicable, but the approach that is taken forces people to be explicit about what we are expected to deliver within what timescale and with what money. That is where effective economic regulation, as opposed to scrutiny of the quality aspects, might come in.

Professor Bailey: The standard academic answer to the question "What's local government for?" is that local government is not about the provision of services. This talk about whether local government acts as commissioner or provider misses the point that local government is there to make policy as part of the system of local democracy. Local government does not need to provide services and does not even need to commission services in some cases. For instance, in Canada, there is much greater use of voluntary sports clubs in the provision of local leisure services. The local community produces the services itself, perhaps with some subsidy from local government for voluntary sector facilities, rather than local government providing the services or commissioning somebody else to provide them.

Should some services, such as education, become more national and others become more local? That idea was floated by CIPFA in England and Wales. Rita Hale used to work there. The idea was that local services should be purely local and financed by the council tax, including the local business rate, while national services such as education should be financed centrally. They are halfway there in England with the dedicated schools grant; the next step would be to take control of school education directly to the centre.

The Local Government in Scotland Act 2003 and the Local Government Act 2003 for England and Wales make the distinction between national minimum standards and local discretion. Instead of services being carved up between central and local government, grants could be paid to support the meeting of national standards. If local authorities wanted to go beyond the national standards, that would be a matter of their policy and they would bear the cost, which would come from local taxation. Services would not necessarily have to be carved up into those that were purely

local and those that were purely central; the national minimum standards approach could be adopted.

The matter was discussed as part of the Layfield inquiry, which was chaired by Sir Frank Layfield, back in the mid-1970s. The inquiry's report concluded that it would be difficult to specify national minimum standards for local government services. However, two notes of dissent from Professor Day and Professor Cameron said that it was crucial, in order to achieve an optimal balance between funding and the preservation of local democracy, that central Government should determine the national minimum standards and that local government should have the powers and the freedom to provide services to higher standards than those.

That debate has gone absolutely nowhere, even though the matter is referred to in the Local Government in Scotland Act 2003 and the Local Government Act 2003. The issue relates to charges and the redefinition of discretionary services. It is not a case of leisure being discretionary but school education not being discretionary; it is the level of service that can be discretionary.

Jim Tolson: The convener opened up the theme of the effect of the current economic recession on local government. As a constituency member, I am feeling the effect through the increase in the amount of mail that I am receiving. I am sure that other members would echo that. Whether they are to do with housing—which seems to cover the bulk of the issues—transport or even social care, there has been an increase in the demands that are being made on me to help my constituents.

Stephen Bailey made the important point that more people are relying on the state, in one form or another, to take up some of the slack. He may well be right about that. I am no academic and I am not sure, but that is certainly an important point. As I think he tried to intimate, a culture change might be required, but in the meantime, while we are trying to find a new resolution, we must be practical about the fact that more services are being demanded of us. As far as is practical, we must meet that demand for services, be they support services or direct front-line services. We must be realistic and ensure that we do whatever we can with the current resources, or even with fewer resources, to meet the public's demands. We cannot ignore them. As politicians we certainly ignore them at our peril.

15:15

Ultimately, we must get better value for money for the public. I return to the point about Scottish Water. I do not want to dwell on it too much, but I had the pleasure recently of being asked to go along and do some of the presentations at Scottish Water's annual awards ceremony for its staff. Those awards show that Scottish Water has not only made major improvements in public services but ensured that credit is given to those who help to deliver those services. We are all human, and if we do a good job we should get a pat on the back for it. If we are not doing a good job, we should get a nudge and a bit of encouragement. Sometimes, as Professor Kerley says, a nudge out the door is the answer if we want to improve services.

As a councillor in a single-member ward, I used to get lots of complaints about Scottish Water, but the number that I receive as an MSP has dwindled to next to nothing even though I represent an area 10 to 15 times as big. We have to look at how things have improved and use those models, but we must be realistic about keeping a good value-for-money source of services for the public.

The Convener: Are there any comments on the point about better value? We heard earlier about the opportunities for great public services through the shared services agenda and the fact that we can do procurement better, but the written submissions that we have received state that the pace of that work has been too slow. It has been dreadful. It seems to me that that is a bigger challenge. Everybody thinks that it is a good idea, but nobody is in a hurry to get there. There might be many reasons for that. It would be good to hear some views on that.

We have not heard anything today about the Scottish Futures Trust and the Scottish Government's role in pushing that forward as a centre for excellence. When we took evidence on single outcome agreements, we heard people saying, "We'd like to do more on local government. We have all bought in to this agenda. In fact, we meet on a regular basis, and the leaders meet, but we really can't do anything until we get the health service and other people on board." To me, that is starting to sound like creative avoidance.

There is an issue about the pace at which the work is going forward, how we can do better, and whether the Scottish Futures Trust and the Scottish Government have a role in pushing that forward.

Henry McLeish: We are all grappling with what local government in 2009 is about. What does it provide? What are its policies and priorities? We need to have that debate to enable us to discuss process and finance. When we talk to people in local government now, we get into community planning and a range of other things. Without overegging the point, I get the distinct impression that an awful lot of that work is going on, but I am

not sure that we are seeing an awful lot of benefits at the outcome level. What we get, I think, is the absorption of process within local government overcoming the importance of delivery.

The other issue is the return on investment—value for money, public value and all that. I was in local government for 13 years—I have been out of it for a long time—and I am sorry to return to the point, but unless and until local government begins to take responsibility for its own future, we will not make the progress that everyone, including central Government and the Accounts Commission, would like. The difficult thing is that taking that responsibility requires a lot of courage.

During the Thatcher and Major eras—no offence to any colleagues round the table—those Prime Ministers were much maligned because it was said that services and manpower were being hacked back. However, that was not true. The rise in the manpower graph for local authorities has just carried on and on. Are they defying the laws of economics? Possibly. What about the laws of politics? Certainly. We are now in 2009, but I do not think that a great deal of progress has been made on the issues that you asked about, convener.

I have two points that are perhaps more radical. We have talked about prioritisation and what we could do to deliver better, but we need to consider the really radical move of saying, "Sorry, we're not going to do that any longer." To give an example that I feel strongly about, when Scottish Enterprise was reviewed and reformed, we decided to give part of its economic development function to local government. We cannot have a demonstration model and compare it to a placebo but, basically, if the economic development function disappeared from the 32 councils in Scotland tomorrow, with the exception of Glasgow and Edinburgh councils, would we notice a difference in the outcomes for jobs, prosperity or housing? To be controversial, I hazard a guess that the answer is no. We need to get to a point at which we say, "Hey, instead of asking for more and getting more, we will just not do that any longer." We have labour market people, Scottish Enterprise, the Scottish Government and the industry department, so local government could step back from that.

My second point is on an issue that I get more concerned about the more I am out of politics: inequality in Scotland. We have an 80:20 society, with 20 per cent living on or below what we define as the poverty level. Inequality leads to material disadvantage. However, at the end of the day, in Glasgow and Edinburgh, where there are large groups of people in that category, what are local and central Government doing to attack the issue, financially or through policy? Is it not incumbent on us, as part of the delivery of any policy, nationally or locally, to start to consider issues that cross boundary lines? That is not simply about an extra allocation to Glasgow or Edinburgh; it is about a fundamental shift in approach. If inequality is a serious issue, whether it be in relation to prisons, alcohol or substance abuse, we must consider whether we are tackling it within the current confines of a debate on local government and central Government.

Professor Alexander: There is a very real danger there. To go right back to the beginning of the discussion to the lack of flexibility for local authorities, there is a real danger that, when the recession really begins to bite, local authorities will have to make economies where they can, rather than where they would choose to by reconfiguring the pattern of services. If that happens, it will become even more difficult than Henry McLeish described to deal with those much broader issues. That is what really worries me. There are so many sacred cows that have to be herded up and put in a field, which means that authorities are left with the things that they can cut, which might not be the best things to cut in response to a recessionary period.

John Wilson: I want to return to Professor Kerley's comment about job retention in the public sector. He implied that, for people who work in the public sector and local authorities, it is difficult to be pushed out the door. He said that that is reported by managers in the public sector and local authorities. I want to turn that on its head and ask whether the issue is down to the management, rather than the individuals who should be pushed out the door. Jim Tolson commented that Scottish Water might have pushed people who were due to go out the door out the door faster. Do we have adequate management structures or leaders in local government, at official and elected level, to drive forward that agenda?

Unfortunately, the same people have been leading local authorities for the past 20 or 30 years—the same is true in other sectors, too. Those individuals have not moved on, but we are faced with the same problems and we do not seem to have the innovation or drive that we have in other bodies, such as Scottish Water, where new management structures and managers were brought in, which drove changes.

Perhaps it is just my perception, but we still seem to have the same people at the top in local government and the same management problems. I believe that that applies to many departments in local government. The question is whether they are prepared to think outside the envelope and tell the Scottish Government or others that they think there are better ways to deliver services. I am reminded of a colleague from a number of years

ago who worked in a local government research unit that had a number of ideas about how to deliver and improve services, which it wanted to go up the chain. However, her manager continually told her that he could not take forward the ideas because his manager or the elected members would not view them kindly. We need to change that culture, but how do we do that if the same people continue to head up the organisations?

Professor Kerley: Previously, I was blamed for introducing too many new Scottish National Party councillors into local government, but we will let that pass. John Wilson raises an important point, but I do not want it to rest solely on the difficulty of dealing with underperformance in local government. However, as I look across the piece, there are many signals that dealing with staff performance in public service is generally quite difficult—it proves problematic. For example, there are good grounds for many of the staff who work on refuse lorries or in swimming pools having greater sickness absence levels than people who work in the headquarters of the Royal Bank of Scotland. However, across the totality, the higher levels of sickness absence and so on are clearly a reflection of poor management, in my view.

That is one aspect, but there is also the difficulty of having the right labour mix. There is a paradox that we have never really tackled, which is that we can best achieve enhanced efficiency and better service at lower cost by pushing down decisions and resource control to the lowest level. For example, we say to a social work manager in a given area, a headteacher in a school or whatever, "We're going to encourage you to run a single-line budget, and you do the best you can. The savings you generate will be in some way returned to your unit." That is an extremely difficult trick to turn, because we run into the classic economist's problem of a free rider. With increased transparency, more and more unit managers can look at unit budgets and expenditure across a department or council and say "Hold on. In 2008-09, I did my best to reduce expenditure, and the money was taken away from me, but the guy next door to me did nothing at all, and he's been given the same amount of money he had last year—indeed, more. Why should I perform at that effective level?"

How we reward enhanced performance is almost a holy grail issue. I do not just mean in cost cutting, but in thinking more creatively about how to make a service work. It is very tough to do that. It is easy to do it in the short term from a command level. Anybody in the room who has been a councillor will have been through the experience of saying, "Right, we're dealing with the budget. We're going to have a committee every week to look at every item of expenditure over £500." That lasts for about two weeks, because you are presented with 830 items of expenditure over £500, so you decide that you do not have the time and do something else. It is difficult to get improvements absorbed down into an organisation. It is as much a cultural issue as what we have talked about. It is how to encourage a culture of using resources more effectively and achieving enhanced performance, and how to reduce spend in doing that.

Angela Scott: I want to go back to the convener's question about the pace of change around procurement and shared services. Audit Scotland's recent report on the state of health of procurement is interesting because it shows that there was a massive cultural shift. There were issues about the capacity of the public service to respond to the agenda and about skills. Problems such as the number of centres of expertise that were required to be set up and the difficulties experienced in recruiting from the market people with the necessary skills have impacted significantly on the development of all these organisations. That said, the report helpfully sets out the scale of savings that have been achieved so far and suggests that the organisations are beginning to settle down.

15:30

One of the least developed areas is, as Henry McLeish pointed out, collaborative procurement across a number of public sector organisations, but the centres of expertise are starting to facilitate such work and I think that we will start to see more of the effect of that change.

The Scottish Futures Trust was perhaps a victim of timing with regard to the raising of finance, but there is an issue about how that centre of expertise will interface with the other procurement centre of expertise. From a local government point of view, Scotland Excel is now responsible for construction procurement. How will that interface with the SFT?

The same questions arise about the capacity of and skills in local government to deliver shared services. There has been a realisation that the agenda has focused on backroom services. Although there are savings to be made in that area, they will simply not scratch the surface of the challenges presented by the financial envelope that we are facing. The bigger challenge will be the front-line response on social care and education, which is where I think that the shift will start.

We have had a slow start with procurement, but the wheels are now moving. For example, most local authorities are members of Scotland Excel, whose regional centres will start to facilitate the

collaborative procurement that will be vital as we move forward.

Professor Bailey: To blend the previous two comments, on the idea of driving change and innovation through the public sector in general and local government in particular, the academic literature increasingly refers to the need for public organisations to become learning organisations. The fact that some councillors may have been in place for decades might be viewed as a management problem, but—as Richard Kerley said—it is possible to change the culture of local government so that it becomes a learning organisation.

Comparative studies have examined how the public sector operates abroad, for example, and we have tried to import certain innovative ideas to improve service quality and/or get costs down, but that does not work because the culture and institutional context is different from one country to another. We need greater devolution of decision making to the lowest level of service provider possible, but we also need a management system that allows local government to learn through its mistakes what works and what does not. That is where the Scottish Futures Trust comes in.

We carried out some work on the use of the prudential borrowing framework in Glasgow for the renewal of the city's primary schools. We interviewed various service officers in education and elsewhere in the council who said that they had not been able to learn anything under PFI. The learning experience was effectively contracted out, so they did not learn for themselves how to procure new secondary schools other than by going down the PFI route. The officers argue that they have more chance of learning now, with the phased renewal of Glasgow's pre-12 schools. The argument for the SFT or some other centralised body is that lessons can be learned from the procedure because decisions are repeated, whereas the renewal of all the secondary schools in Glasgow is a one-off event in an officer's lifetime. To improve service innovation in order to improve outcomes and control or reduce costs, we must look at the level at which the procurements take place, particularly if we want learning from experience.

Professor Alexander: In general, your inquiry needs to be careful not to give the impression that it is simply moving the deckchairs about on the Titanic. Much of local government will face serious problems over at least the next decade in relation to, for example, demand for services, incapacity to pay and different expectations throughout the country. Some hard questions need to be asked.

I will sound a note of dissent about the shared services agenda. The more local government relies on shared services, the more the question of structure is inevitably raised—the two cannot be separated. That might come to grief, with regard to Angela Scott's point, because it is much easier for local authorities, as service providers to the community—whether or not they should be—to sign up to shared services in the back office than in the front office. If shared services—however those are defined—are the way to improve efficiency, it seems impossible not to start thinking about structure.

The Scottish Government was mistaken to concede to local government as part of the concordat that there would be no discussion of local government reform at the structural level. It is never a good idea in a democracy to say that certain things cannot be discussed. If one starts pushing something in that direction, it becomes very difficult not to move into that area. The people who will be worst affected by the recession are concerned about how local government will be able to respond to their needs. That takes us back to the question of flexibility.

It is important to emphasise that when Jo Armstrong and I talk about what happened at Scottish Water, neither of us is saying that the driver for change was that the service was taken out of local government. That happened in 1996, but the subsequent existence of three regional water authorities did not produce such efficiencies. It was the oversight and the regulation that did it. I do not want to say, "Take the service out of local government and it will be fine", because that is not what I believe. What I believe is that we have not devised an acceptable quasi-regulatory mechanism that makes local authorities drive for efficiency as a matter of course in all that they do. That is being done—although patchily—in some areas: procurement is a good example. Moving to a system of having one collection centre for council tax might be another way of doing it, but that would raise the question whether we have too many local authorities. One cannot completely dodge the question of structure.

Henry McLeish: I am not advocating that we examine structure. My concern arises from back in the Westminster days, when George Robertson and I were opposing the Conservative restructuring of Scotland. We found that once a structural debate emerged, all the real issues disappeared—it became a case of shuffling the deckchairs on the good ship local government. I agree that we want to avoid—at times of crisis now and in future—the issue of structures becoming a convenient way out for those who do not want to think about the serious problems.

In that same category, I have real issues around the current council tax freeze in local government. We are in a curious position in which local government is getting more to do with, inevitably,

less money with which to do it. At the same time, however, central and local Government are getting closer together on all the types of agreements that emanate from within. The net effect of that will be not to engage with and promote the type of ideas that you have come up with this afternoon, convener, but to create a state of paralysis where we are all in it together, but we are not thinking outside the box—or in any creative way—about tackling some of the massive problems. I respect the agenda for local government, not because I think it is a driving force of the best in any way, but because it currently faces some real difficulties.

The Convener: We may return to the issue of whether the council tax freeze is sustainable, as we touched on that earlier.

Mary Mulligan: I will raise two separate issues, both of which are about best practice. First, Richard Kerley spoke about rewarding people for being innovative and efficient and whether that reward develops. I wonder about the bigger picture. Do we reward local authorities for being good at what they do? The major part of local authority funding comes from central Government. Does the division of the cake among the 32 local authorities reflect which authorities perform well, or which have the most challenging or biggest populations? What are the priorities?

Secondly, Alan Alexander said that he has doubts about back-office functions being joined together and the productiveness of that. Does that provide an opportunity for local authorities to learn from one another how they can deliver their front-line services more effectively? Do back-office staff not learn from the experiences of others as a result of working together and seeing what is going on in different places?

Those questions are about how we can develop best practice to deliver service improvements.

Professor Alexander: I am not at all opposed to shared services; rather, my issue is that we should not build too much on sharing services as a way of making local government more efficient. We want to make local government more efficient so that more resources are available from a diminishing pot to go into front-line services. If we put all our money on sharing services, it will not be enough.

The experiment that took place down south that involved making some resources dependent on performance was not a happy one. That was the major reason for local government in Scotland resisting league tables arising out of best value.

It seems to me that a way must be found of generalising best practice more effectively than we have done so far. I agree with Mary Mulligan on that. Let us be honest with one another. I have looked at the first 32 best-value audits. Nobody would come away from reading those audits—if they were still sane after reading all of them—with any view other than that, overall, West Lothian Council was at or near the top in terms of general performance and West Dunbartonshire Council was at or near the bottom. I do not think that anybody would come up with any other view. The other local authorities are positioned in between. Therefore, there is, informally at least, a league table. Other than by using the rather blunt instrument of the Improvement Service, we have not managed to consider the well-performing authorities and say, "Okay. What is it that's making those authorities good? What's making them efficient? Can we bottle it and send it to other parts of Scotland?" The public sector has never been particularly good at that. There is no doubt that much more can be done in that area.

On contracting out, I am a bit sceptical about the notion that Jo Armstrong advanced that it does not really matter if a local authority is a provider or a commissioner. Up to a point, Lord Copper. We have not really developed high-class skills in the management of contracts in local government or the public sector in general over the past 25 years. They are not good enough at that. For that reason, when local authorities contract out, the contractors often end up running rings around them. There is a need for real learning about how to manage contracts in the interests of the people to whom the services are delivered.

15:45

Jo Armstrong: I will comment on the pace of change and procurement efficiencies. We must be careful about applying the efficiencies that we can generate from pooling the procurement of light bulbs or electricity—certain utility-type services—to the procurement of certain types of service that are much more personal in nature. It is not right to pool large contracts for care services, exclude the end users from the decision-making process and treat them like light bulbs. That does not fit with the personalisation agenda at all, but we are in danger of going down that route. I caution against wishing to speed up the pace of change in that area of service.

Change will become a much more fraught issue. I have lived with the budget problem for the past 18 months but, even though the metric exists, it has been extremely difficult to get people to listen to it. People are now beginning to understand the numbers but they still do not really understand what those numbers mean in their patches. Perhaps we will face crises à la California before we start to realise that structural change is likely to be required to balance the budgets.

That feeds into whether we have clarity on the minimum necessary service. That was the trick

with Scottish Water. The ministers made it absolutely clear what outputs they expected; there was an effective set of data that could be used for benchmarking, so Scottish Water knew what good practice looked and felt like and how it smelled; and then people were incentivised to deliver. Incentivising is about not only financial incentives, but being seen to be the best: having award ceremonies that make it clear to the public that the service that was delivered was extremely good.

If we need structural change, it is incumbent on the Parliament or local government itself to specify the de minimis service that the organisations must ensure is delivered and then to ensure that it is actually delivered. The benchmarking information, which is necessary to ensure that we understand who is good and bad at delivering services, is not good. The Accounts Commission would argue that that information cannot be used for league tables because the data are not necessarily all monitored or measured in the same way—they are not consistent across all local authorities. If we face a reduction in service provision, we need better data and need to ensure that they are comparable across local authorities if we want to ensure that we have the minimum necessary and want to know where best practice is.

We are collecting a lot of information. It is not necessarily fit for the sort of exercise that I described, but we will probably have to get such data at some point in future. The committee might want to think about what services are necessary and what the minimum level of service should be. Let us start to make that level of service clear where it has not yet been specified in legislation.

On the Scottish Futures Trust, I tend to agree with Alan Alexander that the moment that we start to talk about a body representing best practice and being, in effect, an aggregator, we start to challenge the structures that are in place. I cannot see how the Scottish Futures Trust provides the efficiencies that might be possible in financing, for example, without being the aggregator and manager of certain assets. The minute that we aggregate assets, we ask who owns them, who gets the benefit of them and who shares in the rewards or the surpluses that are generated. That is a big debate about who owns all the schools, hospitals and local authority housing and how we invest in local authority A's area using the benefit of local authority B's housing to allow that to happen. That is a big debate. The Scottish Futures Trust can deliver that investment, but it takes us into the debate about who owns what and what the structure of delivery for the services might be.

Professor Kerley: I will not comment on the Scottish Futures Trust because I am not entirely sure what it was established to do or what it has managed to do in its lifetime.

There is an element of the procurement discussion that is hard to reconcile. For example, it is hard to reconcile lauding localism and locally produced food for kids in school with the bulk acquisition of product. Imagine if Scotland Excel said that the best provider of fresh vegetables in Scotland was the Pillars of Hercules organic farm in Fife and that it should provide turnips to every school in Scotland. The policy would fall apart immediately on that level.

There is another relevant factor. Better procurement potentially has beneficial consequences for the procurer—the local authority—but, in a number of cases, it will drive providers' margins down to the very bone. That is precisely the complaint that publishers make, for example, about the purchasing habits of Amazon. Some of them are going out of business because they are not making a big enough return.

The issue of a minimum level of service is extremely difficult. Conceptually, it is quite attractive, but it is actually extremely difficult to understand. West Lothian, with its dispersal of population and settlement pattern, is extremely rural compared with England. However, by and large, West Lothian Council can probably deliver a pretty standard level of service across the whole area. In the Borders, Dumfries and Galloway and the Highlands and Islands, standard levels of service delivery become extremely difficult to achieve, because some services are simply not available to everyone. There cannot be a theatre in every community. There cannot be back door or front door rubbish collection for every property. If a minimum level of service is hard to achieve in concrete terms, it becomes hard to define it. Where is the discretion over and above that?

In much of our discussion, we talk glibly about statutory services and discretionary services. The reality of the service mix in local government is that in virtually every activity that local authorities engage in, with the possible exception of economic development, a mix of statutory and voluntary provision is involved. There is no statutory requirement for councils to facilitate visits for secondary school-age children to the trenches or the camps of the Holocaust. Does that enrich the history education of the kids who get to do it? It probably does—but it ain't statutory.

On the other hand—and as Wirral Council found recently—there is an argument that library provision is statutory, and I understand that it is meant to be provided at a "reasonable level", or it should be an "adequate provision". Judges and lawyers could argue for weeks over what is reasonable or adequate. I do not think that we would find it an easy route if we were to go down that line.

I have forgotten which section of the discussion we are on—I am perhaps slipping into anecdotage. Last time we had a major recession, I chaired a council committee in Edinburgh. Parsons Peebles was going to shut down. I went to see the managing director and asked him, "What can the council do to help?" He said, "Buy a bloody power station."

Henry McLeish: And did you?

Professor Kerley: No, we did not. We thought we had enough heat-generating capacity in the council.

Professor Alexander: There are issues around having minimum standards during a recession in particular—it is very difficult to prevent the minimum standards becoming the maximum standards. If a minimum is specified, and local authorities are strapped for cash, that is what they will deliver. It goes back to what Stephen Bailey said earlier—there is a reluctance to specify minimum standards partly because of that tendency for minimum to become maximum.

The Convener: If we are going to change the culture, we will affect people—their jobs, their contracts of service or whatever. We recently took evidence on the procurement of care services in the community. Local authorities pursued procurement strategies to eliminate small providers, who did not always provide levels of quality and sustainability that were useful to the area.

In Lanarkshire, the procurement policy took out a lot of small providers, created one large one and built capacity and sustainability on that. People went out of business and contracts were changed. We have yet to see whether quality will improve. According to the evidence that we received, the anticipated economies were not materialising and services cost more. Those concerned came before the committee and went on "Panorama" and God knows what. It is never easy.

As we reach the conclusion of today's meeting, I am starting to worry about the deckchairs that Professor Alexander warned us against simply rearranging. It seems to me that we have not reached any clarity about what we can do in the short term. We all accept that a train is coming round the corner that will result in a big squeeze. How can we avoid the expected response, which is that local government blames the Scottish Government and the Scottish Government blames the UK Government, given that the consequence of that approach is inaction and an unwillingness or inability to pull the levers that would at least mitigate circumstances for the poorest in our communities throughout Scotland? Given that some levers are available, what should the committee recommend to the Scottish Government and local authorities over the next few months, to mitigate some of the worst effects? Given that much of what we have discussed will not be achieved any time soon, what should the committee's report say to the Scottish Government or local authorities—if we are not to be portrayed as rearranging the deckchairs on the Titanic?

Henry McLeish: I think that you have partly answered your own question. You talked about the train that is coming round the corner, but central and local government are also like a train that is moving at breakneck speed. I hope that, following the recession—if we can believe what we hear—growth will resume this quarter. Unemployment will clearly continue to be a big issue, however, so I am doubtful whether the committee can recommend a great deal that will blunt the edge of the recession as it affects people in local communities or enhance what local government can do in response.

An important point that can be taken from what my more expert colleagues have said is about management, which is a very positive thing. We now need to take management in local government seriously. It seems to me that, in the health service and in local government, management needs to be quite dramatically improved to take on board some of the issues that have been discussed.

In terms of the political dynamic, another issue is that local government at member level—God bless them all—is often confused. I should say that, like other colleagues around the table, I used to be one of them. When I was a council leader a long time ago, we used to do this great thing in the policy and resources committee of putting the painting of lampposts as the first three agenda items. That discussion would exhaust the members of the PR committee, so we could then deal with the big items—£15 million for this, that and the other—at the end of the meeting. That was our way through. I think that things have dramatically improved since those days—

John Wilson: Have they?

Henry McLeish: I am defending councillors now.

I would like to think that the vision is to try to get councillors more involved. There is a curious paradox in that we are arguing for better management, but in many councils the senior officials are too much in control and not much political leverage is exerted. I would rather trust local politicians than some senior officials to be alive to what is happening in the community—whether or not there is a recession.

I think that the big issues that have been hinted at are the bigger agenda that will take local government forward for the next 20 or 30 years.

Although the debate has not been entirely coherent, some of the issues that have emerged have tended towards an agenda that the committee could develop.

Professor Bailey: Before we decide what we can do to ameliorate the effects of the recession, we must first decide what effects the recession has caused or is likely to cause. Otherwise, it would be like saying that every time it rains is evidence of climate change. Much of the financial stringency that is facing the public sector was coming anyway—with or without a recession. The danger is that we attribute all the financial tightening to the recession.

If we look back over the period to 1945, we find that the number of years in which the UK Government had a budget surplus is perhaps half a dozen. The surpluses were tiny. We have had persistent, year-on-year budget deficits. We have a structural budget deficit that has run for decades. Even in the periods of fast economic growth, the public sector spent more than was brought in from tax revenues, privatisations, sales, charges and so on. The big problem is not the recession; it is the persistent, structural budget deficit that we have had every year, more or less, since 1945. That, not the recession, is the big issue.

16:00

The submissions—of which there are very few—tend to concentrate on the downside of the recession and try to attribute lots of things, such as energy costs, to the recession, but the recession has caused energy costs to fall, not rise. There could be more competition in procurement because private sector businesses are getting more desperate for contracts.

Falling property values resulting in local government being unable to get as much from land sales has been mentioned, but that has not been as big a problem in Scotland as it has been in England. Increased food prices are mentioned too, but they are not due to the recession. They might, for example, be the result of biofuels being grown in place of edible foods.

The submissions say that there are increased pressures on personal social care. That might be the case, but surely the unemployed can spend more time at home looking after their old folks. The submissions suggest that all the problems are due to the recession, but they are not. If they were, that would be better, because it would mean that they were only short-term problems. The evidence of the past few recessions is that the turnaround is quite quick. Local authorities' financial problems are much more long term. We should not become preoccupied with the impact of the recession.

Another complaint that is made in the submissions is that less money is being made on balances in banks. That is true, but borrowing is easier because interest rates are an awful lot lower as a result of the recession. The impact on pension funds and pension deficits is mentioned, but that was a big problem even before the recession. The fall in the stock markets, which has resulted in an increase in pension deficits and shortfalls, is short term. The recovery of share prices after the recession will not wipe out all the deficits, which have arisen for much more long-term, structural reasons. The idea of using tax increment financing as a way of funding infrastructure is fine, but that represents a move back to ring-fenced moneys—it would result in a reduction in flexibility.

As we consider what the Scottish Government can do, we must be careful not to say that it is all the problem of the recession, which would be like saying, "It's all the fault of climate change." If we exaggerate the effect of the recession we will focus too much on the short term and we will not take a sufficiently long-term view. In many of the comments that have been made this afternoon, a much longer-term view has been taken. It has been recognised that the solutions to problems extend way beyond the next few years.

Professor Alexander: The question that the convener asked was essentially what I call the king-for-a-day question: what would you do if you were king for a day? I would make two recommendations to the Scottish Government. First, it should renegotiate the concordat and the single outcome agreements in a way that imports into that process—through which a huge chunk of public money will be spent—ways of measuring and driving efficiency because, as I said earlier, I cannot find that anywhere in the process.

Secondly—in Scotland these days, this is the political equivalent of hunting the snark—the Government should withdraw from the notion of a council tax freeze in favour of permitting, even within limits, variation of the council tax year on year. Both those measures, particularly the second, impinge on the flexibility that is needed to react to any short-term pressures that the current recession might produce. Those are the two recommendations that I would make to the Government because I think that they are what is missing from the relationship as it currently operates.

Jo Armstrong: It is clear that the short-term measures that the Government takes must be about reducing spend, where it can, and that they must include action on salaries. If salary increases were capped or if there were no salary increases,

that would—at least in the short term—free up a considerable amount of cash, which would help to pave the way for future progress.

Consideration could be given to reintroducing charges that have been taken away. There could be a mechanism for increasing council tax, which might perhaps involve varying it at the higher bands.

The other thing that local government has to think about is the fact that the Scottish Government might ring fence education and health spending, which would have significant and disproportionate detrimental effects on other local government services. Local government might want to say to the Scottish Government that it should not ring fence those areas at the expense of other local government services.

It looks like we are taking pain, but the reality of the economic downturn is that everyone will be taking pain through increased taxes at some point.

Angela Scott: I echo many of the points that have been made. The issue is that local government does not yet know what the size of the pain will be. It will not know the size of the pain at the total level for another couple of weeks, and it will be a couple of months after that before it knows the size of the pain at the individual level. There is not a lot of time in which to turn the situation around, and 2010-11 might not be the worst year—the worst will likely come after.

Local government must focus on the long-term measures that can be taken and balance them against some of the short-term things that will have to be done. The acceleration of procurement and some of the non-salary issues represent some quick things that can be delivered to get us through 2010-11, but it is important that there is investment in the skills and capacity necessary to bring about some of the change that is needed. That needs to be done in a systematic way. The approach of local government on shared services so far has been a bit piecemeal. There have been bits of investment in different places. If that is a credible fix for the longer term, we need to focus on it and share what it can offer. There needs to be a clear strategy to take us forward and some short-term measures that will get us through 2010-11.

The other timing issue is that, if there is a general election, we will not get the next spending review until after the election. The timeframe for making some of the decisions that must be made will be considerably shorter than previous timeframes. We will need to invest time in making those decisions. I agree with the points that have been made about the role of elected members in that, because there are some harsh decisions that must be made and political leadership is needed to support them. I also agree with what was said about the need for robust information to support those decisions.

The Convener: I think that that brings this evidence-taking session to a natural end. I look forward to reading the discussion in the *Official Report*, because I think we got off to a great start. These sessions always depend on the people we invite along—I offer a vote of thanks to our officials for getting the right people along here today. I thank everyone for their time and input.

I will suspend the meeting for a few minutes.

16:07

Meeting suspended.

16:14

On resuming—

Work Programme

The Convener: Agenda item 3 is to agree formally the committee's decisions at the work-planning meeting and remind ourselves of the decisions. We agreed to scrutinise the first full report on progress towards implementing the single outcome agreements once it is published and to invite the Cabinet Secretary for Finance and Sustainable Growth to give oral evidence. We also agreed to invite a petitioner to participate in an oral evidence session for the inquiry into local government finance. I do not know whether that is happening. Has it been confirmed that the petitioner and others who have been invited are coming to the oral evidence session?

Susan Duffy (Clerk): We have phoned them and are waiting to hear back.

The Convener: Okay, so we have still to get confirmation. For the record, the petition involved is PE1158. Does the committee confirm for the record what we agreed?

Members *indicated agreement*.

The Convener: Do members also agree to the approach to budget scrutiny that we previously discussed?

Members *indicated agreement*.

Subordinate Legislation

Environmental Impact Assessment (Scotland) Amendment Regulations 2009 (SSI 2009/221)

16:15

The Convener: Agenda item 4 is on the Environmental Impact Assessment (Scotland) Amendment Regulations 2009 (SSI 2009/221). The Subordinate Legislation Committee has considered the instrument and has raised no concerns about the matters in it that are within its remit. Members have received a copy of the instrument and have raised no concerns. Do members agree that they do not wish to make any recommendations to the Parliament in relation to the instrument?

Members *indicated agreement*.

16:16

Meeting continued in private until 16:38.

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