



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Tuesday 13 April 2010

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FINANCE COMMITTEE

9th Meeting 2010, Session 3

CONVENER

*Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

*Tom McCabe (Hamilton South) (Lab)

COMMITTEE MEMBERS

*Derek Brownlee (South of Scotland) (Con)

*Malcolm Chisholm (Edinburgh North and Leith) (Lab)

*Linda Fabiani (Central Scotland) (SNP)

*Joe FitzPatrick (Dundee West) (SNP)

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

*David Whitton (Strathkelvin and Bearsden) (Lab)

COMMITTEE SUBSTITUTES

Gavin Brown (Lothians) (Con)

Lewis Macdonald (Aberdeen Central) (Lab)

Stewart Maxwell (West of Scotland) (SNP)

Liam McArthur (Orkney) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

Eddie Frizzell

Bill Howat

John McClelland

Alan Sinclair

Denise Swanson (Scottish Government Children, Young People and Social Care Directorate)

Kit Wyeth (Scottish Government Children, Young People and Social Care Directorate)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Committee Room 1

Scottish Parliament

Finance Committee

Tuesday 13 April 2010

[The Convener *opened the meeting at 14:02*]

Budget Strategy 2011-12

The Convener (Andrew Welsh): Good afternoon and welcome to the ninth meeting of the Finance Committee in 2010, in the third session of the Scottish Parliament. I ask members and everyone else who is present to turn off their mobile phones and pagers, please.

Agenda item 1 is evidence taking for our inquiry into efficient public services. I remind members that the remit for our inquiry is:

“What preparation should be underway now by the public sector to ensure the efficient delivery of public services within a period of tightening public expenditure?”

Today’s meeting provides an opportunity for our expert panel of witnesses, all of whom have experience of conducting relevant reviews for the Scottish Executive and/or of leading major public sector organisations, to set the scene for the inquiry by providing an overview of the main issues. I am thinking of, for example, likely future budgets, the likely implications for public services and how the public sector should respond.

I welcome our panel of witnesses. John McClelland conducted a review of public sector procurement in Scotland on behalf of the Scottish Government in 2006 and is currently the chair of the Scottish Further and Higher Education Funding Council. Bill Howat was the chair of the budget review group that published “Choices for a Purpose: Review of Scottish Executive Budgets” in 2007. Eddie Frizzell has been the head of the Scottish Executive’s Enterprise, Transport and Lifelong Learning Department, the chief executive of the Scottish Prison Service and the director of Locate in Scotland. He is currently visiting professor in public service management at Queen Margaret University. Alan Sinclair, formerly of the Work Foundation and a former director of skills for Scottish Enterprise, is an economist who has a particular interest in the case for greater investment in the early lives of children.

In broad terms, what do you think the implications of the current financial situation will be for Scotland’s public services?

Eddie Frizzell: I will give you the kind of answer that I would probably have given you several years ago, which is that it depends on how the Barnett formula works. I think that it is quite clear—in this

well-tilled ground—that, at United Kingdom level, we face a combination of tax increases and public spending cuts during the three years that will start in April 2011. Whatever happens in terms of public expenditure reductions to meet the fiscal deficit and the UK’s national debt will depend on the working of the Barnett formula, which in turn will depend on the extent to which cuts fall on comparable expenditure that generates a formula consequential for Scotland.

What happens will also depend to some extent on the split between capital and current expenditure and whether the existing rules on capital and current work. That is mentioned in the paper from the Scottish Parliament information centre. There has been a one-way valve in recent years, whereby current can be put into capital but capital cannot be put into current expenditure, which makes it difficult to use capital to support recurrent expenditure on services.

Whatever happens, there will be reductions in the Scottish budget. There is a degree of consensus—I will not say “agreement”—around what the cuts will look like. Various projections have been made, with which I am sure the committee is familiar. The three wise men, as they have been called, who are conducting the independent review are working on the basis of cuts of something like 3 or 3.5 per cent each year in real terms over the next three years, possibly front-loaded at 5 per cent or thereabouts in the first year. That would be a significant real-terms reduction. If we take the 2010-11 budget, which was agreed in February, as the price base and the baseline for the next three years, reductions of that order mean that we are talking about £3 billion or so coming off the budget, in the same money terms as the 2011 budget. That is a significant reduction.

I said “significant”, but that does not take us back to anything like the budget in 1999 and it will not be the first time that there have been difficult spending reviews and budget situations. However, it will certainly be the first time since 1999 that we have not been looking at growth in the budget.

The Convener: I am trying to get a broad-brush perspective, given the witnesses’ vast experience. Does anyone else want to give us a broad overview of the situation?

John McClelland: I cannot give a more detailed overview on the numbers, but I make an additional point. Unlike some of the situations in the past when there have been budget issues or spending constraints, the current situation will last a lot longer. I am sure that that is fairly obvious. That is the bad news. What we can take from that is that, in general terms, what is required is the development of strategies and plans that would be worth while embarking on, rather than a set of

short-term tactical changes and moves. I think that the committee is focusing on that issue.

Alan Sinclair: We are likely in a position in which 25 per cent or so will come off budgets inside an eight to 10-year period. That is the best that we can come up with. It could be much worse than that because, in the 10 years prior to the financial collapse, we had a net doubling of the world's labour force, as a result of the introduction of China, India and Brazil into the world economy. We are just into a step change in our relationship with the rest of the world, on top of the current financial crisis, and we must start thinking in a much more fundamental way and on a longer-term basis.

The Convener: Do you want to add anything, Mr Howat?

Bill Howat: I hesitate, because I suspect that I will add to the gloom. I do not have much to add on the forecasts on expenditure. The committee has seen the figures and I have looked at them, and we must all make best guesses until the outcome of a certain process at Westminster is known and the real numbers start to emerge in a few months' time.

No one has mentioned yet that we are doing this at a time of increasing pressure on our public finances. There are growing demands; we all know the demographics that we face. Not only do we face fiscal tightening, we do so at a time when there are a lot of other pressures. I will mention one such pressure, as it is a hobbyhorse of mine. It is time to look more carefully at the regulatory burdens that are put on our services. Those burdens have grown considerably over the past 10 years, to the point where we need to think about that.

In general terms, the picture is pretty gloomy. I am sure that you know that. I am also sure that you want us to address the question of what we do about it. My answer is: plan. I am the honorary secretary of the Society of Local Authority Chief Executives and Senior Managers and we have spent the last year gearing up for this. We have had all sorts of people along to our meetings, including John McLaren from the University of Glasgow. We also heard from Scottish Water how it dealt with significant reductions over a period. Lessons can be learned, but radical thinking will be needed. That is enough of an opening statement.

The Convener: Given your vast experience and following on from what you said, what are your thoughts in general on the most important factors in realising greater public sector efficiency? What are the main barriers to achieving that?

Bill Howat: The main factor is political will. You are the politicians and you have to give a clear

steer. I am not making a plea for a Government of national unity, but there are broad areas of consensus that I am sure we can reach. That said, without a clear political steer, it will not be possible to drive through change given the complexities of our public expenditure system. Our report demonstrated, as did the work of my colleagues, how long it can take for a decision at the strategic level to be driven all the way through.

As I said, the first thing that is needed is political will; the second is evidence. If you were to take evidence from Scottish Water, you would hear about the "burning platform", which is the term that it uses to describe getting all the stakeholders in an organisation to face up to reality and work together. Such a situation comes about with clear political will and people who are realistic. Once it happens, a clear sense of realism and purpose can be developed, the barriers begin to fall away and everyone sees that they have a common purpose. I will leave it at that—at the strategic level—but I am happy to give some examples, if the committee wants me to do that.

The Convener: The committee will want to follow up on that. Does any other witness want to give a general impression on how to get greater public sector efficiency and to set out the main barriers to that?

John McClelland: I return to my work on procurement and the report that I produced, which was published in 2006. I made 82 recommendations. The word "collaboration" probably appeared a couple of hundred times in the report. The ability and willingness to collaborate and share across the public sector and within parts of the public sector is one of the most fundamental opportunities. In the past, people found it difficult to embark on such collaboration, sometimes because of a lack of political will. My report and the environment in which we now find ourselves have created a window of opportunity to weld together—I do not necessarily mean legally or technically; I am talking about shared services in areas such as procurement and areas that may have been looked at and dismissed in the past. The will and the realisation that there is an opportunity to deliver public services in a more economical and effective way will overcome some of the inhibitions and barriers.

14:15

Alan Sinclair: I wonder whether the committee is tethering itself by simply looking at efficiency, which is to do with how we can do what we currently do better, whereas the stronger theme is how we can set about governing our country more effectively. Having been in various places in the public and private sectors over the years, I am concerned is that we consistently have a mindset

such that we wait until things have gone wrong and there are problems, and we then go in at the point of impact to try to patch the roof. We usually wait until the roof is very leaky. Instead, we need to go down to the systemic root of our problems much earlier. That is why I have become a champion for the early years, because that is the root of so many of our public problems. Having chosen the early years as the most effective place to start spending public money, we need to find the most efficient way in which to use it.

The Convener: You believe that we need positive intervention.

Eddie Frizzell: I am inclined to agree with what Bill Howat said about political will, but I would be a bit more specific. In particular, we need the political will to drop the pretence that we can get serious efficiencies without an impact on public sector jobs. We have begun to get into that debate, albeit in rather unrealistic terms, in the context of the UK election campaigning. We cannot pretend that there will be no effect on public sector jobs.

The steer that ministers have given ever since 2004, when the efficient government initiative was launched under the previous Administration, is that it can all be done with no impact on public sector jobs. In fact, since the second quarter of 2004, devolved civil service numbers in Scotland have grown by 1,400 and staff numbers in non-departmental public bodies have grown by 3,500. Overall, the number of public servants in the devolved bits of government in Scotland, at roughly 500,000, is 50-odd thousand greater than in 1999. That is a whopping increase since devolution. Many people would argue that that simply could not go on even in the most benign circumstances, and it certainly cannot go on if we are serious about making efficiency savings, which requires cash-releasing savings to be made and costs to be reduced. Half of the cost in the public sector is jobs.

Malcolm Chisholm (Edinburgh North and Leith) (Lab): I would like to home in on what Alan Sinclair said. In a way, I have come to the same general conclusion, but not without worrying about how the changes could be implemented, because it has always been difficult for politicians to look to the long term. Will it not now be more difficult to do that, given the constraints? A particular issue is that the demographics point to more and more spending on older people, yet Alan Sinclair is saying, and the striking graphic called "Rate of Return" in his submission suggests, that spending on the early years would be more beneficial to society in the long run. Intellectually, I agree with that, but you must accept that it will be difficult to make the changes that you suggest.

Alan Sinclair: It is difficult, but the biggest difficulty is our mindset. That is why we have not fastened on to the early years in our country. It has not proved so difficult to do that in many other countries that have good early years provision and which systematically find ways in which to support parents and children from pregnancy through the first few years of life. I would need to spell that out, but many countries are doing that, including countries that are not dissimilar to us, such as the Netherlands, never mind the Nordics. It is possible to do that. The question is whether we choose to do something as effective as that.

Malcolm Chisholm: However, that has been done in a more benign public expenditure climate. I am persuaded, but others in society might still want to be convinced by the empirical evidence. The graph in your written submission is useful, but once you have demonstrated to people's satisfaction that the evidence exists, what are you actually proposing in the current climate? Are you proposing that, somehow, there should be extra expenditure in that area and therefore even more reductions in others, or are you just suggesting that the area should be protected while other areas have to be cut?

Alan Sinclair: First, let me address the question of the evidence behind the graph. In fact, that graph stopped me in my tracks when I was responsible for skills in Scottish Enterprise, because it showed me that many of the things that we were spending our money on were not delivering what employers or individuals were asking for. The evidence from the graph about rates of return on spend from age zero to 20 was drawn from the work of James Heckman, who won the Nobel prize for economics for the long-term interrogation of complex data sets—a slightly better economist than I am. What he proved over and over again, from all the data, was that the rate of return is higher the earlier you spend. He derived those figures. He could not get the figures for between ages zero and three, because the data did not stack up, so he drew them from ages three to 20, but he believes that they would go back earlier. All that is derived from data, rather than conjecture or interpretive sciences.

What kind of things can we do? Many of the things that we do end up costing an awful lot. We are then always behind the cycle—behind the ball. Early years problems are now starting pre-primary. Fifty-odd schools in Glasgow do not just have primary 1 any longer but have intensive parenting classes for the reception year. We now have the biggest accident and emergency service in the whole of Europe in Glasgow, because, instead of trying to deal with the reasons behind physical violence between 3 o'clock on a Friday afternoon and 3 o'clock on a Sunday, we have more hospital A and E treatment. We are always reacting to

things going wrong. What we can do is support parents who, very often, reproduce their own bad parenting. How do you support hungry parents to be better parents, which pays? I can go into the detail if you like.

Malcolm Chisholm: I agree with you, but I am articulating what some people would say and the very real problems. Presumably, there is a time lag. If we are going to have difficult budgets for 10 years—and hopefully not thereafter—in many cases the problems will show up beyond the timeframe. That seems to be the situation.

I return to my other question. What are you proposing in practical terms? Are you saying that we will have to take a greater hit in other areas and put extra investment into early years, because that is the right thing to do for the long term? Are you saying that we will have to accept the short-term pain in those other areas?

Alan Sinclair: If we do not invest in early years, it will end up costing us more over time. Do I think that we need to do more on early years than on some of the other things on which we spend public money? The answer is definitely yes. We are talking about everything from literacy to numeracy. Work on pre-literacy and pre-numeracy makes things easier—we do not have to try to force kids to read at seven when they have not had the pre-literacy work. A lot of the benefits and gains will come in early—they will easily come in within five, six, seven or eight years. If we do not make the investment, it will cost us more.

The Convener: Do the other panel members share that view?

Eddie Frizzell: This exchange suggests two things to me. One is the arithmetical issue of what you can protect in the forthcoming difficult expenditure situation. The other side of asking what you invest in is asking what you protect and what are the consequences for other programmes. You can do lots of calculations to show that the more you protect, the greater the consequences for other programmes. The Centre for Public Policy for Regions has produced some figures and SPICe and others can amuse themselves by running lots of other figures. It becomes difficult to protect a whole lot of services very quickly.

The second point is the policy point. Can we do long-term planning for evidence-based policy? What information do we have on the effectiveness of certain interventions? Alan Sinclair is talking about an area in which there is evidence. We need to factor into the long-term view the information that we have on what works in particular areas of expenditure.

Bill Howat: I have great sympathy with the argument, but the main question that ran through my mind when I was listening to the exchange was

how can we deal with that issue, given the realities that we will face over the next two to three years. It would be much easier to make that kind of switch in a benign fiscal environment such as we have had for the past 10 years. However, it is very difficult when you are staring down the barrel of the kind of decisions that all of us will face over the next few years.

That brings me to another issue on which Alan Sinclair may have a much stronger case to make. Rather than spending more or reducing spending less, we should talk about the outcomes that we are trying to achieve and the ways in which we deploy existing resources. That point was a theme of our report and is emerging increasingly in the arguments about single outcome agreements and community planning partnerships. In the past, we could have shoved through early years provision, but taking a view on such issues is now much more complex. The localism agenda makes the situation much more diverse, because policies will have different impacts in the 32 community planning areas.

There is a bigger argument to be had about focusing on outcomes. I have read the evidence that you have received. The Scottish Social Enterprise Coalition made a telling point that leapt out at me and to which I draw members' attention. Basically, it said that it was time for us to watch our language and that we should not kid ourselves, because one person's efficiencies are another person's public sector cuts. We really need to look at getting the most efficient use of resources for the best outcomes that we can achieve. We will have to have that debate in the short term.

The evidence that the committee has received from the Convention of Scottish Local Authorities and will receive from SOLACE is that, to achieve the best outcomes, we will have to work in a much more pragmatic way in the short term. Alan Sinclair has made a point that you can work into that complex equation. However, for the reasons that Eddie Frizzell suggested, it is not one on which you can reach a firm view. There will be evidence in other policy areas of what will happen if you do this or that. It would be complex at the current time to make the kind of major switch that has been suggested.

John McClelland: From an investment point of view, there is no doubt that the earlier the switch is made, the better. A parallel or equivalent development is the fact that, as chair of the Scottish Further and Higher Education Funding Council, I am encouraging and working to have colleges and universities work together much more closely than they have done in the past. As the committee may know, there is also a formal programme between schools and colleges to

bridge the gap and to start to create a complete system from the early years through to higher education and beyond. Given that investment is being made in later years, albeit slightly earlier than the employment years, there is no doubt that investing in early years development will have a pay-off; it is merely a question of whether that pay-off can be achieved in five years or 10 years. I am less confident on that point.

The Convener: Your early evidence has fairly disturbed the committee.

14:30

Linda Fabiani (Central Scotland) (SNP): When the committee decided to take on this inquiry, we were looking for different ways of thinking, some of which were initiated at a joint meeting that we held with Scotland's Futures Forum and other stakeholders. My view reflects that of Malcolm Chisholm in many ways. Too often, we have started from a particular point—for example, these days, everyone seems to take the CPPR report as gospel—and looked at ways of cutting from the top down, either by salami-slicing budgets or by cutting out aspects of public services, instead of looking at the whole picture and what we are trying to achieve. I am interested in Alan Sinclair's suggestion that we be a bit more radical, thoughtful and imaginative in how we look at what we as a society want to come out of the other end of the process, instead of just repeating the cycles that we have had for many years and listening to advice that, frankly, has not served us well until now.

Have the witnesses been considering matters holistically? For example, have they considered the financial and social benefits to society and to all other aspects of public service if children are, in the main, well looked after in their early years and have a sense of society and citizenship that comes from that? I will not use the word "intervention" for the early years, because we should not need to intervene; what I am talking about should be a given from the start. I think that John McClelland—or perhaps Eddie Frizzell—mentioned the cost to the Prison Service of the short-termism of carrying out initiatives and pilot schemes for young people in our most deprived areas that, when the going gets rough, we ditch without considering the long-term solution. Has each of the witnesses thought about that in the round as the full picture of what we are trying to achieve in the public services rather than saying, "This is what we have to save. How are we going to save it?"

The Convener: Can you give us the big picture?

Eddie Frizzell: I am sorry, I do not want to sound like I am saying that I have heard it before but—

Linda Fabiani: I am sorry, but I have been listening to what you guys have been saying all my life. [*Laughter.*]

Eddie Frizzell: In the terrible 1980s, I was for a while the head of the finance division, which dealt with the Scottish budget. Things were quite difficult in the middle of that decade—we were going to have the most difficult spending reviews ever and so on—and the Treasury was very keen that we should get on to a zero-based budgeting approach, which means that we do not start from here at all but go back to first principles and decide what is important and what is really a top priority. Of course, it did not happen. The Treasury could not make it work, so it did not work and it has never happened.

The bee that I have had in my bonnet for a number of years, starting in the mid-1980s, is that it would be great if we had a Government that did some strategic planning and took an overall corporate view of what the priorities were for the country. The UK Government has never done it that way because every spending review is done on a bilateral basis in which the Treasury picks off a department at a time. The hope was that, because we did not have a Treasury in Scotland, we could perhaps have a more corporate approach.

I note that the current Administration—the Scottish Government—has strategic priorities, which seems to me to be a step forward on what we had before because, as Mr McCabe will remember, we had 454 partnership targets and did not have strategic priorities. We still have quite a lot of targets and sub-targets—all the various outcomes—but at least we have strategic priorities. I wonder whether the kind of engagement that we need now is a serious Scotland plc strategic dialogue about what the key priorities are. The difficulty with that kind of multilateral approach is that we have to have trade-offs. Would we trade off the justice portfolio against the investment portfolio, which may be lifelong learning, bits of enterprise or early years? Where do the trade-offs come?

That would be one way to do what you would like to do, which is not to start from here but to start from where we would like to be, but the history has proven that it is extremely difficult to do. It requires political will and a forum in which we can do it.

The Convener: Harold Wilson comes to mind. Will you help us with the big picture? How do we approach the matter if not through pursuing an overall plan? Suddenly it disintegrates and we get

individual pleas. Where should we be going? How can we get the big picture that works?

Bill Howat: I wish I had a simple answer for you. I reinforce what Eddie Frizzell said and go back to my earlier point about political will. The framework that the current Scottish Government has set out is a big step forward. Tom McCabe commissioned us to examine whether spending was going against the partnership agreement but, as has been said, we found that difficult because there were too many targets. When the framework appeared, it seemed to me to be the first step towards what I would call a corporate plan for Scotland. We can agree or disagree with it and argue about various elements but, looking at it as a chief executive in a council—as I was at that time—it was a big step forward, because I was able to say where my council could align with the national Government's priorities.

The national framework can get us so far, given the political will to agree on implementing it down to whatever level. There will be political disagreement, because people will have different views about different bits of it. Eddie Frizzell made that point when he talked about playing off the different portfolios. The question is how to deal with that. If we can get agreement at the higher strategic level on a set of principles—let us call them principles for the moment—such as “prevention is better than cure”, which picks up Alan Sinclair's point, those can then be applied generally throughout a council's approach.

However, the real finding in our report is that a challenge function is also needed. That is exactly what the Parliament was set up to provide. As far as I am aware, no one has ever said to the Scottish Government, “In light of the budget review that the previous Administration commissioned, show us how your budget lines fit with the criteria in your national framework.” That would be an interesting exercise. I am not saying that the committee should do that—our report is now four years out of date—but I am saying that, given a national set of agreed principles, the committee should be able to question council budget managers, chief executives and leaders on how their spending fits with the national framework. The committee could fulfil the challenge function that is missing.

That is an important part of what the committee should be looking for. Rather than a statement of utopia, a set of principles backed up by a robust challenge function will take you part of the way.

The Convener: Will that work better in a small country than in a large country, or is it just difficult to introduce anywhere?

Bill Howat: In our report, we drew attention to the fact that we looked at what we called the

apples versus pears argument. The analytical services group gave us several presentations, as Eddie Frizzell will remember only too well, on various models that people have looked at. As far as I am aware, the best answer that anyone has come up with so far to the question how to balance the apples and pears can be summed up in one word—democracy. That means that it is over to you. Political values need to be fed into the equation. People such as Eddie Frizzell, myself and the others here can provide the analysis and recommendations, but at the end of the day the political process is what decides that it is better to spend money on early years than on putting people in prison.

In fact, some of the points that Alan Sinclair has mentioned were covered in our report. We found spending on prisons that we thought it would be better to link more closely with education, social work and health. Following on from our report—I think that this happened at the time—the health department took responsibility for health in prisons. Some of those things are actually happening. The very fact that the committee is having this meeting means that people will start to think differently.

However, to answer the specific question, I think that the best that can be hoped for is a set of principles along with a robust challenge function that ensures that everyone complies to the greatest degree possible.

Alan Sinclair: A little redrawing of boundaries is required. I was in quasi-government for only five years, but I observed then that, too often, politicians became the managers and the managers became the politicians. Perhaps the redrawing that is required is for the politicians to reclaim some ground. The politicians should create the pictures, priorities and narratives of what kind of society we want—that is almost stage 1 programme management, which is about defining what you want—and then go back to the civil servants and others to ask them for help to achieve that. The picture could be built up from there.

The Convener: Mr McClelland, do you wish to add to that?

Linda Fabiani: I have a specific question for Mr McClelland that will probably tie in with his answer.

The Convener: Okay, but you must be brief.

Linda Fabiani: I have asked only one question, convener. It is not my fault that people have taken so long to answer it.

The Convener: Get on with it then.

Linda Fabiani: My question for John McClelland is along the same lines, but I want to pick up in particular on the review of procurement

that he carried out. I have not read that report completely, but I have read the executive summary. I know that it makes sense to say that public procurement across the board can be much more efficient and can lead to savings if services are shared, as is happening in the Clyde valley partnership or whatever it is called—I can see all that—but my worry is that, if the need to secure efficiencies means that size matters, only the bigger organisations will be able to tender for the work. Will that mean that we cut out small firms? Surely that would have a negative effect on local economies.

Would that run the risk of cutting out smaller, voluntary sector organisations—which can be expert in what they do, whether they work in early years provision, elderly services or any other aspect of care provision—with the result that we end up with only the bigger providers? Is it possible that, in saving money in one budget line—which looks good and ticks a box—we could have a negative effect on the economy and on the wellbeing of our communities?

The Convener: That is a nice easy question.

John McClelland: I will deal with that question before talking about some of the lessons that we learned from the public procurement agenda.

One point that I made quite strongly in my report was that, as we brought organisations together to combine procurement spend—which saved resources, because part of the challenge in procurement was that we did not have enough skilled people to conduct effective procurement, and there was little prospect of finding many more, although some were added—we were able to bring professional procurement to bear on spend that was previously dealt with in a haphazard way.

Another point that I made in my report, which I am pleased to see is being pursued, is that contracts do not have to be enormous if they are bringing together only a few players to make a bid. That is important for the reason that you have mentioned, as it ensures that the voluntary sector and small and medium-sized businesses can benefit from public expenditure. Further, if five companies tender one year and two are selected, there is a good chance that, next time around, only two companies will tender and one will be selected, which will lead to there not being enough competition four or five years down the line. Therefore, it is important from a competition point of view that small and medium-sized enterprises can be encouraged to participate.

In a more general sense, one of the lessons that we can learn from procurement is that it is relatively easy to write reports about status and condition and to make recommendations but it is more challenging to implement those

recommendations. The procurement work that we have done in Scotland is unique within the UK, as we have implemented much of what I recommended in the report. Here and in London, I found reports that were not terribly different from mine but which had been shelved and in relation to which nothing had happened.

We have to ensure that, when we embark on programmes of change, we implement the changes. Alan Sinclair talked about project management, and although it is fine to make a policy statement announcing that there will be a departure from the status quo, it is not fine to then sit back and wait for it to happen.

I advise the committee to take on board the fact that it is not enough simply to create new policies, ideas, planning and strategies; there must also be mechanisms to ensure that those are implemented. To be candid, we in the public sector have not been as good at that as we could have been over the years. Although a lot of progress remains to be made with regard to procurement—I believe that we are only halfway there—there has been follow-through on formally implementing that agenda. Therefore, whatever plan or strategy this committee devises, I recommend that an implementation mechanism or approach be generated at the same time.

David Whitton (Strathkelvin and Bearsden) (Lab): Should anything be sacrosanct when we are considering where we should make efficiency savings?

Bill Howat: No.

The Convener: Would you care to explain?

14:45

David Whitton: I do not need an explanation. That is fine.

Eddie Frizzell: I do not think that anything should be sacrosanct, at least at the starting point.

John McClelland: I do not think that anything should be sacrosanct, either. The issue is to prioritise, prioritise, prioritise.

Alan Sinclair: In my words, rescramble what you are doing.

David Whitton: Having a corporate plan for Scotland has been talked about. At the moment, the Government's number 1 purpose is economic recovery. Should that be the starting point? Should everything be focused on economic recovery at the expense of everything else?

Bill Howat: I would like to pick up on the language that is being used, if I may. Are you referring to the Westminster Government's focus on economic recovery?

David Whitton: Yes.

Bill Howat: My immediate response is that it is for the political process to determine what the main aims should be. I can see that, given our experience, economic recovery is important at this time, so focusing on it is perfectly justifiable. However, my personal preference is that Governments in the western world—whether in Scotland, the UK or elsewhere—ought to be considering sustainable economic growth at this point. That is much harder to define, but it would be my starting point, if I were advising you.

Eddie Frizzell: Sustainable growth is indeed the aim of the current Scottish Government. I remember that the previous Administration was fond of saying that economic growth was the top priority. The trouble is that it is not sufficient to say only that. When we started to do things to deliver economic growth, we quickly found that just about every portfolio in the Scottish Executive contributed to it. I discovered that even the Royal Commission on the Ancient and Historical Monuments of Scotland, I think, contributed to it. The issue of prioritisation still has to be returned to. If economic recovery is the only priority, one must be very hard nosed about what things really feed into it. John McClelland talked about investment. Things such as infrastructure and the real investments that can be made to drive growth must be gone into.

John McClelland: Economic recovery must be subdivided. I have been in many situations in the private sector in which there have been competing bids for investment for the future, but not enough cash to pay the wages for the month. Part of the challenge for all of us, including the committee, is the timeframe—how long we have. If there is investment in an economic recovery-oriented programme that takes eight to 10 years to pay back, what will be the budget implications between now and then?

Earlier, I made the point that the situation is long term enough not to pursue simple or basic tactical steps. However, in the next two or three years, the financial climate will be severe enough that we require to take action now to start to offset that set of conditions as well as perhaps to invest in the future. In prioritising, a timescale needs to be attached to issues and opportunities so that a balanced plan can be created and there are sets of medium-term actions and more strategic actions. I hope that all of those can come together in the right timeframe.

Alan Sinclair: I have a one-word answer: obliquity. The principle of obliquity has been subscribed to by James Black and John Kay, a pharmaceutical researcher who likely added more shareholder value than anyone else and one of our prominent economists. One often adds value

or achieves things by setting out on something that causes something else to happen.

David Whitton: Our large number of public bodies is mentioned in paragraph 10 of Mr Frizzell's submission. I heard somebody from local government in Wales, who is coming to give evidence to us, speaking at a conference. A large number of public bodies are being cut back there, particularly the number of health boards. I assume that Mr Frizzell thinks that we, or at least the Government, should be considering that kind of line.

Eddie Frizzell: No, I did not mean to give that impression at all. In my submission, I say that there is a case for public bodies and that, if we want efficient service delivery, the more arm's length we can make them, the better.

David Whitton: But not fewer of them?

Eddie Frizzell: There could be fewer of them. The simplification of the landscape, which is the core of the current Government's public sector reform agenda, is probably right, although you have to stretch definitions to reach the figure of 199 public bodies—you have to count everything, including individual commissioners.

The basic public bodies that carry out most of our business are 35 executive NDPBs, the health boards and one or two others. There may be a case for some simplification, but I do not think that they should be brought back into Government. The Welsh integrated their enterprise agency and others into Government, but I am firmly of the view that that is a bad idea, because it does not provide flexibility of delivery and it changes the culture of the organisation so that it is about looking after ministers rather than service delivery—that is how Government works. I feel very strongly about that, having run a body that was at arm's length and then having come back into the Government to run a department that was not at arm's length—they are very different things.

David Whitton: The department that you were running was, of course, the Prison Service.

Eddie Frizzell: That was an arm's-length body.

David Whitton: Well, one of the departments that you ran was the Prison Service. We now have two private prisons, although the current Scottish National Party Government has set its face against them. Is there more scope for thinking along those lines—working on the basis of who best delivers the service rather than who pays for it?

Eddie Frizzell: Yes. That is not necessarily to say that I think that there should be more private prisons, because we have to be careful about what proportion of the prison system is tied up in the private sector. In Scotland, that proportion

could become quite high if we have too many private prisons.

I am something of a convert to private sector involvement. Having started in a political Administration that said, "Do not come to us and suggest that we have private prisons," and then changed its position, I came to the conclusion that there is something to be said for it. Although there has been a lot of controversy and dispute about whether there were savings, I am in no doubt that in the 1990s we got a private prison cheaper than we would have got a public sector one and that it was run more cheaply.

Things have changed a bit now, and I do not think that there will ever be such a good deal, but in general I think that we are a bit too hesitant about involving the private sector more in delivering public services. I do not think that there is any place for a philosophical opposition to private sector involvement. If it works, the private sector should be used.

David Whitton: Mr Howat, as a former chief executive of a local authority, are you in favour of local government reorganisation?

Bill Howat: At this time, no, although I am not opposed to it. SOLACE is quite clear about this—there is a consensus in Scotland that 32 local authorities is too many, but to think that you will solve the problems that we are all talking about by conducting an expensive reorganisation exercise at this time is, frankly, madness. I would use stronger language, but I do not think that it is allowed. [*Laughter.*]

David Whitton: That is fine—you can write us a letter.

Bill Howat: Can I follow up on the point that Eddie Frizzell made? Our report also referred to the "crowded landscape", as we called it, and we reached the figure of 205 bodies. There is an issue that needs to be addressed: the question is not how many bodies we have but what functions they are performing and how well they are being delivered.

The complexity that has developed in Scotland since we produced our report, when we had a Government, local authorities and health boards, is that we now have 32 community planning partnerships. A localism agenda is running and trying to develop a more locally based approach to outcomes and delivering them properly.

It could be argued that we have created 32 new organisations in those CPPs. I would not argue that, because I think that the CPP is more of a co-ordination mechanism, but the way forward for structural issues is to allow the process to develop and people to see for themselves. As Eddie Frizzell said, and as I think we have all said,

nothing should be off the agenda—nothing should be sacrosanct when deciding what budgets are looked at and how outcomes are delivered.

That is the language that we should be using—outcomes and delivery. The way to go is to get political agreement on the Scotland that we want and the service levels that we want in each of the 32 community planning partnership areas, or however many eventually exist, with however many bodies are merged in and among them.

David Whitton: The Scottish funding council's submission states:

"However, mergers are not necessarily drivers of efficiency in the short or even medium term and experience suggests that they can require significant investment if they are to be successfully delivered."

Does that mean that we should think about cancelling the £300 million merger of the Glasgow colleges?

John McClelland: That is a good question, which we look at in each set of circumstances. I will use the Glasgow colleges as an example. One of the circumstances is that the buildings of all four colleges are in a poor state of repair, so an investment programme to create one new building or campus is a strong logical driver for the merger. In addition, although a cost will be associated with the merger, we do not expect it to be as significant as the merger costs in the past. For example, we found in the past that bringing together two universities that were not as physically close to each other as the Glasgow colleges are was an expensive business. What might seem from 30,000ft a good business case for a merger is sometimes not so strong and effective when you examine the detail. However, the sharing of resources—this is the collaboration point that I made earlier—is vital. For example, the three Edinburgh colleges are working together on a project that was funded by the Scottish funding council to work out how they can best co-operate and collaborate with each other, perhaps as a federal group or through a full merger, if it makes sense financially and for the learner. There is no one-size-fits-all merger solution. Mergers can be more expensive than they used to be or were assessed to be.

The Scottish funding council has been pursuing a programme to have the Lanarkshire colleges collaborate and the Edinburgh colleges collaborate. The same principle applies and has applied in other areas, such as the health service and local authorities, where a strong and positive alternative to combining local authorities is to have them share a maximum level of services and activities. As a member of the funding council some years ago, I remember that we sat down and wrote a list of areas in which organisations would never wish to share. The area on the list

that we thought was probably the last for sharing and collaboration was university research. Here we are today, some 10 years later, with half of the research resources in our universities being pooled into subject or application areas. No area should be sacrosanct from sharing and collaboration, whether it is further and higher education, local authorities, health or whatever.

David Whitton: I have one last question. I was going to ask whether you are all in favour of salami slicing, but I detect from your answers that you are not and that you are looking for a much more fundamental plan, as it were. I ask each of you to say yes or no to the question, will you give evidence to the three-man commission?

Bill Howat: I submitted written evidence and I also contributed to the SOLACE evidence.

Eddie Frizzell: I did not submit any written evidence because the commission wanted it to come from organisations, ideally. I expect that that is who the commission wants to hear from.

John McClelland: I did not, either.

Alan Sinclair: No.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): It has been interesting to hear about the way forward. If I remember rightly, Mr Howat said that a clear piece of work had not been done to identify either the previous report from 2006 or how the Government's budgets reflect the priorities that have been set. Do the witnesses want to comment on the information that the committee has received from the Government about budgeting for outcomes? Paragraph 2 of the Government's submission states:

"The Scottish Government is building on the approach taken in the Spending Review, to develop an even closer relationship between the policy priorities set out in the NPF and the money we spend."

Paragraph 3 continues:

"It is already the case that the framework of outcomes and the progress measured through *Scotland Performs* assists both the core Scottish Government and our delivery partners in taking strategic decisions about policy and priorities which, in turn, inform spending decisions."

How far do you think that the spending decisions are being shaped by the progress that is being made on outcomes?

The Convener: We got the Government's written submission only today, and I do not think that the witnesses will know the answer to that. However, if you wish to answer, please do.

15:00

Bill Howat: I am more than happy to take the question. Our report is four years out of date and was produced for the previous Administration. As I

tried to say earlier, it is for that reason that nobody at any point has considered our recommendations or our careful analysis of the 265 budget lines. That is perfectly understandable. A new Administration has come in with a new set of priorities, and everyone has rushed off to do the new work. I am not complaining about that. Nevertheless, it might be interesting to go back to those recommendations and find out the extent to which our comments fitted in with the new priorities and the extent to which there were discontinuities or disjunctions. I do not know whether you want to do that; I merely make the suggestion in the context of the much more fundamental point that you need a good challenge function. I am happy to accept what you have just read out to me. However, you said that the Government is telling us that they fit. How sure of that can you be?

Jeremy Purvis: That answers my question about how confident we can be about the Government's assertion, which I have just read out. That is what the Government is telling us. Are mechanisms in place to enable us to determine the match between the outcomes and the spend? Does Mr Frizzell want to comment on that?

Eddie Frizzell: The matter has exercised the committee with regard to the budget scrutiny. How do you know that the money is being spent on things that you can justify its being spent on? I would say that the position is very patchy. There is a lack of information on whether particular spending programmes are achieving outcomes in a number of cases; in other cases, quite a lot of research is carried out and the information can be got.

The biggest challenge for budget scrutiny that looks at the relationship between spend and outcomes is the fact that the lead times tend to be awfully long. The lead times are probably longer than a parliamentary session; it is not just that the lead times make it difficult to check whether last year's spending delivered what the Government said that it would deliver. It can be difficult to measure that relationship unless a programme can produce very quick results.

That is particularly true of outcomes. One of the reasons why outputs are measured is the fact that they tend to be more easily measured early than outcomes. Look at the national performance framework, for example. If an outcome is an improvement in the health of the nation in some particular way, how long will it take to work that out and know whether that has happened? If the outcome is a reduction in the recidivism rate among those who have been released from prison, it will take quite a long time to work out whether that has happened.

I would be cautious about saying that there is an exact science whereby you will know exactly the relationship between the inputs and the outputs and outcomes that you wanted to achieve. However, that is not an argument for saying that we should not do our very best to gather the information and do the research that is required. Over time, that information ought to begin to inform the process.

Jeremy Purvis: I am not sure whether you have seen the evidence that we received from the Chartered Institute of Public Finance and Accountancy. It is interesting. I think that CIPFA has been doing some work jointly with SOLACE. Under the heading “Benchmarking Against Others to Increase Efficiency”, the evidence states:

“CIPFA has developed benchmarking infrastructure over a number of years. Our evidence in Scotland is that, despite its recognised importance, benchmarking is not widely used by public bodies in Scotland. That evidence comes from the lack of usage of our services in Scotland in addition to recurring adverse audit comment on Scottish public bodies. In our view voluntary use has clearly not worked despite that recurring audit comment. The pace of change must therefore be accelerated and requires strong leadership to achieve this.”

Is there sufficient benchmarking to enable you to look at the services that are currently being delivered and determine whether any changes have been made to make them better and more effective, as Mr Sinclair said? Is sufficient benchmarking being done?

Bill Howat: First, let me give the SOLACE view on that—the answer is no. There is insufficient benchmarking, so SOLACE has commissioned a study of what baseline work already exists, which I am leading on its behalf. We plan to take forward that work over the summer so that by the autumn, certainly at council level, we will have pulled together an analysis of the existing benchmarking, how good it is and how relevant it is. Our aim is to produce at chief executive level what we are calling can openers—that is a pejorative term rather than a fancy term—whereby for any given set of services, there will be between three and six key indicators that will give an idea of how the performance of one council compares with that of others. That is the present situation as far as SOLACE is concerned.

Many people, particularly at council level, will give lots of good reasons why benchmarking does not work. Everyone claims that their council is unique. That is true—SOLACE recognises that and it is an issue that has to be overcome. I can give the committee the SOLACE position in very clear terms; others can speak for other areas. In our report, we found that, as Eddie Frizzell highlighted, performance was extremely patchy, the use of benchmarking was mixed and cost information was extremely poor. I do not know to

what extent the recommendations that we made have been picked up and improved on. I certainly hope that that has happened. My knowledge of the service is that the response is usually good when such reports are produced—it usually reacts extremely well. I do not know what levels of benchmarking are going on elsewhere, but that is the position as far as SOLACE is concerned.

John McClelland: In the area of procurement, there is now a formal benchmarking programme. Each public sector organisation is requested to submit a series of best-practice indicators. Candidly, that programme is probably running nine months behind where it should have been. One reason for that was the difficulty that was experienced in agreeing the indicators, which is probably the biggest hurdle in embarking on any such programme. That is now under way, and during this year we should have the opportunity to look at the performance of each body to see how it compares with that of other bodies. It will not be a league table, but it will provide information that will allow those bodies that need to improve performance to find out whose performance is exemplary.

Jeremy Purvis: To return to SOLACE and the position with benchmarking, I note that the single outcome agreements are now in phase 2. Are any of those agreements, or any aspects of them, benchmarked?

Bill Howat: Ah ha! What a good question. Eddie Frizzell answered that when he spoke about the difference between outcomes and outputs. The difficulty that everyone will face when it comes to judging the success of the single outcome agreements is that it takes a long time before the necessary statistical base is available on which to form a judgment about outcomes. Like the committee, I am acutely conscious that we are in the second of four years of running elections, for which such information will be critical. That is the reality.

I have not read all 32 agreements. I have looked at some of them and have a good idea of the approaches that have been adopted and of where the chief executives of the councils hope to take them. I know that in addition to the outcomes, each agreement contains various performance indicators that underpin those outcomes, but part of the problem is that there are 32 agreements, not all of which use consistent indicators. We hope to address that issue through our work with SOLACE.

An additional point about central Government is that I know that the Scottish civil service has developed benchmarking for its support services—its corporate services—and that it is assisting us in our work; we are working with the civil service quite closely on that. I am talking about back-office

functions, such as legal, financial, human resource and payroll services. We hope that by the autumn, we will have a meaningful benchmarking arrangement that covers central and local government.

Jeremy Purvis: I have one more question.

The Convener: Go ahead—quickly.

Jeremy Purvis: I want to move on to efficiencies, with the caveat that it is a struggle to come up with a robust and consistent definition of an efficiency as opposed to a cut. As I think has been mentioned, one person's efficiency can be another person's cut.

When teachers are made redundant, that could be an efficiency because services are being redeveloped rather than the budget being reduced. With that caveat, I want to ask about the scale. The Howat report considered two types of headroom, including £1.2 billion that could be identified using firm estimates from 2007-08. However, the Government says that its efficient government programme freed up £1.3 billion in cash in 2007-08, and £839 million in 2008-09. Even just over the past two years, the Scottish Government has freed up about £2.2 billion, although the Government says that that is retained for the public sector to consider its priorities—we sometimes struggle to find out what those priorities are that the money has been spent on. Is that the right type of scale? If we are talking about the budget being similarly reduced over the next period, could it not be argued that the public sector in Scotland has demonstrated that it can free up money? The question then arises what the priorities are that that money can be spent on, or whether the budgets should be cut. Presumably, the Government would say that those services are not being delivered less effectively than they were previously.

Eddie Frizzell: This is not as simple as it looks. I would be inclined to rely on the Auditor General for a proper assessment.

Jeremy Purvis: Rather than the Government figures.

Eddie Frizzell: I would always rely on the Auditor General for this. You may not realise it, but a cottage industry has been set up in Government to put together the efficiency saving plans. With all due respect to the architects of the efficient government programme, it started with "Let's pick a target for savings." That target bore no relation to any knowledge about what baseline we were meant to be saving on, because we did not know what it cost to run this or run that, for example in local government. People were then tasked with finding ways to show that they had met the target. There was a mixture of cash-releasing savings—those are the ones that we really have to worry

about for the future, because we do not have the cash—and time-releasing savings. Therein lies the answer to Jeremy Purvis's question about resources being switched. This is the thing about "We saved so much and it was recycled into front-line services"; I always felt that there was a degree of smoke and mirrors around that.

However, that is not what we are into now, because time-releasing savings will not do the business. What we need now are cash-releasing savings, because we do not have the cash. The formal distinction between an efficiency saving and a cut is that a cut means the service suffers, while an efficiency saving means that you still have the service but you do it more cheaply. A lot of effort went into ensuring that there was not a cut in the service.

As a manager of an organisation, I take a rather more brutal approach. What you should do is just to cut the budget and say, "Get on with it and we'll hold you to account for delivering the service. Don't spend hours and hours writing up documents saying where you made efficiency savings. Get on, deliver the service, and do it for less." John McClelland would tell you that that is what they do in the private sector; by and large, it works. We have never quite had the courage to do that in the public sector, but there is perhaps an opportunity now to take a rather more brutal approach to the management of the resources that we have.

Joe FitzPatrick (Dundee West) (SNP): The leadership of the three parties at the UK level have all said that to achieve the level of cuts that is required, there will inevitably be job losses and compulsory redundancies. Could that be avoided here in Scotland by strategic planning, or are compulsory redundancies inevitable if the cuts that are expected come our way?

Eddie Frizzell: Over the years, at different times, I have faced the situation of having to cut posts. An impact on public sector jobs does not necessarily imply compulsory redundancies. A key issue is the labour turnover rate. However, labour turnover is quite low in the public sector in Scotland—it is very low in the Scottish Executive, because such an occupation is seen as secure and people do not tend to leave. Turnover tends to be at lower rather than higher levels.

The crucial point is that turnover determines whether savings can be made over time and with planning on the basis of natural wastage. It is conceivable that compulsory redundancy could arise, but that would depend on the scale of the cut. Perhaps the committee should ask public bodies what their labour turnover rates are; that might give members an insight into the job reductions each year that could be coped with.

15:15

Joe FitzPatrick: Whoever wins the UK election, all the parties seem to suggest pretty hefty cuts. Is it possible to achieve such levels without compulsory redundancy?

Bill Howat: The short answer to the question is that, if the political will exists not to have compulsory redundancies, we do not have them. I return to my first comment. If that is the political will, what will be cut to meet the £35 billion structural deficit that is faced—Trident? Dare I be controversial?

Linda Fabiani: Yes, you can be.

Bill Howat: That seems to solve the problem at the stroke of a pen. I am not trying to evade Joe FitzPatrick's question.

Eddie Frizzell made a valid comment about churn. I add the important point that the demographics—the age pattern—of organisations should be considered. If an organisation is pretty top heavy, perhaps many people are ready to go.

The committee should talk to Scottish Water, which has cut its labour force pretty much in half in three or four years. I think that it had few compulsory redundancies; it cut the labour force through long-term planning, by picking up all the points that Eddie Frizzell and I have made and by spending, because it had money. If an organisation has a bit of money, it can use it for voluntary redundancy packages and training. Scottish Water had an idea called the waiting room. Staff whose posts had been identified as having to go in the next year or whatever moved into the waiting room and were given training and counselling. Some of those people were re-employed elsewhere in Scottish Water and some were moved out to other jobs. That can be done.

John McClelland: We cannot yet do the analysis that is required to understand whether the cuts that are in the pipeline will force compulsory redundancy, because we do not have the information.

Eddie Frizzell referred to what the private sector would do. One lesson that we can learn from the private sector is that, in such a situation of uncertainty, the private sector would not continue to hire new employees. If we hire public sector employees in the next two or three years and then realise that they are unaffordable, the truth is that the redundancy—whether it is compulsory or voluntary—will have an immediate impact on people and will be expensive. It is clear that a distinction exists between compulsory and voluntary redundancy, but the truth is that they both cost money. In that sense, the people impact might be significantly different, but the financial impact might not be—it might be the same. If

having to breach the principle of no compulsory redundancies is a prospect or if significant voluntary redundancies need to be funded, why add to the problem in the next two or three years? That might be argued.

Alan Sinclair: In the short term, if the cuts that come through are as large as I think that they will be, compulsory redundancies will almost certainly be unaffordable. That is often the case in the private sector, too. That poses significant questions about the other big possible variables on the 50 per cent of spend that is salaries, such as what is done about pensions and whether to cap pay increases or to reduce spending, as Ireland has been forced to—a differential rate of reduction is used that depends on incomes. That is the territory that we will be in.

Bill Howat: I have a point of information, which the committee might have picked up already. As members know, Aberdeen City Council faces serious problems. I understand that no cost-of-living increases or increments will be paid this year for anyone in that council. That is in addition to the many other changes that that council has made.

Tom McCabe (Hamilton South) (Lab): The theme of the afternoon from each of the four witnesses seems to be political will. I invite each witness to give three examples of what would constitute political will or political leadership. Another theme of the evidence has been that we need not quite a Government of national unity but a consensual national plan on the things that we need to do to address the situation and, perhaps, to put ourselves on a better track. Mr Frizzell helpfully mentioned the rather large number of targets for which I had some responsibility at one point. There were 400-odd targets even under a coalition Government. Realistically, based on your long experience of our politicians' various shortcomings, what are the chances of their agreeing on a national plan to address the problems that we face?

The Convener: If that is not a leading question, it is a tempting one.

Tom McCabe: It is meant to be. This is your chance—you are outside the system now, so you can throw bricks as often as you like.

Mr McClelland mentioned that reorganisation of the landscape, especially the local government landscape, could be difficult in the circumstances, and that there are other ways in which we could tackle the issue. In the past, I and others have often said that we would not, if we were starting with a blank sheet of paper, organise ourselves as we are currently organised; in many respects, it is madness. However, it could be horrendously expensive to change the situation.

You say that there are opportunities for public organisations to share more effectively. Do those include opportunities to share a director of education, for example? In a country of our size, do we need 32 sets of strategic direction for education and 32 chief executives? Without altering local government boundaries, do we need the cost of the administrative bureaucracy that goes not just with local government but with other aspects of our public services? Is it about more than sharing services? Is it about redefining the management structure that covers the public sector, without redefining boundaries?

My last question is directed to Mr Sinclair. I agree 100 per cent with what you said about investment in early years. If someone is involved in public life for many years, it becomes obvious to them that there are certain inherent problems in our society that would benefit from far more directed investment in early years. However, I have heard social work professionals in particular say that something is happening in our society that is beyond any particular discipline. There are children who do not experience good parenting and parents who live chaotic lifestyles, which results in a tremendous cost to the public purse as we try to cope with the consequences. The cost of investment in early years would be large, but such investment would be much more wide ranging than just investment in young people. What do we need to do to take a more comprehensive approach in our society that would deal with the breakdown that seems to be appearing much more significantly now than in previous years?

The Convener: A question that was raised earlier has reappeared. Who would like to take it on?

Bill Howat: I will respond first, as I was the person who threw in the issue of political will and various other matters. You asked us to provide examples of political leadership—check out what Aberdeen City Council is doing at the moment. That council, which now has proportional representation and a multimember ward system, faces huge budget cuts and is driving through changes that will see it through to a sustainable position. I do not know the details of its programme, but I am sure that you could invite Sue Bruce and the council's leader to talk to you about that.

Can we get consensus? I throw that question back to you, Tom. I would also be interested to hear how the rest of the committee would answer your questions. I am old enough to have been around for the 1975 local government reorganisation. There was a clear consensus among political parties that local government should be reorganised, although I do not dispute that there were many political differences about

certain levels of detail. Members might remember that the work was led by the Wheatley report, which was a fascinating document. Many of the principles of the Wheatley report still apply, although they need to be revisited in the modern world.

The short answer to the question about whether we need 32 council chief executives and directors of finance is no. If we start from the basis that I and, as far as I know, COSLA, SOLACE, CIPFA and everyone else advocate, which is that we should consider outcomes, then we do not need them all. However, the political reality, as members are well aware, is that if we tell a council that we will take away its director of finance, as I tried to do in my council, the council will not have it. That is what will happen at that level because councils feel that they need their own directors of finance.

Tom McCabe: Does that bring us back to political leadership? Let us lift off from local to national level. We have given ourselves a national Parliament. Do the politicians who inhabit this place need to be more directive than they have been prepared to be during the past 10 years?

Bill Howat: I think that politicians need to show more leadership, if that is what you are asking. I do not know whether that means being more directive; it might mean being more consensual, as is talked about in the committee's paper. I have been a civil servant as well as a chief executive, and I have been around long enough to know that, behind the scenes in Parliament, a lot goes on about which the public do not hear. The public get to hear about the Parliament's debates and differences, but there is much consensus behind the scenes. Perhaps it is time that some of that came out. That might be forced upon you anyway by the scale of what you will face. I carefully said that I was not putting in a plea for a Government of national unity, but members take my point.

You could get consensus on the way forward and the priorities—early years intervention, prevention is better than cure—and start to drive work through. Let us be quite brutal about it: we could go back to the old regional council structures, some elements of which still exist. The pension funds are still there, as are some of the direct labour organisations; for example, the three councils in the Tayside area still run the old Tayside contracts. The models are there, so all it needs is a bit of political push and for people to say, "Let's get on with this and let's do it together." That is my personal view, as you can imagine. I will shut up now.

Eddie Frizzell: Mr McCabe asked us to come up with three examples of political leadership. First, all politicians in all political parties in Scotland should admit that we are facing a difficult

time. In the language of the management consultants, the paradigm has shifted, just as it did with the collapse of financial services. We had growth in public expenditure, but we will not have such growth for a long time. Political parties need to say that. It is hard to answer the question without making what sound like party political points, but it is not helpful to see politicians on television saying, "The UK Government is busy pursuing cuts to do down Scotland." There is a problem nationally, which affects Scotland as much as it affects the rest of the UK. Honesty about the difficulty is my first example.

Secondly, that honesty must extend to saying, "The difficulty will affect us all. We will do our best to protect the vulnerable, but everybody will be affected and everybody must put up with that. No party has the best solution, because it will be difficult."

Thirdly—this is important because we take a longer-term view—we need to face up to whether the public sector in Scotland needs to shrink, for the good of Scotland in the long run and in the context of the private sector and enterprise. This could be the opportunity to say, "Look, we've come too far on the size of the state and we need to roll it back a bit." Such political leadership is needed.

Will we get consensus? From my experience, I think that there is zero chance. The Scottish Parliament was going to bring us a different kind of politics, but I say with due respect that I am disappointed that we have not seen that, except in the work of committees, which have fulfilled that promise to some extent, although things have been fraying at the edges a wee bit recently. It would be good if we could get that consensus.

We have a big problem right now, because as soon as the UK general election is over we will be in the run-up to the next Scottish Parliament elections. I think that I wrote in my submission that it is important for the Finance Committee to set the tone for some of the debate. It will be unhelpful in the year to May 2011, during which difficult decisions will have to be taken, if each of the parties is competing to say, "We can save you from the cuts," or "We can reduce this bit of public expenditure," because that is not realistic and I do not think that it would be honest. The country deserves the kind of political leadership that I have described.

15:30

Tom McCabe: I appreciate your helpful comments, which are based on your experience. We should pay considerable attention to what you said in the *Official Report* of today's meeting. Thank you.

John McClelland: In considering the concept of political will or political influence, I believe that it is desirable to find a formula or a set of mechanisms that covers all public sector activity in Scotland, but it will be a challenge. It is desirable to have at the centre an approach or a policy that influences, supports and encourages the subsectors of the public sector to work together more closely in pursuit of efficiencies and of sharing. To take Tom McCabe's example, I think that it should pursue the principle of whether we need 32 different directors of education who theoretically have different policies, but whose jobs in practice are probably 75 to 85 per cent the same.

In recent times, I have seen such an approach work best in relation to procurement, with the Government, SOLACE and COSLA working together to get 30-odd local authorities to sign up to central procurement activity. That is a better approach than trying to fabricate at the highest level a set of principles that, when we try to apply it at the level of health boards or local authorities, does not make enough sense to cause action. It is highly desirable to have a shared central approach for local authorities, further and higher education, central Government and health boards.

I suggest the inclusion in that area of work of something that would address Eddie Frizzell's point about the size of the public sector. In my experience of working with the public sector, it is nowhere near having a systematic approach to what should be done in the public sector and what should be done in the private sector for the public sector. Services that are outsourced by one local authority are covered internally by the next, and the same applies to some health boards and certainly to other parts of the public sector. It would be worth our while to pursue a centrally led—if that is the right term—rather than a mandated approach to what I would call external commissioning or outsourcing, and a systematic approach to pursuing such a policy. Over time, that would lead to more efficiency and reduced costs. It would certainly lead to reductions in fixed costs, because there is no doubt that there are uncertainties such as demographic issues to be dealt with, and public sector costs are very much fixed costs. If we include, for example, pension costs, there is clearly a huge liability.

In those key areas, I would like to see the political centre influencing the subsectors of the public sector, and I would certainly advocate the inclusion of a policy or strategy for deciding what should be conducted or performed by the public sector and what might best be done in the private sector.

Alan Sinclair: The first thing is that we need to tell a story or paint a picture about what we want. We do not have that at present. We also have an

ethos whereby we have blamed the City for looking to the short term, but a similar culture often pervades the public sector, although we like to deny that.

We now have a crisis: with crisis comes opportunity. The question is whether we take the underside—the opportunity—and use it to turn round from the efficiency discussion, which does not get us very far because asking how many directors of finance or how many local authorities we should have becomes a technical debate without resolving what we want to achieve.

The debate about the size of the state is also quite empty. Size does not matter. The best societies and economies in the world have the largest state, in the case of the Nordic countries, and the smallest, in the case of America. Size is not the answer by itself. The important point is that there should be effectiveness instead of running on to the point where the problem always breaks out.

Tom McCabe encouraged me to say what we could do. Three or four people have now confessed that we need to do something about early years. I meet a circle of people who feel hemmed in, constrained and unable to break out and I have been in that position myself. However, because of the crisis, we are now in a position to start breaking out.

I will suggest three types of things to do. The group that produces the most disaffected children is teenage parents. There is now 30 years of evidence from a variety of programmes, such as the Nurse-Family Partnership and programmes in Holland, in which individuals who work only with very limited case loads—a bit like the number of MSPs and officials who are present today—give intensive personal support to teenage mothers for two years to try to make a difference to them, to how they bring up their children, including any subsequent children, and to their future. That has proven that such support makes an enormous difference to the parents and the children. We now have 30 years of evidence in seeing the children changing.

The other big thing that I would tackle is our child-protection system. It is the most barbaric thing that I have watched in public life. In effect, all that social workers can now do is monitor to determine whether a child is being abused or neglected; they cannot actually make a positive input to try to improve the situation. They can do something technically, such as rehousing a family or referring people to drugs counsellors, but they are not equipped, and do not have the capacity, to do anything about relationships.

That is tied into the way that we provide our early years health services. At the moment, it is all

about things that we measure; what we measure counts. We measure birth weight, breastfeeding, immunisation and dental records, but they are hardly the big measures in child development or parent relationships. In the Netherlands and other countries, there are regular, almost four-monthly occasions on which people come into contact with not only the health service but with health and development services so that information can be captured and follow-up can happen really early. We do not do that; we think of it as being only a technical exercise. There is a litany of measures with a big track record that we can use; the issue is about breaking through and using them.

The Convener: I thank Derek Brownlee, whose financial expertise has been patiently held back and can now be unleashed. Derek, you have the final questions.

Derek Brownlee (South of Scotland) (Con): I think that you might be disappointed, Andrew.

I take the point about political leadership that has been raised a number of times. However, there will probably be a degree of consensus between all the political parties in that, once we know the scale of the coming public spending reductions, there will be a political imperative on all sides to minimise the amount of reduction that is achieved by simply stopping programmes or ceasing to do things that are currently done. Therefore, there will be an incentive to try to deliver as much as possible by whatever variant of efficiency savings that we want to talk about.

Despite the fact that, every year, we hear about cuts, we have had growing public spending for decades now. So, in terms of their experience, what is the panel's assessment of the skill sets within the public sector that can deliver spending reductions, and what needs to be done to enhance them? That has often been asked of managers in the private sector and it will undoubtedly have been asked of some managers in the public sector during the past decades, but it is not something that the public sector in Scotland has had to deal with in recent years. At the institutional level, and at the level below the politicians, are the skills there? How do we develop them?

Bill Howat: My short answer is that if the skills are not there, it is too late. Are they there? The picture would be patchy. We have heard several times that growth has been pretty much uninterrupted since devolution 10 years ago. I think that there is only one council chief executive left who was there in 1996, and that is also true at director level on councils. People like Eddie Frizzell have moved out of the service, and we are all now in the same broad cohort. Certainly Eddie and I lived through some pretty painful cuts—I was with Eddie Frizzell in the service.

The picture of skills is patchy, but I do not think that it is as bad as it might first appear. At the end of the day, every public sector organisation has been making hard choices. Even in a time of growth, choices have to be made between this budget and that budget, so there are always some managers who have been managing down. It is more likely that, over the past few years, they have been managing a flat baseline.

A general point is that a huge improvement has been made during the past 10 to 15 years—and I am sure that the other panellists will agree—through three-year budgeting. That has probably improved people's skill sets and experience because people can take a longer view and do a certain amount of trading-off, which has allowed councils particularly to start looking at three-year settlements. The figure that was agreed last autumn was 12 per cent in real terms during the three years of the spending review period, which is not very far away from the figures that were bandied about at the beginning of the meeting.

Again, my short answer to the question is that the situation is probably not as good as we would like, but I do not think that there is time available to develop the skill set.

Eddie Frizzell: There are a lot of very able people in the public sector, although I do not know about local government. Bill Howat can testify to what is happening in local government, the way in which services are being delivered there, and the ability of managers.

I come back to the political side: it comes down to management having a pretty clear idea of where it stands and what it can do. If difficult decisions need to be made, management needs to have political cover and to know that it will be backed up at a political level if it does difficult things.

I sometimes wonder whether accountabilities are quite right. With the focus on individual targets and the increase in performance pay that goes back 20 years to the 1980s, there can be a danger that people become focused on their particular thing. I am referring to questions about shared and joined-up services. I have always thought that there is more scope for people to be appraised and held to greater account on their contribution to the achievement of shared targets or the corporate policy, rather than to their own little silo. Individual targets tend to put people into silos and make them want to deliver their bit alone. A manager of a shared service who is engaging in a procurement exercise that someone else is running is always going to wonder whether they are going to get what they need out of it, whether they are going to be able to deliver their target, and what their accountability will be. We need to work on a management skill for that, and we need

to engender and encourage the notion that people can be accountable with others for a shared outcome. That would help us to do some of the things that we need to do. I worry about that. I do not think that the way in which things are currently structured and the way in which accountability works necessarily encourage that.

John McClelland: The question is a good one. The same issue often applies in the private sector, because companies can grow for five, 10 or 20 years and then suddenly face the prospect of having to cut back. It is a great starting point to have capable people, but it is important to have experienced people who have gone through the process before. To return to the point that I made about units of local authorities, health boards and what we might call the two other subsectors, it strikes me that we should share within those sectors some of the experience and capability that exist. A central unit in SOLACE of a few people who could advise and help in difficult circumstances might be the answer. There is an issue and a challenge, but they are not insurmountable and they are not unique to the public sector.

15:45

Alan Sinclair: At the top of the picture, there is a need for a much better sense not only of project management, but of programme management, if members know the difference. The issue is not just about technical exercises on how to run things, but about winning people over and winning hearts and minds in complex situations. We need more and better programme management. Do we have people to do it? There are people who have done it in various places throughout the country.

We must combine that with a slightly different trick. At various times, we have talked about cutting things from the top end. However, quite often in such situations, one has to start at the other end of the telescope. That is about how to put things together at the local level. One of the most interesting things that I have come across in the past few years is the work by the Audit Commission and local government on the oneplace initiative. That is about considering all the public spend in an area and what people really want to come out of it, and then trying to design the spending from the bottom up, rather than cascading it down.

Eddie Frizzell: Alan Sinclair has made an important point that we were in danger of missing. Much of the discussion has been about how the people who manage public services can deliver. I am a great believer in asking the people who actually deliver the service at the front line what their ideas are for doing things better, because nine times out of 10 we find that they have better

ideas than the manager will ever have. We need to work a bit harder at engaging. I know that that sounds like a cliché and I almost hesitate to say it now that we are in the context of the UK election. I am not talking about workers co-operatives; I am talking about engaging people at the sharp end and coming up with ideas about how they might deliver the service better. There is a huge resource of people out there who are very resourceful and who have ideas, but who often feel that they have no chance to propose them and have them implemented. Encouragement of that process and recognition of managers who go through it would be positive.

Bill Howat: I will add two small points. The first is to reinforce Eddie Frizzell's point. The key word that I add is "incentives". What are the incentives in the system for people to adopt those behaviours?

Derek Brownlee said that politicians will have to wait for the numbers. I suggest that you do not have to wait for the numbers before you can face up to some of the decisions. Put simply, the Scottish block splits into three broad areas. You could already be having a debate as to how much goes to local government, health or other sectors, you could have arguments about proportionality and you could do what Eddie Frizzell suggested and ask the 32 community planning partnerships what outcomes they want and where they need to put the money.

As I have said several times, the introduction of single outcome agreements and the 32 community planning partnerships makes the job of the Finance Committee and the Scottish Government, especially the civil servants, much harder, because there is a much more complex and difficult way of transferring the money to the outcomes. That is where you need to address the issues and not worry about the numbers. You should worry about the principles and effects and start to gather the information now.

The Convener: We have had a long day, but I give you the opportunity to make any final comments. I see, though, that you are quite happy to leave it there. Thank you all. You have brought a great deal of firepower to the committee, given your practical experience and expertise. Our report will be stronger because of your collective contribution.

We will now have a short suspension to allow our witnesses to leave.

15:50

Meeting suspended.

15:53

On resuming—

Children's Hearings (Scotland) Bill: Financial Memorandum

The Convener: Item 2 is to take evidence from the Scottish Government's bill team on the financial memorandum to the Children's Hearings (Scotland) Bill. I welcome to the committee Denise Swanson, policy and programme manager; Kit Wyeth, children's hearings reforms team leader; and Chris McCrone, who is from the finance directorate. I invite the witnesses to make an opening statement.

Kit Wyeth (Scottish Government Children, Young People and Social Care Directorate): Thank you. The Children's Hearings (Scotland) Bill aims to strengthen and modernise the children's hearings system. As set out in paragraph 395 of the financial memorandum, the primary purpose of reform is to improve outcomes for children and young people and the effectiveness of the system, rather than to seek to reduce costs.

Government has been considering change to the children's hearings system since 2003. Throughout that time, there has been not only clear support for the principles and ethos of the system but a recognition of the need to strengthen and modernise it. A consistent theme was the need for a consistent national system that is underpinned by national standards, training and accountability. Attempts were made to achieve changes in culture and practice within the current system, but they did not work. Ministers therefore believe that it is right to establish a national body—children's hearings Scotland—to put in place national standards and monitor performance against them. Children's hearings Scotland will not be a regulatory body or have an external audit and inspection function; the monitoring of standards and performance will be relative only to the functions of the national convener. In developing the model for children's hearings Scotland, the Government sought to minimise costs wherever possible—for example, through the use of shared services—and was mindful throughout of the need to secure best value.

The financial memorandum reflects the Government's assessment of the likely cost of the bill. The costs that were identified are based on available evidence. They were taken from a survey of local authority expenditure on the children's hearings system that was commissioned specifically for the purpose, as well as from relevant published research, such as the baseline study of corporate services. The financial memorandum was prepared in consultation with colleagues in the Scottish Government finance directorate and our economists and statisticians.

The financial memorandum estimates the maximum cost of the new arrangements for the children's hearings system to be around £2.51 million per year. It is worth noting that that is not the cost of the new body alone; change is needed to help to secure the necessary improvements to the system. The gathering and sharing of information about the implementation of supervision orders—we call that the feedback loop—along with the provision of independent advice at hearings and increases in the rates of pay for legal representatives at hearings, all of which are needed, are not contingent on the establishment of the new body. Instead of breaking down the costs in line with the structure of the bill, the financial memorandum looks at the cost of the bill in the round. It does that because the changes are so interrelated.

The Presiding Officer has written to the Cabinet Secretary for Education and Lifelong Learning to confirm that a financial resolution is required for the bill. A motion will be lodged in due course.

We are happy to take questions.

The Convener: Thank you. Malcolm Chisholm will put the first question.

Malcolm Chisholm: I will concentrate on the local government costs. Paragraph 445 of the financial memorandum says:

"local government will retain many of its existing functions, with the exception of payment of expenses for panel members and the delivery of training".

However, table 2 shows that all current local government costs including those for travel, subsistence and training are carried forward into 2012-13 and 2013-14. What is the explanation for this seeming contradiction?

Kit Wyeth: Those figures are carried forward in the table for the reason that they are largely indicative. The key thing to say is that we expect local authorities' current spending in support of the children's hearings system to remain with them. The clear message that we have had throughout the consultation on the bill since last summer is that people value greatly the role that local authorities play in supporting the hearings system. We want that role to continue under the new arrangements.

As you correctly identify, some current local authority functions, such as the payment of panel member expenses and support for children's panel advisory committees, will transfer to the new body. At the same time, local authorities will take on board new responsibilities such as the collection of information on supervision orders—as I said, we refer to that as the feedback loop. Our view at this point is that the bill is not specific on the exact role of the local authorities. If they retain their existing funding, authorities will be able to work out with

the national convener and the Government exactly what their functions will be under the new arrangements. They will have enough money to take forward their new responsibilities on the feedback loop and to make decisions at the local level on how best to use that money in the whole.

Malcolm Chisholm: Let us take the example of panel member travel and subsistence. Table 2 says that the amounts will be the same in 2012-13 and 2013-14. Are you saying that that money will not be spent or that it will be spent on something else?

Kit Wyeth: Under the new arrangements, we expect the new body to pay panel member expenses. Those expenses will be paid by children's hearings Scotland.

Malcolm Chisholm: Table 2 is confusing in that respect.

Kit Wyeth: Absolutely. We wanted to indicate that existing funding will remain with local authorities.

Malcolm Chisholm: Is travel and subsistence the main item that will disappear from existing expenditure?

Kit Wyeth: That is the single biggest—

Malcolm Chisholm: Your assumption is that it equates to the extra money that authorities will spend on providing information and so on to the centre.

Kit Wyeth: Yes.

Malcolm Chisholm: But you take the point about how it is set out.

Kit Wyeth: Yes.

Malcolm Chisholm: Perhaps you will remind me of the overall costs. Table 3 shows that the overall costs are £3 million with £500,000 for in-kind support over and above that. Is that what you are saying?

16:00

Kit Wyeth: The local authority survey that we carried out included a number of headings, which you see in table 3. There was also a column for other costs. Some local authorities identified under "other costs" some costs for in-kind support, although not all of them mentioned it. It is quite difficult to quantify exactly what in-kind support will be. It will be over and above the £3 million that they are spending at the moment, but we are not certain what the exact figure will be. We think that £500,000 is a reasonable assumption. It will be between 17 and 20 per cent above what they are spending at the moment.

Malcolm Chisholm: You are not sure about the figure of £500,000, but the £3 million is what will be carried forward for slightly different responsibilities.

Kit Wyeth: Yes.

Malcolm Chisholm: We have had a long discussion about the budgetary situation. You are assuming that the same amount that was spent in 2007-08 will be spent in six or seven years' time for each of those things.

Kit Wyeth: We wanted, where possible, to base the financial memorandum on the evidence that we had, and the only evidence that we have is what local authorities are currently spending. We could have guessed what the future spending would be, but it would have been only guesswork. Our intention was to roll that figure forward on the basis that we know that that is what they are spending. Local authorities will make their own decisions on how they want to spend their budgets.

Malcolm Chisholm: Over and above the new roles in terms of reporting to the centre and that kind of thing, what other new costs do you think will arise for local government from changes to the system? I note that they could be forced by the centre to implement the decisions of panels, which might be for expensive services. I do not know whether the centre could direct a level of support costs. Also, one of the current concerns is the fact that there is great variation in what safeguarders are paid—they are paid differently in different local authorities. Will there be some cost to equalising their pay? Have those possible additional costs been built into the calculations, or have you made a broad assumption that the spending will be much the same?

Denise Swanson (Scottish Government Children, Young People and Social Care Directorate): I will address the enforcement costs first. The bill provides for an ability to force a local authority to carry out its duty to implement the decision of a hearing. That enforcement provision is already in force under current legislation, but the bill changes the situation somewhat. Currently, if a panel wants to place an enforcement order on a local authority, it suggests that to the principal reporter and the principal reporter has discretion in deciding whether to go ahead with that. The bill proposes that if a hearing, in reviewing a case, is concerned that a local authority has not implemented a decision, it can require the national convener to place an enforcement order on that local authority. The bill removes the discretion that is available to the chief officer in placing the enforcement order. We do not expect that to result in additional cost to the local authority.

We do not expect any additional burden, apart from the feedback loop, to be placed on local authorities. Therefore, no additional costs are reflected in the financial memorandum.

Malcolm Chisholm: So, the main additional costs will come from funding the new body rather than from additional costs to local authorities.

Denise Swanson: Yes.

Malcolm Chisholm: When I was doing my homework for the meeting, I was quite surprised to find, given that the general direction of Government policy is to give more freedom to local authorities, that the bill seems to be moving in the opposite direction, creating a new centralised quango and taking away power and responsibility from local government. That is puzzling, as it seems almost to contradict the general thrust of Government policy. Why is the policy going ahead if it will cost a lot of extra money and create a new quango?

Kit Wyeth: The key thing, as I mentioned earlier, is that there have already been unsuccessful attempts to change culture and practice within the current system in order to standardise and make consistent approaches throughout the country. We tried to do that at the local level, through local authority approaches, but it did not work. That is why ministers have taken the view that a national body is required to set national standards and monitor the performance of the local areas in meeting those national standards.

Jeremy Purvis: I want to be clear about costs. Is it correct that there will be additional net costs of £2.51 million as a result of the bill?

Kit Wyeth: Yes.

Jeremy Purvis: Time and again, we hear from the Government that the number of public bodies will be reduced by 25 per cent; we received evidence to that effect just this week. The bill is the mechanism for bringing about such a reduction. Can you confirm that it will involve a net increase in costs to the taxpayer?

Kit Wyeth: Yes. The financial memorandum makes it clear that there will be an additional cost of £2.51 million as a result of the bill and that the principal driver behind the change is improving the effectiveness of the system and outcomes, not reducing costs.

Jeremy Purvis: However, whenever we hear from the Government that the number of public bodies will go down by 25 per cent, we should be aware that that will be at an increased cost to the taxpayer.

Kit Wyeth: As I said—

Jeremy Purvis: Is that true or not?

Kit Wyeth: I can speak only about the bill. The financial memorandum to the bill states that reducing cost is not the primary driver of this reform.

The Convener: I suggest that this is a question for the minister, rather than an official. You may pursue it in other ways.

Jeremy Purvis: Will the minister appear before the committee?

The Convener: No, but I am sure that there will be opportunities for you to pursue the matter.

Jeremy Purvis: Not in committee.

The Convener: It is unfair to continue this line of questioning with officials.

Jeremy Purvis: In that case, I will interrogate the officials on the matters for which they have responsibility.

Normally we are presented with information from COSLA that asks us to support legislation or to consider particular aspects of it. I am struck by the strength of the wording of COSLA's submission, which you will have seen. On the second page, it states:

"The memorandum itself appears to suffer from some internal inconsistency. As it stands the proposals for Part 1, Schedule 1 and 2 of the Bill are so underdeveloped that it makes it very difficult to accurately assess the financial implications of this legislation."

Is the committee able properly to assess the financial implications of the legislation?

Kit Wyeth: The financial information that is contained in the financial memorandum is based on the evidence that is available to us. We have gathered from local authorities information on the existing costs of the system; the assessment of current costs primarily reflects that information. As I said in response to Mr Chisholm's questions, the bill enables local authorities to continue to play a substantial role in supporting the children's hearings system in the future. Local authorities have asked for that, and the bill provides for it. We have not yet bottomed out exactly what local authorities' role will be; that may lie behind COSLA's suggestion that some matters are not well thought through. Once the national convener is in post, he or she will have a view on the issue.

We have already given a lot of thought to the role of local authorities. We have established an implementation group, which will meet again on 27 April and will spend a whole day looking at exactly how local arrangements will work. COSLA is part of that discussion. Three million pounds will remain with local authorities. Mr Chisholm suggested that it looks like they will get money for things that they will not do in the future. We need to discuss the matter with them, but we believe

that, overall, allowing them to retain that money gives them the flexibility to work with us to put in place arrangements for the future.

Jeremy Purvis: We have a bill in front of us. If the lead officials on the bill team say that they do not know what will happen and a key element of the bill may or may not be implemented in the future, how can we properly assess the bill's financial implications?

Kit Wyeth: The financial memorandum sets out the costs of the bill as drafted. The bill enables local authorities to play a substantial role in the children's hearings system in the future. There is £3 million in the local government settlement to enable them to play that role.

Tom McCabe: I am afraid that I must labour the point about costs and COSLA's reaction, which is pretty strong. If we consider COSLA's relationship with the Government over the past two years, the comments in its response are fairly unprecedented. It states that

"the new system will cost £2.51 million more",

£1.4 million of which will result from additional bureaucracy. In addition, there is the £3 million to support the system that you have mentioned.

In financial terms, that is pretty stinging criticism. On the issue of what the new system is supposed to achieve, the submission from COSLA—which ultimately represents those with experience of running the children's hearings system over a long period of time—goes on to say:

"We do not believe that this additional expenditure is a justifiable use of resource and neither do we believe that it facilitates the strengthening and improvement of the Children's Hearings System."

That is pretty stinging stuff. How did we get to a position where, given what you have said over the past few minutes, there is such a divergence of view between the Government and local government?

Kit Wyeth: I do not think that there is a huge divergence between Government and local government on the way forward for the children's hearings system. In our discussions with COSLA and individual local authorities, there has been a great deal of agreement on where we should be heading. In its written evidence to the Education, Lifelong Learning and Culture Committee on the substance of the bill, rather than its evidence on just the financial memorandum, COSLA supports many of the bill's provisions.

There are areas of difference. Over the past six to nine months, we have had a lot of discussion with COSLA about what should be in the bill. The vast majority of that discussion was very amicable, with support from COSLA for what we are looking to do. Where we have ultimately run into a

difficulty is that COSLA does not agree with the Government on the provision of local support. That is the key area on which COSLA does not support what we are looking to do.

Tom McCabe: I am the politician here, and we are the people who are usually accused of abusing language. The COSLA submission states clearly:

"We do not believe that ... it facilitates the strengthening and improvement of the Children's Hearings System."

You might claim that there is not a big divergence between Government and local government, but that seems pretty big to me. If COSLA is right, the losers will be children.

Kit Wyeth: As I have said, ministers take the view that the setting up of the national body and the other legislative provisions in the bill are required to ensure consistency and standardisation in the children's hearings system.

David Whitton: Mr Wyeth, you seem pretty robust in your defence, but COSLA, Dundee City Council and North Lanarkshire Council all question the Government's numbers and say that the bill will cost them a lot more money. Why is it that you are right and they are wrong?

Kit Wyeth: The figures in the financial memorandum are based on evidence that we collected from local authorities. The figures on how much the system currently costs to operate are based on what they told us, on what the Government spends and on what we provide to the Scottish Children's Reporter Administration.

The Convener: We will highlight such comments by COSLA in our report to the lead committee. The members of that committee will no doubt read the proceedings of today's meetings and the comments that have been made. The issues can be raised directly with the minister at that point. It is rather unfair to direct questions about such policy points to the civil servants.

David Whitton: Convener, our questions have been on the financial memorandum. We have been looking at the evidence that we have been given to make a decision on the financial memorandum. That is what COSLA, Dundee City Council and North Lanarkshire Council are saying. I am just asking why the bill team thinks that it is right and everyone else is wrong.

The Convener: And the bill team has explained that.

David Whitton: Yes, I have been given an answer, which is fine. Whether the answer is right or wrong is another matter.

Joe FitzPatrick: It is worth pointing out that Dundee City Council's submission mentions that the greatest costs are demand led. Clearly, the bill

will have no impact on costs that are demand led, so I think that it is a bit disingenuous of Mr Whitton to make those points about Dundee City Council's evidence.

The Convener: Again, that point comes within the parameters that I have just discussed.

Linda Fabiani: For the financial memorandum, the committee agreed to adopt level 2 scrutiny, which involves taking oral evidence from the bill team and written evidence from financially affected organisations. That being the case, the committee asked for evidence from all organisations that would be financially affected, but we received responses from only three of the 32 local authorities, COSLA, the SCRA and one panel member. That does not seem a huge representation. I know that the bill caused a lot of controversy when it originally went to the Education, Lifelong Learning and Culture Committee, and I understand that an accommodation was reached among the relevant parties about moving forward. What discussion was there with other local authorities and interested parties about the costs? What was the level of response to the bill team on the financial memorandum? The list of concerned people who have written to this committee is short.

16:15

Kit Wyeth: In the consultation, the issues that created the largest response were around the role of the reporter and the fundamental operation of the system rather than the financial side of the system. The original proposal that we made last summer, which, as you suggest, was not particularly well received, was that the new national body would have a much larger role than is currently envisaged and would have cost more money than is currently envisaged in the model in the bill that is before Parliament.

To be quite honest, we did not receive many comments around the financial implications of the bill. As you would expect, there were some concerns about the fact that it would result in a net cost, rather than a net reduction in cost, and about the cost of setting up a new body. However, as I said earlier, there is recognition of the need to improve consistency and the effectiveness of the system. Generally speaking, people welcome that motivation and objective.

The Convener: The SCRA raised two specific points that it says need to be addressed to ensure that what has been said about the financial implications of the bill in the financial memorandum is accurate—one point concerns part 8, on pre-hearing panels, and the other concerns section 151, which involves appeals. What comments do you have on that?

Denise Swanson: On pre-hearing panels, what currently happens is that there is a business meeting, which is organised by the SCRA and involves panel members. Children and relevant persons are informed of the impending business meeting and are asked to submit views in writing to the panel. The bill proposes that business meetings will henceforth be called pre-hearings, which is a much more accurate description of the intention behind the meetings. Children and relevant persons will still be informed of the meeting and will be able to attend the meeting. They will be able to express their views personally or in writing, or they may choose not to express a view.

The bill adds the ability of children and relevant persons to attend the meeting; all other aspects of the activity remain the same. I should stress that that ability is a right, not an obligation, which means that, if they do not attend, the business that must be conducted in the pre-hearing is not held up.

On appeals, the bill provides for a continuation of current practice. Under the current legislation, the sheriff has the power to conduct a wide range of appeals. The bill proposes no change to that. However, it proposes that if the sheriff takes an appeal, they can change the decision of a hearing, if they decide that that is appropriate. The thinking behind that power is that a sheriff who decides, for example, that a child in residential or secure accommodation can be released immediately could use it without having to wait for a hearing to be convened to make that decision. The power would be used only on rare occasions. Sheriffs tend to think that the hearing is the best place to make decisions and are more than happy to refer decisions to it, but there will be exceptional cases in which it is in the best interests of a child to be released immediately, without waiting for perhaps three days for a hearing to be convened.

Malcolm Chisholm: I am looking back to table 2. Before I make my substantive point, I should point out that there is probably a slight error under "Scottish Government" as there is nothing under the training line. Is that right—has the figure just slipped? I presume that there is an error.

Kit Wyeth: Yes, the rows have slipped down one.

Malcolm Chisholm: Okay, but that encapsulates the main problem with the financial memorandum, which is table 2. I accept that table 3 is based on the evidence that you have received from local government, but it seems odd to propose a major change to the way in which the children's hearings system works in Scotland and present in the financial memorandum identical costs for the existing functions. That does not seem to make any logical sense. As far as local

government is concerned, you have produced a financial memorandum for the status quo rather than the new system. There seems to be an oddity in process.

My final point is about COSLA. Given the changes that are to take place, why did you do a regulatory impact assessment not for the whole bill but for just one part that relates to your costs rather than to COSLA's?

Kit Wyeth: I can deal with the first part and then Denise Swanson can speak about the RIA.

The key element of the local government funding is the total amount. As I said, the figures beneath that are purely indicative, although I accept that listing them in that way may be confusing and not particularly helpful to this discussion. The key point that we were trying to make by including the local government funding line in the table is simply that we expect current funding for local authorities to remain in the future.

Denise Swanson: I can add a little to that answer. A lot of what the bill proposes is not a change in functions but the moving around of responsibility for the same functions. There is not the absolute overhaul of the system that might be expected—in the main we have moved functions and responsibilities for those functions from local government and the Scottish Government to the new national body. There has been more of a redistribution of functions and responsibilities than a complete overhaul, but we have taken the opportunity to make required changes to the processes that are currently in place.

As we have outlined in paragraph 398 of the explanatory notes, for all topics in the bill consideration was given to whether a regulatory impact assessment was required. The committee will know that the purpose of an RIA is to capture the financial impact of legislation on business, charities and voluntary organisations, and it is my understanding that local authorities do not fall under any of those categories. We have published an RIA on the administration of the legal representation scheme, which the committee has seen, but we did not think that an RIA was appropriate for COSLA and local authorities.

Jeremy Purvis: I have a couple of questions. One regards the establishment of children's hearings Scotland. The clarification in answer to Malcolm Chisholm was helpful, confirming that the figures in the table are in the wrong places. It is helpful for that to be in the *Official Report*, because it is unhelpful that they are in the wrong places in the Government's paper.

I am looking at paragraph 407, which states:

"In 2011-12, funding for Children's Hearings Scotland will be met from the existing Scottish Government budget for policy support to the Children's Hearings system".

That means that administration and set-up costs will come out of what would have been a budget line for hearings system support. What is being cut from that line to pay for the setting up of children's hearings Scotland?

Kit Wyeth: The answer to your question is nothing. The funding that is currently in the hearings system and the funding that local authorities receive will remain. The statement that you quoted may be poorly worded—and I have to hold my hand up for that. The fact is that the additional money that will be required to fund the system in future will come from Scottish Government budgets. That will be new money for the children's hearings system, as will the money that will be required to fund the transitional and start-up costs. The money will come not out of the system but from within our own budgets.

Jeremy Purvis: How do you know that the money will be available?

Kit Wyeth: That is a fair question, but ministers and senior officials will make the money available to the system. Ministers are committed to the improvements in the hearings system, and the money will be found.

Jeremy Purvis: I have not been able to follow some of the figures that were presented with regard to legal aid. The partial regulatory impact assessment has been helpfully provided, and I have also been looking at table 2 in the financial memorandum. Before I ask my question, can you explain whether the figures in that table are all on the right lines? "Legal representation (current scheme)" is shown as £375,000. Is that correct?

Kit Wyeth: No, that is incorrect. The reference should be to the figure beneath that: the current budget for legal representation in the children's hearings system is £300,000. Moving forward, we expect that to rise to £441,000, which is shown in the 2012-13 and 2013-14 columns.

Jeremy Purvis: What is the explanation for the difference with the costs in table 4, as shown in the regulatory impact assessment document?

Denise Swanson: That was an oversight on our part. The RIA was completed at the same time as our original drafting of the financial memorandum, but we revisited the number of appointments of legal representatives in the children's hearings system so as to provide a more accurate figure before publication. We did not capture that change in the RIA. Apologies for that—that is something that we will move on. Table 4 shows the most accurate figure for the committee's purposes.

It was our intention to continue to revisit those figures as the bill moved through its parliamentary stages. The service is very much demand led, and the additional provision for relevant persons in

certain circumstances is fairly new to the system. It proved quite difficult to project figures early on in the process, and we were intending to update the figures as the bill moved through Parliament. We do not expect the figures to fluctuate a great deal now, however—we have a better handle on the projections.

The Convener: Several errors have been spotted by the eagle-eyed Jeremy Purvis, so could you write formally to the committee, setting out the accurate statement?

Denise Swanson: We will amend table 2 and the RIA.

Kit Wyeth: Absolutely, convener—we can send an amended table 2, with the correct figures.

The Convener: So you will set out the errors and the corrections.

Kit Wyeth: Yes.

Jeremy Purvis: It would be helpful for the committee to receive the corrected information.

Tom McCabe: I take it that the witnesses have seen the evidence submitted by John Anderson. He mentions some scary figures. In particular, he notes that,

"if hearings are implemented with hearing advisers at some point in the new Bill history",

there will be a potential expenditure of £15 million to £20 million. What do you think about that, and about his evidence in general? John Anderson is someone with pretty extensive experience of the system that has been operating for a number of years.

Kit Wyeth: Our intention, which is covered in the financial memorandum, is that there will not be a hearings adviser at every children's hearing. We are pretty confident that, through a combination of written information for panel members, access to help over the telephone, training and education, panel members will be able to deal with the majority of issues that they face without the need for a hearings adviser to attend the hearings.

We speak to panel members from around the country, and their views vary regarding how often they might need such advice. The general sense that we get is that they anticipate wanting such advice on relatively few occasions. I would not expect the demand for hearings advice to be anything like what Mr Anderson assumes in his written evidence.

Tom McCabe: Fair enough. It is important to put that on the record.

16:30

Denise Swanson: I add that when the draft bill was published in June, the intention was that hearings advisers would be provided to support panel members at every hearing. The extremely strong feedback that we got from panel members was that they did not think it appropriate to have another adult in the room along with panel members. They thought that that would be unnecessary. The documents that accompany the bill, particularly the policy memorandum, discuss the dilemma that we faced and the careful balance that we had to strike in putting together the independent advice provision that might be available to panel members at hearings. Even if it were the intention to have a hearings adviser at every hearing, that would not be well received by panel members. Given that there are more than 40,000 hearings a year, we would have needed to invest in quite a substantial number of people.

Tom McCabe: We will have to hope that you are right.

The Convener: As there are no further questions, I thank our witnesses. The committee looks forward to receiving the information that we have requested.

We will have a short suspension to allow our witnesses to leave.

16:31

Meeting suspended.

16:31

On resuming—

Decision on Taking Business in Private

The Convener: Item 3 is a decision on whether to take consideration of our draft report on the financial memorandum to the Children's Hearings (Scotland) Bill in private at future meetings. I propose that we do so. Is that agreed?

Members *indicated agreement.*

The Convener: That concludes the public part of the meeting.

16:32

Meeting continued in private until 16:37.

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