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Official Report

FINANCE COMMITTEE

Tuesday 27 April 2010

Session 3

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FINANCE COMMITTEE
11th 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:

Garry Clark (Scottish Chambers of Commerce)
Sahir Khan (Parliament of Canada)
David Lonsdale (Confederation of British Industry Scotland)
David Moxham (Scottish Trades Union Congress)
Kevin Page (Parliament of Canada)
Dave Watson (Unison)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Committee Room 1

Scottish Parliament

Finance Committee

Tuesday 27 April 2010

[The Convener *opened the meeting at 14:03*]

Budget Strategy 2011-12

The Convener (Andrew Welsh): Good afternoon and welcome to the Finance Committee's 11th meeting in 2010, in the Scottish Parliament's third session. I ask everyone who is present to turn off any mobile phones and pagers.

Agenda item 1 is the continuation of evidence taking for our inquiry into efficient public services. Committee members and members of the public will notice that the first evidence session involves a videoconference. I welcome, all the way from Canada via videolink, Kevin Page, who is the Parliamentary Budget Officer of the Canadian Parliament. Derek Brownlee, Jeremy Purvis and I spoke to Mr Page last year on a different topic and the committee thanks him for giving up his time to speak to us again.

The committee has in its papers some background on the Canadian experience in the 1990s, but I begin by asking Mr Page to explain a little about his role in the Canadian fiscal consolidation.

Kevin Page (Parliament of Canada): I will give some background to my current role. The Prime Minister appointed me in March 2008 as Canada's first Parliamentary Budget Officer. My mandate is legislated for in an act of Parliament, which says that I provide independent analysis on the economy and the nation's finances, scrutiny of the estimates and costings. Under the act of Parliament, I report to three named committees: the Standing Committee on Finance, the Standing Committee on Public Accounts of the House of Commons and the Standing Committee on National Finance of the Senate.

In Canada, we have a fairly rich and diverse fiscal history. Throughout the 1980s and early 1990s, we ran large federal deficits, then we went through a period of 10 or 11 years when we ran surpluses. Now, like many other countries, we have deficits and there is a large stimulus package. Some of that is cyclical and some of it, we argue, is structural. We are involved in working with the Parliament's Standing Committee on Government Operations and Estimates to look at setting up a framework to analyse the expenditure restraint measures that were put forward in the 2010 budget—I am talking about operational freeze-type measures. Just a few weeks ago, we put forward a framework that looks at fiscal risk and service delivery risk as a result of the operational freeze. We certainly hope that we can achieve those savings, but we want to ensure that parliamentarians understand and are briefed appropriately on the nature of those risks.

That is a brief background. I would be happy to explain some of the lessons that we have learned and the experiences that we have had of looking at various efficiency savings exercises, not just in the 1990s but more recently. Some of them have been more top down, or driven from the centre of Government, whereas others have been more bottom up. I would be happy to do a question-and-answer session or, if you would like, I could go on to explain what lessons we have learned.

The Convener: Thank you.

I am afraid that we share common problems that none of us wants to have. It is important that we face up to them and exchange ideas on how to combat them. I invite members of my committee to pose individual questions.

Derek Brownlee (South of Scotland) (Con): The relationship between the federal Government and provincial Governments that exists in Canada is obviously different from the one that we have in Scotland between the devolved Administration and the Westminster Government. Putting that to one side, are there general lessons that you can draw from your experience in the 1990s and later as regards interaction between what the devolved Administrations in the United Kingdom will have to do and what the UK Government will have to do? Any aligning of incentives and policy approach between the federal Government and provincial Governments might be of interest. An issue that we face is the fact that the parties that are in power in each of the devolved Administrations in the UK are different from the party that is in power at Westminster, which means that aligning objectives without party politics coming into it to too significant an extent is rather challenging, to be euphemistic.

Kevin Page: From the point of view of federal-provincial relationships, the lessons learned from the 1990s might be more relevant and more substantial, although there are other, more recent lessons that we could talk about in the context of efficiency measures.

The big message from Canada's experience of the past 20 years would be to avoid large public debt crises. We had a big public debt crisis in the early 1990s, when our debt to GDP ratio rose to about 68 per cent at federal level; it rose substantially at provincial level, too. That was truly a crisis. To put the situation in perspective, we have since brought down our debt to GDP ratio at federal level to less than 30 per cent, although it is projected to rise to about 34 or 35 per cent as a result of the recession and the stimulus package that we have implemented.

I will make a few background points about relationships in Canada's system, then I will say a little about the alignment of objectives. The federal Government taxes more than it spends directly. In other words, we transfer a significant amount of resources to the provinces to carry out various programmes. In that sense, the provinces are wedded to the federal Government. We have large transfer programmes. One of the larger transfer programmes is on health—we transfer more than 20 billion Canadian dollars out of a total budgetary expenditure of about 240 billion Canadian dollars directly to the provinces to deal with health. We also transfer moneys to deal with post-secondary education and early childhood learning, and we run a big equalisation programme, which involves levelling out the fiscal capacities of different provinces.

When one is dealing with transfers on fundamental issues that are dear to the hearts and minds of Canadians, such as health and education, the alignment of objectives is important. However, when our debt to GDP ratio rose dramatically in the 1990s—we were certainly out of sorts with the rest of the world at that time—we had to cut those transfers deeply. That created a significant crisis that had political, as well as fiscal, dimensions.

Therefore, the first lesson would be to avoid running large unsustainable structural deficits, which create a crisis mode because the federal Government is put in the position of being required to cut deeply not only its own expenditures—on the military, on international aid and on its other direct programmes—but the transfers, too. To be honest, we did not do that very well. Basically, when we made those cuts to the transfers as well as to federal direct programme spending in the 1990s, we unwound a lot of debt over a period of time and our fiscal situation improved but a huge political upheaval was created that even had unity dimensions. In the mid-1990s, we had significant debates in Canada on what was called a unity crisis, in particular with one province. Therefore, that would be the first lesson about aligning objectives, although that was in a kind of public-debt-crisis atmosphere.

More recently, we have been not so much finding efficiency and restraint measures as working with the provinces to implement a stimulus package and trying to align objectives. Ironically, the greater challenge has been trying to get the money out of the door in a timely way so that the two Governments could work together. We had to deal with issues of information disclosure on how the money in programmes was spent, particularly on infrastructure, and on what its impacts would be.

Perhaps Mostafa Askari and Sahir Khan will also want to comment on those issues.

Sahir Khan (Parliament of Canada): In some ways, the fiscal balance package of a few budgets ago was used to redress the challenges that were created by the fiscal restraint exercise of the 1990s. In the early 2000s—in our 2003 budget, I think—there was a substantial increase in transfers. Essentially, there was a new deal to allow an increase back to the provinces for key social programmes. To some extent, that was to make up for the challenges of the push down of fiscal pressures to the provinces when the federal Government had to get its books back in order.

Kevin Page: That is a really good point. To put that in a time context, our fiscal crisis was in the early 1990s. In the mid-1990s—from 1994 to 1996—we started to introduce significant restraint. As Sahir Khan said, fiscal rebalancing then took place incrementally until there was a fairly large package in the 2007 budget. Therefore, it took almost more than 10 years to redress some of those issues.

As we look ahead, we are now in a bit of a fiscal crisis. When we negotiate the transfer programmes with the provinces—they are set to be renewed in April 2014, as they are on a five-year renewal track—for health, education and equalisation, we will find ourselves in a very different fiscal situation from that of five years ago. Again, we are looking at another big renewal exercise in a difficult fiscal context. We in Canada have our own significant challenges.

Derek Brownlee: Given that experience of the 1990s, can we expect to find the sought-after holy grail—which probably does not exist—that allows us to take significant expenditure out of the system without anyone noticing the pain from a user perspective? I suspect that that is probably just not feasible, given the extent to which we need to take expenditure out of the system. Given the different approaches among the provinces and between the provinces and the federal level, are there any examples from that experience of the 1990s about what works when there is a need to reduce spending with the minimum of pain? Probably just as important, what does not work?

Kevin Page: I wish that I could offer examples of fiscal consolidation without pain, but I do not think that there is real fiscal consolidation without pain. At both levels of Government—provincial and federal—we have run efficiency-type exercises, both in the mid-1990s and more recently. Obviously, in the mid-1990s we were trying to eliminate a structural deficit and to reduce deficits as a percentage of GDP—at least at the federal level—from about 7 per cent to about 3 per cent. Eventually, we got them down to zero and then we ran surpluses. However, we are now running deficits of about 3.5 per cent, so we are trying to get that down basically back to balance over the next five years.

14:15

In the past, it was popular for Governments in Canada to implement efficiency measures to trim direct programme spending and operational-type spending. We would run $1 billion exercises annually. We had a few of those. We basically asked all departments cumulatively to put in a certain percentage of their operating base. In those exercises, pressure was put on the departments and the deputy ministers, as accounting officers, to find those savings. It was top-down driven and they had to find a certain amount of money—cumulatively, it averaged about $1 billion. Our total operational spend, including salaries, would probably be about $65 billion a year. We were able to achieve some of those savings, but it is not clear what the impacts are—we have not had full transparency around the impacts.

We often find that, when we try to squeeze the system in that way, some spillover effects come out. This morning, people were talking on the radio about how, when we have tried to freeze operational spending, other temporary measures have been put in place, such as the use of special contracting-type resources to deal with issues. However, when we are dealing with significant problems and trying to bring down the deficit to GDP ratio by percentage points, as opposed to making small trims of operational spending, I do not think that there are any lessons from the provincial Governments or the federal Government to suggest that that can be done without pain.

We have implemented different efficiency measures with promises of savings. We have looked at procurement reform, real property reform and service delivery reform, as well. At the beginning, we thought that we could find savings through some of the more centralised exercises. Some of those exercises needed up-front investments in technology to find downstream savings but, to be honest, we have not seen the downstream savings. Years later, pressure was put on Governments to write off those savings and finally say that we would not get them, or to put more pressure on departments to find other ways of making the savings, because they had not materialised through the centrally driven efficiency-type improvements.

The bottom-line message is that, in dealing with significant numbers, it is very difficult to do fiscal consolidation without some degree of pain.

The Convener: No one likes cutbacks—nobody likes to lose finance. Yesterday, the committee was in Ireland, where they are dealing with serious financial problems. They stressed that, to get the improvements in policy that are needed, we must have public understanding—if people know what we are trying to achieve, they will understand what our goals are and exactly what we are trying to do for the public good. You tried to get such public understanding. How successful were you and how did you get across the message about what you were trying to do for the public good?

Kevin Page: In the current context, in 2010, my office is struggling to present to Parliament and to Canadians the severity of our fiscal crisis. There is a sense that the situation is being downplayed—as if, somehow, Canada did not experience the full depth of the recession that other countries have experienced—and that our fiscal situation is primarily cyclical, not structural. My office produces papers and I have talked to the House and Senate finance committees on the structural nature of our problems and some of the downstream-related impacts. Other than with some of the media and some interested Canadian groups, we have not had the success that we would have liked in situating Canada’s fiscal context.

We think that the problem in Canada—again, there is a small structural component to it—is that, looking to the long term, we are dealing with a significantly ageing demographic. We produce fiscal sustainability reports that suggest that even Canada’s fiscal situation 10, 20 or 30 years out is not sustainable. However, we have not seen any measures in our budget to deal with those issues or even to define the context. You asked how we set out that context. We have put together a few notes that outline some of the lessons that can be learned from Canada’s experience in the 1990s and more recently. In 2005, we launched a number of centrally driven efficiency improvements. From a strategic point of view, most of our public sector transformation initiatives, such as service delivery, procurement reform, and real property reform, were presented as if service levels could be achieved while lower expense levels were being achieved. That was the primary objective.

We found out that such large-scale initiatives require a lot of political buy-in to ensure their viability and sustainability. Even when the initiatives were being presented and developed at committees like yours, or when the executive side was briefing the Cabinet on the savings measures, we found that although people were told about reductions in personnel, the consolidation of offices, the regional impacts, the environmental impacts, and the linkages between all those things and the potential savings, they were not really given the goods straight. The result was that we did not make the savings and we did not get full implementation of the initiatives. If we are going to take efficiency measures, and get buy-in from cabinet ministers and Government departments, we must all get behind the programme. It is important to make that critical and strategic point even before we talk about convincing the public that we will take measures to reduce expenditure.

In our experience, competition is important, too. We have tried monopoly-style efficiency measures in Canada, along with centrally driven procurement reform and real property reform but, without competition, some of the efficiency measures and savings were hard to secure in the medium and long term. Again, that is about getting buy-in from the Cabinet, the executive and at the parliamentary level before we ask Canadians to find some of those savings. That is obviously a key consideration.

In the mid-1990s, it was clear that Canada was in a fiscal crisis. The primary task of the Prime Minister and finance minister of the day was to deliver the restraint that was required to get us back to balance and to satisfy market concerns. Less work was required to situate that restraint publicly. As we start to balance our books—we were dealing with smaller deficits then than we are now—the idea of getting buy-in is critical.

The Convener: The problems are massive, and we have to face them openly and honestly, and share them with the public.

The next question is from Linda Fabiani.

Linda Fabiani (Central Scotland) (SNP): Good morning, gentlemen. I am interested to hear about the implementation of your programme. From our notes, I see that you based your decisions on six criteria. In retrospect, do you feel that those criteria were right? How effective were they? Were you absolutely firm in implementing them?

Kevin Page: As such exercises are launched, it is very useful to start off with some basic principles that will drive them, and to ensure that the appropriate machinery and processes are around to deliver the initiatives. In Canada, the recent efficiency measures have been a different experience from those in the mid-1990s. There are differences in scale and processes. In the mid-1990s, we used the six criteria that are in the note in front of you. They were about the role of Government, whether Government should be in that type of business, whether programmes or services could be better delivered at different levels of Government, and so on.

I know from experience that those criteria drove the process; all departments were tasked with applying them to their various programme activities. At the centre, we set up processes around the criteria and set up deputy minister committees to review the processes. Cabinet infrastructures were set up to review the work of the deputy ministers, to ensure that the criteria were applied religiously. We applied the criteria. If you look back, you will see that different histories have been written in different places. Some departments suffered deeper cuts than others. For example, some departments eliminated more programmes while others fundamentally transformed the nature of their services. Back in the mid-1990s, our ministry of transport, for example, underwent significant privatisation of services.

At the end of the day, we dealt with Canada's 1990s fiscal crisis. There were spillover effects. As we came out of that crisis and our fiscal situation improved, the Governments of the day—I am talking about 2000 to 2002—found that, after four or five years of significant restraint, we had cut too deeply in capital in many departments.

For example, I worked for Fisheries and Oceans Canada, where our coastguard is located. To save operational spending or just maintain operational presence, we cut deeply into capital. Five years out, we ran exercises that started to put some of that money back into the capital budget.

It would be nice to look back and learn the lesson that we have to be careful to maintain the balance between operational and capital spending so that we do not have big capital shortfalls years down the road. We ran into big problems like that in the more capital-intensive departments. Even in more recent experiences, when we ran surpluses and the Governments still wanted to show that they were making efforts to ensure that we were operating efficiently—such as the expenditure review committee exercise in the 2005 budget—the Government wanted to consider matters from a more horizontal perspective. We developed processes but we ran into some shortfalls.

When we did the work, there was a sense that much of it was done around closed doors and did not bring in enough departments at the time to test out whether the savings were really doable. I am thinking specifically about procurement reform. We do a lot procurement across different departments. At the centre, there was a sense that we could find a lot of savings but, when we went to the departments after the exercise had been launched we found that some of those savings had already been secured through other measures. It is probably good to bring in departments at the appropriate time to test things out early before we lock things down. That is the right kind of testing.

That is a flavour of some of the experiences that we have had in the 1990s and more recently.

Sahir Khan: One of the observations that we can make from the 2005 budget—not the 2010 one—is that efficiency exercises are politically the most palatable expenditure reduction but not without pain. Certainly, when they are linked to explicit fiscal targets, if the savings do not materialise, the departments end up trying to secure the shortfalls in other ways, which could have unintended consequences for the delivery of programmes and services.

The UK Institute for Fiscal Studies commented in March this year that it may not be ideal to link efficiency measures to fiscal exercises in order to address budgetary shortfalls simply because the identification, measurement and securing of the savings tends to be highly uncertain. The National Audit Office, examining the results of the Gershon report, found much the same and we had much the same experience in Canada. To the extent that departments were tied to explicit fiscal targets, they had, in effect, a tax put on them whereby they had to make up the shortfall through other means. Through a number of exercises that have taken place since the 1990s, which Mr Page has outlined, there has been a compounding effect on departments. Some of that has started to manifest itself as a drain on capital budgets that are being borrowed from to support operations.

Such exercises have those unintended consequences. However, we learned that, as the Institute for Fiscal Studies observed, they are good management practice and should be carried out in the ordinary course of business. The challenge and real difficulties come from linking the exercises to explicit fiscal targets and seeking to address deficits through those means because they are highly risky and transformations are complex. They involve deep cultural change in the organisation to provide sustained fiscal results and, to be frank, that is easier said than done. There is not much evidence that such efficiency exercises can produce a lot of sustained fiscal benefit.

Linda Fabiani: I notice that one of the criteria in the programme review was whether a service could be provided by the private or voluntary sector. Did you already have that criterion in practice to some extent? Did you find that more could be given to those sectors and, if that was implemented, was there any independent qualitative evaluation of the effects further down the line?

Kevin Page: Back in the 1990s, particularly in the transportation sector, there were significant privatisation initiatives. We were moving many services, literally, off the books of the Government of Canada, and enterprise-type Crown corporations became, more or less, private sector-style corporations. That was definitely our experience, and it was in the context of a fiscal crisis. At the same time, there was a small number of smaller programmes, which were not fiscally significant, across an array of departments, for which we found new ways of partnering with the private sector or the private sector taking them on. For example, some of the Canadian Coast Guard’s licensing and safety work was either downloaded to provincial or local government level or taken up by private sector groups. I have not seen much examination of whether the private or voluntary sector is doing a better job than the public sector was doing up to that point, so we probably lack the examination to advise you whether the development was a significant source of savings or fundamentally improved services to Canadians.

14:30

Linda Fabiani: What kind of involvement—in a professional or amateur sense, because it tends to be a catch-all phrase—does the voluntary sector have in public services in Canada, both at federal and regional level?

Kevin Page: In Canada, it is almost part of the culture of the federal public service to be linked to what we call the United Way of Canada, which is a group of non-profit organisations that provide a full range of services to Canadians, dealing primarily with health-related issues. We have a reasonably strong voluntary, non-profit organisation sector, particularly on the social services side. Canada is not that large a country and there is a network between our public service and those non-profit organisations. We do a significant amount of fundraising within the federal public service to support the non-profit sector and organisations that deal with issues such as homelessness, blindness, mental health and social crisis. There is a connection there that is ingrained in our culture.

Sahir Khan: In recent years, there has been an effort to increase the tax credits available for larger donations to non-profit organisations. The current Conservative Government has, to some extent, had a policy objective of having the non-profit sector pick up and expand its role in a number of social service functions. Linked to that was additional funding for charitable donations and other partnering efforts, which Mr Page talked about. When the federal Government had a great deal more resources and unforeseen surpluses at year end, expenditure was provided to foundations that were, in essence, non-profit organisations that were managing programmes that formerly would have been handled by the federal Government. We also saw a few examples of public-private partnerships working with non-profit entities to deliver public services. There does not seem to be evidence of any fundamental shift away from the public service to alternative delivery models other than during the wholesale changes in the 1990s due to the fiscal crisis. In fact, in recent years, the numbers in public service have exceeded those at the cuts in the 1990s, when there were 65,000 lay-offs in the federal public service. Public services regained those jobs and then some more. It is hard to observe any devolution of service delivery to non-profit organisations.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): I want to be clear in my own mind about the advice that you have provided. You said that using efficiency savings is not the most appropriate way of reducing a deficit. Is that right?

Kevin Page: That advice really comes from your side of the Atlantic ocean. The advice is that efficiency savings should not be the cornerstone of dealing with your substantive, unsustainable fiscal issues. That does not mean to say that Governments should not look for efficiency measures as a regular part of business. Some savings can be found through efficiency, but the question is whether significant fiscal problems can be solved through efficiency measures alone, without the Government taking tough decisions on whether it should get involved in this or that programme of activity. Based on the Canadian experience, we doubt that you can solve significant fiscal issues with efficiency savings alone.

Jeremy Purvis: That point is being debated quite fiercely in the general election campaign. I want to ask about your experience of areas where the Government decided to make cuts. Did the Government decide to protect any areas by having fewer reductions in them or continuing to have growth in them? Was such protection a political decision by the Government or was it done as part of the programme review process?

Kevin Page: In the 1990s, we had massive cuts across the board. More recently, when we generated surpluses and brought our debt to GDP ratio down, we were looking at more modest efficiency savings. At both times, the decision to have less restraint in certain areas of Government responsibility was more of a political, top-down one, and some decisions had a public dimension. For example, when targets were set for departments in the mid-1990s, there was a sense that certain departments should take less of a cut than others because of the core nature of their responsibilities. So, depending on the different contexts at the time, the protected responsibilities would have been national defence, programmes for aboriginals and certain health-related or public safety programmes, and those would have taken a smaller cut than programmes related to industrial subsidy and grants.

The experience from the mid-1990s and the more recent events in 2005 is that decisions to protect certain departments more than others from fiscal restraint are based on political, top-down decisions, as opposed to a bottom-up consideration of whether programmes are working and whether there is greater potential for savings in certain departments. Primarily, there was a political decision to have different levels of restraint impact.

Jeremy Purvis: Did it help to have a Government minister with a specific portfolio that focused on the programme reviews? Did having a clear role in the Government help to communicate to the public that there was a focused position?

Kevin Page: We have had different experiences of success. In the 1990s, it was quite clear that the Prime Minister and the finance minister of the day were totally aligned with the view that deficit reduction was key and that targets would be met. They built in prudence and reserves to hit the targets, which became the priority of the day. That was fundamental to the success of getting our fiscal balances back into balance. Even then, we had machinery and processes that involved senior Cabinet ministers and deputy ministers in the exercises, which helped to set the tone in Government and the executive that restraint would be taken seriously. So, the experience of the 1990s gave the clear message that if there is the political will and commitment and 100 per cent alignment with the policy, significant results can be achieved in correcting a bad fiscal situation, though not without pain.

More recently, in 2005, we had a different experience, and different signals were sent by the Government of the day. In Canada, our finance and treasury functions are separated. One central agency deals with the financial and budget issues and another, the Treasury Board, deals with specific allocations to authorities and departments. We also have something called the Privy Council Office. In 2005, we had false starts. We launched an initiative and handed it to the Treasury Board, which is our management board department, but we then backed off. We pulled it and created another committee. We ran the restraint measures from the Privy Council Office, which is a department that supports the Prime Minister. I was involved in some of those exercises and, looking back, I can see that that approach was not good.

If the central agencies have clearly aligned responsibilities, it is best to go to them, ensure that they have sufficient capacity and that the machinery is set up, and then run such exercises through them. It is best to give those departments the mandate to consider the issues, rather than create special apparatus or processes, which can tend to undermine the credibility of certain departments.

The bottom line is that there has to be commitment at the top, particularly from the Prime Minister and finance minister, in dealing with fiscal issues. It is better to go to the departments that have the core responsibilities and have them run the exercises, rather than create an artificial or temporary apparatus to run short-term measures.

Jeremy Purvis: If I understand correctly, one area in which there were reductions was the public sector pay bill. I presume that that was the bill for staff in the federal Government and not provincial Government. Is that correct?

Kevin Page: I will make a brief comment about compensation. In Canada, unlike in other countries, such as New Zealand, the Government centralised the collective bargaining process, so it is run by our Treasury Board secretariat and management board, which do collective bargaining for all our public service departments—we are talking about 95 departments and agencies and 250,000 employees. Collective bargaining agreements at different levels of Government are being considered—people are looking at rates of pay and doing comparative exercises at the federal, provincial and even municipal levels. However, the federal Government does not have a legal basis on which to set wages in provincial domains.

Jeremy Purvis: Were the reductions in public sector pay graded, depending on the level of pay? For example, was there a lower rate of reduction for people who were paid less and a higher cut for those who earned the most, or was there restraint across the board?

Kevin Page: In the mid-1990s, when we had a public debt crisis, wages were frozen for a number of years. That was pretty much across the board. Currently, we are dealing with deficits that are much smaller relative to the size of our economy. Our Government has started by freezing the rates for ministers and their staff, which has been politically popular. Similar measures have taken place elsewhere. Our political leaders are trying to lead by example. However, we still have collective bargaining agreements in place in Canada and the big ones will last for another year or so. Right now, we have a freeze on operational spending—we have asked our deputy ministers who are the accounting officers for departments to freeze operational spending. However, they have to deal with an increase in wages and salaries of about 1.5 per cent so, to compensate for those wage increases, there must be deeper reductions in non-wage and salary operating spending.

It remains to be seen what will happen to collective bargaining when the current round of agreements terminates, which is a year or so away. That will depend on how our fiscal situation evolves in the next few years.

There has also been a lot more public discussion about comparative pay rates between the public and private sectors, and that discussion has moved into pension issues. I think that the consensus is that our federal public sector's defined-benefits pensions system is very strong and is, indeed, much stronger than the system in the private sector. It might become an issue over the next few years, but the Government is a bit hesitant about tackling it right now.

14:45

Jeremy Purvis: Am I correct in saying that public sector pensions did not form part of the programme review in the 1990s?

Kevin Page: Yes, but wages and salaries were frozen for a number of years.

Jeremy Purvis: Thank you.

The Convener: Contradictory views have emerged in the evidence that we have received. Some people have suggested that salami slicing—in other words, a series of small cuts—produces the best results, while others have argued that deep cuts are necessary if we want to make a change. Have you tried making both small, incremental cuts and deep cuts and did they produce the results that you had hoped for?

Kevin Page: The issue is what happens when you move from a continuum of small cuts to deep cuts. Any small cuts can be absorbed through various types of efficiency savings within departments, but that puts pressure on deputy ministers as accounting officers to demonstrate how they will be able to maintain them without impacting on service levels.

Deep cuts actually involve the removal of various programme activities. Even in recent years, we in Canada have not found it easy to eliminate programmes. We have carried out a number of review exercises; in fact, we run an annual strategic review exercise that examines about 25 per cent of our spending base in departments, the summary findings of which are released by the Government in its budget. As I say, politically it has been difficult for Governments in Canada to eliminate programmes, particularly given the minority Parliament situation that we have. In the 1990s, when Canada was running what was, for it, a high deficit to GDP ratio of 6 or 7 per cent—at the moment, we are in the 3.5 per cent range—something had to be done very quickly. The markets were putting significant pressure on us and there were all kinds of threats to our credit rating. At the moment, we are not experiencing that type of pressure at all.

Whether small or deep cuts are better depends on the context. We were able to make significant cuts in the 1990s because we had no choice, were under significant market pressure and had the political will. As I say, we currently do not have that market pressure per se because, even though we are running deficits, Canada's finances do not look as unsustainable as, say, those of our American colleagues to the south or, unfortunately, our colleagues in the UK, who are having to deal with definitely unsustainable deficit to GDP ratios of more than 10 per cent. The question whether Canada has the willpower to deal with its situation in a timely way remains open and is something that we are struggling with.

The Convener: Mr Page, we are drawing to a close. Do you or your colleagues have any final comments?

Kevin Page: It has been an honour to talk to you and share our experiences. In Canada, we have always found that we learn a tremendous amount from our contact with colleagues about the Scottish experience, the American experience or, indeed, the European experience. Like you, we in this office have examined best practice in and lessons learned by other countries. Thank you for this opportunity; it is much appreciated.

The Convener: We will send you a copy of our report when it is completed. I hope that we will be able to continue to share experiences and expertise as we face common problems that, I hope, we can work through successfully on behalf of the communities that we represent.

Mr Page, it has been nice speaking to you again and I thank you and your colleagues for your wise contribution to our inquiry.

Kevin Page: Thank you. It was an honour.

The Convener: We will have a short suspension to allow the video connections to be closed and the room to be set up for the next panel.

14:50

Meeting suspended.

14:53

On resuming—

The Convener: I welcome our panel of expert witnesses, who represent business organisations and trade unions. David Moxham is deputy general secretary of the Scottish Trades Union Congress; Garry Clark is head of policy and public affairs at the Scottish Chambers of Commerce; David Lonsdale is assistant director at the Confederation of British Industry Scotland; and Dave Watson is Scottish organiser, policy, at Unison.

I will ask you the same question that I put to our witnesses at last week's meeting. Given predictions about the degree to which public expenditure will be tightened, will it suffice to strengthen existing measures to improve public sector efficiency, or will a more radical approach be required?

Garry Clark (Scottish Chambers of Commerce): The simple answer is that more radical measures are required than simply the extension of current moves to make government more efficient. That is what our members say, because we are in an unprecedented situation, given the scale of the debt and the need to repay it. The Scottish Government and the UK Government are very much in the same boat when it comes to tackling public sector spend and finding efficiencies that can be used to repay the debt, which has been incurred largely as a result of measures to get us out of the credit crunch and financial crisis of the past few years.

We need a fundamental reassessment of public services, whether they are provided at UK or Scottish Government level. We must drill down and find not just efficiencies but new ways of working and measuring the impact of public services. We need to measure public services more by what they deliver than by what we put into them, and we need to measure services more effectively against comparators in not just the UK but similar nations. We must ensure that no aspect of the public sector is left out when it comes to scrutiny, if we are to achieve the savings that we need to achieve.

David Moxham (Scottish Trades Union Congress): I remind the committee—if it needed reminding—that deficit reduction can be achieved through three main levers rather than just through one: relative growth, taxation and spending cuts. Therefore, before the discussion is opened, we want to stress that, at both levels of Government, more levers are available than the public discourse would sometimes have us believe.

However, if it is assumed that cuts must be made of the order projected by the Scottish Government at the weekend and by other people, it is not realistic to think that such cuts could be made through efficiency savings alone. The committee heard our Canadian friends make the same point. It would be unfortunate if, in the general political discourse or in the deliberations of the Scottish Parliament, it were suggested that public sector efficiencies would be able to achieve that.

Dave Watson (Unison): Efficiency savings have played a role and the public sector in

Scotland has exceeded most of the targets that the Scottish Government set for efficiency savings in recent years. However, there is a diminishing marginal return to many programmes. We can do a certain number of things, but the achievement of efficiencies will not continue to be repeated. It is clear that 3 per cent savings will not meet the budget cuts that are being talked about.

There are radical solutions, but they are not what is conventionally being proposed. Our list might be different from that of the current UK Government and the Scottish Government, but we think that there is scope in relation to growth, recycling of tax and an emphasis on waste-cutting programmes.

What is not the solution, in our view, is the one that is being proposed by some think-tanks and business organisations, which are promoting competition and markets as the way out of the problem. That is the type of neoliberal economics that got us into the current mess, but some organisations are saying that the solution is to do more of the same and pass that mess into the public sector. They remind me of the gambler who thinks that everything will come out okay after one more roll of the dice; it will not come out okay and we must consider solutions to our problems that have more of the public sector ethos.

The Convener: I think that you will wish to respond, Mr Lonsdale.

15:00

David Lonsdale (Confederation of British Industry Scotland): Probably more so as the conversation develops over the coming hour.

I endorse what Garry Clark was saying earlier. The changes that are made and the measures that are taken will have to go much further than just the economy and getting the most out of what we put in.

The Scottish Government's top priority is growing the economy and, in the context of this committee's work and of the independent budget review, we must keep that priority very much to the fore. We should take action to get on top of the fiscal situation, in both the devolved and the UK context. We must also ensure that the economic capacity, the investment and the support structures that are required to lift our economic performance in the future are built in.

Malcolm Chisholm (Edinburgh North and Leith) (Lab): I very much enjoyed reading the written evidence. We have quite a contrast between the responses. I will ask an opening question now, and I hope that the convener will allow me to come back in later.

I was trying to find some common ground in the responses that have been submitted to the committee—in general, there is not a great deal. However, I was very interested in Unison's suggestion of using systems thinking, which I would be interested to explore a bit further, initially with Dave Watson. It seems to provide an interesting way forward, which might appeal to the other side. He might not wish to place systems thinking in a private sector context, but I am interested in hearing more from him about how systems thinking might work for public sector organisations.

Dave Watson: In his work on systems thinking, John Seddon articulates something that we have discovered in a practical sense in relation to a range of issues. In our written evidence, I referred to the work that we did in Newcastle, where we found some bottom-up solutions to the challenges facing the city council there in information technology procurement. The essence of the approach is to involve the workforce at the sharp end in finding the solutions, rather than imposing top-down solutions through Government targets. The colleague from Canada pointed out that top-down efficiency programmes rarely deliver downstream savings there. That has been our experience, too. That is different from the typical approach.

I can give some examples. I will not name the company, but a big private sector company in Scotland with which I negotiate thought that the solution to its problems lay in shared services for human resources. It took all its HR staff out of their operational departments and stuck them in a big call centre down south. The company concluded, "Well, that's the solution." I remember talking to directors in the operational departments five years later. They said that, although the director of finance said that there was a saving of £X, all the move did was to displace the costs on to their operational departments. That has also been our experience elsewhere of such top-down approaches—the money is just moved around.

By instead considering bottom-up approaches, we can identify solutions that address the needs of the users of public services—not "customers"—and involve them as partners in those services. It is a matter of identifying what they need and ending up with a fix that works for them. Often, things get done more effectively and efficiently that way, too.

Malcolm Chisholm: What are the responses of David Lonsdale or Garry Clark to that? Are you persuaded that that could be a model for the public sector, or is it not something that you like or believe will happen?

David Lonsdale: I do not have a tremendous amount of knowledge about it. One of the key arguments that we have consistently advanced, particularly to the Scottish Government but also at the UK level, is the need to think differently about how we provide services and do things.

There was a discussion with the gentleman in Canada earlier about salami slicing. There need to be economies across the board, but we need to protect certain things that we think are important for the economy. We need to think differently about how we do things. If there are good ideas around about systems thinking or whatever, so be it.

I picked up from Dave Watson's comments the need to involve staff. As is shown by some of the examples that we have alluded to in our written submission and in other CBI documents on public policy issues, one of the key features of contracting out or of the private sector delivery of public services—privatisation, or whatever one wants to call it—is that, where it has worked well, staff have been involved in designing services and in trying to improve them. From my experience, I know that staff often have good ideas about where economies can be made in their organisation. It is all about trying to get the best out of staff, and if systems thinking is one technique that helps to do that, that is good.

Linda Fabiani: I have specific questions for two of the three Davids.

David Lonsdale, I was interested in the CBI's comments about procurement. Everywhere I go—in the public sector, in the private sector, in the Government and in local authorities—I hear discussions about procurement. Could you expand on the issue of using procurement to drive constant improvement in public services and having better and more strategic procurement? With regard to the comment that you made about the need for a Government to ensure best value for money, could you say whether you include quality of service as a criterion when determining best value for money?

David Lonsdale: In the debate about whether we should ring fence funding, the amount of money that is being put in is of critical importance but, at the end of the day, what is important is whether the users and customers are getting a service that is of the right quality. Therefore, we need to be careful in these debates, as we can fall into difficulties in terms of the language that we use. We need to think less about inputs and more about outputs—we have to consider what we are getting out of a service and whether it represents good value for money. Therefore, we have tried to steer away from saying that some inputs should be ring fenced, whether the money is going towards transport infrastructure, skills development, business support or support for exporters, and instead talk about the outputs and how they can be protected in a way that delivers value for money.

On your first point, about strategic procurement, there are lots of different procurement models for public services. There is a delineation between buying toilet paper, bin bags and so on for the public sector and procuring services, whether that involves the construction of buildings or the delivery of public services over a long period. There are different types of procurement model that can be used, such as commissioning models. I am happy to provide you and the committee with more information, if you would like more information about that.

The Convener: We would. Please follow up in writing if there are any other comments that you want to make.

David Lonsdale: A lot of good work has been done in recent years on the public procurement reform agenda, which is about ensuring that companies have easier access to public services and have a better chance of winning business from the public sector. This morning, there was an announcement about promoting opportunities for small and medium-sized enterprises to win catering contracts, which sounded pretty good.

Linda Fabiani: That was one of the issues behind what I was saying. Often, discussions about streamlining public procurement can get into the realms of having various public bodies share procurement and tendering. However, if that leads to cutting out the SMEs, we might be doing less to help the local economies that feed into the whole economy. I wondered whether the CBI's views about streamlining procurement methods actually meant streamlining in a big-is-better way, without taking into consideration the overall effect that procurement can have on communities.

David Lonsdale: The gist of the point that we make in our submission is that aggregating pieces of work allows better economies of scale and other benefits, such as better value for money. Obviously, outfits such as the Scottish Futures Trust are in the business of trying to make that happen. However, the difficulty is that aggregating pieces of work in that way makes it more difficult for SMEs to secure business. Is there a solution to that? It is difficult to say. It is one of the thorny problems that will continue to emerge, and it will only get more thorny as time goes on, as public authorities come under ever more pressure to get better value and make more economies by aggregating projects.

As I said, a lot of work has been done on advertising to SMEs the public procurement opportunities that are open to them and to help them to develop the capacity to win business. I know that the Scottish Government has tried to put clauses into the contracts of various projects to ensure that small, indigenous businesses can win some sort of share of the overall work.

The Convener: The point about economies of scale applies to goods, but does it apply to services?

David Lonsdale: It can do. South of the border, there is a healthy market in which the private sector can come in and run local authority services, but that does not happen north of the border. One of the arguments that one could put is that local authorities in Scotland are somewhat smaller than local authorities down south and that, in order to make it more attractive to companies to come in and provide services such as roads management and maintenance, it might be necessary to aggregate some of the contracts.

Dave Watson: The procurement initiatives that have taken place so far have largely resulted in the centralisation of procurement, although there have been some other sound approaches, such as portals and standard contracts. One of the unintended consequences of that is that big companies have squeezed out little companies. Late last year, I was at a public meeting in a rural part of Scotland and, although I expected the audience to be comprised of trade unionists, I was nobbled by some of Garry Clark's members, who explained to me what a terrible thing the centralisation of procurement was. They mentioned a contract that local firms used to have with a quango and said that, as a result of new tendering methods making it a bigger contract with more requirements, the little companies lost out and a company from Glasgow ended up bussing in staff and resources to run the contract.

Inevitably, going for economies of scale means that you will squeeze out the small companies and benefit the bigger companies. I disagree with David Lonsdale on the issue of a healthy market because what happens is that the big companies take each other over and you end up with one or two companies operating, essentially, as a monopoly. Further, because the service has been privatised, there is no in-house service against which the big companies' service can be benchmarked, which means that you are left with a private monopoly instead of a public monopoly.

The Convener: Is there a way of overcoming that obstacle, perhaps through co-operation between smaller companies?

Dave Watson: There have been some initiatives of that sort. It is difficult, though—private companies operate in a capitalist system that requires competition, which means that they compete against each other. However, I have seen a number of procurement initiatives in which there have been attempts to bring people together and aggregate those regional solutions. Some companies in Scotland have been prepared to adopt that model.

The issue is not just about privatising public services. The public sector procures something like £10 billion of services from the private sector, so the private sector already has a huge chunk of the public sector market, which means that we are not talking about anything new. However, as we go down the road of greater economies of scale, there is a risk that the small companies will be squeezed.

Garry Clark: Dave Watson has highlighted a problem that many of our members have faced in situations in which a council or a public body is concerned solely with economies of scale. It is important that we consider the value of a contract more widely and consider not only the bid that is on the table but the on-going cost. For example, there was a company that used to provide uniforms to a public sector organisation. The members of that organisation were fitted for the uniforms and went away quite happy. The contract for the uniforms went to a company down south, which was sent a list of sizes. Of course, when people are asked their size, they either do not know or they choose one that may not be entirely accurate.

15:15

Linda Fabiani: That is very diplomatic.

Garry Clark: Of course, the company sent up uniforms that did not fit, so they had to go back. There was then a game of tennis with the uniforms going back and forth the length and breadth of the United Kingdom for a considerable period. It is therefore important that we measure the kind of value that a small local company can deliver. There are examples of companies working together on consortia, and Co-operative Development Scotland is looking at co-operative models of consortia. We have been working with it in exploring that. More generally, we work closely with the Scottish Government to try to fine-tune the procurement issues that are still out there; we have made significant progress and we hope that we will resolve some of those issues. However, procurement is a great way to get efficiencies, and it is not insurmountable both to get efficiencies and to ensure that SMEs in Scotland, which pay taxes, business rates and so forth, have a bigger slice of the pie.

Linda Fabiani: They also put something into their local economies, which contributes to the whole.

Garry Clark: Absolutely.

The Convener: Given that Scotland, although it has some very large businesses, is a land of small and medium-sized businesses, what would the solution be?

Garry Clark: I spoke to a procurement official in a local authority who said that they would like to have the courage to ensure that more small businesses get a bigger slice of the pie. However, when they try to do that, their lawyers say, "That's a bit risky." When we speak to the Scottish Government about the issues, it says that there is no problem and that local authorities, the national health service or whoever can build in clauses to ensure that local businesses receive a scoring that recognises the value of the local contribution that they make in employment, localisation and ensuring that their services are delivered effectively and efficiently. However, for the legal departments, as I said, there is a bit missing there. Local authorities tell us that they need a clearer steer from Government to give them the courage to include more small businesses.

The Convener: Are you talking about trade restraint? What exactly is the impediment?

Garry Clark: The rules on state aid, I suppose.

David Lonsdale: I relayed the point to the Cabinet Secretary for Finance and Sustainable Growth last week that some Scottish companies find it difficult to win public sector work here, but they can win such work elsewhere, either in the UK or abroad. If a public procurer is buying information and communication technology from companies and the choice is IBM or a company that they have never heard of that might be quite small, who will they opt for? There is an issue—Garry Clark alluded to this—about the skills, experience and knowledge of public procurers. A hell of a lot of work—maybe I should not have said that—a lot of work is going into trying to improve the skills, knowledge and experience of public procurers in Scotland. Obviously, we have been very supportive of that and will continue to be so. Ultimately, the question is whether there is a public policy solution to the problem—it is a tough one.

Derek Brownlee: I will start with some quick factual questions to Dave Watson of Unison about his written submission, particularly the part about the private finance initiative, which we have discussed in the past. You say that Scottish PFI contracts cost £2.1 billion more than conventional funding. By that, do you mean PFI contracts within the devolved remit, or are you talking about all PFI contracts in Scotland?

Dave Watson: I am talking about the devolved remit. How we calculated that number is in our report "At What Cost?", which is on our website. We used the freedom of information legislation to get the documents. We had a little difficulty getting documents from some public bodies, and we are appealing against some refusals to the Scottish Information Commissioner, but we got a lot more out of that process. We took the ones that we had and multiplied up the numbers. The formula we used for that is shown in "At what cost?"

Derek Brownlee: Which I have to confess I do not have with me.

Dave Watson: Derek, I am astonished that you do not have it with you.

Derek Brownlee: I remember that you sent it to me—I do not know whether it was more in hope than in expectation. Is the £2.4 billion cost of rent payments, for example for the NHS, the lifetime cost?

Dave Watson: Yes.

Derek Brownlee: I wanted to check that because I was aware of the line in the Scottish budget documents that talks about PFI payments going up to £1 billion a year.

Dave Watson: That was the total at the time; obviously, the figure will change.

Derek Brownlee: The point that you made is not a new one. You made it during our inquiry on capital spending methods.

On a related issue, you talk about giving health boards prudential borrowing powers. If the Scottish Government had borrowing powers, which it may do in the near future, would you still believe that it would be desirable to give health boards such powers?

Dave Watson: Yes I would, and not just the health boards. We would like to see more democracy with other quangos. We think that prudential borrowing powers at local level are the way ahead. That would get over some of the difficulties. We should bear in mind that prudential borrowing powers still have to be funded from revenue. That is the bottom line. If you have to fund the PFI scheme from revenue, why can you not fund the conventional borrowing scheme much more cheaply from revenue as well? That is all that prudential borrowing does.

Derek Brownlee: I have some questions for the panel more generally. Earlier, Dave Watson made a good point about involving employees, how we make an organisation more efficient and how we develop services. People who work for successful and efficient organisations probably feel a bit more job satisfaction than people who feel that their efforts are not delivering as much as they could. Other than that incentive, are there structures within the public or private sectors that ensure that employees' suggestions for improved performance are heard and acted on? Are there any good examples of incentives other than satisfaction that align the efforts of employees with the broader efforts of the organisation as a whole?

Dave Watson: The best example in Scotland would probably be the NHS's partnership model. The beauty of the NHS model in Scotland is that, if there is a financial difficulty or another issue, there is early engagement with staff and their trade unions. Where there is no partnership approach, what tends to happen is that management goes away and produces a master plan, after developing it in some detail. Inevitably, at that stage there is resistance to the plan and pressure on management to change it.

The other problem about the non-partnership approach is that management consultants tend to be brought in. We have given you some of our recent research; in our view, £42 million is largely wasted on management consultants. Management consultants tend to give you the ideas that are the flavour of the day. For example, 10 years ago, everyone in the public and private sectors—I went to many a change—was told that we had to listen to someone called Tom Peters, an American management guru, who said that everything had to be devolved down to the lowest possible level. Ten years on, the same management consultants are saying that the new thinking is that we must be centralised again. Sorry, but did we not do that a number of years ago? All that money is paid in the meantime. We should cut through that. If you ask people at the sharp end how we can deliver a service better, they are more likely to come up with a solution. It may not always be the right solution. We should not kid ourselves; there are always bigger strategic issues that people at the sharp end may not understand. However, in my experience, if you sit down with workers and say, "We've got a problem, folks," they will come up with ideas that no amount of million-pound management consultancy companies could ever have dreamed up.

The public sector does not need incentives. Even in the private sector, I have negotiated deals when staff have come up with such ideas. In general, people in the public sector want to do a good deal and want to do a good job—that is why they are there and that is enough. If you take that approach, rather than cutting services, they often come up with a range of solutions, although they are not always the solutions that managers want.

David Lonsdale: One striking facet of the recession that we have just gone through and from which I hope we are beginning to emerge is that the reduction in employment has not matched the reduction in the economy's output. That is because a sea change in attitudes has—temporarily or permanently—occurred. Companies and staff have worked together to try to retain jobs. Many people have had pay freezes, taken pay cuts or not received the bonuses to which they might have been entitled—I am talking not about bankers' bonuses but about bonuses of hundreds of pounds. People are working fewer hours and are job sharing and so on.

In the past couple of years, the private sector economy has responded remarkably well to the economic downturn. That is a sort of inversion of the incentives that you have talked about. Plenty of good incentive schemes are out there in the private sector, but what I have described is a striking facet of the private sector recession in the past few years. It is obvious that we are about to have a public sector recession, in which I suspect that measures that I mentioned, such as pay freezes, will have to be a factor. It will be interesting to see how that develops.

The Convener: Living in interesting times is not necessarily a good thing.

David Whitton (Strathkelvin and Bearsden) (Lab): The elephant in the room that nobody has touched on is pay and pensions, which form 50 per cent of our costs. We were in Ireland yesterday, where some public sector employees face a 15 per cent pay cut.

I will start with Mr Clark. The Scottish Chambers of Commerce's submission says:

> "Allowing new public sector workers to source pension plans along market norms would go a long way to solving the Scottish Government's budgetary problems in the medium term, while boosting economic performance at the same time."

Explain, please.

Garry Clark: You are right that 50 per cent of public sector costs is staff costs, so that is one area in which we must consider reducing overall costs. About 5 per cent of private sector positions operate final salary or equivalent pension schemes, whereas such schemes apply to in excess of 50 per cent of public sector positions. The private sector situation is not the result just of the recession that we have been through; it has developed over a much longer period, because it was recognised that the sustainability of such guarantees from private sector companies would not be manageable in the longer term.

Given that we have come through a recession and that the private sector has borne a pretty heavy cost because of the depth of that recession, it is time for the public sector to examine its costs. Employment and pension costs must certainly be pretty high on the list for consideration, given their significant contribution not just to Scottish Government budgets but to budgets of all departments throughout the United Kingdom. We need to tackle that issue.

David Moxham: Members will not be surprised to learn that we disagree, to an extent. Public sector workers have already taken significant hits to their pensions. In the couple of years that ran up to the recession, public sector workers were asked to take pay cuts—to accept increases that were below inflation—in order to meet the inflation target.

A narrative that accompanies the discourse about public sector pay presumes wrongly that public sector pay has risen faster than private sector pay. We do not find that to be true. Some functions have been transferred from the public sector to the private sector, which has changed the average pay, but the rates of pay over 10, 20 or 30 years in the public sector and the private sector have not significantly differed.

15:30

We consider public sector pensions to be deferred pay, and understand that there are difficult negotiations ahead. Dave Watson will be far more involved in those negotiations than I will be. The rush to attack public sector pay is unfair to public sector workers and does not help public sector reorganisation and efficiency. The last thing we need in the current circumstances, in which we have discussed how to engage public sector workers in a genuine discussion about change, is for them to feel that they are under attack. I counsel politicians and business organisations to be careful about how they approach the matter.

David Lonsdale: We are certainly in no rush to attack public sector workers, and there is no drooling behaviour to try to do them down. The reality is that the private sector has just gone through a couple of years of significant recession and that pay, pensions and other wages-related items have inevitably been factors in how companies have had to deal with that. Earlier, we heard somebody talk about Canada. The deficit in this country is so large that it will have to be tackled. The devolved Government and the Parliament will have to respond to tackling it in different ways and they will have to think about how they can do that.

Mr Whitton alluded to the fact that the largest spend item on the agenda is pay, which will have to be dealt with. Office for National Statistics figures—they are, admittedly, UK-wide—show that, on a per-week basis, public sector wages are higher than private sector wages. We have said at UK level that there needs to be restraint on the cash total of the wages bill, although we should keep it in mind that there should also be flexibility.

I return to my original point about continuing to invest in the economy. We want to ensure, for example, that there are good planners and that there are sufficient numbers of them in local authority planning departments. There are issues to do with how many planners we have at the moment. We need to be able to continue to attract and retain such people. It is not about having a uniform freeze or uniform cuts across the board, but there must be constraint on pay. That is inevitable. To say that that is not the case is to live in la-la land.

The Convener: You mentioned that there are issues to do with the number of planners. Can you expand on that?

David Lonsdale: Yes. The 32 local authorities in Scotland have a shortfall of about 80 or 90 planners—I cannot remember the exact figure off the top of my head. The national park authorities have planning authority responsibilities as well. Planning fees have just been uplifted by 10 per cent to help to fund additional planners, and there is the prospect of a consultation in the next few months, I think, to put in place a longer-term strategy. I presume that that is about getting planning fees to a higher level than they have been to date. That is a separate issue, but there are parts of the public sector that are very focused on helping the private sector to grow, and planning is a good example in that context. Obviously, what is needed is a flexible approach that recognises the pinchpoints in the system that we want to prioritise, as opposed to a uniform pay freeze or uniform caps on pay.

The Convener: Thank you for that clarification.

Dave Watson: Essentially, public sector pay goes in cycles. Over the past 30 or 40 years, it has essentially gone down when money has been tight; there will then be a catch-up exercise. The reason why some of the ONS figures are skewed is that there has been a catch-up figure. Many deals, such as the agenda for change and single status deals, have essentially been catch-up deals. It is not true that public sector pay has caught up with private sector pay. If members look at the detail and all the caveats in the ONS report, they will see that apples are not being compared with apples. The structures are different.

The planners example that has just been given is very good. We are short of planners because the private sector has pinched them and given them higher pay and better conditions. Those planners receive bonuses, share options and other things that our members do not receive. That is the fundamental problem with the pay policy.

When you talk to nurses, social workers or anyone else in the public sector, their first reaction is, “Hang on. We’re being told we have to have pay restraints, but we didn’t cause this mess. It was caused by big bosses and big business.” I have to say that I have certainly not noticed many cuts in bankers' bonuses.

The fact is that the UK and Scottish Governments' pay policy is predicated on the assumption that a big chunk of savings will come from pay. It is assumed, for example, that pay in Scotland and the UK will rise by 1 per cent at a time when inflation is running at more than 3 per cent, and the assumption that is being built into spending plans up to 2014 is that public sector workers will bail out the crisis that has been caused by private big business.

As for pensions, the private sector says that pay in the public sector has never been as good because of the good pensions scheme. However, the point is not that the public sector's pension scheme has got better but that the schemes in many parts of the private sector have got worse. Actually, they have got worse only for private sector workers, but not for the bosses, who over time have been paying themselves bigger and bigger pensions. What the bosses want to do is attack public sector pensions because they can then justify to their own workforce cuts in their own pension schemes and divert attention from their own massive pension pots.

As someone who is closely involved in pensions negotiations at devolved level, I and my colleagues have spent a huge amount of time looking at Scotland's public service pensions, which have been the subject of major renegotiation. Employee contributions have been increased and we have found new ways of approaching the situation, including, for example, introducing a tiered system in which higher-paid staff pay much bigger contributions than lower-paid staff. That discussion is on-going and we and the Scottish Government believe, as did the previous Scottish Executive, that we found a sustainable solution to the public sector pension schemes that are negotiated in Scotland. The schemes are again under review; I am involved in a very detailed review at the moment. We are constantly looking at the system and will tweak it over the next X years to ensure that Scotland has a sustainable pension scheme that properly rewards people for the effort that they have put in throughout their working lives.

David Whitton: The Convention of Scottish Local Authorities has announced that its offer—if we can put it that way—for local government workers will, over the next three years, be 1 per cent, zero per cent and 0.5 per cent. I suggest, Mr Watson, that you should not start the negotiations here although, from the tenor of your remarks, I suspect that you will not be happy about accepting that offer.

Dave Watson: We are consulting on the offer at the moment. We have a number of difficulties with the approach that has been taken. First of all, Scottish Government pay policy says—not unreasonably—that no deals should be made up to March next year. After all, we are coming to the end of one spending cycle and it is likely that, whoever wins the election, we will end up in a new cycle. Trying to negotiate three-year and even longer deals now is very difficult, so we believe that the Scottish Government is right to say that bargaining should focus on this year alone. We will then be able to see what the financial position looks like next March.

There is no way round the fact that the COSLA offer is, with its 1 per cent increase—never mind the pay freeze in the second year—actually a pay cut. Given that teachers and other public sector workers are getting a much bigger pay rise this year, that is going to be very difficult to explain to Unison members who work in local government.

David Whitton: In its submission, Scottish Chambers of Commerce says:

> "Scotland has seen real terms increases in funding of 50% or more in health and education over the last decade, without commensurate improvements in service levels."

I guess, therefore, that you and Mr Lonsdale would say to Mr Watson that given that services are no better even after all this money has been pumped in, a lot of them should be privatised.

Garry Clark: For decades now, Governments at UK and Scotland level have focused far too much on measuring how much we are putting into services instead of how much we are getting out of them. If we are investing taxpayers' money in the education service, say, that service's customers and users have to expect a better return. We need to be guided by outcomes, not inputs.

I will put into context some of the points that have been made about a 1 per cent pay rise and whatever in the public sector. One of our members spoke to your colleagues on the Economy, Energy and Tourism Committee about the effects of the recession on their business. That business employed about 150 people, and it faced the choice of either losing staff or cutting wages. All the employees got together, discussed the reality of the situation and concluded that every employee and director, as well as everyone else who was involved in the company, would take an 8 per cent pay cut in order to ensure that they kept their jobs, that the company continued to trade and that the company went forward successfully. Thankfully, it has done so as a result of that.

At the same time, we are talking about the public sector not being part of that at all. It is unfair to blame everything on the banks. Yes, some extremely costly decisions for our economy were made by the banks, but poor decisions were made by each and every one of us in terms of borrowing and so forth, which helped to get us into this position. We must all bear a share of the cost of putting things right, and that includes the public sector as well as the private sector.

David Whitton: Mr Lonsdale has appeared in front of the committee before. I summarised your evidence in a sentence; I will not go through it again, because you know what it is.

Linda Fabiani: Was it not nice?

David Whitton: It was perfectly fine. It was, “Private sector good, public sector bad.”

David Lonsdale: I return to my earlier point, that to deal with the large deficit and the debt that continues to grow, we need a variety of techniques. Those may include saving money on wages, selling off or disposing of some public sector assets, outsourcing services, privatising services, sharing services, engaging in greater collaboration and maybe having fewer local authorities. If you believe—perhaps unlike some people in the room—that there is a problem that needs to be tackled, you will have to do things differently and think differently about the services that are provided and who provides them. That will be a factor for any Government of any colour. Thinking that we cannot change because this is the way that we have always done things does not have resonance now, given the huge challenges that the devolved Government and Parliament face.

David Whitton: How do you respond to the Unison evidence that says that, so far, it has identified cuts of £553 million and job losses of 6,500 that are planned for next year? That is, surely, responding to the needs of the times, is it not?

David Lonsdale: I am sorry, but I have not read Unison’s evidence and I am not up to speed on the £553 million of proposed cuts. Over recent years, we have put a number of proposals to the Scottish Government. I put them to the committee at this time last year

David Whitton: You did.

David Lonsdale: At that point you put that same point to me.

Dave Watson: I entirely accept Garry Clark’s point that some firms have had to make tough decisions. However, let us remember that average pay in the private sector went up by well over 1 per cent last year. There will always be individual examples, but others have done reasonably well. That will always be the case.

The line that the CBI takes—“Private sector good, public sector bad”—is frankly one of ideology. For every example that David Lonsdale and his colleagues can produce of so-called savings from privatisation, we can produce an example from our reports that shows how much has been lost when the public sector has had to bail out a privatisation. It boils down to ideology. That is fair enough: the CBI’s job is to drum up business for its members, but my job is to defend my members’ interests, and privatisation is clearly about drumming up business for the CBI’s members. I understand that, but let us not kid ourselves that it is about efficiency or that it will, in any way, plug the gap. Even colleagues in Canada, which is a much more pro-market economy than ours, recognise that that will not be the case.

Whether we privatise public services is a matter of ethos and ideology. We believe that the public realm is different to the market. The market is desperately important to our economy and we have thousands of members in it as well, but it has a different ethos. Through the CBI and others, the market seeks to invade the public realm and bring its ethos into our service. We do not think that that is right. That is about politics and ideology: it is not about efficiency savings. We can both produce new figures that will support our positions.

15:45

David Lonsdale: We have never said that privatisation would plug the gap. We have said that it needs to be considered as part of a suite of policy measures that will need to be taken. Not to consider it and to say that we can never privatise a service or bring the private sector in as a partner or to deliver a service is, to my mind, much more ideologically hostile and is not conducive to addressing the situation that we face.

The Convener: Forgive me. I wonder what I am hearing. I hear an ideological war or disagreement—call it what you like—going on against a background of the most massive financial crisis that has been faced in modern times. The fact that there is not much money around hangs over everybody. The Parliament’s budget will lose £1 billion in each of the next three years. We cannot produce money by magic. That is the background.

We hear that public sector pensions will not go up by much, so if private sector pensions go up a great deal, what sort of atmosphere will that create? We should all take a look at the reality that faces us, which is the true rotten state of our finances. The committee has just been to Ireland, which has had to face up to that. If a suggested solution is an ideological war of industrial unrest, I do not think that that is a terribly sensible way to go on.

David Lonsdale: We do not want to participate in any ideological war, but we have advanced a number of proposals that policy makers can take up or not take up.

The Convener: I would like that. The committee would like to hear positive ideas for how we can all work our way together through the crisis. The more I hear the evidence from Ireland, the more I worry.

David Whitton: In our other evidence-taking sessions, we asked witnesses whether any areas of public life are sacrosanct from budget cuts. If pay is one of those, we can improve productivity to get a bigger bang for our buck. The Scottish Chambers of Commerce's submission says:

"efficiency savings should come from productivity improvements, so that service output is maintained or even enhanced."

Are there any areas of the public sector that should be ring fenced and not suffer or come under scrutiny, such as the health service, which is always mentioned to us? We are told that, if we protect the health budget, the cuts will be even more severe in other parts of the public sector. I would welcome views on that from each of the witnesses.

Garry Clark: The answer is that no area should not be subject to scrutiny. There is no area that should not at least be considered for budget cuts. One of the problems that we have in the public sector as a whole is that, from the top level of Government right the way through to the lower tiers of management, everything is governed by receiving budgets and then spending up to them. There is little incentive to produce efficiencies, because if you do not spend your budget, you do not get it next year. Who wants that? We need to consider fundamentally how we incentivise spend in the public sector. We need to examine spending department by department, and no part of the public sector should be exempt from scrutiny. That is not to say that some may not be left relatively untouched compared with others, but every public sector function in Scotland must be under scrutiny.

David Lonsdale: From our perspective, as Garry Clark said, every part of public life will have to produce economies. I go back to the point that I made right at the beginning: if growth remains the number 1 objective, that has to the prism through which we look at savings, cuts or whatever language you want to use. In the past, we have said to the Scottish Government that we should prioritise areas of the economy—transport infrastructure, skills development, land use planning, business support or support for exporters.

We are looking to rebalance our economy. Is the right amount of support in place? That is not necessarily always about money; it can be about the quality of services and whether we are getting best value from them. There is a mixture of capital and current expenditure, and as Kevin Page from Canada said earlier, the problem is that if money is taken away from capital, we end up having to invest even more down the line, which means a greater financial headache later on.

David Moxham: The public service programmes that we identify as being clearly wasteful or immoral are reserved areas. The quick answer to the question is that it is difficult to imagine ring fencing certain areas.

You heard my earlier comments about how we believe that there are certain ways of mitigating the overall cuts in relation to revenue and growth. However, in the context of those cuts, and given that more than half of our spending is confined to two budgets, it is not possible to consider a ring-fencing strategy.

Dave Watson: Clearly, if you do not cut in one area, you will have to cut more in other areas, and that is difficult—but of course, this is a democracy and these are political decisions. I note, for example, the establishment of the independent budget review. Everyone should be open to every good idea that comes along, but we should not adopt an idea just because someone has come up with it.

There are things that can be cut out. Some of them are at the Scottish Government level and more are probably at UK Government level. We would like some political decisions to be made that would save a significant amount of money—Trident, identity cards—and, at Scottish Government level, we particularly highlight the spending on management consultants.

You could also look at the other side of the balance sheet and do something about plugging tax loopholes, for example. Our colleagues in the civil service unions that represent HM Revenue and Customs staff have identified £130 billion of allegedly legal tax avoidance. We can look at those areas as well.

However, I emphasise that we are saying that we have co-operated with a range of efficiency programmes, and we are not saying that we should always do things they way they have always been done. Every day of the week, our members and stewards negotiate change and reorganisation, whether they have come up with the ideas themselves or whether, more often, some bright spark of a management consultant has dreamed them up and imposed them from above. We change all the time, and the savings that have been produced by those efficiencies are pretty substantial.

That is the issue, and we are prepared to look at it. I am not convinced that it is going to plug the gap in the sorts of numbers that are currently being talked about by most political parties, which is why we need to look at the other side of the balance sheet.

Unlike David Lonsdale, who did not read our submission, I did read the CBI submission, and it seems to be a pretty strong ideological bid to use the financial crisis for promoting his members' businesses. There is an argument for that, but I make no apology for saying that we will take on that battle because we think that we have a good story to tell about the public service ethos in Scotland.

Linda Fabiani: Before I start, I want to say that I have met some socially responsible people in the private sector and some absolutely self-centred horrors in the public sector.

The Convener: That is a good start.

Linda Fabiani: Thank you. I do not think that it does any good to portray polar opposites.

I have a specific question for you, Mr Watson, that leads on from what you just said about using the financial crisis. The Unison submission expresses concern that

"few public service organisations are taking their statutory equality duties into account when making decisions over cuts".

It then goes on to talk about concern that cuts may impact more harshly on certain groups. I presume that that means women, in the main. The single status issue and the equal pay campaign have been going on for years and years, during what we were told was a time of plenty for councils, and has not been resolved in all that time. Why is it suddenly an issue?

Dave Watson: I point you to a parliamentary committee that has done a detailed report on the history of single status. This committee looked at it a little bit, but the Local Government and Communities Committee produced a detailed report and we gave a detailed submission to that committee on the history of single status. In fairness, we are well ahead of England. I was talking to colleagues down south and they do not seem to have made the progress we have made on this. This is one of the catch-up exercises that I referred to earlier.

We are concerned that every programme of cuts that is proposed by a local authority or health board is supposed to be made in the context of its equality duties. Those do not apply just to women, although clearly they are an important group. Our concern is that the equality impact assessments that are supposed to go with those programmes are very limited. I saw one local authority that said that it was proposing to close a nursery and did not see that that had any impact under its equality duties. It seems self-evident that the closure of a nursery must have an impact on working mums and that it should be properly equality impact assessed.

Public services are often delivered for a number of the groups that are supposed to be considered, if not protected, under the equality duties. Our concern is that public authorities are not taking that seriously and we have asked the various regulators in the area to look more closely at that. We are doing some work at present and we plan to publish some further work later this year on the outcome of that research in relation to the current cuts exercises.

Derek Brownlee: I have a brief question. Some contributors have already touched on productivity in the public sector. The financial scrutiny unit of the Parliament commissioned the Centre for Public Policy for Regions to do some work on the issue of budgetary challenge using comparative evidence from overseas. One of the report's striking conclusions was that while there is some evidence at UK level on public sector productivity, there is very little data about it at the Scotland level. That means that one cannot even have the argument whether comparable services are doing well or underperforming, or whether a service has a high-performing productivity level, leaving little scope to squeeze further efficiencies out of it. Is there any consensus among the witnesses? You might come from different perspectives in terms of what you would like to see at the end of the day, but is there any reason why we should not have more data about productivity in the public service in Scotland and greater use of comparators and benchmarking?

Dave Watson: Data are collected. The problem is whether they are collected on a like-for-like basis and whether they are applied in a different context. The Canadian context is different from ours. Equally, we might point you to the Scandinavian experience; for example, we recently sponsored an event in this committee room on the Nordic experience. Making like-for-like, apples with apples comparisons is, however, extremely difficult.

I have another reason to be sceptical about massive data collection exercises, which is that there is a huge cost involved. Many more of our members would have to be employed to collect that much more data. In the current climate, that would not be a good use of resources. I would rather have more nurses than data collectors. Audit Scotland and other management consultancy firms are always saying that we should collect more data and that we should do this and that. That is expensive to do and I am sceptical about whether we would get any real benefit from it.

David Lonsdale: If we are to have people examining such things it is something that could, possibly, be contracted out at some point down the line. I suspect that there are differences on several levels between Scotland and UK data. I am conscious that Professor Bell is in the room, and that he can probably give you the story on why, historically, that has been the case. If there are simple and cost-effective ways of collecting more data that would allow us to make more informed choices and decisions, that would be good.

16:00

Garry Clark: We certainly believe that we need valid comparators to allow us to measure where we are in the public and the private sector in relation to other parts of the UK and other countries. The statistics that the ONS produced say that in the 10 years to 2007, public sector productivity fell by 3 per cent, while private sector productivity increased by 20 to 25 per cent. How valid those comparators are is open to question, but that is a pretty wide gulf. In addition, Scottish productivity lags slightly behind average productivity in the UK. We need such measures because they tell us where issues are becoming apparent and where we need to act. That goes back to outputs and how we measure them.

David Moxham: Garry Clark went only halfway to obviating the need for me to say something. The ONS study that he mentioned was published last June. I paraphrase, but it includes phrases such as “highly experimental” in its description of how it went about comparing efficiency in the public sector with efficiency in the private sector. I must repeat myself—the drinks industry would increase its productivity by selling more drink, but the relative inputs that would be considered when NHS efficiency was examined would be very differently judged. At the very least, it is reasonable to accept that comparing private sector efficiency with public sector efficiency is in its infancy.

Jeremy Purvis: I want to ask about an issue that has not come up much in questions so far. Which services are being provided for free? Unison made an interesting point about how regressive the council tax freeze is. What are people’s thoughts on the idea that what is currently being provided for free is not actually being provided for free? According to the CPPR figures, we are talking about a 12 per cent reduction in expenditure up to 2014, in comparison with the peak year of 2009-10, when money was accelerated. We are looking at reductions of 10 or 11 per cent over five years. If the council tax freeze is continued until 2014, for example, that will cost just under £2 billion, if we use 2008, when the freeze started, as the baseline. Do the Scottish Chambers of Commerce and the CBI think that that is sustainable or desirable?

Garry Clark: Our view is that it would be extremely difficult to justify an indefinite council tax freeze. We must look at other aspects of provision in the public sector. For example, we would certainly make the case that further consideration ought to be given to the use of top-up fees to supplement the income of the higher education sector. The council tax freeze and some of the projects of various Governments that have had a positive effect for a number of people during times of plenty may need to be reconsidered, given the scale of the budget cuts that we face.

Jeremy Purvis: Does that apply to the small business bonus scheme?

Garry Clark: Nothing should be left out of consideration. We would obviously argue strongly that that support and other measures to support businesses are necessary to ensure that we maintain levels of growth. One thing is clear. Generating growth will be one way of addressing the current situation, alongside measures on public spending and tax, but if we are to maximise growth, it will have to come from the private sector, which is in a very different position to the one that it was in prior to the recession. We have a consumer base that no longer bases so many spending decisions on notional values of property, although that is probably a positive thing. If we are to maintain growth in the private sector, we will have to fight hard and we need to ensure that Government is supportive of that, but no scheme that is currently in place should be ruled out of consideration.

David Lonsdale: The reality is that tax rises are in the pipeline at UK level. The issue of national insurance rises flared up in the early stages of the general election. We have been clear and consistent on that issue over the piece—we do not support anything that increases the cost of employing people, although you would expect us to say that. In an era in which it is increasingly difficult for companies to get their mitts on bank finance, retained profits will become much more important for the funding of capital investment and investment in the business for the future. Any increased taxes that delve into retained profits and shrink them will be problematic.

At a local level in the Scottish context, we have not suggested changes in relation to business rates or the tax-varying power. I alluded earlier to planning charges, which have gone up by 10 per cent this year and look as though they will be increased further. On other charges, Garry Clark is probably on the money when he says that there will need to be a rethink on tuition fees. However, that is not a CBI Scotland policy—our members have not reflected on that.

Jeremy Purvis: What about the council tax freeze?

David Lonsdale: Our members have not changed their view on that. They have been supportive of it.

Jeremy Purvis: You said that public spending has to come down, and that it should come down anyway because it is too high. We are advised that there will be reductions in the budget but, by 2014, the compound effect of the £70 million council tax freeze will be just short of £2 billion. Does the CBI have a view on whether that is appropriate?

David Lonsdale: We have consistently put forward proposals for how the Scottish Government and devolved institutions can begin to tackle the financial problems and headaches that are coming. However, our members have not said that we need to comment on the freeze in council tax. Historically, we have supported that measure, as a way to begin reducing the burden of the council tax, which previously had increased exponentially.

Jeremy Purvis: You are fiercely opposed to a local income tax and you see the council tax freeze as a start in reducing council tax further. How does your organisation balance that with its other views? You tell the committee that the Scottish budget must go down but that you want the tax cut to continue. I do not know how that matches. I am asking you to match it.

David Lonsdale: We have also not said that there should be changes in business rates or some of the other reliefs that have been talked about, or in the use of the tax-varying power. We have proposed a range of often controversial ideas for how the financial gap can be bridged, but removing the council tax freeze is not one of them. Tuition fees and tolls on new road capacity might be issues going down the line. At UK level, we have recently had a debate on whether there should be some form of broadband levy to finance the next wave of broadband infrastructure.

The Convener: Will that solve the debt problem?

David Lonsdale: No. In fact, the proposal has been taken off the cards of late. However, as you would expect, we are saying that, from our perspective, higher taxes on business are not where we want the committee or the Parliament to start. We do not think that that would be the right thing to do. We have just had a deep recession, and increasing the cost of employment or of doing business will not help the recovery in the next few years.

The Convener: The trouble is that none of us is where we want to be. We all have to face up to that.

David Moxham: We were happy to make ourselves unpopular three years ago by advocating that the council tax freeze was incorrect, and we adhere to that position now. The compound figure is one thing, but the revenue figure is relatively frightening. We are up to probably £240 million on council tax, with another £140 million or so for the small business bonus scheme. Another figure is for council tax benefit, which is about 10 per cent of the council tax figure and is money that we are not getting from the Westminster tax system as a direct consequence of the freeze. That all rolls up to a pretty significant figure when we are talking about potential cuts of £1 billion next year.

The direct answer to the question is therefore that we do not think that the council tax freeze has been sustainable for the past three years, during which Scotland has become in many ways the lowest-taxed area of the United Kingdom, and it is certainly not sustainable into the future.

Dave Watson: Let us be clear: nobody likes paying tax, and at a time of pay cuts our members do not like paying extra taxes any more than anybody else does. However, the council tax freeze is unsustainable, as is the small business bonus scheme. I do not think that any evidence has been produced that the small business bonus scheme has put money back into productivity.

People who oppose the council tax on the ground that it is a regressive tax cannot have their cake and eat it. If it is a regressive tax, a freeze does better for those who are better off. I have given some figures in our evidence that illustrate that point.

My other concern is that, as councils and others cannot do anything with the council tax, they are responding by increasing charges. Again, I have given some examples of that. We are doing more work on that—we have a series of research projects on how charges have changed. It is legitimate to increase some charges, particularly in the current situation, but other charge increases are hitting the poorest in society, adding to the regressive nature of the council tax freeze.

The real point of Jeremy Purvis's questions is whether we can sustain free services. That brings us to the debate on universalism versus targeted services, which I know that the committee has looked at. In fairness, although I do not agree with all of David Bell's paper, I agree with the neat summary of the arguments on the case for universalism. Unison generally supports the arguments for universalism, but that is in the context of a tax structure that matches. In other words, we favour the Scandinavian approach of a better tax structure on which we provide universal services. I accept that it is difficult for the Scottish Government and the Parliament to do that, because you do not have all the levers, but, generally speaking, we think that universalism is better and more efficient.

Universalism also creates a more cohesive society. The best example is the NHS: we all use it, we all contribute to it, and it is enormously popular. Council housing, on the other hand, is seen as something for people who are disadvantaged, and it is therefore not a popular service. Worse, it is spatially segregated from the rest of society, so there is the idea of good and bad. If we had a broader approach to universal public services, with a taxation system that matched, we would have not only a fairer society but a healthier society. Wilkinson and Pickett, and others, have done classic work that demonstrates that we would have a better, healthier and economically stronger society if it was based on some of the Scandinavian models.

Jeremy Purvis: I want to pick up on the point of productivity. The CBI and the chambers of commerce put strong evidence on the link between public spend and productivity improvements. I think that up to £0.25 billion has been spent on the small business bonus scheme. Has that improved productivity in the economy?

Garry Clark: We surveyed our members a couple of years back when the scheme was introduced, and all the respondents to our survey said that the savings that they were making, such as they were, were going straight back into the business. They were investing in new jobs, new plant machinery and so on. From that point of view, we got positive stories from our members about the scheme. It was not a huge scientific survey—it was not weighted, for example—but the anecdotal evidence from it was that all the money was being reinvested.

16:15

Jeremy Purvis: Business organisations criticise people in the public sector when they use such anecdotal evidence to show that public spend has improved care services, for example. Has there been any academic research into the issue? Has the Government commissioned work that demonstrates that public spend on the scheme has come with commensurate productivity improvement? You have asked for such evidence in relation to other areas of public spend.

David Lonsdale: We have not asked for that specific piece of research. The committee might want to put that question to the Cabinet Secretary for Finance and Sustainable Growth when it hears from him in a few weeks' time.

During the past couple of years, businesses' costs and cash flow have been crucial, and our members think that the scheme has helped.

Jeremy Purvis: I do not deny that, but we are talking about expenditure of £0.25 billion. I think that I pick up from you that you want Government to benchmark that or to demonstrate that the expenditure has improved productivity—it is interesting that that has not happened in an area where you want it to happen.

Garry Clark: We would be happy for such analysis to take place. As I said, the evidence from our members' survey suggests that the money has been reinvested—

Jeremy Purvis: In relation to any area of public expenditure, the recipient group would probably say that it was a good thing.

Garry Clark: Output ought to be measured in relation to every area of productivity.

Jeremy Purvis: Unison made a strong point about the council tax freeze—I am talking not about the principle behind the freeze but about its effect. The freeze has disproportionately benefited people who are better off. No one denies that public sector pay is a colossal issue. When we talk about percentage uplifts, are we not approaching the issue in too traditional a way? A flat percentage uplift from the Government or COSLA—whether we are talking about 1 per cent, 2 per cent, inflation-level or inflation-plus uplifts—inevitably puts more cash in the pockets of those who earn more. I am not talking about chief executives and chairpersons. There are alternative approaches. For example, a cash cap could be set, to protect people on lower wages. Such an approach has the potential to save money. The pay bill could come down while enabling some people to be rewarded more than they would have been if there was a straight 1 or 2 per cent uplift.

Dave Watson: At the most recent meeting at which I gave evidence to the Finance Committee we had a lively discussion on public sector pay and there was some disagreement between me and quango chiefs about bonus schemes and performance-related pay elements. You will not look to me to defend such arrangements; we objected to them at the time and we do not think that they should be in the pay policy. There are alternative approaches in that regard.

However, we should not kid ourselves that there are so many very highly paid people in the public sector that refusing them a pay rise would add up to a reasonable pay rise for the people at the bottom. What we can do is have weighted pay deals. We argue for weighting across the board—I suspect that we almost always make that argument; I cannot remember negotiations in which we have not done so. We have made the argument in the current local government negotiations.

The problem is that employers in the public and private sectors argue that weighting distorts gaps between grades and upsets equal pay provisions, job evaluation schemes and so on. That is one of the reasons that employers give for not having weighting arrangements. We have no difficulty with a pay strategy in which consideration is given to weighting pay awards, particularly given that inflation tends to fall most heavily on our lowest-paid members, because the basket of goods that is used to measure inflation contains the essentials that people must buy.

David Moxham: Just a few weeks ago, Employers in Voluntary Housing, in negotiation with Unite, came to an agreement that it would become a living wage employer. The quid pro quo was that a slightly smaller increase was taken by all members. Members were balloted on both options and decided at a cost to themselves—albeit a relatively small cost—that EVH and housing associations throughout Scotland would become living wage employers. On a small scale, that is already happening in practice.

Jeremy Purvis: Did that save money overall?

David Moxham: The two options were revenue similar, but the disbursal of wages was different.

Jeremy Purvis: My question is whether, if we are looking at reducing the overall pay bill in the public sector, there is an argument for a freeze or real-terms reduction for those who are higher up the pay scale and an inflation-equivalent uplift—or, in some cases, a higher uplift—for those who are lower in the pay scale. Depending on where the line was drawn, could that reduce the pay bill overall in the devolved budget?

Dave Watson: I am not sure how you would get those numbers. Any deals could be weighted, but there would not be a reduction in the overall pay budget.

Jeremy Purvis: That is why I am asking. It would be much easier to set a cash limit on any uplift rather than a percentage limit.

Dave Watson: Absolutely. Yes. It could be weighted, particularly if flat-rate elements were used. That would produce a weighting at the lower end of the scale, but it would not produce a cut in the overall pay budget—it would be a reallocation of the pot. If the pot in a pay deal was 1 per cent, for example, that could be reallocated. The problem is that, when inflation is at 3 per cent and we are talking about pots of 1 per cent, the sums of money are small. Frankly, they do not add up to a great deal, even with a weighting.

It should be borne in mind that the bulk of the staff are at the lower end of the pay scale—around half of local government workers earn less than £18,000 a year. On pensions, we weighted the deal so that the pension contributions went up for those who earned more than £18,000 but stayed the same or were slightly less for those who earned less than £18,000. What you suggest is doable, but I know from those negotiations that there is not some pot that can be magically reallocated. Some fairly complicated staging is required to get that sort of weighting, simply because of the numbers and the costs that are involved.

The Convener: Against the backdrop of a dire and dreadful economic situation, the Finance Committee has sought to get more from less, value for money, economy, effectiveness and efficiency in the Parliament's budgets, knowing that getting it wrong would affect everyone—individuals, industry, workers and absolutely everybody. Therefore, I regret the fact that I have seen only a limited meeting of minds in the evidence that we have received today.

Let us suppose that, for whatever reason, the Scottish budget were to be cut by £1 billion next year. What would be the best process to deal with that in the interests of all stakeholders? Who would like to answer that? It is a question that we should all mull over. If we do not get the answer right, everyone will get hurt.

If nobody wishes to make a final comment, I thank you for appearing here today and for your evidence. We all have food for thought. The decisions that we will now make will affect everyone in the country. I wish you well and I wish you wisdom in those decisions.

We move straight to the next item. As members will be aware, David Whitton, Derek Brownlee, Jeremy Purvis and I went on an interesting and informative visit to Ireland yesterday to learn about the specific approach that is being taken there in dealing with the country's fiscal deficit. We had an exhausting but important and informative series of meetings. The Irish are dealing in practice with the problems that we have heard about today. We completed those meetings in one day and in close succession, with topics including combating fiscal deficits, trade union and voluntary groups' responses, tough budgeting decisions and Government strategies in addressing the ferocious financial problems.

I place on record my thanks and appreciation to the British embassy staff, Irish Government officials and representatives of a wide range of Irish organisations who assisted us with our inquiry. I thank our clerk for his organisation and advice. The evidence that we received will form a useful basis both for the committee's report and for our continuing inquiry into budget strategy. I invite David Whitton to make some further comments.

David Whitton: Like you, convener, I thought that the visit was useful and informative. I took quite a few notes. I have not had time to transcribe them yet, but I will do so and I will pass them over.

I was struck by the very different situations that we are dealing with. Ireland is considering major taxation changes and all sorts of stuff that we do not need to consider. Like the Irish, however, we have to consider how we will cut our cloth, as it were.

Perhaps the most interesting thing arose at the airport on the way home. The other guys had all gone off to Edinburgh, and I was waiting for the flight to Glasgow. I was sat beside three Irish businessmen, who were talking about the political situation and the various measures that their Government was taking. I got into conversation with them and gave them a flavour of what we had heard from the people we had met. I raised the subject of the public sector pay deal—public sector pay is being cut by 15 per cent—and asked them whether they thought that it was a good idea. They echoed what Mr Ahern had said: no, it was not, because it was not fair, as those at the top were not having to take the same type of cuts as the people at the bottom. They evinced the example of judges, whose situation we heard about at our breakfast session.

It struck me forcibly that, apropos of nothing at all, those three guys were sat there in the airport discussing the matter of public sector pay, which was clearly a big issue for them. They obviously wanted their country to recover from the difficulties that it is in. They were civil engineers, and they were all engaged in property business of one sort or another. They were coming to Scotland to take part in a conference on wind turbines. They were getting into that stuff.

I asked them where they were doing business now, if there was no construction in Ireland. They said that Poland, Libya and the east coast of America are all good places to do business just now. It is basically now the reverse of what happened during the boom time in Ireland, when lots of people from eastern Europe—Poland in particular—came to Ireland to work. Now, Irish construction workers are going over to Poland to work. That is quite amusing, in a way.

Big decisions clearly have to be made. The evidence that we have heard, not just from today's witnesses but from others, suggests that no areas are sacrosanct, and that they must all be considered. Whatever solution we or our Government come up with, the element of fairness must drive it through. If we ask one sector to take a cut that nobody else has to take, it ain't gonna work.

The Convener: Yes, indeed. Your time in the airport lounge was well spent. Does Jeremy Purvis wish to comment?

Jeremy Purvis: Not on David Whitton's conversations.

It was interesting to note how the fiscal situation in Ireland potentially makes it more vulnerable, given its previous choices of where to levy taxation, which are now no longer available. It would have started from a different base in hindsight. It is hard to make comparisons, given the structure of the Government in Ireland, the way society is and the way in which services are delivered across the network there. The bureaucracy is considerably different.

One thing became clear throughout the day. I will not name the individual, because I think that the discussion was private, but we were told, "Whatever you do, do not do what we have done." That message applied across the board.

It was interesting meeting the chairman of an bord snip, who said that any decision to stop services, reduce benefits, or reduce or freeze pay, whether recommended by a quasi-independent or independent chairman of an advisory group or made by the finance minister, should be communicated by the Government directly to the people. An important conclusion I drew was that the Government should be straightforward and clear. That is an important lesson.

16:30

A second element that is interesting in the context of what we have heard today is that the unions' membership is being balloted on the unions' agreement with the Government on pay cuts, in recognition of the difficult situation. Potentially, local members and activists will be slightly at odds with the leadership of the organisations. However, the advice that was provided was that we must find solutions that suit our circumstances and that, whatever is done, it should be communicated directly, with a line of accountability to the minister who is responsible for making the decisions. I found that interesting.

Derek Brownlee: It was an incredibly useful and well-organised trip. I took two key points out of it. First, according to the various people we spoke to—from the voluntary sector, Government, the trade unions and elsewhere—the issue is not whether there should be reductions in spending but what the spending reductions should be. It is a much healthier debate than the one in which we are currently engaged in Scotland to accept that spending reductions are necessary, then move the political debate on to the relative virtues of some reductions versus others, and to the balance of tax rises versus spending reductions. The Irish discussion is about specific measures. If the debate in Scotland could be moved on to that point, it would be much more constructive. It was striking that there did not seem to be political disagreement about the scale of the spending reductions that are required, which allows the Irish to get on and deal with the issue. No one there suggests that spending reductions are avoidable or that Ireland is exempt from them, which is a different position from the position in Scotland.

The other aspect that I find interesting, which I do not think we have heard about in evidence, either in this inquiry or in previous inquiries, is the point that was made in relation to capital infrastructure. We heard representations today about maintaining capital spending relative to revenue spending. It is a fairly basic assumption—which did not really emerge in previous evidence—that in assessing which capital projects to take forward, we should first assess whether the basis for them has been changed by the reduction in economic growth. That is a valuable observation. The point was made that if a recession takes 5 per cent out of the value of the economy, two or three years down the line you will not necessarily be where you thought you would be when the capital project was initiated. You might choose to defer some projects and advance others.

That observation, about taking a step back and considering which capital projects would boost economic capacity in the short term and which would be useful in the longer term, when economic growth picks up, was valuable. It might be of use as we get further down our line of inquiry and discuss the nitty-gritty of which projects we should protect and which we should delay or cancel.

Linda Fabiani: Does Ireland work under the same tenet as the Treasury in the United Kingdom, which is that it is not possible to transfer from capital to revenue? Is it making decisions purely within the capital budget?

Derek Brownlee: We did not ask that specific question. The issue about capital spending was raised in the context of what the capital spending plans had been and what they were likely to be. Effectively, we were told that although there will be a significant reduction in capital spending, it will still be above the historical average, although some of the people we spoke to suggested that perhaps there had been underinvestment in capital spending in the past. The point was more about how you prioritise.

Linda Fabiani: Yes, and how you manipulate—I do not mean to use the word pejoratively—to maximum advantage.

The Convener: Best value.

Linda Fabiani: Yes.

The Convener: We look forward to the report that the clerks will prepare for the committee, which will be available to Government and people. Whether it comes from Canada, Ireland or elsewhere, we can learn from best practice for Scotland’s benefit.

Patient Rights (Scotland) Bill: Financial Memorandum

16:36

The Convener: The next item is consideration of our approach to scrutiny of the financial memorandum to the Patient Rights (Scotland) Bill. Members will see from the clerk's paper that it is suggested that we adopt level 2 scrutiny, which will involve seeking written evidence from financially affected bodies and oral evidence from the Scottish Government's bill team. Are members content with that, and with the suggestions for written evidence, as set out in the paper?

Derek Brownlee: I am content with the suggestion for level 2 scrutiny, although, looking at the list of bodies from which we would seek evidence, it strikes me that it might be useful to seek evidence from representatives of people who are employed in the health service, such as the British Medical Association, the Royal College of Nursing and other representative groups, rather than simply the health boards and the other groups listed in the note.

The Convener: Do members agree?

Members *indicated agreement.*

16:36

Meeting continued in private until 17:05.

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