



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

Wednesday 5 May 2010

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**LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE**

**13<sup>th</sup> Meeting 2010, Session 3**

**CONVENER**

\*Duncan McNeil (Greenock and Inverclyde) (Lab)

**DEPUTY CONVENER**

Alasdair Allan (Western Isles) (SNP)

**COMMITTEE MEMBERS**

\*Bob Doris (Glasgow) (SNP)

\*Patricia Ferguson (Glasgow Maryhill) (Lab)

\*David McLetchie (Edinburgh Pentlands) (Con)

\*Mary Mulligan (Linlithgow) (Lab)

\*Jim Tolson (Dunfermline West) (LD)

\*John Wilson (Central Scotland) (SNP)

**COMMITTEE SUBSTITUTES**

Brian Adam (Aberdeen North) (SNP)

Margaret Curran (Glasgow Baillieston) (Lab)

Alison McInnes (North East Scotland) (LD)

Margaret Mitchell (Central Scotland) (Con)

\*attended

**THE FOLLOWING GAVE EVIDENCE:**

John Baillie (Accounts Commission)

Fraser McKinlay (Audit Scotland)

Gordon Smail (Audit Scotland)

Jim Stephen (Scottish Government Children, Young People and Social Care Directorate)

Nicola Sturgeon (Deputy First Minister and Cabinet Secretary for Health and Wellbeing)

**CLERK TO THE COMMITTEE**

Susan Duffy

**LOCATION**

Committee Room 1



# Scottish Parliament

## Local Government and Communities Committee

*Wednesday 5 May 2010*

[The Convener *opened the meeting at 10:00*]

### Child Poverty

**The Convener (Duncan McNeil):** Good morning and welcome to the 13<sup>th</sup> meeting in 2010 of the Local Government and Communities Committee. As usual, I ask members and the public to turn off their mobile phones and BlackBerrys. We have received an apology from our deputy convener, Alasdair Allan, who cannot attend because of the disruption to air services and travel.

Item 1 is oral evidence on child poverty in Scotland. The committee published its "Report on Child Poverty in Scotland" last May, and the Scottish Government responded in July. Today we have an opportunity to consider the progress that has been made since then. I welcome our witnesses. Nicola Sturgeon, the Cabinet Secretary for Health and Wellbeing, is joined by Scottish Government officials: Samantha Coope, head of the tackling poverty team; Jim Stephen, head of early education and child care; Linda Sheridan, head of delivery in the fuel poverty branch; and Julie Bilotti, policy manager in the employability team. I invite the cabinet secretary to make some introductory remarks.

**The Deputy First Minister and Cabinet Secretary for Health and Wellbeing (Nicola Sturgeon):** Thank you. I welcome the opportunity to discuss child poverty and update the committee on progress against the recommendations in its report.

As you know, we very much welcomed the broad range of evidence that was given by the many contributors to the committee's inquiry, and we welcomed the subsequent report. I wrote to the committee in July with my response. We were pleased that the report was, in general, supportive of the Government's approach to tackling child poverty and provided useful ideas on how we might enhance our approach.

Since the summer we have made progress on all the areas in the report on which the committee made recommendations to the Scottish Government. Under the framework that was set out in "Achieving Our Potential: A Framework to tackle poverty and income inequality in Scotland", a great deal of work has been under way to identify and support people who are at risk of

financial exclusion. In particular, we have worked on initiatives that target vulnerable groups who are most in need of support and assistance in accessing the benefits to which they are entitled. The committee might be interested in the new initiative by NHS Greater Glasgow and Clyde, which we are supporting. The initiative targets low-income families with children and brings together income maximisation services and health services.

The committee will be aware that the United Kingdom Child Poverty Act 2010 received royal assent in March. The implementation of the 2010 act will give added momentum to work that is under way through our early intervention frameworks on poverty, health inequalities and the early years. However, the development of the new strategy that is required under the 2010 act will require us to have an added focus on the specific drivers of child poverty, which is a welcome development.

Government officials have begun to work on the strategy and regular progress reports can be made available to the committee, if members would find that useful. We intend to consult on the draft strategy later this year and we will advise the committee when the consultation is available. After the strategy has been published, annual reports will be produced to monitor progress, and the strategy will be refreshed every three years. We will, of course, continue our practice of publishing Scotland's progress against the child poverty targets on an annual basis.

An important part of our work is ensuring that poverty—particularly child poverty—is at the forefront of everyone's mind when significant decisions are made on policy, services and budgets. We are considering how such decisions can be systematically poverty proofed.

We are also working with the Convention of Scottish Local Authorities and the Scottish Legal Aid Board to review benefits information and advice provision and to assess how current provision fits with need. A position paper on information and advice provision was circulated to stakeholders at the end of April. We will circulate a copy of the report to the committee.

All those actions take place against the backdrop of our wider efforts to improve the outcomes for all children in Scotland and to tackle poverty and inequality and, most important, their drivers. I know that committee members are familiar with the Scottish Government's policies on those themes. It is our intention to maintain momentum around that work and I look forward to working with the committee as we do that. The committee's input has been extremely helpful in the past and I have no doubt that it will continue to be so.

**The Convener:** I thank the cabinet secretary for those opening remarks.

Last week, the report “Growing up in Scotland: The Circumstances of Persistently Poor Children” was published. I do not know about other members, but it is certainly a challenge for me to define poverty: there is absolute poverty, relative poverty and persistent poverty. Importantly, the publication focused on persistently poor children. I know that the Scottish Government uses that measure. What action has been taken around that? In one of our papers concern is expressed that no concerted action has been taken to deal with the issue of persistently poor children. Has that attracted the cabinet secretary’s notice, and will actions be taken in that area? Is it a priority area that the Government should look at?

**Nicola Sturgeon:** Yes. The “Growing up in Scotland” report that was published last week is in many respects a reminder to everybody of the scale of the challenge that we still face. Progress has been and is being made in tackling child poverty, but I am not complacent about the work that we still need to do. I know that no member of the committee is complacent about that, either.

I will say a word about the figures used in “Growing up in Scotland” around persistent poverty, and then I will talk about the various targets and measurements that we measure progress against.

The report states that 24 per cent of children in the three to four-year-old age group and 21 per cent in the five to six-year-old age group were living in what it terms persistent poverty. What I am about to say is in no way intended to underplay the significance of that, but we know that figures for persistent poverty are likely to be higher in the younger age groups because parents of younger children are perhaps less likely to be able to work and to access the labour market. If we were to look across all age groups, we are fairly sure that the figures would be lower.

That takes me on to how we can be sure about that. As the committee will know, we publish statistics annually that look at absolute poverty, relative poverty and material deprivation. The committee will be aware of the most recent statistics on absolute poverty, which state that the 2010 target has already been met. However, there is still a way to go in addressing relative poverty. The updated statistics on the three measurements will be published later this month, so that will give us a better indication of more recent progress.

The Child Poverty Act 2010 requires reporting against four indicators: relative poverty, material deprivation, absolute poverty and persistent poverty. We do not yet have sufficiently robust data to be able to report accurately in relation to

persistent poverty. That is the case not just in Scotland but across the UK. A great deal of work is under way to get the data into a form that will allow that reporting to be done. A target level is to be set by the end of 2014, as the data become available—that is the case across the UK. Certainly, we have work to do on persistent poverty in order to have the data that will allow us to measure not just the current situation with persistent poverty but progress against that over the years.

**The Convener:** I agree with you that the report highlights that qualification of the figures, acknowledges that we are not comparing like with like and focuses on younger age groups. However, it notes that persistent poverty is still prevalent among young Scottish children, and says:

“Despite this evidence, there are no concerted policy measures to tackle persistent poverty”.

Are we saying that measures will have to wait until 2014, or have I misunderstood you?

**Nicola Sturgeon:** It is probably my fault for not making the position clear enough. Action to tackle persistent poverty certainly does not have to wait until 2014. The many policies and strategies that we are pursuing are intended to tackle poverty in all its forms. I can say more about those policies and strategies if the committee wishes. My point about 2014 is that although we are working towards targets for relative poverty, absolute poverty and material deprivation, a target for persistent poverty is not yet in place, as we do not have the data for measuring progress towards such a target. The 2014 date is the UK-wide date when it is intended that that target will be set. That does not mean that tackling persistent poverty is not a priority for us. I hope that the position is a bit clearer now.

**The Convener:** Does the cabinet secretary accept that we are not just considering income, which was one of the interesting aspects of “Growing up in Scotland”? The committee has been considering benefits take-up and other issues that we could probably deal with effectively in Scotland, such as the capacity in the health service to deal with behavioural problems among younger children and to assist with mental health problems among mothers. Is work being done there, and are budgets being allocated?

**Nicola Sturgeon:** The short answer is yes, absolutely—although there is also a much more detailed answer. I absolutely accept that income is not the only indicator. Obviously, income is extremely important, but a young person’s quality of life is also important in the broader sense. That brings in a whole range of issues, including the quality of education and of educational

experience, attainment and health. “Achieving Our Potential”, the Government’s strategy to tackle poverty, makes it clear that, as well as dealing with the here and now of poverty and trying to alleviate its symptoms—that is a responsibility that I take very seriously, on behalf of the Scottish Government—we must do much more to deal with the underlying causes and drivers of poverty.

There are various work strands in the national health service and in education to improve young people’s life experiences, including in relation to mental health, which you mentioned. I am the first to recognise that child and adolescent mental health has been something of a Cinderella service in the NHS over many years. Mental health services generally, and child and adolescent mental health services in particular, have been described in that way. We are now investing a considerable amount of resource to improve those services to deal with what has been an unsatisfactory performance over a number of years.

**The Convener:** So this report will drive your discussions with COSLA and local authorities.

**Nicola Sturgeon:** Do you mean the “Growing up in Scotland” report?

**The Convener:** Yes. Will it drive a debate and action?

**Nicola Sturgeon:** Absolutely. All such evidence is used to drive and maintain momentum around all the actions and initiatives that we are taking. I do not for a minute underestimate the power of the Child Poverty Act 2010 to focus everybody’s mind, even more than has been the case, on what we need to do to meet the targets, which are now statutorily underpinned. I am not suggesting that people were not sincere about meeting them before, but there is now the added force of statute to ensure that we not only set the targets but make and evidence progress towards them annually.

**Bob Doris (Glasgow) (SNP):** The committee’s report examined how the tax and benefits system can be used more creatively and flexibly in Scotland so as to foster ways to tackle child poverty. In the Scottish Government’s response to the committee’s report, we were told:

“A high-level bi-annual meeting involving Scottish Ministers, COSLA leaders and Ministers from the Department of Work and Pensions”

will take place to make progress on the possibility of a more creative approach to the tax and benefits system. Can you give us any details of meetings that have been held and of what was discussed? Perhaps just as important, whatever new UK Government comes into power after Thursday, what matters do you intend proactively to pursue in connection with those meetings?

**Nicola Sturgeon:** You are right to point out the Government’s response to the recommendation. That high-level meeting has not yet taken place—it is an early priority for us after the UK general election. Obviously, UK politicians have had other diversions over the past wee while, but we are absolutely committed to that.

At the start of the year, there was a jobs summit at which various stakeholders were represented, including the DWP. The issues of tax and benefits integration and how to make the tax and benefits system more conducive to getting people into work were raised at that summit. Those issues are very much on the Scottish Government’s agenda. Obviously, we cannot bring those things about by our own actions, but we are absolutely committed to working constructively with UK ministers in order to propose ways in which the benefits system can work better. We all have many anecdotes and real stories from our constituencies about people who cannot access work or are put off accessing it because of the financial consequences of the withdrawal of their housing benefit or council tax benefit. There is broad consensus now that that is not a good thing and that there should be reform. We are certainly willing to play a full part in discussions on that.

10:15

**Bob Doris:** I am grateful that the Scottish Government will take a consistent approach to pushing forward the potential reform agenda. On the reforms that could happen, the committee has taken a lot of evidence on kinship carers being tied up with the tax and benefits system, particularly in relation to tax credits and the UK Government’s clawback. You may or may not want to respond to that point, but it is important that we mention kinship carers, whom I have championed for a long time.

More and more of my constituents in Glasgow have been telling me about the child tax credit system, which they welcome. However, many part-time female workers—usually single parents—have told me that although their 16 hours a week are helpful and the £130 tax credit top-up that they can get is welcome, they would be worse off if they worked the additional hours that employers offered them. As I said, I have long championed kinship carers. Will you discuss with whoever forms the Government after the UK election how we in Scotland can use child tax credit cash more flexibly and creatively to ensure that the approach that is taken does not, ironically, become a disincentive for mothers to work part time? Currently, it is such a disincentive. We should be keen to push the matter forward.

**Nicola Sturgeon:** I absolutely agree with all those points. I will not go into detail on the point

about kinship carers, but it was well made. Indeed, we have raised the matter consistently with UK ministers, so they are well aware of our views on it, and we will press it again with UK ministers after the election. Whether we are talking about the kinship carers allowance or any other aspect of the benefits system, it is important that perverse disincentives are not built into the system.

I am going to do something that I do not know whether I have ever done before, and I am not sure that I will ever do again: I am going to quote Jim Murphy.

**Bob Doris:** Steady.

**Nicola Sturgeon:** In the leaders' debate on Sunday night, Jim Murphy said that there should be a guarantee that nobody will ever be worse off in work than they would be on benefits. We should all be prepared to sign up to that principle. It will not surprise anybody to hear that I think that we would be in a better position to ensure that that was the case if employment and benefits policy were devolved to the Scottish Parliament and we had the power to ensure that the different bits of the system were properly integrated. That would be a far better state of affairs. Short of that, we want to work constructively and positively with the UK Government to deal with the disincentives that exist in the system. It is not right that somebody should think that they cannot take up a job or increase their hours of work because doing so would make them worse off, as they would lose money through losing benefits. That is simply a crazy state of affairs.

**Bob Doris:** It also damages many small businesses that have good, reliable and steady workers who work 16 hours a week and cannot go beyond those hours, although their employers would like them to do so. Small businesses in local communities that I represent are being stifled.

Finally, we know that there will be cuts and pressure throughout the UK after the election. Let me keep party politics out of things. We have a democratic responsibility to tackle child poverty and poverty in general in Scotland. Will the cuts in Scotland hamper our ability to meet our 2020 child poverty target?

**Nicola Sturgeon:** Having a budget that is declining in real terms rather than rising—which is certainly the case with the Scottish Government's budget in this financial year—will not make achieving such targets easier. No minister of any party would say otherwise. It stands to reason that, if we have less money, it will be harder. Nevertheless, there is no doubting the Scottish Government's commitment to achieving the targets. That commitment is shared across the parties in the Scottish Parliament.

If I recall correctly, one of the recommendations in the committee's child poverty report concerned the need for accurate assessments of the actual cost of hitting the child poverty targets. We were able to give some rough figures for that. However, there is no doubt that we must ensure that the money that we already spend—whether on education, health or, in a UK context, benefits—is spent in the most effective way to achieve the targets. Our early years strategy and our work on tackling health inequalities are all about making different parts of the public service work more effectively together to deliver better outcomes. The Child Poverty Act 2010 will be an important driver because it puts requirements and obligations into statute, which will mean that, whatever party is in government in Scotland or the UK, we will all have to ensure that we make the required progress and allocate resources accordingly.

We may or may not come on to other recommendations in the committee's report that concern how we ensure that we have regard to tackling poverty—particularly child poverty—and inequality in our budget decisions. The committee will be aware of the equality and budget advisory group's work and the work that we are doing to try to poverty proof not only our policies but our budget decisions.

**The Convener:** There is broad agreement about the transition into and out of work. The research findings that were published last week suggested that that would be a rich area for additional research. Is any additional research planned?

**Nicola Sturgeon:** I will come back to the committee on that. I am not sure whether any research on that is under way or planned, but I noted the comment in the report about the need to understand the drivers of getting people from benefits into work.

**The Convener:** I ask the question genuinely because some research on that would help us all in our common objective of helping people out of idleness and dependency. We would be in a stronger position if we had some academic research.

**John Wilson (Central Scotland) (SNP):** I was interested that the cabinet secretary quoted Jim Murphy on ensuring that nobody was worse off in work than on benefits. I have been around long enough to see Governments try to tackle that issue, but the difficulty with such a statement is that Governments have tackled the issue mainly by reducing benefits rather than by dealing with the real, underlying problem to which the convener alluded, which is whether people receive enough of an income on which to live and bring up children in the UK and Scotland. The convener referred to the transition from work to unemployment and vice



versa. Will the cabinet secretary comment on how best to achieve an income level for people that takes them out of poverty?

The figures that are before us show that absolute poverty has dropped from 31 per cent in 1997-98 to roughly 12 per cent in 2007-08. However, although the figures have dropped over that period, they have remained stable over the past four or five years according to the information that we have. We do not seem to be biting into the last chunk—the 20 per cent in relative poverty and the 12 per cent in absolute poverty. How will we achieve that? How does the Scottish Government aim to get at that last fifth or 10 per cent, in relation to which we seem to be failing to reach the targets?

I will try to round this up in a couple of questions. How does the Government envisage the current recession affecting the figures? Is it anticipated that there will be a blip in the effort to achieve the targets because of the recession and the likelihood that many workers in Scotland will face unemployment or a drop in earnings?

**Nicola Sturgeon:** I will start with the final question. Obviously, we do not yet have statistical evidence on the recession's impact on the issues that we are talking about. However, I think that most people would intuitively conclude that the recession will have an impact on our efforts to tackle poverty, certainly in the short term. One example of that impact just now is around employability initiatives, which is the work that the Scottish and UK Governments do to support people into work. Obviously, it is harder to do that at a time of higher unemployment when jobs are scarcer on the ground. We have seen over the course of the recession people going on to four-day working weeks, for example. Such things are having an impact on income levels. So, it would be rather difficult to argue that the recession is not having an impact on our efforts to tackle poverty, but it is too early to have statistical evidence on that.

On the broader point, John Wilson is right to talk about ensuring that people are never worse off in work than on benefits. We can achieve that by making work more lucrative or by making the benefits system less lucrative. I certainly prefer the former approach. I know that everybody agrees that when we talk about this issue we are talking about people who can work. Unfortunately, some people in our society cannot work, so it is important that we have a civilised and humane benefits system that looks after the most vulnerable in our society properly. I am not going to go off on a tangent, but I certainly have concerns about the operation of the recently reformed employment and support allowance, for

example, and how that impacts on people who genuinely cannot work.

On how we ensure that we make work more lucrative, the minimum wage has an obvious part to play. The Scottish Government is not responsible for the minimum wage, but it is very supportive of it. I believe that our election manifesto—if reference to that is not straying into party politics—like the Labour manifesto, advocates increasing the minimum wage in line with earnings so that it keeps pace with earnings generally as they rise. That is important in ensuring that being in work continues to be worth while for people.

On helping to make work more lucrative, I should have said earlier that the Department for Work and Pensions announced at the end of last year the better off in work credit, which comes into effect in October this year. It is a £40 a week credit for those who would otherwise be worse off in work than they were when on benefits. There are a variety of ways in which the objective of making work more lucrative can be achieved. However, I very much agree with John Wilson that this should be about making work more lucrative rather than penalising those who have no alternative but to be on benefits.

**Jim Tolson (Dunfermline West) (LD):** Good morning, cabinet secretary and colleagues. I was interested in the reference in your opening statement to the work that your Government has done with the UK Government. Given the split responsibilities for trying to reduce child poverty as much as possible, that is perfectly fair. We have talked about benefits uptake and other key points in that regard. On Mr Doris's point, you were right to say that, whoever forms the next UK Government, there will be questions about what will happen about child poverty and a range of other issues.

I have information, however, that suggests that reductions in child poverty have pretty much flatlined during your Government's period of office, although there were reductions in previous years. In fact, there has been a reduction of less than 0.5 per cent since 2006-7, so there has not been an awful lot of progress. What discussions has your Government had with the UK Government in the past few years that would help to reduce child poverty? What measures have been used and what has been their effect? From the statistics that have been made available to the committee today, it seems that there has been very little change.

10:30

**Nicola Sturgeon:** By way of trying to be helpful, let me say that I will not sit here and say that everything in the garden is rosy in our efforts to

tackle child poverty. We have made, and continue to make, progress, although we have seen a bit of a tailing-off in progress over the past few years. A variety of factors are at play in that. Our performance compares well to that of the rest of the UK, but that does not mean that our performance is great. In Scotland, 20 per cent of children live in relative poverty—far too high a figure, in my opinion—but that compares to a figure of 23 per cent for the UK as a whole. There has been progress, but I will not sit here and say that it is good enough. That is why we are talking about the action that we need to take.

Discussion between the Scottish Government and the UK Government is regular, on-going and—not always, but in the main—constructive. For example, our discussions on the Child Poverty Bill led to the obligations and duties in the Child Poverty Act 2010 being applied to Scotland, which I know many members of this committee were keen to see happen. We are in close on-going discussion with the UK Government on the development of guidance to public authorities on the implementation of the measures.

At a more specific level, there is close working between Jobcentre Plus and Skills Development Scotland, which are trialling a scheme whereby Jobcentre Plus will refer people to Skills Development Scotland for skills training that will make them more able to access the workplace. We are working closely together in a variety of ways. As I said earlier, I think that it would be better if the Scottish Government had access to all the levers of employment, if we could integrate Jobcentre Plus policies with skills policies and if we had control over the benefits system. That remains my position, but in the meantime it is vital that we continue to work together. We are absolutely committed to doing that.

**Jim Tolson:** I appreciate that we have a political difference about which powers should and should not be devolved to a future Scottish Government, but an examination of the timings and levels of reduction in child poverty suggests that, on the issues that are devolved to this Parliament, we were much more successful in the Parliament's first two sessions than in the third session. What else can the Scottish Government do on that, if we assume no changes to the powers that are devolved to this Parliament in future years?

**Nicola Sturgeon:** I take issue with the first part of that question. If Jim Tolson wants to cite evidence that the devolved parts of the solutions here have been less effective in the past two years than in the first two parliamentary sessions, we can discuss that, but I do not think that that has been the case. Without wishing to indulge in party

politics, I genuinely think that that statement is misleading.

Regarding the trend, I have been very open and frank with the committee that we have made progress, but that progress has tailed off, and not just in Scotland, over the past couple of years. That suggests that we need to refocus our efforts. Clearly, we cannot divorce that issue from the general economic climate, which is—as Bob Doris said—absolutely fundamental. The fact that we have been in recession for the past couple of years cannot be ignored in this context. Notwithstanding that, our general trend on tackling child poverty is slightly better than the UK average. That does not make me complacent, but it is a statement of fact. However, we are absolutely committed to doing the things that we need to do to make as much impact as we can on meeting the child poverty targets, which are now underpinned by statute.

**Jim Tolson:** I am glad that the cabinet secretary has said that she will not be complacent because, whatever flavour of Government takes power after Thursday, her Government—and any future Scottish Government—will need to work with the UK Government. I hope that we can work towards real success and real progress on reducing child poverty.

**David McLetchie (Edinburgh Pentlands) (Con):** The Scottish Government's response to the committee's report drew attention to the Government's

"recommended child poverty proxy at local authority level ('percentage of children in each Local Authority that live in households dependent on out of work benefits or Child Tax Credit more than the family element')."

You reported that that indicator was adopted in only seven of the 32 single outcome agreements, although seven other single outcome agreements contained some other indicator on progress on reducing child poverty. I want to focus on your recommended indicator. How is the percentage measured annually? Who carries out the survey and finds out the results?

**Nicola Sturgeon:** Are you talking about the figures in the single outcome agreements?

**David McLetchie:** Page 4 of the Scottish Government's response to the committee's report says:

"In 2009/10 fourteen SOAs included an income and poverty proxy indicator aimed at reducing child poverty. Seven of these used the SG's recommended child poverty proxy at local authority level ('percentage of children in each Local Authority that live in households dependent on out of work benefits or Child Tax Credit more than the family element')."

As I read it, that is your preferred indicator for measuring progress, council area by council area,

on reducing child poverty. Is that a fair summary of the response?

**Nicola Sturgeon:** I think so—yes. I am more than happy to consider whether we can provide more information to the committee on that. Councils that included that indicator in their single outcome agreements will report against it in their annual reports on the single outcome agreements.

**David McLetchie:** I understand that. However, if the Scottish Government thinks that that is a good indicator for measuring progress on reducing child poverty in all 32 council areas in Scotland, I would have assumed—maybe wrongly, so perhaps you can enlighten us—that the indicator would be surveyed annually throughout all 32 local authority areas. I would also have expected that to be done by the councils—although perhaps not, given that only seven councils have adopted the indicator—or by the Scottish Government. Perhaps the information is available from the DWP, at UK Government level. Is the information available for every council area, rather than just for the seven councils that have chosen to stick the indicator in their single outcome agreements?

**Nicola Sturgeon:** As I understand it, the information is available from DWP data. We are developing a new indicator, which will be based on Scottish household survey data, but that is for the future. In short, the data are available for every council; we could look at the DWP data for every council.

On the broader point about single outcome agreements, I know that the committee has discussed the issue at length. The ethos of SOAs is to make local authorities accountable for the progress that they are making. Therefore, it is right that local authorities draw up their SOAs, based on discussions with and guidance from the Government. If a local council does not have a specific child poverty indicator in its SOA, that does not mean that the work that it is doing under the SOA is not contributing to tackling child poverty. A range of indicators in all single outcome agreements are directed at tackling poverty and child poverty.

**David McLetchie:** I understand and accept that. However, if the Scottish Government has a preferred indicator at national level, at some point the Government must produce a national report that uses the preferred indicator, on progress that is being made council by council. If the Government thinks that the indicator that it set out in its response to the committee is the proper one, surely it should report on it on a national basis and not just let councils pick and choose the indicators or benchmarks that best suit them. Is that reasonable?

**Nicola Sturgeon:** It is, indeed, reasonable. The information is available publicly through the DWP. As I understand it, councils are compared. I am being told that by my officials, but I will clarify the position and confirm it to the committee.

We report annually on the child poverty targets about which we have spoken. To supplement that information, we are looking at producing local authority level equivalised income and poverty estimates. However, I understand that the information to which you refer is already available publicly. I am more than happy to come back to you on the issue with more detail.

**David McLetchie:** That would be helpful. It would help if all of the sources were drawn together in a single indicator document. It is fair enough to say that the DWP has the information, but the DWP works on a UK basis and the information will be contained in one of its publications. The issue is addressed only in so many single outcome agreements and progress reports on those agreements. The Scottish Government should bring together all of the different sources and say how it is contributing across the country as a whole.

**Nicola Sturgeon:** That is a constructive suggestion that I am more than happy to consider. It is about bringing together in an easily accessible format the various sources of information that are available. I am told that the Joseph Rowntree Foundation website already does that, although it is not a Government website. I am happy to look at the matter from a Government perspective, to see whether we can do something similar or better.

**The Convener:** There is some confusion. The committee's report included recommendations in respect of how we measure outcomes and how single outcome agreements can help us to do that. In your response, you pointed out:

"There is a requirement on Community Planning Partnerships to report annually on progress against the outcomes and indicators".

At the heart of the matter is whether you expect all local authorities to identify progress on child poverty as an outcome. You went on to say:

"That reporting serves a dual purpose: to report to the communities and also to Scottish Government. The first of these reports will be available in September 2009 and reporting in this way will provide the opportunity for the committee to determine the extent to which SOAs are supporting a positive impact on tackling child poverty".

Were reports published in September 2009?

**Nicola Sturgeon:** Yes. In addition, a Government overview report was published early this year. The next set of reports on single outcome agreements will be published in September this year.

**The Convener:** Did the overview report give us the information that we required, or did it look only at local authorities that have identified progress on child poverty as an outcome?

**Nicola Sturgeon:** The report looked at the progress that all local authorities are making against the indicators in their single outcome agreements. It is for local authorities to determine the indicators that they use in such agreements and to ensure that those are best suited to local circumstances. All of the single outcome agreements for 2009—the current iteration of agreements—cover poverty and deprivation. They may not all include specific child poverty outcomes but—as I said to David McLetchie—that does not necessarily mean that the issue is not being tackled.

**The Convener:** I agree, but does that not fall short of your expectation, and ours, that we should be able to use single outcome agreements to monitor progress in local authority areas? It was suggested to us that that would be a good way of proceeding. However, if there is an onus only on authorities that have identified child poverty as a priority in their single outcome agreements, the others are, I presume, free to go their own way on the issue.

**Nicola Sturgeon:** In the annual reports that they are required to produce on their single outcome agreements, all local authorities must report against the indicators that they have selected for those agreements. The reports were published a number of months ago. If the committee thinks that they may contain more information and wants to look at them, I will be happy to come back to discuss them in detail.

**The Convener:** Perhaps both of us need to look at them, given the conversation that we are having and the committee's recommendations in respect of how we measure outcomes against our child poverty targets. It was suggested to us that reporting on single outcome agreements would be a mechanism for doing that. Perhaps both of us need to reflect on whether it is a good or sufficient mechanism.

**Nicola Sturgeon:** In their single outcome agreements, councils identify, based on their local needs and circumstances, the areas in which they need to make progress. Some councils prioritise employability and supporting people into work, others prioritise health issues that are having an impact on child poverty in their localities, and others focus on school attainment. What I am saying is that, although not all councils will do that in the same way, all the single outcome agreements tackle poverty and deprivation.

**The Convener:** You see the merits in having a clearly understood mechanism, although it does not need to be identical everywhere.

**Nicola Sturgeon:** The Government reports annually on progress towards the child poverty targets.

**The Convener:** They are not local authority children; they are Scotland's children. You cannot break them up into data zones like that, surely.

**Nicola Sturgeon:** That is what I am saying. We report annually against the child poverty targets.

**The Convener:** We look forward to seeing that. I hope that we can reflect on the matter and get a better system that is better understood.

10:45

**Mary Mulligan (Linlithgow) (Lab):** We all agree that work is an important way of getting out of poverty and of avoiding its effects. I heard what you said earlier in agreeing with Jim Murphy. However, you went on to qualify that by saying that it will be important for the Scottish Government to have more powers in relation to benefits. The Scottish Government already has a number of powers that can be used to address poverty, and I have two questions on two of those. The first relates to council house rents. Over the past three years, we have seen substantial increases in council house rents—and indeed, in some housing association rents—and that has frequently been cited as a disincentive for people to seek work. How do you respond to that?

**Nicola Sturgeon:** It is for councils to set their own rent levels. I do not have in front of me information on the council and registered social landlord rent levels, but we can get that for you. It is important to note that, generally, rent levels in Scotland are lower than rent levels in England. Councils must take a range of factors into account in setting rent levels, but rent levels for affordable social housing must be affordable. I do not think that there is anything to suggest that rent levels in Scotland do not meet that requirement. If you want to provide us with evidence that backs up what you have said, I will be more than happy to look at it.

**Mary Mulligan:** I will do that. In one local authority, there has been a rent increase of 4 per cent per annum over the past three years and tenants feel that there is a disincentive to work in that they would lose housing benefit, as you mentioned earlier. That seems to be a problem.

**Nicola Sturgeon:** That is to do with the rules on withdrawal of housing benefit rather than the rent levels.

**Mary Mulligan:** Do you think that housing benefit should just carry on paying for increasing rents?

**Nicola Sturgeon:** No, I do not. I am saying that the disincentive is to do with the rate at which housing benefit is withdrawn; I am not suggesting for a minute that housing benefit should pay for increasing rents. Overall, rent levels in Scotland are lower than elsewhere in the UK, certainly than in England, and I do not know of any evidence—if you want to provide it, I will be happy to look at it—that suggests that rent levels in Scotland are generally unaffordable. It is important that rent levels in the social sector are affordable. Councils and RSLs take a number of factors into account in setting rent levels, as is appropriate. I am not aware of evidence that backs up the point that you are making.

**Mary Mulligan:** To be clear, I did not say that rent levels are unaffordable; I said that they are increasing substantially. Nevertheless, there is a fear that they will come to that at some point.

My second question relates to child care. Can you say a bit more about the measures that the Scottish Government has taken to provide more flexible child care provision, which you mentioned earlier, so that people can work?

**Nicola Sturgeon:** As the committee will be aware, we have increased from 412 hours to 475 hours the number of hours of child care that are available for three and four-year-olds. That is a very concrete sign of progress in increasing the availability of child care. Many parents who are working, or who want to work, will talk about the importance of integrated comprehensive child care, rather than about the portion that is funded by local authorities. The early years strategy talks about the need to work towards much more flexible and integrated child care. As a very early sign of that commitment, we have increased the hours. We are now working with local authorities to ensure that that progress continues and that all three-year-olds get access to child care within a month of their third birthday, which is another important sign of progress. Progress is being made, but there is still work to do.

**Mary Mulligan:** How many children have benefited from that increase in hours?

**Jim Stephen (Scottish Government Children, Young People and Social Care Directorate):** I cannot give the figure off the top of my head for the number who benefited from the move from 412 hours to 475 hours. I can certainly find out very quickly.

**Nicola Sturgeon:** All children who are in child care would have benefited because it is an increase in the hours for individual children.

**Mary Mulligan:** My understanding is that local authorities were already providing that and it was only the private sector that saw an increase.

**Nicola Sturgeon:** I do not think that is the case.

**Mary Mulligan:** I would be interested to hear how many children benefited, if that is not the case.

**Nicola Sturgeon:** Again, Mary Mulligan is making assertions without evidence. If she wants to provide the evidence, then I will be more than happy to look at it.

**The Convener:** I do not know where we are going with this, cabinet secretary. You have said that twice—you said it when rents were mentioned. I do not know that we are compelled to provide evidence for a question.

**Nicola Sturgeon:** I am not suggesting that.

**The Convener:** If some work has been done by the Government a question about it may be helpful. I am sure that the figures will be readily available on whether rents have increased and by what proportion. You often respond to the committee on issues that have been raised, and do so very well. Maybe on this issue, given the time constraints, you can give us the additional number of children who benefited, in response to Mary Mulligan's question. That may be helpful.

**Nicola Sturgeon:** I genuinely always try to answer the committee's questions to the best of my ability.

**The Convener:** You do.

**Nicola Sturgeon:** I will leave other people to determine what that ability is. I am not trying to be difficult with the committee. It is, absolutely, for the Government to provide the factual information that you talk about. Mary Mulligan suggested that rent levels are providing a disincentive to people going into work. I simply said that I was not aware of evidence for that. Likewise, I am not aware of any evidence that suggests that local authorities were already providing the increased child care hours, but I am absolutely happy to provide the factual information of numbers of children who have benefited. I have volunteered the view that all children in nursery education benefit from that because it is an increase in hours that are pertinent to individual children.

**Mary Mulligan:** May I ask one last question, convener?

**The Convener:** You are into Patricia Ferguson's time.

**Mary Mulligan:** I will stop then.

**The Convener:** While we are talking about additional information, when you look at that

information, can you give us some information about employers' responsibilities with regard to family-friendly policies and child care? You were doing some work with vouchers. You do not necessarily need to respond now, but it would be interesting to know what progress we have made with employers.

**Nicola Sturgeon:** We can do that. We are encouraging employers, as the committee knows, to make child care vouchers more readily available because employers have a big responsibility and are a big part of the solution.

**Patricia Ferguson (Glasgow Maryhill) (Lab):** I am conscious that the cabinet secretary is slightly pushed for time, so I will keep my questions relatively short. The Scottish Government's response to the committee's report on child poverty was very interesting. I would like to explore one of the points that it made about expenditure and outcomes. The response said:

"The Scottish Government is already committed to undertaking work on linking expenditure to the Government's priorities and outcomes".

Would you like to say a few words, cabinet secretary, about how that work is progressing and where the Government is with that?

**Nicola Sturgeon:** I am happy to do that. This work is at a relatively early stage. I am sure that all members will acknowledge that it is a complex piece of work to ensure that we are matching the money that is being spent and how it is being spent with the outcomes that we are trying to achieve. It sounds like something that should be done as a matter of course but, nevertheless, it is complicated. Although it is a long-term piece of work, a project team is developing numerous shorter-term activities, including building the evidence base of how things are done in other countries. I am happy to report regularly to the committee on how the work progresses.

The Government's approach through the national performance framework—the outcomes, targets and indicators that we have—is designed to encourage and promote an outcomes-based approach. It is not about what you put in, but what you get out. That is our mindset but, obviously, we need to do much more work systematically to evidence that the money that is being spent is contributing to the outcomes that we want to deliver.

**Patricia Ferguson:** Thank you. Although the work is long term, I look forward to seeing progress made over the piece. I wonder whether you can point to any examples of budgets being realigned as a result of that work, either in local or national government.

**Nicola Sturgeon:** I cannot do that as a result of that particular work, because it is at an early

stage. What is more relevant is how the national performance framework has guided and influenced the budget-setting process of the Scottish Government over the past couple of years. Without breaching the secrecy of Cabinet discussions, I can tell you that we look at setting budgets much less on a portfolio-by-portfolio basis and much more according to the outcomes that we are trying to deliver. The smaller nature of our Government and the structure of the departments encourages that—for example, my health and wellbeing department includes housing—and we are trying to break down the barriers between portfolios to ensure that spend is focused on outcomes. I am not suggesting that we are at the end of that road; we are probably just at the beginning of the journey to ensure that that happens effectively.

Perhaps we can come back to the committee with more specific examples of how a particular budget might have been aligned. At a fairly high level, a good example is my departmental budget, which covers not just health, but health, housing and social inclusion. It allows a much more strategic view to be taken of how resources are spent to deliver outcomes.

**Patricia Ferguson:** Are you aware of any examples of that kind of work in local government?

**Nicola Sturgeon:** I will check to see whether there are specific examples from local government that we can provide to the committee.

**The Convener:** Cabinet secretary, I thank you and your officials for your attendance and evidence. Given the time constraints, you will understand that we have been unable to cover some areas that we wished to cover, but I am sure that, as always, you will be happy to respond to some written questions.

**Nicola Sturgeon:** I thank the committee for being understanding about the time, so that I can get to the Health and Sport Committee. I am happy to provide written answers to other questions or, indeed, to come back to another meeting and go into matters in more detail.

**The Convener:** We will pause and get ready for the next evidence-taking session.

10:58

*Meeting suspended.*

11:02

*On resuming—*

## **“An overview of local government in Scotland 2009”**

**The Convener:** Agenda item 2 is to take oral evidence from the Accounts Commission on its overview of local authority audits in 2009. I welcome our witnesses. John Baillie is chair of the Accounts Commission. From Audit Scotland, Fraser McKinlay is director of best value and scrutiny improvement, and Gordon Smail is the local government portfolio manager. Mr Baillie, do you wish to make any introductory remarks?

**John Baillie (Accounts Commission):** If I may, convener, I will make a few brief comments. Thank you for inviting us to give evidence. We are always pleased to brief the committee and we welcome the opportunity to meet you and discuss local government issues based on our audit work.

During 2009, we completed the first phase of best-value audits that covered all 32 councils. We concluded that councils have responded positively to their best-value duties and we believe that they are better placed to deliver good-quality services as a result. That is encouraging and the commission will continue to support and encourage improvement.

You know that the scale of the budget challenges that councils face is significant. The overview report contains a summary of the context and the commission's findings emphasise the need for urgent action and fresh thinking about service design and delivery. Performance management and reporting, robust options appraisal and effective scrutiny remain central and will be increasingly important in the coming years. Good governance and clear accountabilities are the foundations of good performance, irrespective of whether services are delivered directly or through arm's-length external organisations.

Finally, as you know, the Accounts Commission has been asked to undertake a key role in co-ordinating scrutiny in local government. We are working hard with the inspectorates and our scrutiny partners to reduce the level of scrutiny of councils and their services where the evidence that councils present to us shows that we can.

We are happy to take any questions that the committee might have.

**The Convener:** Thank you, Mr Baillie.

**David McLetchie:** Bearing it in mind that one man's efficiency saving is another man's cut, I want to explore with you whether efficiency savings, in their true sense, are being achieved. I would say—and I think that most lay people would

agree—that an efficiency saving means that you either get more for the same cost or you do the same for less cost. Is that a rather unscientific but reasonably accurate summary of what an efficiency saving is?

**John Baillie:** If I may say so, I think that it is as good a summary as any.

**David McLetchie:** That is fine. Thank you. I am not looking for flattery—I just wanted to make sure.

**John Baillie:** It is certainly a good working definition.

**David McLetchie:** Okay. Your report states that councils were required to make 2 per cent efficiency savings, or £175 million savings, in 2008-09 and that they reported efficiency savings of £258 million, which, on the face of it, is very good. To what extent are those efficiency savings self-certifying? Do you audit them and are you satisfied that the £258 million is a genuine efficiency saving of the type that I described?

**John Baillie:** We have been looking at efficiencies more generally recently. I will ask Fraser McKinlay to answer your question.

**Fraser McKinlay (Audit Scotland):** Our local audit teams look carefully at how councils generate those efficiency savings. Given the time and resources available, we do not specifically audit every saving that they report, but we look carefully at the controls and processes that they have in place to reassure ourselves that what they are reporting seems reasonable.

**David McLetchie:** Can you give us an example of a council that did more for the same and perhaps an example of a council that did the same for less? Can you give us a specific concrete example of an efficiency saving that went some way to achieving those £258 million of efficiency savings?

**Fraser McKinlay:** Not off the top of my head, but we can certainly get that information to the committee if it would be helpful.

**David McLetchie:** I appreciate that such examples might be more at home in a report on an individual council than in an overview report, but people hear the words “efficiency savings” being bandied around and I think that they would like real, substantial evidence that an efficiency saving was actually an efficiency saving, as distinct from a service cut, which other people might well characterise it as.

Your overview report states:

“Sickness absence continues to be a significant cost to local authorities. Absence rates in 2008/09 were on average, 7.4 days for teachers, 12.5 days for other council staff, and 8.4 days for fire-fighters.”

How does that compare with sickness absence rates in the private sector or the third sector?

**John Baillie:** I do not have the figures to hand on the private sector. We can get back to you on that. One of the points to bear in mind—which we will certainly bear in mind in responding to your question—is to ensure that the figures are computed on the same basis. It is very easy to compare like with not like. I know that sickness absence is a continuing concern for councils. Steps have been taken to try to address it, but they have not been altogether successful.

The other, broader point to make is that we have been saying for some time that there is a need for a long-term plan for the management of the people in any given council. There is still a way to go on managing people—and finance and assets, but we are talking about people just now. Addressing sickness absence would be part of such a plan.

As far as comparisons are concerned, I should also warn the committee that the police compute their figures differently from the other bits of the public sector set out in the report.

My colleagues might wish to add something.

**Gordon Smail (Audit Scotland):** I simply emphasise Mr Baillie's point that in this area it is notoriously difficult to get figures that allow a comparison of like with like. When we were bringing this report together, we were keen to find some comparative information to give a sense of where local government was. Obviously, if we do not get figures that allow us to compare things on a like-for-like basis, we can end up comparing apples and oranges, which does not make much sense. As Mr Baillie says, figures are available, but we need to caution members about how they have been put together. Even with the figures in the overview report, there are questions about the different ways in which different parts of the local authority sector put their figures together.

**David McLetchie:** Taken on a like-for-like basis, do the figures that you have reported for absence rates in local authorities in 2008-09 show an improvement on those for 2007-08, 2006-07 and so on? In other words, are councils tackling the issue and making improvements, is the situation static, or is it getting worse? How would you characterise the issue based on a like-for-like comparison with previous years?

**John Baillie:** On a like-for-like basis, the best that we can say is that the total number of days lost has come down a little from last year. I think that the figure has fallen by about 8 per cent—in fact, I believe that that is in the report—so in that sense there has been progress.

As you well know, this all comes back to my point about councils being good employers and that part of good employment practice is having a meaningful long-term plan for managing people. There has been enough of a focus on a shorter-term view of managing people, properties and the pounds—in other words, the financial side—and if things are to be managed properly a more medium and longer-term view needs to be taken of all those matters. Within that, the management of people will, for example, include the management of sickness absence.

**David McLetchie:** Do you think that it is helpful to have a system in which, instead of being officially sick, people can simply have a sick day off, if you like, without any justification other than a phone call to inform others of their absence?

**John Baillie:** Anything that is described as sickness absence when it is not is clearly wrong. However, I do not know whether we have any evidence on the point that you are making.

**Fraser McKinlay:** Through local audits, and more extensively in our best-value audits in local councils, we look at what councils themselves are doing to tackle their absence problems by examining the kind of information that they report, the extent to which they benchmark with other organisations and the extent to which they are thinking strategically about getting absence down, not only as a good thing to do in general but to make a contribution to the organisation's efficiency. We look at the matter on a council-by-council basis and obviously it is for the council to decide its own sickness absence policy.

**David McLetchie:** Do councils pay people bonuses for having fewer sick days?

**Fraser McKinlay:** Again, I am not sure that there are any specific examples of that. We can find out for you.

**John Baillie:** We will come back to you on that, if we may.

**David McLetchie:** Thank you very much.

**John Wilson:** On page 11 of the report, you say:

"Some auditors are concerned that the annual accounts may be viewed as purely a technical exercise by officers and that the central role of the annual accounts in financial governance may not be understood, with some councils not submitting them to the full council."

How many local authorities decide not to submit their accounts to the full council? Those comments worry me, because they bring us back to the issue of democratic accountability. If the local authority representatives whom we elect are not made privy to information—particularly the annual accounts—how do we hold them accountable? We do not



hold officers accountable at the ballot box every four or five years.

How many local authorities are in that position? Are wider concerns felt about the financial accountability of local authority operations?

11:15

**John Baillie:** We stress time and again—I last did so formally when I spoke at this year's COSLA conference—that elected members must be on top of such matters if they are to have a proper scrutiny role. They must understand not only what they are given but, perhaps, what they are not given. We stress that time and again. When we come across councils in which scrutiny, supervision and leadership by elected members are not what they might be, we make a point of commenting, because that is a serious matter. As you suggest, sir, that is at the foundation of a local council's governance.

Gordon Smail will answer your specific questions.

**Gordon Smail:** I do not have a figure out of 32, but the issue featured in quite a number of auditors' annual audit reports—their reports on concluding audits. As Mr Wilson and Mr Baillie say, concern is increasing about the sense that the number of adjustments that are made to councils' annual accounts makes them extremely complicated documents for people to read at the best of times—they can be difficult for professionals to find their way through. That does not detract from the main point about the very important time once a year when the council's overall position is brought to the council's attention. As we say in the report, our concern is to ensure that the annual accounts remain a key component of the range of information that is available to elected members in the course of the year.

When concerns are felt about the complexity of accounts, it is the job of council officials to make the accounts understandable and direct for elected members, to help them to understand the council's overall position. Even with reserves, which we mention in the report, the picture is complicated. As we say time and again in the report, the job is to make available good-quality information to elected members, to help them to make informed decisions.

I will broaden the point. Councils are increasingly complex organisations that are involved as groups in arrangements such as arm's-length external organisations. That is another important position statement in annual accounts, which gives the overall picture. The accounts are a vital part of the process.

**John Baillie:** As I said, elected members have a key role. It is not just for officers to chase councillors to educate them; councillors must acknowledge their responsibilities. Councillors are held out as supervisors of the council and it is for them to follow through on matters of information and understanding if they do not have that information or understanding.

**John Wilson:** I am particularly interested in the scrutiny of and accountability for how local authorities operate financially. At previous committee meetings I have suggested that some elected members are not made fully aware of or do not fully understand their role in scrutinising how local authorities' finances operate.

Mr Baillie said that it is up to officers to make accounts understandable to elected members. What would you say if officers were reluctant to furnish elected members with the full information, to allow those members to make fully informed decisions about a local authority's finances? The dilemma is always that officers see themselves as being in charge of running the local authority day to day, whereas elected members have—or are supposed to have—a scrutiny role in decisions. How do we deal with that dilemma? Mr Baillie talked about councillors acknowledging their responsibility for scrutinising the accounts. How do we get the message over to officers that they must make councillors aware of all the information, so that councillors can make decisions based on the best information available?

**John Baillie:** Fraser McKinlay will want to comment more fully on that in a second. My point is that it is up to both sides. However, if councillors feel that they are being short changed by way of information, they must pursue it. Where we see the example that you are talking about, when information is not as full as it should be, we make a point of drawing it to people's attention in our findings, or Audit Scotland will do so in its report. It is axiomatic that councillors must have the right information to govern the council. There is no compromise on that.

**Fraser McKinlay:** To echo that, our bottom line is that elected members need to have information on money and performance to allow them to scrutinise the performance of the council and, at the end of the day, to represent their constituents effectively. If that is not happening, audit has an important part to play in raising that issue locally.

**John Wilson:** Thank you, gentlemen. That leads me neatly on to my next question. You referred in the report to the number of arm's-length partnerships and companies that are being established by local authorities, and to the fact that it has become increasingly difficult to establish democratic accountability over what is being delivered in the name of a local authority. Are

there concerns about how local authorities can become accountable for services that they no longer deliver directly?

**John Baillie:** That is an apt point. The issue has concerned us for some time. Some years back, we published a document called "Following the Public Pound", which went through the process that you have encapsulated. In the light of recent events, we are considering how best to revise that and get it republished this year. The key point in it is that, wherever public money goes, such as to an arm's-length organisation, the same standard of governance and accountability should accompany it as would accompany it if it were contained entirely within the council. We stress that to councillors time and again. I think Gordon Smail wants to amplify that.

**Gordon Smail:** Yes. That is an important and current point. As Mr Baillie says, we are planning to do some more work in that area. What is interesting is that it is a two-way street at the moment. Quite a number of new arm's-length organisations, companies and trusts are being set up, often in response to the current financial pressures. We support the consideration of new ways of delivering services, provided that it is done as part of a proper options appraisal and so on. At the same time, there are quite a few examples of arm's-length organisations that are coming back into the council because of the financial pressures that they are facing. Those services are having to be provided by the council.

"Following the Public Pound", the code that the Accounts Commission and COSLA put out in 1996, has some out-of-date terminology, but its fundamental principles are sound. If we consider some cases in the past year or so, and other cases that we hope to publicise in our reports over the next few months, it is our view that the time is right to re-emphasise and build on some of those important principles. The issue is not just following the public pound, but performance. When we talk about the public pound, we sometimes mean finance, but it is also about ensuring that the same or better performance is achieved through various ways of delivering services.

**The Convener:** I have a question on that theme, which is about not just the information that is provided but how mere mortals like me understand it. I hear and read about councils in crisis, but I am then presented with the facts and figures in the report, for example that local authority reserves in March 2009 were £1.24 billion, that general fund reserves increased by £50 million to £579 million and that, of that total, only £388 million was allocated, leaving £199 million as a balance or surplus—although that is probably not how you would describe it. About £200 million has not been allocated in local

authorities throughout Scotland, which for some councils is nearly 4 per cent of the net cost of services. Why am I hearing about a crisis in funding that is the worst that local authorities have ever faced? What is going on?

**John Baillie:** Fraser McKinlay will comment—*[Interruption.]* Actually, there is competition for who will comment about this.

The general point is that the unallocated general reserve, which you quoted, represents 1.7 per cent of councils' service costs, so it does not take terribly much in the way of missing the service costs budget to find that the reserves are eaten into significantly. The other aspect is that reserves are a tricky issue. It is almost down to the personality of councils—some councils will earmark more money because they know about costs, while other councils may think that they know about them but prefer not to specify anything because they are not sure. For example, while a cost might not be at the stage in the pipeline at which money can be earmarked for it, it is definitely coming. A good example is the bad weather over the winter and the problems with roads maintenance that it gave rise to.

**Gordon Smail:** The main point that we need to get across is that the figures in the report are for the reserves in March 2009, which is more than a year ago. Our report makes it clear that the full impact of the recession and the pressure on finances will come through this year and, in particular, the year after. There is still some way to go.

On the report's information about reserves, there is a nice tie-up with the previous discussion about the information that is available to elected members. It is not so long ago that the reserves figures were impenetrable at a national level, but through the efforts of the Accounts Commission and ourselves and the audit work that we do we now have a much better picture of what is earmarked and what is free or unallocated. However, we must keep in mind the context. Councils are big businesses. It is important that they have some capacity to meet the unknowns that come along, and it is for councils to determine what that is. As we say in the report, at the moment reserves are anything between 0 and 3.7 per cent of net service costs.

It is for councils to decide what is right in the local context, but reserves are important. I do not have a crystal ball, but I expect that we will see a lot more pressure on reserves in the coming years.

**The Convener:** There is one general point that we have struggled with as a committee with both the Scottish Parliament information centre and the cabinet secretary. Perhaps you can help us with it.

Has the Scottish Government's financial support to Scottish local authorities increased or decreased in real terms in 2010-11?

**John Baillie:** You might not be surprised to know that we anticipated that question. We wrestled with it during the preparation of the report, although time has moved on since then. Gordon Smail may want to comment; we were talking about it this morning.

**Gordon Smail:** It is fair to say that we have suffered in the same way. The calculation is difficult—again, it is a question of trying to compare like with like and having the information.

The information in the report is what was available to us in December last year. At that time, when we did our calculations as best we could, we saw a very slight reduction in support in real terms—0.4 per cent. We know that SPICe, as recently as February, published a paper that showed that there was a very small real-terms increase of 0.7 per cent, so we are talking round about the margin.

I agree with your assessment that it is difficult to make the comparison year on year and to translate figures into real terms to give an absolute picture. Taking those elements together, it looks like the level of financial support is roughly the same, in real terms, between one year and the next. Depending on how things pan out, we are likely to have quite difficult settlements in 2011-12 and the following three years. That is what all the commentators suggest will be the case, and it will put more pressure on councils.

11:30

**The Convener:** I wish I could say that that settles the argument, but I do not think that it does.

**Jim Tolson:** Figures show that, in 2008-09, local government expenditure totalled £17.4 billion. Of that, approximately 30 per cent was spent on education and 20 per cent was spent on social work. Those are the big-ticket issues. Most of us think that the efficiency savings—as Mr McLetchie referred to them earlier—or cuts, however we want to refer to them, will be concerned with service provision. However, I am concerned about pensions. The information that I have suggests that, in 2008-09, the gap between assets and pension liabilities in local government rose by 128 per cent to £3.1 billion, which is almost the equivalent of the spend on social work. What is the Accounts Commission's view on the reason for that rise? What advice have you given councils and Government on how to tackle that deficit?

**John Baillie:** As you suggest, that is a big issue. The excess of liabilities over assets can

vary significantly at any time over the period because of the value of the assets. For example, pension funds around the country will have taken a dive overnight as a consequence of yesterday's stock exchange fall. Happily, actuaries tend not to pay too much attention to that volatility, as they quite properly take a longer-term view of things.

The issue with pensions is whether local authorities' current pension arrangements are sustainable in the medium and long term. That is a question for the local authorities and their representatives. The issue is not so much what is a liability today or tomorrow but how sustainable the current arrangements are. I do not have an answer to that, but the question needs to be asked and answered.

**Jim Tolson:** I appreciate your point, and it is what I was coming to. We know that there have been discussions about how we can solve the pensions crisis—if I can use that phrase, which has been used elsewhere—and about the issue of sustainability in the long term, given the huge pensions deficit across local government and the rest of the public sector. However, no one is answering the question, perhaps because there are varying views and different areas of responsibility. Has the Accounts Commission given any advice to Government and councils on how they should tackle the issue?

**John Baillie:** We are currently working on a pensions study. Fraser McKinlay can tell you about it.

**Fraser McKinlay:** The overview report contains a snapshot of the situation as we saw it when we considered the accounts last year. This year, to help inform the debate, given the big questions that exist, Audit Scotland is conducting a national piece of work on behalf of the Accounts Commission and the Auditor General to consider the public sector pension funds in more detail. We hope that that work, which is due out later in 2010, will help to inform that important debate.

**Jim Tolson:** That is exactly what I was looking for. A good report is being put together by professionals such as yourself. We all look forward to seeing it later this year.

**Mary Mulligan:** The overview report shows that the largest piece of local authorities' expenditure is on their workforce—I think that the figure of £7 billion was quoted. Are local authorities sufficiently geared up to plan their workforces for the future demands that they will face, not only in terms of the number of jobs but in terms of delivering the services that they are committed to delivering?

**John Baillie:** I will give a general response; I sense that my colleagues are competing again to give you a more specific one.

As I said earlier, we have been stressing for some time the need for local authorities to have proper long-term management plans for their workforces. To be fair, many of them have been held up in getting under way with that until relatively recently, because of the single status and equal pay issues, which are gradually being overcome. I think that the City of Edinburgh Council is the only authority that is still to reach agreement on single status—agreement is due at the end of this year. As the local authorities' human resources departments are freed from the weight round their neck of trying to sort out those issues, they are able to devote more time and resources to more manageable work plans for the medium to long term.

I invite Fraser McKinlay to take up the question.

**Fraser McKinlay:** There are two levels to the matter. One is the national level. Over the past wee while, the Improvement Service for local government has been leading a piece of work on workforce planning for local government as a sector, which recognises that there are workforce pressure points that are common to all 32 councils. It will report to COSLA.

We consider the matter in all our local audit work, and in particular the best-value audit work that we have carried out over the past few years. It has been a common theme that, although council HR departments are quite good at pay and rations, there is a long way to go on strategic workforce planning. As John Baillie says, one of the reasons for that is that they have been tied up with single status. Now that a lot of that is out of the way, we are looking for the more strategic workforce planning work to come through.

**Mary Mulligan:** Strategy is the nub of the issue. What is the commission able to offer local authorities to support that and what is the Scottish Government doing to support it across the 32 local authorities?

**John Baillie:** The commission's role is to point up the need to do something about the matter. However, we do not stop there. To the extent that we can offer good practice information from one council to another, we do so. We never call it best practice, because it is for the council to decide whether it is the best for it. In one recent example, the total number of job specifications was condensed from about 1,000 to 100 or thereabout. Such a simplification alone can free up all sorts of resources to address what is left.

**Gordon Smail:** There is a need to link the workforce with the available property and the financial side. That strategic management of resources is not too good at the moment. It is all about better service planning to connect authorities' different assets, including their people.

**Mary Mulligan:** One dilemma that has been flagged up is that when local authorities look strategically to flatten their structures and, for example, release senior managers, they have outstanding pension to pay, as Jim Tolson pointed out. That can be a continuing cost, which means that the authorities do not really save much. How do we get round that?

**John Baillie:** There can be an immediate negative cash flow, as you suggest, but we need to evaluate whether the business case makes sense in the fullness of time. That is not an isolated matter, because we inevitably tie it into whether the council wants to expand its shared services activity in all sorts of ways, which takes us off down another track altogether. There are all sorts of links but, in essence, if the medium to long-term case can be demonstrated, such an approach should be pursued. However, as you say, when the immediate outlay is significant, local authorities sometimes need to take a big breath before they go ahead with such changes.

**Fraser McKinlay:** It is important that we tie it to service redesign, as Gordon Smail said. In some places, posts have been removed from the establishment opportunistically as they have become vacant. That is fine in that it has released genuine cash savings, but we have been concerned that those local authorities have not fully understood the implications. Your suggestion is that councils take a more strategic view about what they want to deliver, how they can deliver it and what numbers of people with skills and experience they need to do it. That is what councils are trying to do, but they are not there yet.

**John Baillie:** For some time, we have been saying that councils generally should be looking at the medium to long term and should not be quite so fascinated by the short term. I understand the difficulties in doing that; nonetheless, they do not preclude councils' looking at the medium to long term.

**Mary Mulligan:** That is difficult for a councillor who is elected for a four-year term.

**John Baillie:** Exactly. That is one of the difficulties to which I was alluding.

**Mary Mulligan:** That leads me to my final question, on the work that the committee has been doing on shared services. How much further could the local authorities go with that?

**John Baillie:** There are quite a lot of opportunities for councils to share services, but the issue for any council is that it must demonstrate that a move to shared services is both efficient and effective. It must take into account whether the service provision would be as good as it wants it to be. We did some work on

what was causing many councils not to proceed with service sharing as quickly as we wanted—we have been banging on about it for several years. One of the big issues is the natural reluctance of anyone to share a service when that might risk their losing control of it and their reputation for providing a good service. There are real issues around ceding control in the sharing of services. More work must be put into building relationships between councils and trust in each other's ability to contribute.

**Gordon Smail:** Service sharing has been a feature of our overview reports over the years, and we sometimes get a bit bogged down in what we mean by shared services. It is an easy phrase to fall out of people's mouths, but it can mean many things to many people. In this year's report, we identified the co-location of services in places such as East Ayrshire and West Lothian as a contribution to service sharing. Also, the national recruitment portal that has been set up is a way of advertising local authority jobs together.

There are many ways in which councils can share services, but, as ever, the issue is the quality of information that councils have about costs and performance, which informs decisions and lets us know where the opportunities exist. Those may be opportunities to share services with another council, but they could equally be opportunities to streamline internal processes and to share services within the council—there is a lot to be said for that as well.

In compiling this year's report, the commission was encouraged by the advances that have been made, such as Sir John Arbutnott's work in the west and the group of councils coming together in the east to consider ways of sharing services. A common theme in that work is the need to show what is actually being delivered—we keep mentioning that in the report as well. There are some excellent initiatives and it is good to see that people are getting together and talking about the right things, but it is important to the public—the taxpayers—that they see some progress and outcomes from that work.

**The Convener:** What would constitute radical change in service delivery?

**John Baillie:** That question has come up once or twice since we used the term in the report and our findings. We should start by asking elected members whether a service is necessary and, if it is, whether it is necessary in its current form. It will be for councils to answer that radical, open question. Once they have done that, they will be able to start to plan how to deliver the service. However, I am not sure that enough work has been done—until now, at least—on determining whether services are necessary as they are currently provided.

That goes back to understanding the needs of local people. Councils have not been particularly active in fully understanding and getting to grips with what local people need. That is the starting point. It is all part of the performance management system to which Gordon Smail referred. Any good performance management system must start with needs. A specific example would be whether a service—I will not mention its nature, be it education or whatever—is necessary at all and whether it could be dropped.

11:45

**The Convener:** I do not want to put words into your mouth, but are community planning partnerships and single outcome agreements sufficient to drive that radical proposal for services? CPPs and SOAs start from a point of view that a big long list of things is needed. That would seem to be at odds with your radical proposal, because CPPs and SOAs have recently identified that lots of things are useful, good and wanted and they are attempting to deliver them.

**John Baillie:** I know that in response to our report last year, the general view among the leaders of the local authority community was that there was nothing new in our report and that most of the issues raised in it were being addressed. That was encouraging, because within our findings was the point that they should think radically about services. In the overview report we comment on the position that we saw then, which is the kind of position that you are talking about. We are asking, "Do you really need all those services in the way that they are currently delivered? Can you not stare at the wall for 10 minutes and come up with a different answer rather than be held down by the current structures?"

**The Convener:** Do I sense frustration on your part, although you are happy that people are meeting and at least discussing delivery? David McLetchie's question mentioned the response that we get from COSLA and others that hundreds of millions of pounds of efficiencies have been made. Your report mentions that councils' efficiency statements are not independently validated, which means that we cannot rely on the reported savings. There is a lack of confidence in and impatience about what councils are doing and where they should be. Are the current structures—CPPs and SOAs—likely to drive the process forward and achieve radical change, or will it be more of the same?

**John Baillie:** I may have misrepresented my position. If so, I apologise. It is fair to say that our general view is that councils are improving. We are also saying that there is a need, via councils and CPPs, to think more radically about how services are provided and what services are

needed. I would not say that we are frustrated—in some ways we are quite encouraged with progress—but there is no reason why the structure should get in the way of the points that I am making. I think that Fraser McKinlay wants to comment.

**Fraser McKinlay:** That is the point that I was going to make. I am not sure that the issue is structural—the structures could be made to work. An interesting debate is going on in local government about whether the shared services agenda is best progressed by councils joining up with other councils or whether it should be progressed on an area basis by joining up with other public service organisations, or by a bit of both. For me, it ultimately comes down to political leadership and political will locally. I do not mean to sound flippant when I say that; I understand that it is difficult, particularly given Mary Mulligan's point that three lots of elections are coming up in the next three years. The environment in which local politicians must make such decisions is not straightforward, but if the discussion ends up being about structures, there is a risk that that will obscure the opportunities that we think already exist.

**The Convener:** Given the budget challenges that you mentioned previously, do councils have the time to have this debate? The commission has been banging on about the issue for years.

**John Baillie:** I will answer first, then Fraser McKinlay will follow up. It seems to me that councils have the time for it if they are willing to create the time for it. In other words, if they prioritise it enough, they will have the time. It goes back to will—if the debate is that important, they will find the time to have it.

**Fraser McKinlay:** Our experience on the ground is that if there is a silver lining to the cloud that is the financial position over the next three to five years, it is that people are being forced to think quite differently about how things are done, because the status quo is not adequate. As we have reported in different places this year, a salami-slicing approach that involves making 2 per cent reductions in expenditure every year will not meet the challenge that local government and other organisations face.

There is a genuine recognition in councils that they must commit to adopting a different approach. In the latest budget round that the councils just agreed, there were some good signs that people are taking difficult decisions, but putting a saving on paper in a budget is different from actually closing a school, for example, which some authorities will have to do at some point in this year to release savings. That is when the real crunch will come.

There is no doubt that timing is vital. If councils are to release savings over the next three years, they must be clear about what decisions will release money and when they must take them, otherwise it will be too late.

**The Convener:** I have one wee point about the silver lining. From the evidence that we have taken and our own experience, we all understand that some of those decisions are extremely difficult to take.

In previous inquiries, the point has been made to us that notwithstanding all the problems, which we recognise, there is a lack of drive in local authorities to achieve long-standing change as a process rather than to make changes at points of crisis. The downside of the approach that you have just suggested, whereby we get big-bang change because there is a crisis, is that the change stops once the crisis is over and we go back to where we were. That is painful for everyone, in that it does not improve the morale of the workforce or people's security of employment. Is that something that you have considered?

**John Baillie:** In our best-value work, we consistently find that it is the councils that have strong elected member leadership that are the best performing in delivering best value. That is true whether they are in a difficult or an easier set of circumstances. The issue comes back to fundamentals, such as leadership and having an understanding of what councils are there to do.

**Fraser McKinlay:** There are some good examples of councils that are dealing with the situation in the medium to longer term. Some councils have pretty strong four-year transformation programmes—or whatever you want to call them—that state that £60 million-worth of savings will be delivered over the next four years but that, for that to happen, the way in which they do their business will be quite different. It seems to me that looking to the medium term and adopting a planned, staged approach is better and, in some ways, should be easier for elected members to absorb and manage, because it means that they know what the end point is. An approach that involves saying that £X million will be saved one year and £Y million the next does not give people an understanding of what that will mean in practice.

**The Convener:** I do not subscribe to the Confederation of British Industry view that we need to privatise everything, but is it not strange that what could be achieved by using the private sector has been totally excluded from consideration of the shared services agenda? There does not seem to be much consideration of whether we could take the best from the private sector to secure the public sector for the longer

term. The set-up of the current process seems to be highly defensive.

**John Baillie:** I suspect—I am speculating, because I do not have evidence—that part of the reason for that is that those in local authorities know their friends in other local authorities better than they know people outside local authorities. That might be why those other local authorities are the first point of contact and the first line of attack.

**The Convener:** That might be the problem—you alluded to that earlier.

**John Baillie:** It goes back to my point about councils being unwilling to cede control, but that is mere speculation. There is perhaps more suspicion about what the private sector might do.

**Fraser McKinlay:** My observation is that there is more private sector involvement down south, where local government has a different kind of history and culture in the delivery of local authority services. An interesting point is that I am seeing evidence of councils increasingly looking south of the border, where services may be delivered differently, in partnership with other public sector organisations, the private sector or the third sector.

**Gordon Smail:** To go back to the evidence that we present in the report, we would expect options such as the convener's suggestion to appear in options appraisals, which consider such things. Decisions need to be based on good-quality information such as benchmarking, which might be done outwith the group of people that a council normally benchmarks with. For example, in looking at unit costs for service delivery, a council needs to know both its current performance and how others perform—frankly, wherever that service is delivered—so that it can make a comparison and understand how it can be more effective and more efficient by doing things differently. If I may tie this discussion into our earlier conversation, that comes back to the quality of information that is available to elected members in making decisions about alternative means of delivering services.

**Bob Doris:** I have followed the discussion with interest and, as it has gone along, I have written down the different suggestions: consider what services are necessary and vital; consider whether there are any services that we can do without; and consider the need for radical change. Quite clearly, the role of auditors is to provide good-quality information about the financial benefits and pitfalls of changing current service provision, but the decisions are political matters for the local councillors. Therefore, we are having an interesting but almost abstract conversation. Time and again, we hear that councillors need to be given good-quality information, including on what is happening perhaps down south or in arm's-

length organisations. Ultimately, professionals should give balance sheet information and projections to local authorities, but policy decisions need to be made by councillors. That is the issue that I want to come on to.

We have heard about the need for officials to educate councillors about what the pitfalls and dangers are, what the figures show and what opportunities are available, so that councillors can make an informed political decision, but we have also heard that the onus is on councillors to engage with officials rather than just sleepwalk into accepting the first piece of advice, by saying, "That is fine by us. We will go along with that." It was also said—I forget by whom—that councillors need to be given information to allow them not only to govern but to scrutinise. On that point, I want to draw a distinction.

We may be about to enter a period of radical change in which the provision of various services needs to be reconsidered, but what tends to happen in local authorities throughout the country—certainly in Glasgow City Council, which covers the area that I represent—is that a ruling council group will get information and detailed advice from local authority professionals and then make a political decision, which people will then defend. That can put local authority professionals in a really quite dreadful and difficult position, in some respects, because the professionals then have a conflict of interest between bolstering the political decision of the ruling administration and providing detailed information to allow the opposition to scrutinise that political decision.

I have some follow-up questions to that, but does the panel agree that the opposition group in a council should receive the same information as the group that is in control, so that councillors can scrutinise decisions effectively? That certainly does not happen in Glasgow City Council in the area that I represent.

**John Baillie:** I agree with the general principle that for effective scrutiny to happen, the proper information is required. Again, that seems to me to be axiomatic. If opposition councillors are not currently receiving the information that they need to scrutinise matters properly, that would be a matter for criticism. However, Gordon Smail and Fraser McKinlay will respond to the question in more detail.

**Gordon Smail:** An important point in the generality of this discussion is that a council should equip all its elected members, regardless of whether they are part of the administration or of the opposition. That point is connected with our earlier conversation about the training that is made available to elected members so that they know the right questions to ask and do not just assume that all the information has been made available.

We are very much aware of the whole question of the respective roles and responsibilities. That is a vital issue in any organisation but especially in councils, where the relationships are quite complex. For example, without going into the issue too much, the elected member role has a whole number of aspects to it. Those complex roles and responsibilities will come under a considerable amount of pressure. We have an election period coming up, which heightens the political interest in issues, and the financial context that we have discussed will put pressures on elected members in making policy decisions. We will do a piece of work this year on roles and responsibilities of elected members and council officers, to explore some of those issues. Although we know the theory of that—any textbook on the issue will set out what elected members and officers do—we will try to get behind that and examine issues that arise in practice.

Another important point is about officers' statutory responsibilities. For example, we note in our report the importance of having a section 95 proper officer for finance, as he or she has a role in providing balanced information to the political parties in a council to allow policy decisions to be made and to provide robust scrutiny of the decisions.

12:00

**Fraser McKinlay:** We are out and about in all councils. It is interesting that different models of governance apply in councils throughout the country. Increasingly in Scotland, we see the model that Glasgow City Council uses, with a cabinet or executive, but many councils still have a more traditional committee system and some are fully independent. We cannot draw a conclusion on whether one model is better than the other—councils have to make the decision about how they govern themselves. We are interested in whether scrutiny works, regardless of the governance model. We want to know whether the appropriate mechanisms are in place, whether the information is provided in the right way and whether there is evidence of effective scrutiny.

One thing that has changed the nature of scrutiny and governance significantly in most councils in the past couple of years is the introduction of proportional representation and the rise of minority administrations and coalition government. To be fair, it has taken a while for that to bed in and for councils to get used to it since 2007.

**Bob Doris:** I stress that there is no slight at all on council officials in Glasgow or elsewhere. I just think that the structures can leave officials in a difficult position, because it is difficult to provide information to sustain the ruling administration's

policy position while providing information to allow opposition parties to scrutinise and to break up that policy position for whatever reason. In the Parliament, we have budget advisers and other independent advisers. Is there a role for that at local authority level? Different parties are in control throughout the country, so I am not making a point about any individual party. What do you think about having independent advisers, seconded from either within or without, to build capacity in opposition groups throughout the country?

**John Baillie:** I will start one stage back by returning to what I said earlier about the need for an elected member not simply to receive information, but to understand whether it is enough or whether he or she needs more. A lot depends on that. If he or she needs more information, they can get it in a number of ways. They can get advice from officers, but if they do not get that advice and still feel that the advice is deficient, I guess that it is for the elected member to decide how to get the advice that they need. There are umpteen ways in which to achieve that.

**Bob Doris:** So that is no comment on the issue.

**John Baillie:** I have to be careful not to get into recommending policy. An element of the issue that you raise might be policy as much as anything else.

**Bob Doris:** Yes, but you can talk about structure and process, and an independent adviser would be part of that. I will leave the issue sitting there, rather than push you further on it. I wish that we had some councillors here to answer the question, although I know that Jim Tolson and John Wilson are former councillors.

My final question is on arm's-length bodies. I am delighted that you intend to do a piece of work on that. I feel that I would not be doing my job properly as a Glasgow MSP if I did not ask you to ensure that you analyse the structure and situation of arm's-length bodies in Glasgow particularly closely. Of course, they are called limited liability partnerships in Glasgow—although most people I speak to think that they are called limited accountability or no accountability partnerships. There are serious issues around the recruitment of senior officials in certain arm's-length organisations and around donations that have been made to a variety of—or, actually, one political party, in the case of a particular arm's-length organisation. I know that the vast majority of people in the city of Glasgow will be delighted when you scrutinise that. I certainly hope that you refer specifically to Glasgow City Council and its LLPs.

**John Baillie:** We note your comments, Mr Doris.



**The Convener:** I am not sure whether that was a question or an example of campaign fever. I ask the panel to forgive us.

**Patricia Ferguson:** As the witnesses will probably be aware, the committee has expressed a lot of interest in, and taken a lot of evidence on, equal pay and single status. One of our frustrations has been the inability to get all the information that we think we might need to comment as thoroughly as we would like. I am conscious that only one local authority has still to meet the single status element of the issue, but do your organisations share our concerns about the final stage—if we ever get there—of bringing all the tribunal cases and single status cases to an end? Can the witnesses comment on—even if they cannot influence—the amount of money that might be required and the sheer time and effort that have been spent on the issue over a protracted period?

**John Baillie:** I think that there were 35,000 cases when the report on the issue was prepared. It is fair to say that if we could wave a wand and have all the cases settled, everybody's life would be easier, not least because it would enable HR departments to focus more properly on the other areas that we have talked about, such as workforce planning. I share perhaps not your concern, but your enthusiasm for seeing the cases finished. Do you want to add anything, Gordon?

**Gordon Smail:** Not really. Patricia Ferguson's assessment of the amount of time and effort that has been applied to the issue is pretty good. Over the years, we have said in the overview report that the longer people take to implement single status, the more open they are to claims about equal pay. I am no expert on the legal side of the issue, but another worrying aspect is the way in which the court cases tend to reopen and unwind things. For example, in the past couple of weeks, there have been cases down south whose implications are unknown as yet. Dealing with the issue has certainly been a time-consuming and expensive business for councillors as well, although we know that money is set aside. Every year, our local auditors look to ensure that the annual accounts present properly the amount of financial provision that must be set aside, based on what is known at the time. However, as I said, the process has been a long and expensive one for local government.

**Patricia Ferguson:** At the time of your report, it was estimated that 36,000 cases were outstanding and that about £162 million had been set aside to deal with them. However, COSLA suggests that the current figure is closer to 44,000 cases. As you said, we do not know where all that will end, because there have been cases that have led to changes and delays. Based on the figure of 44,000 cases, can you put a final figure on the

amount of money that local government should set aside? Is the amount of money that is currently set aside anywhere near enough?

**John Baillie:** To be able to answer that question properly, we would have to have conducted a fairly recent audit. I am not being obstructive, but I am sorry to say that we just do not know the answer to the question. However, like you, I stress that the biggest single cost is the angst and time involved in councils getting to the stage of settlement. That seems to me to far outweigh the monetary cost.

**Gordon Smail:** As you would expect, there are accounting rules about when liabilities, provisions and the like should be recognised—the technical side of things. That is where we get the figures in the overview report from. We will do a similar report this year to flag up the position at the end of the financial year 2009-10. We hope to be able to do that a wee bit more quickly than we have been able to publish overview reports in recent years. The information will then be publicly available. When we have the 32 sets of audited accounts, it is a relatively simple job to add across and give the national figure.

**Patricia Ferguson:** My next question perhaps strays a little outside your remit, although not outside your professional competence, which I would not question for a moment. In your discussions with local authorities, do you detect or have any way of detecting when all of this might finally end?

**John Baillie:** No. It is a legal process so it is open-ended.

**Patricia Ferguson:** My concern is not just what equal pay and single status have cost to date, including not just the financial costs but the resource costs, but what the future costs might be. In some cases, there seems to be no end in sight. Ultimately, if such cases cannot be resolved, and if there is such hesitation on the part of both local authorities and trade unions about taking them forward, we could be sitting here in 10 years' time with some cases still open. Does anybody in Scotland—the Government, yourselves, or the committee as part of the Parliament—have a role in trying to encourage both sides at least to get clear court or tribunal definitions that can be used to help to progress the remaining cases?

**John Baillie:** You are right to say that that is beyond our remit, but some way of speeding up the legal process or bypassing it by way of mediation or whatever would appeal to me. I am now speaking personally rather than wearing any hat. Mediation or arbitration might help, but who knows? I would certainly subscribe to the idea that we should all go for anything that allows a fair settlement to be achieved in a far shorter time.

**Patricia Ferguson:** Thank you.

**The Convener:** Does the panel agree that the risk has not subsided but has grown due to prevarication and the inability to reach settlements? The committee has taken a particular interest in the historical claims that arose. Are we letting councils off the hook in terms of the money that they have set aside? Figures that were banded about last week suggest that there is a liability of £600 million in Birmingham. If we compare that with the total amount set aside in Scottish local authorities and the 44,000 claims that might exist here, is there a role for Audit Scotland to encourage local authorities to recognise the growing risk and to represent that in their accounts? Would that add pressure on them?

**John Baillie:** I will let the two auditors who are sitting on either side of me answer that, but my general point is that the auditors are required each year to form a view of the adequacy of provision for the matter.

**Gordon Smail:** I will unpick that a wee bit, but that is absolutely right. As I mentioned before, there are financial rules and reporting standards for the recording and reflecting of provisions and liabilities in accounts. The council management makes an assessment, based on its case load and on legal advice, of what the implications might be for the council. It then puts a figure in the accounts that it presents to us for audit, and we ensure that the figure stacks up against the accounting rules. That is a technical process to ensure that the accounts reflect the position at the balance sheet date each year.

**John Baillie:** As a best estimate.

**The Convener:** At the heart of this, there is a question about the legal advice. We have had evidence from the leaders and chief executives of local authorities, who say that this is a no-brainer: there are cases on which councils need to pay out. Have you seen the legal advice that authorities have been given? Have you identified the contradiction and asked why they are not settling cases?

12:15

**Gordon Smail:** I do not have the detail before me. The process is being done on a council-by-council basis with local auditors speaking to management about what is before them. They then look at the advice that supports the figures and accounts.

**The Convener:** You could assist the committee and, indeed, the Scottish Government in resolving the matter. You could do that by focusing on the legal advice.

**Fraser McKinlay:** The overview report is probably the way for us to look at the matter. As Gordon Smail said, this year's report will give us the more up-to-date position. As he also mentioned in passing, we are looking at how to do the overview reporting so that we can try to turn it around a bit more quickly to make it more current. Every year, if issues leap out at us, we use the overview report to raise their profile nationally. Equal pay provision may be something that we will want to look at in the next version of the report, which will come out later this year.

**The Convener:** Of course, some authorities have proceeded with cases, thereby relieving themselves of the on-going risk, improving morale in their workforce and enabling workforce planning.

**John Baillie:** As a former auditor, I observe that one problem with making provisions where legal advice is involved is that the very act of disclosing the provision is not a good negotiating posture. That angle also needs to be considered.

**The Convener:** Yes, but the information is available to the auditor.

I stand to be corrected, but I think that about 10 councils have applied for powers to capitalise and settle some of these issues. Is it your job to ensure that we get the outcome and delivery that we want and that the money will be used to resolve some of these issues? If so, how will that be done?

**John Baillie:** You will hear from the auditors in a second, but if the provision was ring fenced then the auditors would want to ensure that the funding was applied accordingly. Unless, of course, the council decided subsequently to un-ring fence it.

**Gordon Smail:** I am not sure of the conditions that would apply.

The convener is right in saying that 10 councils have applied to get the money to write off the costs over a number of years—in other words, to capitalise. I do not know what conditions might be attached to that. If conditions were attached, the auditors would look at that.

**The Convener:** It would be interesting to know what conditions would apply.

I am also interested in the un-ring fencing of such funding. Could the conditions be so lax as to allow a council to apply for the money to settle the outstanding claims, but decide at a later date that it had other overriding priorities and use the money for something else?

**John Baillie:** As Gordon Smail said, it would depend on the conditions that were imposed at the time of the initial deal. The other aspect to the decision whether to write off the costs over a number of years is the general argument with

which the committee will be familiar. I refer to the argument that, if the benefit to the council is achieved over a number of years, the cost should be matched against the benefit.

**The Convener:** The committee should perhaps ask some questions about the conditions. I hope that you will also scrutinise the matter.

**John Baillie:** If provisions go into ring fencing, they have to be locked into ring fencing. It cannot be varied subsequently.

**John Wilson:** We have many follow-up questions on the equal pay issue, on which the committee has taken evidence and published a report.

I understand the reluctance of certain local authorities to put on paper what they think their financial commitments may be on equal pay, but I am concerned about the general issue to do with the reserves that are held by local authorities. A look at a basic balance sheet normally involves considering whether outgoings can be matched by the money that is being drawn in and by the assets. If local authorities are going for the capitalisation scheme to try to meet the cost of liabilities under equal pay, are you confident that they have the assets that will enable them to meet future liability? The convener mentioned the Birmingham equal pay case. Is there concern that if local authorities were to be faced with large claims under the equal pay settlement schemes they would face—to put it politely—financial pressures? Is it true to say that some local authorities might face more pressure than others will do as a result of future equal pay settlements?

**John Baillie:** It is fair to say that any settlement beyond what is already provided for has a detrimental effect on the reserves. As well as that, the cash flow must be considered. How will councils actually fund payments? It is one thing to make an accounting entry; it is another to find the money to make the payment. There are two questions in that regard.

It could be that settlements are of such a size in a given council that a serious threat is presented to the level of the reserves.

**Gordon Smail:** The point about the reserves is well made. We do not have to go back too far to find a time when councils had considerably more reserves relative to the size of their business. We have been tracking the issue over time. As I said, there is a good case to be made for thinking that things will look quite different in the year from 31 March 2010 and particularly in 2011, as the recession bites.

A related issue is the extent to which councils have room for manoeuvre. Many of their costs are fixed, for example in relation to commitments on

projects that are funded through public-private partnership or the private finance initiative. There are constraints on where councils can go if they need additional money in unforeseen circumstances. That is why we tracked the issue. We want to be able to reflect on how councils are placed to deal with such circumstances.

From an accounting point of view, big items such as equal pay settlements certainly should not creep up on councils. Councils should be making assessments annually and ensuring that the issue is reflected in their accounts and in how they set their budgets. I am not for a moment saying that that will make life easier; more flow-through from the equal pay side of things will compound the difficult choices that councils must make.

**John Wilson:** I welcome the responses. Given that equal pay liability goes back almost 11 years, in simple accountancy terms I would assume that local authorities should have been increasing the amount that they set aside in reserves to meet that liability. The figures in the report suggest that local authorities have not been doing that and have instead assumed almost a static figure, setting aside the same amount in reserves each year without taking account of their increasing, year-on-year liability as a result of the equal pay issue.

You mentioned the fixed PPP/PFI commitments that local authorities must meet during the next 20 or 30 years. What increased liability arises from such commitments, as against other commitments?

**John Baillie:** I do not know the answer to that for Scotland. I heard recently that, on a national basis, for all PFI and equivalent schemes in the public sector, the figure is about £5 billion. That does not help you, although it gives you an idea of the scale of the issue. Gordon Smail might have more detailed information.

**Gordon Smail:** Information will be available, but I do not have it to hand. I mentioned the issue as an example of costs that are very much fixed. When a council sets its budget for a new year there are known costs, for which money must be set aside. The more of those costs there are, the less flexibility there is to meet unforeseen costs, such as those that arise from reopened equal pay cases.

**David McLetchie:** In paragraph 8 of your overview report, you say

“councils reported a better than anticipated financial position at 31 March 2009 due to underspends in areas such as financing charges and delays in implementing single status agreements.”

Paragraph 42 tells us about the progress of implementing single status and shows that every local authority has done it, except City of Edinburgh Council and Clackmannanshire

Council, although I believe that Clackmannanshire has now done so. Then it says:

"The implementation of single status is estimated to have added an average of 2.7 per cent (around £191 million in 2008/09) to annual council wage bills."

So how much did the delay in implementation save us?

**Gordon Smail:** I do not have a figure for that. We are saying that, while discussions were held about how single status would be implemented, councils did not have to pay that money. It was only when the situation was resolved that the pay bill increased by 2.7 per cent, which is quite substantial in its own right. There is quite a range of increases, from zero up to about 5 or 6 per cent, depending on the council and the profile of its workforce.

We are trying to explain that the 2008-09 financial position was affected by a number of things, including the fact that, in some cases, single status had not been implemented. Most of the implementation was going on in the year on which we are reporting and beyond that, and there has been a delay in seeing its impact on councils' finances.

**David McLetchie:** But there was a £191 million increase in council wage bills in 2008-09, and there will be a further cost in 2009-10.

**Gordon Smail:** When single status is implemented, councils will pay staff under the new terms and conditions. That will happen year on year, and it will bring councils up to a level playing field in terms of what they have to pay under the new single status arrangements. Equal pay is the backdated element of that, but single status is what has to be paid on a go-ahead basis when the previous inequality has been driven out, particularly that between what men and women earned in different but similar posts.

**David McLetchie:** A lot of us on the committee have the feeling that there is a delay in implementing a lot of things when it comes to single status and equal pay, and that it is almost a deliberate act of policy to postpone the evil day and present a rosier picture than is actually the case. I am not necessarily inviting you to comment on that, although you are welcome to do so.

The issue is not being addressed with the seriousness that it merits and, as other committee members have done, I ask you in looking at individual council accounts for 2009-10 to urge councils to take the issue seriously. When I see words like "delays in implementing", I think that that has been the story since 1999. There has been an 11-year delay, not a one-year delay. We are in a different public finance climate than we have been in for the past few years, and it would have been better to resolve the problem in that

environment than it will be now. That is a general observation, but I am sure that most members of the committee will concur.

**The Convener:** I see nodding.

**John Baillie:** I should say for the record that I note your comments, Mr McLetchie.

**The Convener:** I thank you all for your attendance and your interesting evidence. We appreciate it.

## **Decision on Taking Business in Private**

*Meeting closed at 12:29.*

12:29

**The Convener:** Do members agree to consider our draft report to the Finance Committee on the budget strategy phase 2011-12 in private at future meetings?

**Members** *indicated agreement.*



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