



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

Wednesday 27 October 2010

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LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

24th Meeting 2010, Session 3

CONVENER

*Duncan McNeil (Greenock and Inverclyde) (Lab)

DEPUTY CONVENER

*Bob Doris (Glasgow) (SNP)

COMMITTEE MEMBERS

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

COMMITTEE SUBSTITUTES

Brian Adam (Aberdeen North) (SNP)
Malcolm Chisholm (Edinburgh North and Leith) (Lab)
Alex Johnstone (North East Scotland) (Con)
Alison McInnes (North East Scotland) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

Alastair MacNish OBE
Fraser McKinlay (Audit Scotland)
John McLaren (Centre for Public Policy for Regions)
Jenny Stewart (KPMG)

CLERK TO THE COMMITTEE

Susan Duffy

LOCATION

Committee Room 6

Scottish Parliament

Local Government and Communities Committee

Wednesday 27 October 2010

[The Convener opened the meeting at 10:02]

Decision on Taking Business in Private

The Convener (Duncan McNeil): Good morning and welcome to the 24th meeting of the Local Government and Communities Committee in 2010. As is usual at this point, I remind members and the public to turn off all mobile phones and BlackBerrys.

I seek members' agreement to take in private item 4, which is consideration of the evidence from the round-table session. I also ask members to agree to consider the evidence on our draft reports on the Private Rented Housing (Scotland) Bill and the Local Electoral Administration (Scotland) Bill, on which we had briefings this morning, in private at future meetings. Consideration of evidence on the draft budget will also come under that heading.

Members indicated agreement.

Draft Budget Scrutiny 2011-12

10:02

The Convener: Agenda item 2 is a round-table session to begin our formal scrutiny of the Scottish Government's 2011-12 draft budget, prior to its publication in the Scottish spending review. Members will recall that the committee agreed this at its meeting on 15 September. This is not like normal evidence sessions in which we address questions to witnesses.

I welcome Alastair MacNish OBE. John McLaren is on his way—he has been delayed by traffic. We also have with us Fraser McKinlay, who is director of best value and scrutiny improvement at Audit Scotland, and Jenny Stewart, who is a partner at KPMG and head of infrastructure and government.

We will spend around an hour on this session and will try to focus on three themes. The first is the size of the funding gap that local authorities are likely to face. We will then move seamlessly, I hope, to the impact of the funding settlement on local authorities. Thirdly, we will discuss potential solutions for local authorities. I will introduce each section as we move on. As it is not like our usual evidence sessions, we will try to have a discussion in which witnesses are encouraged to ask questions of other witnesses.

We will begin with the size of the funding gap that local authorities are likely to face. There is already lots of information on that out there, but in the past few weeks we have seen press reports that the situation is changing as we go along. We have seen reports on the impact on the capital spend, with a multiplier on that, given that we have decided that the new Forth bridge and the Southern general hospital are fixed and will be funded in a particular way. How will that impact on the overall figure?

Also, just last week, we read on the front pages that councils in the west of Scotland will get yearly budgets rather than three-year budgets. We can discuss those issues in the context of the up-to-date position on the funding gap that local authorities will face. Would anyone like to come in on that?

Jenny Stewart (KPMG): I am happy to give a broad overview of the numbers, although I am sure that you have already been briefed on them.

In broad terms, of the roughly £18 billion that local government will spend this year, £10 billion will come from the Scottish Government, £2 billion will come from non-domestic rates and £2.2 billion will come from council tax. About £3.75 billion will come from other sources. Given last week's

announcement and the present Scottish Government's commitment to protect health spending, the general assumption is that if the cuts are spread evenly elsewhere, that will constitute a 25 per cent cut in the grant to local government. There are all sorts of assumptions around that but, basically, local government is looking at a real-terms reduction of £2.5 billion by 2014-15. That is not a 25 per cent cut overall, however, because local authorities have other sources of income. The broad picture is that the cut will be around 15 per cent if health spending is protected.

Some interesting issues came out of last week's budget announcement, as United Kingdom ministers were convinced by the arguments on social care. Local government has been making the argument that there is no point in ring fencing health spending but not ring fencing spending on adult social care, because that would simply shift the cost of that care on to the health service. The UK Government has therefore transferred £1 billion from the national health service to local government specifically for adult social care, and has allocated another £1 billion in direct grant. If the Scottish ministers were minded to do something similar, that would constitute a transfer of about £200 million.

It is worth putting those broad order-of-magnitude numbers on the table, although you may already have received that information.

Fraser McKinlay (Audit Scotland): The word "unprecedented" has been used a lot over the past wee while. However, some of the numbers and the analysis that came out after last week's announcement, after a period of real-terms growth in Scotland for quite a long time, showed that councils and other public bodies are looking at an extended period of budgetary decline, which is a whole new ball game. The Auditor General recently described it as being like going from fifth gear to reverse gear without slowing down, and that is probably how it will feel for many people in the public sector, and in councils in particular.

Councils have already, for pretty much all of this year, been preparing for that, so it is not as though they have been sitting and waiting for last week's spending review announcement before starting to figure out what they are going to do. If John McLaren were here, he could tell you much more about that than I can.

The assumptions that councils have used are not a million miles away from what came out last week. Councils have planned all year for the situation and, this time round, the budget process in councils has been a great improvement on previous years. The process has started earlier and councils have examined more thoroughly what they do and how they do it. That is not to say

that setting budgets in February will not still be incredibly difficult, but we can be reassured that, across the piece, local authorities have planned for that.

Alastair MacNish OBE: One problem for local government is that, although growth has taken place, cuts have also been made consistently in the past few years. Reserves have been reduced down to the prudential level. Some authorities had massive reserves, but they have been reduced, in part to offset difficulties. Now, authorities have a huge problem and the reserves are not there.

I will give just one example, which is road maintenance throughout Scotland and how much is required to be spent on that. That was an additional cost that all authorities were trying to meet and it will become an even greater burden. I agree with Jenny Stewart's figures on the rough scale of the problem, which is huge and unprecedented.

Mary Mulligan (Linlithgow) (Lab): Before we go into the effect that the cuts will have, I will take a step back and consider the pressures that were already on budgets—Alastair MacNish just suggested that. We know about issues such as demographic pressures on social care. What pressures will demand additional resources that even local authorities that have planned for cuts in the next few years will have to address? While local authorities have prepared for future cuts, has sufficient attention been given to such pressures?

Alastair MacNish: The obvious pressure is the increase in the elderly population. Each authority must make assumptions about the additional cost from that. We then go on to the integration of services and joint working with health and social care services. That is vital, whatever solution is achieved in local government. That is just one example of a huge area that is a dripping roast.

Bob Doris (Glasgow) (SNP): I was interested that Fraser McKinlay said that local authorities are better prepared for setting their budgets than they were before. Have some local authorities spent less than they would have if they had not known that the cuts were coming? Have they already made incremental cuts, so that their continuing revenue costs in future years will be kept in line before the coming budgets are set?

I am also interested in what Jenny Stewart said about preventive spend that the health service might have to make through shared budgets with social services to prevent on-going spend and to direct NHS spend. Is the idea of shared budgets between the NHS and local authorities one way to access preventive spend? We have said that we will ring fence the NHS budget—that is fine—but it might benefit the NHS to invest in social care.

The Convener: I will interject because we are in a difficult position. We might be at the point of confirming that the situation is serious, but the third subject that we will address is solutions. I ask the witnesses to answer Bob Doris's first questions. After another couple of questions, we might agree that the situation is horrible. Jenny Stewart wishes to respond to the first issue.

Jenny Stewart: I will pick up the earlier point about pressures. Pressures certainly exist and I do not underestimate them. The pressures in the health sector are significant. Local government is well aware of and is planning for that.

However, not much discussion is taking place about what might help. Much doom and gloom is around, but I like to try to find some positives, without being Pollyannaish. The demographic trends in adult social care are an issue, but the trends in relation to young people are downwards.

There are pushes and pulls in different directions, and although the situation is serious it is important not to forget that other things can help, such as productivity improvements, changed ways of working and technology. There are positive forces as well as pressures.

10:15

Fraser McKinlay: I agree with that. I do not underestimate the challenges, but there is a danger that we might convince ourselves that it is all doom and gloom. There are definitely significant pressures, and one issue that councils face is that the biggest impact will be in year 1—next year—which is not far away. One challenge for councils is to find a way to deal with the immediate problem while not compromising their future and the services that they deliver. That is particularly challenging in capital investment. Considering the amount of money that is required for physical assets, estates, roads and other issues, it is difficult to see how councils will be able to fund that investment. In the long run, it could be problematic if they do not get the investment that they need. There is a difficult circle for councils to square, and I am sure that they will be working very hard on it over the next few months.

Patricia Ferguson (Glasgow Maryhill) (Lab): This question might seem to be off at a slight tangent, but I do not think that it is.

One issue that the committee has been interested in, and frustrated by, is the debate on equal pay in local government. There are still cases in court and at tribunal and, although I realise that the colleagues who have joined us today might not be familiar with the nitty-gritty, there is potentially a multimillion pound bill for many local authorities. We have been told that

most local authorities at least claim to have reserves or money set aside to cover the eventual settlement of the claims, but I wonder whether the witnesses see equal pay as another problem. I do not think that the committee is convinced that the money is secured in the way that has been described. Would the issue be significant enough to cause problems if there were a raft of settlements, which is probably unlikely, over the next wee while?

Fraser McKinlay: I am happy to respond to that. We had the same conversation when the Accounts Commission and I were in front of the committee earlier this year. We are looking only now at the local authority accounts for the financial year that ended in March, so the numbers are still provisional and will appear in our local authority overview report in early 2011.

Our numbers suggest that, up to March 2010, equal pay has already cost councils in the region of £420 million, and the councils estimate another £180 million on top of that for the future. It is difficult to tell whether that is the right number. Our work checks that each council has taken reasonable steps to estimate its potential liability, but our experience of equal pay is that liability is dependent on individual cases and, as long as there are cases going through the system, there is always a risk that the number might change.

The answer to the question is yes—equal pay is still a pressure that councils need to be aware of.

The Convener: Do any of the other witnesses want to say anything about that?

Jenny Stewart: I am conscious that I did not answer the first part of Bob Doris's question on preparation. I absolutely agree with Fraser McKinlay that local authorities are planning, and a number have produced draft budgets for their councils. I will make two points on that. First, with the local authority elections coming in 2012, it is difficult for them to plan, given that we also have Scottish Parliament elections next year. There is a medium-term issue that probably still needs to be addressed. Secondly, people have identified opportunities, but there is still a way to go on concrete actions to ensure that savings are delivered and banked.

The Convener: I invite David McLetchie, Alasdair Morgan and Jim Tolson to ask brief questions on this topic before we move on.

David McLetchie (Edinburgh Pentlands) (Con): We need to establish the appropriate baselines for our examination and contributions so that we can find our way through the statistical blizzard. I was interested to hear Alastair MacNish refer to the cuts that we have already had. Of course, those of us who have been sitting in the Scottish Parliament for the past few years know

from what the First Minister has told us regularly that there have been no cuts to local government in the past few years—indeed, we are told repeatedly that it is getting record levels of finance and a higher proportion of the overall Scottish budget. There cannot have been any cuts, because that is what the Government has told us. We need to prepare the baseline.

The other point is that the cliff edge that we are approaching in 2011-12 is, of course, partly attributable to the Scottish Government's decision not to make any in-year reductions in expenditure or savings in 2010-11. The distortion in the figures has therefore been created by a conscious decision that the Scottish Government made, not a decision that Her Majesty's Government made. That needs to be factored into the equation.

An interesting point was made about the work that councils have been doing in the current year—2010-11—in anticipation of what is coming down the track. To be fair, I think that they have been very prudent in that regard. That raises the question whether the savings that are being generated in part in 2010-11 can be employed as a cushion in 2011-12 and later years, or whether councils have been taking the Scottish Government's approach, which is just to spend it all and not have any reserve to carry forward from one year to the next.

We need to establish accurately what the baseline is for this discussion, so that we can take it forward in future years.

Fraser McKinlay: I will start by addressing the point about actions that have been taken that might provide a cushion in future years. I absolutely accept the point that Alastair MacNish made about councils using balances and reserves over the past few years. However, our analysis of this year's accounts suggests that their general funds in 2009-10 increased by about £64 million or 11 per cent. The figure is up at £642 million now. We have not yet done the analysis to figure out why that is, but if there is a suggestion or a theory that balances and reserves that are not already earmarked or committed for other things are for a rainy day, that rainy day might well be upon us next year. It might well be that councils have been prudent in the past 12 months or so in order to help them to prepare for what is coming down the track.

Alastair MacNish: Fraser McKinlay is right. The problem with using a reserve is that it is a one-off; it solves a short-term problem, but the long-term problems still exist.

I have not visited every council in Scotland; my experience is of just a scattering of councils. The cuts that councils are looking at for next year are absolutely horrendous. In authority after authority,

one can see that the pain is significant. Councils have been working; chief executives have cut and cut and cut away at their corporate management teams, and many local authorities now have only three or four people in their corporate management team at the top. I cannot see them going any further with that. That is why when we discuss the third topic, I will talk about other solutions. Councils have been trying really hard. Of course, when they take that sort of action, it helps the following year. Some of the savings that they are making now will help in future years, but those savings are small in relation to the figures that they are now looking at for next year's budgets. You have only to look at what was in the press yesterday or the day before about Aberdeen City Council's wish list of cuts. Councils have a long way to go when it comes to making the decisions for 2011-12.

Jenny Stewart: If local authorities have built up reserves—I refer to the point on the rainy day position—I would not want them to be penalised for doing that. If they have been prudent and built up reserves to deal with the rainy day, no one should say, "Well, you've got good reserves, so you'll get less money next year than council X, which has fewer reserves." We should reward prudence.

I turn to David McLetchie's point on baselines. A few years ago, I was on the Howat review, which looked into some of these issues. We were strong—I was strong—about the Scottish Executive culture that said, "That was last year's budget. Here is an extra 5 per cent. How do we spend the extra amount?" The Executive should instead have looked at the totality of the spend. Having been critical then, I should also be critical now. Instead of saying, "Here is our pot. That is absolutely all we have. What do we cut?", whether the cut is 5 per cent or 10 per cent, the question should be, "How best do we spend the 80 per cent or 90 per cent of what we had last year?" We need to prioritise and decide how best to spend available resources to deliver best public value. We need to get into that mindset and not simply ask where to cut. I will respond to Alastair MacNish's points when we come to address solutions.

Alasdair Morgan (South of Scotland) (SNP): What Jenny Stewart has just said ties into a comment that I want to make about my time on the Finance Committee in previous sessions, when we struggled desperately to get away from talking only about expenditure. We spoke instead about outputs or even outcomes. The danger with the discussion that we are now having is that it is simply about inputs—how much money we will have to spend. That is what all the headlines are about. I suspect that it will be difficult to get away from that.

The distinction between inputs and outcomes may be different for revenue and capital spend. I have not quite shaped my ideas on that, but I think that the difference is starker for revenue spend. If we begin to look at those differences, we will see the effect on how gloomy our view of things is. Some councils appear to be beginning to look at what they are trying to achieve with the money that they have to spend. Instead of asking by how much their budget will go down next year, they are trying to see what benefits the available spend will bring to the people we all are trying to serve.

The Convener: I will take our next question from Jim Tolson, after which we can move to a discussion on both issues.

Jim Tolson (Dunfermline West) (LD): The next area of focus is the impact of increased demand for local government services. We tend to look at those budgets in terms of where we can cut and trim things. I have a couple of examples from our committee consideration of increased demand for services. First, during the passage of the Disabled Persons' Parking Places (Scotland) Bill, we heard widely varying estimates of the cost of implementation—we heard that it could easily be in the tens of millions of pounds. Secondly, we are hearing that the burden of the Housing (Scotland) Bill could run into tens of millions of pounds. Has any consideration been given to the wider context of where additional burdens make it much more difficult to balance the books?

Fraser McKinlay: I am not sure whether that kind of analysis has been done. Clearly, there is a requirement for the Scottish Government and, ultimately, the Scottish Parliament to look at the full package of what is proposed. No doubt the Parliament will debate all that over the next few months in some detail. There is no doubt that, as much as we need to concentrate on reductions, we need also to keep a close eye on what is going up. In saying that, I include pressures that we know about as well as any new commitments that come through.

10:30

The Convener: Before we move on, do the witnesses want to say anything about the settlement that has not been raised in questions? David McLetchie mentioned the blizzard of information. Much information is available to the committee about headline figures and figures below that. We are having just a general discussion, and we will hear from other witnesses.

The second theme that we will consider is what the funding settlement is likely to be and what that will mean for local authority services. Jim Tolson made the point that different local authorities have different impacts. We see that day by day. For

instance, rural schools that are under capacity have been raised today as a problem that Argyll is dealing with. In the central belt, the criticism is that programmes are not ambitious enough.

Councils are planning for a funding settlement that they expect to be greatly reduced. What priorities are important? Alasdair Morgan talked about moving to considering outcomes rather than just inputs. What are the implications for local authority capital spend and the local authority workforce? Who wants to pick up on those themes? I should say that we are delighted that John McLaren has made it through the M8.

John McLaren (Centre for Public Policy for Regions): I was just testing Scotland's infrastructure.

The Convener: It has all been said and done before your arrival, but we are glad that you have made it and we appreciate your attendance.

Who wants to pick up on the themes?

Fraser McKinlay: I am happy to kick off. As Jenny Stewart said, one big challenge relates to priorities. Over the years, councils and elected members have not always found it easy to prioritise locally, but that will be even more important and even more difficult now. That will be a big test of political leadership locally—and nationally, but we are focusing on councillors.

There will be big tests for how coalition administrations work—councils now have many more of them—and, as we said in our recent report, for relationships between elected members and their senior officers, which will become increasingly strained through the process. The situation will have a big impact on how councils are run and potentially big impacts on services, communities and groups of people. In discussing at the high level job numbers, cost reductions or cost pressures, one risk is that the impact on people and communities can be lost. To be fair, councils are focused on that. Local variation will come from that.

The outcome-based approach that councils take in the shape of single outcome agreements provides a sound framework for discussing priorities, but that will not be easy—the outcome-based approach is not straightforward. We look for councils to think about the priorities for their areas and to work out how they will direct their increasingly scarce resources.

Alastair MacNish: The concordat and single outcome agreements were innovative, but they have been a singular failure—outcomes are not being achieved. Everybody has signed up, but for whatever reason the outcomes are not being achieved. I could not agree more that the approach should be outcome based rather than

input based, but single outcome agreements are all over the place. From that point of view, the concordat has not fulfilled its intention.

Jenny Stewart: I agree absolutely with the focus on outcomes and on clearly prioritising services. I will give some context to that and talk about work that we have done. Often, the debate crystallises around front-line services against back-office functions. In all the work that we have done on how local authorities in the UK spend money, we have seen that around 50 per cent is spent on front-line, client-facing, contact services, about 40 per cent is spent on support to the front line, and about 10 per cent is spent on back-office functions such as human resources departments and information technology. When we consider how to reallocate spend, it is important to keep that picture in mind.

Secondly, there must be a focus on productivity. Local government is different from some of the other parts of the public sector, because councils run different businesses. Dealing with waste or running the education service is not like running health, which is much more homogenous. There must be pressure and focus on productivity in each of the business areas.

We did some work on looking at where unit cost information is available across the public sector, and we think that the public sector can do it. Getting the average public sector organisation up into the top 25 per cent—not getting the bottom ones up to the top, just the average ones—could save billions of pounds across the UK. Audit Scotland has published figures on key performance indicators, and the easiest example that I can use is council tax collection. For many good reasons, the cost per dwelling of council tax collection across Scotland varies from £5.39 in the cheapest council to £23.89 in the most expensive council. There are good reasons why it might be more expensive to collect council tax in Orkney and Shetland than it is elsewhere, but if we could get the average council, such as the one that is number 8 in the list, to move up into the top 25 per cent, we would save 30 per cent of the cost of council tax collection. Local government still has a lot to do about productivity and it is important to focus on that, because it will not affect front-line services.

On outcomes, there is no point in having cheap council tax collection if the council does not collect sufficient funds. The cost of council tax collection therefore has to be balanced against how effectively the council brings in the money. It is not about just counting the cost of everything and not worrying about the value of anything.

I agree that prioritisation is needed and that we need to look at how councils spend their money,

but there is an awful lot to be done before we have to slash front-line services.

Mary Mulligan: In a previous round-table discussion, a number of issues were raised about the workforce. We all know that the biggest expense for local authorities is its workforce. I was interested in Jenny Stewart's point about balance and what are seen as front-line services as opposed to back-office operations.

We sometimes take the simplistic view that we need to protect the people who are out providing the services, but when no one is there to pick up the phone and take orders for housing services, or whatever, things do not get done and the service suffers. There is a balance to be struck. How should local authorities address the pressures on the workforce?

I accept what Alastair MacNish said about local authorities having reduced their corporate management, but often the lowest paid are first out of the door, yet the councils need to lose more of them because they are the lowest paid. We are losing more of the staff who actually do the jobs. The councils are then faced with having to make redundancy payments or, for those who take early retirement, pension payments. How do we achieve the balance that provides the services that local authorities have decided are their priorities, while not overburdening them with on-going payments that mean they do not make any savings?

Alastair MacNish: I do not disagree with anything that Jenny Stewart or Mary Mulligan said: they are absolutely right. However, the bottom line is that you must protect the front-line services as best you can, as long as they are delivering what you wish them to deliver. Therefore, you have to look carefully at the back-room functions. It is not as simple as saying, "Get rid of the back-room functions." Of course, you cannot do that.

On spending on support for front-line services, I am quite surprised by the balance of spend of 50 per cent to 40 per cent that Jenny Stewart mentioned; I thought that the spend on front-line services would be slightly higher and the spend on support would be slightly lower. However, I would agree that 10 or 15 per cent is spent on back-room functions or what you would call bureaucracy. However, that part has to be looked at seriously if we are to protect front-line services as far as possible. I make no bones about this and it is a sad thing to say, but several thousand jobs in local government will go in the next few years, regardless of what clever innovation there might be.

The Convener: David McLetchie talked about the "statistical blizzard". There are ideas to do with Beveridge and the Hume essays. I will see

whether I can bring in John McLaren, because he is impatient for the politicians to get on with it.

There is so much information, but as soon as it comes to light, there are debates about the impact of, for example, closing a school in a rural area and what is an acceptable capacity in one area compared with another. When you start to examine it, you see that there are no great savings in cutting back-room services. We have lots of information and data, but we have not analysed what it actually means for a local authority to sack X number of workers. How much does that cost? What is the impact on the local economy? What is the impact on the Scottish economy? We have all the information, but we have not analysed it effectively to work out what are the best options for how to proceed with the cuts. When will that next stage happen?

John McLaren: I will widen this out a bit, because that is where I have more information. Instead of looking at just local government, you can consider the four constituent parts of the UK. The CPPR has done some work looking at health services and school services. You can get headline figures that say that Scotland spends more and its results are not as good, or that Wales spends the most or whatever, but when you burrow down and look at the figures in detail, almost all of that falls apart. You can say that you think that it looks like Scotland spends more than anybody else, but you cannot be sure. For example, in primary schools, the data will tell you that we spend 80 per cent more per pupil than Northern Ireland. That is obviously garbage, but it is what the data tell you and there are no better data out there.

I am not saying that the situation is as bad in local government. I suspect that the information is better and more consistent in Scotland, but the analysis is still pretty poor; it is either just done on the surface or the right results are not necessarily taken away. For example, on health, a Nuffield Trust study made various claims about Scotland, almost all of which were wrong, because the data were not checked—they were analysed only on the surface.

The problem that we have coming into this spending review period is that we have an awful lot of analysis to do. The data are of varying quality and we have very little time in which to do the analysis, especially given that the biggest cut is in year 1. I am not sure whether I am stepping on a landmine here, but £1.3 billion is effectively the cut that we have to make in that one year. We might be able to do the analysis a bit better for years 3 and 4, but, for year 1 in particular, we are pretty stumped as to how we will do it. You can concentrate on efficiencies, procurement, bringing services together and the back-room stuff, but that

will not get you gains until years 2, 3 and 4. Typically, in year 1 Governments raise revenues, because that is when it is easiest and quickest to do it.

Just a word on prioritisation, if I may, convener, given that I came in late—

10:45

The Convener: We will indulge you.

John McLaren: When you have quite a lot of money, prioritisation is always a problem. Post devolution, we have had quite a lot of money. We have had a 5 per cent per annum real increase. The last time that there was a downturn was the mid-to-late 1990s. Michael Forsyth was the Secretary of State for Scotland at the time. The priorities that emerged were clear: to protect law and order and, on the capital side, not to protect housing and transport. I suspect that the capital side will be hit again this time. That will feed through to the local government side, particularly if health capital spend is protected in relative terms. On the local government side, education and social care will be the prioritised elements. The question then is how we deal with the big cuts in areas other than education and social care without decimating some of them.

Jenny Stewart: My comment follows on from the strong points that Mary Mulligan made on how to proceed. I return to the debate on the 50, 40 and 10 per cent spend. The general public perception, including in the BBC poll of last week, seems to be that we should protect front-line services. If that is what people are saying—if that is their wish—it is important that we should do that. Basically, local authorities and every bit of the public sector should drill down into every area of cost. We need to focus on getting everything as productive as possible. Clearly, support services and the back office are areas that could generate savings.

I return to the point on productivity. It will be very hard for a council to say that it is shutting a service if it has not done everything that it can do to ensure that its management structures are as lean as possible, that its procurement practices are best in class and that it is using its assets as best as possible and has disposed of any surplus assets. Those areas can be tackled quickly before front-line services are hit.

Given that workforce issues have been mentioned, I turn to the potential pay freeze that local government has announced, which will reduce the impact in real terms of the cuts that have to be made. I am not sure whether the committee will be interested in this, but I have an example of one area that KPMG worked on in going through the recession. We were keen not to

lose staff—we wanted to keep people, as far as that was possible—and we used part-time working as a way of getting through. For example, people were allowed to take unpaid leave. That helped us to keep our workforce as strong as possible. We had to reduce our internal costs by 10 per cent in a year, but we did so in a way that was fair to staff. We ensured that we did not let people go only to hire them subsequently if things turned up. I know that things are much more difficult in local government, but there are other ways of looking at things before job losses have to happen.

Alasdair Morgan: I am sure that John McLaren is right in saying that we need to have more information and then to analyse the information. Of course, the irony is that doing that costs money. I think that nobody would say that doing that develops front-line services. The opposite is the case and yet it is probably what we need to do.

All politicians tend to make the distinction between front-line services, the back-office function and other services. We need only think about social work. Given all the legislation that Government has passed over the past 15 to 20 years, social work is now very much report driven. Social workers have to spend a lot of time preparing reports. Some councils may still have typing pools or admin people who type up reports—I assume that they would be called back office—but the front-line service would be no use without that support. It is not possible just to scrap it, but it might be possible to introduce an information technology system. As a former IT professional, I always said, “IT systems will save you X per cent.” Let us assume that a council thinks that it can save X per cent and increase productivity, too. Does it invest in an IT system to help its social workers to become more productive or does it not do that because IT systems are not front-line expenditure? We will soon have the headline figures, but I am not sure how much help they will be or whether they will lead us anywhere.

The Convener: Fraser, are you going to lead us anywhere?

Fraser McKinlay: I echo that everyone agrees with the principle of protecting front-line services, but defining what those front-line services are is another thing. My colleagues in Her Majesty's Inspectorate of Education are concerned that the quality support and control function that local authorities have invested in over the years is the bit that will be cut. Those people are not standing up in front of kids and teaching, but they are an important component of delivering a quality education service. It is a difficult issue to judge.

If I may, I will pick up on John McLaren's point at a more micro level, which is based on our audit work in councils. Through our best-value audits over the years, we have talked a lot about what we

call the building blocks of good workforce planning, good-quality options appraisal, and good-quality performance information, and councils have made good progress on those. However, they still have a way to go, and now is the time when those things need to be in place and operating in order that the right decisions are taken about which jobs go, when and how, and so that options appraisal can be used to decide where resources should be directed and how they should be prioritised.

Given that the cuts are coming fast, particularly in year 1, we are still a bit concerned that not all councils have the right processes and underpinning infrastructures in place that will help them to make the right decisions that will get them through next year and stand them in good stead in the years to come.

The Convener: In the absence of revenue in the first year, the quick hit will be to sack people. Is that not the case? It is all about numbers.

Jenny Stewart: That is not necessarily true. It is quite useful to use social work as an example. Alasdair Morgan was right to say that practices vary hugely across individual local authorities. We looked at social work practices in one particular local authority, and that work helped to improve the situation. People were running around being so busy that packages of social care were being given out, but there was no chance for social workers to review those packages. People were receiving packages of care that were costing a lot of money long after they needed them, because there was no time to review their cases.

We then did some work around how the social workers spent their time, including basic stuff on time management and rostering, and we found that a lot of time was being wasted out in the field between appointments. That made a huge difference to how the social workers were spending their time.

In many areas of local government, good professionals are promoted to give them better salaries, and they move into management roles, when there is no need for those management roles. Refocusing senior professionals on the more complex and difficult cases and allowing them to do what they came into social work to do increased job satisfaction. It also allowed a reduction in management posts, which either disappeared or were redeployed, depending on the financial situation.

We collected data on report time processes on an individual basis for our clients, and went in and said, “Hang on; it's taking you X amount of time to do this when it normally takes Y, so let's look at that process and how you do it.” It is not grand theory or grand strategy, and it is not about how

we prioritise A over B, but there is a lot of good management practice that could be implemented, which could save significant amounts of money.

John McLaren: I have the figures on the front-line services with me. In education and health in Scotland—sometimes we have to look at the UK level—the biggest increases in the past decade have tended to be in non-front-line services such as admin and staff. The number of teachers in Scotland, for example, has pretty much flatlined in the past decade, and the number of support staff has provided almost all the increase. We rarely read that information in reports, but those aspects are interesting and would not take long to analyse. I do not know what would be done as a result. I do not know how teaching assistants are categorised, but such issues would arise.

Jenny Stewart: Going behind the figures is really important. If a primary 1 teacher in a deprived area who has significant numbers of children from difficult circumstances has learning support or a teaching assistant, that allows her to be much more effective in her normal teaching.

I return to the point about pressures. Such issues are driving standards. What has been said is right—the numbers are there; the issue is getting down to the nitty-gritty and the good management to ensure that we achieve the best possible outcomes in education.

The Convener: Let us consider capital spend, particularly for health and wellbeing. The wellbeing part of the portfolio interests the committee, particularly in relation to social housing and regeneration. Does anyone want to pick up on that?

Alastair MacNish: I have a vested interest because, for my sins, I became a member of Glasgow Housing Association's board last year. Capital funding and keeping the capital inflow are crucial for the wellbeing of tenants and home owners. With my other hat on, the pressures that will be brought to bear on that concern me if we want to develop social housing further in the greater Glasgow area. I assume that the same problem will apply to all the housing associations, which are worried. Until now, we have been fortunate.

The Convener: Does John McLaren want to talk about the scale of the impact on capital spend?

John McLaren: It is clear that the scale is pretty big—the percentage is bigger than that at the UK level. Under the devolved system, resource can be moved into capital, so we could move some money in that way, but that does not tend to happen. Capital tends to take the hit because it involves future jobs, so nobody can complain that they have lost a job—the job never existed in the

first place. I suspect that not much—if any—money will be moved from resource to capital, which means that we will take the 30-odd per cent cut. If we protect health spending to an extent, what will remain is roads and what is left of housing. Dealing with housing is not as straightforward as it was back in the 1990s, but it still looks susceptible.

Quite a big issue is whether to maintain the quality of existing infrastructure and capital assets or to have new build—whether to keep up maintenance of existing roads, hospitals and schools rather than build new roads, bridges and schools, for example. The question is whether to maintain the integrity of what councils have rather than invest in new build. Perhaps a choice exists in the short run between doing new things and keeping what councils have.

Jenny Stewart: In the figures that the UK Government has announced—it provided transport figures yesterday—it has clearly prioritised economic infrastructure over social infrastructure. The hit on the transport capital budget was minimal, whereas other departments have been affected more strongly. That is one debate that we will have up here.

New and different ways of funding capital investment could be considered to ease the pressure in local government. For example, Caledonian Maritime Assets Ltd, which buys ferries for lifeline ferry services, is considering turning itself into a public interest company, which would have members who represented the community. That would mean that it would be able to borrow externally; it would not have to borrow from the Government. A big ship costs around £46 million and a small vessel costs around £10 million. New, replacement vessels for existing services would then not hit the capital programme and therefore more money would be available for other services. There are new and different ways of funding capital investment.

Others have heard me talking about Scottish Water. It is clear that the Scottish Government has to keep aside £150 million per annum from the capital budget to support Scottish Water's borrowing. If Scottish Water were turned into a public interest company like Welsh Water, ownership would transfer from the Scottish ministers to members who represented the community. That would immediately release £150 million in capital and would give a one-off receipt of £3 billion by around 2013, which might be used for one-off capital projects. There are ways of looking at the overall picture that would reduce the impact of the cut in capital.

11:00

Fraser McKinlay: I was going to make a similar point. We are going to be interested in different funding models in the next wee while. Over the past few years, the levels of borrowing in councils have increased, particularly in the past couple of years as capital receipts have reduced. Councils have not been able to sell as much land and as many buildings, which are obviously an important source of funding. Borrowing is going up, and we are seeing increasingly innovative and novel ways of finding money to invest in capital. From an accounting point of view, we will keep a close eye over the next year or two on the risks and governance issues associated with some councils.

Bob Doris: I want to go back to something that David McLetchie rightly said. One reason why we are taking such a big hit in capital is a policy decision that was taken to front-load capital expenditure and put off the pain. That has had a hit on construction, for example. In the past year, employment in construction has gone up by 8.9 per cent in Scotland, whereas it has gone down by around 5.5 per cent in the UK. Obviously, we must now face up to where we are and try to keep things going.

On funding infrastructure at a local level, I picked up from the chancellor's statement that the Public Works Loan Board is going to charge a 1 per cent additional levy on public works borrowing at the local level. I am greatly concerned about that, and would have thought that we should be talking about other ways to raise cash. What do the witnesses think the upshot of an additional 1 per cent premium will be for local authorities, which are already struggling with their capital investment? Do we need to assess that?

Jenny Stewart: Not many people picked that up from the chancellor's statement. Normally, the uplift for the Public Works Loan Board is around 0.1 per cent over gilts, but it is now 1 per cent. I presume that the intention is to ensure that there is limited incentive to increase the UK's public sector net debt by making future projects more expensive for local government and others who access the PWLB for funding. The other impact is that external financing will be made more attractive and potentially better value for money. I have not considered the matter in detail, but I have had a quick look at it. The move will probably make funding from the PWLB more expensive than funding from the European Investment Bank and only slightly less expensive than funding with long-term borrowing rates. It is simply an incentive not to engage in any capital expenditure or borrowing, but it makes the option appraisal on whether to use external finance or the PWLB more in favour of external finance.

Bob Doris: But that is not because the other funding mechanisms have improved; rather, it is because an existing good funding mechanism now contains punitive measures. That mechanism has been taken away, which clearly will have an impact on local authorities.

Jenny Stewart: Yes, but it is clear that the aim is to reduce the deficit and therefore to reduce borrowing.

David McLetchie: On housing priorities, it is likely that the affordable housing budget will be significantly reduced. That has happened down south, and I cannot see many ways of avoiding that here. That will probably show what a cataclysmic error it was not to take the opportunity to wipe out all council housing debt in Scotland when the previous Government had the money on the table to do that. Members of the committee have heard me talk about that many times in the past, and they will hear a lot more about it as events proceed.

Filling that gap will put a premium on mechanisms to lever in private investment or pension fund investment—however it is characterised—into affordable housing. Some of the building blocks are in place to facilitate that, such as rental streams that are, in effect, guaranteed or paid by the state through housing benefit. We need to look at that, and there are some suggestions about that in the Government's consultation document.

We also need to look at certain technical aspects that are barriers to filling that gap. In our discussion on amendments to the Housing (Scotland) Bill the other week, Alasdair Morgan mentioned the 20-year rule, which many people think hampers the development of financing models. He talked about that in the context of rural housing bodies, but the principle can be applied to a wider group of corporate investors in housing.

It seems that affordable housing is going to be hit. It has received accelerated expenditure in the past, as other members have pointed out, but the sector is just not sustainable without a significant levering in of further private investment. That is why the councils that are still landlords and the housing associations must work out what models can help to bridge the gap.

The Convener: Does anyone on the panel want to respond to that?

John McLaren: Putting social housing to one side, it is not clear to me what the overall demand for housing in Scotland is, especially going forward. The demographic figures tend to be just lines drawn by whoever does them, and they vary quite a lot depending on whether a lot of people come in from eastern Europe: the figures start to go very high, but if that stops they will flatten off or

maybe go down. It is therefore difficult to predict what number of houses will be needed in the future.

In the UK, the impact on housing of buying to let has not been fully analysed and understood—at least, not that I have seen. For example, how many of those houses are being used, in effect, as social housing and how many have owners who do not live in them but are adding supply to the country as a whole? In Germany, getting that information would not be a problem, as that is what is done there. Perhaps we could refine or change the Scottish system to regulate those houses better and make them seem more like a form of social housing. I have not seen much work done in that area.

John Wilson (Central Scotland) (SNP): I want to make a point about local authorities' borrowing. Jenny Stewart talked about assets that could be realised at the moment and how making Scottish Water a public interest company could generate £3 billion, which would wipe out the £150 million that the Scottish Government has to contribute to support Scottish Water's borrowing at present. My difficulty—I hope that the panel will clarify the issue in my mind—is that the more that local authorities borrow, the more they must pay back. Almost £1 billion a year is coming out of the Scottish budget to service the debts that were accrued under the private finance initiative/public-private partnership funding phase. If we move to other funding models, local authorities will have to find that money. At present, £1 billion a year for the next 25 years must be found for PFI/PPP developments before we can look at any other local authority funding, including any other borrowings that local authorities make.

As Jenny Stewart said, local authorities have already received advice on selling assets. The committee has been told that local authorities that are looking to sell off their assets to subsidise other spending would not be able to realise their true value, which means that effectively we would be asking them to have a fire sale and sell off their assets cheap. We are trying to square that circle. What do we say to local authorities? On the one hand, we are telling them that if they transfer or sell on the assets in their current asset base they might make a loss, while on the other we are encouraging them to borrow more money for capital projects, which will only accrue more debt that will have to be serviced in the coming years.

Jenny Stewart: In response to those strong points, I should first point out that, with regard to the amount of money for funding PFI debts, PFI programmes do not just build the original asset but maintain it over the project's 30-year lifetime. It is not just a matter of, say, simply building a house; it

is about maintaining the asset over the period. Sometimes that part of the argument gets lost.

Those who think that maintaining the capital fabric is economically important might also argue that the straitjacket of PFI ensures that those assets are maintained. If PFI schools and hospitals had been built under traditional funding methods, it is likely that, at some point, maintenance budgets would have been cut and that, as the capital budget was washed away, their state of repair would have deteriorated over the next 10 years. There are different sides to the argument, but there is no doubt that PFI contains constraints.

You are also absolutely right to say that local authorities should not borrow if they cannot pay the money back, and the very strong prudential borrowing rules ensure that authorities do not enter into arrangements that they cannot continue with in the longer term.

As for the point about Scottish Water—

John Wilson: I just threw that in, because the organisation always seems to be mentioned in the general debate about how the Scottish Government could get a windfall while saving £150 million a year. It would mean selling off a public asset, and I have particular views on the way other public assets have been sold off. Such moves have benefited not the public but the companies' shareholders, but the public still have to pay for services. Indeed, sometimes they have to pay an enhanced premium for them.

Jenny Stewart: I get the point. With regard to Scottish Water, I was suggesting a non-profit-distributing model resulting in a public interest company, so there would be no equity shareholders and no risk of profits leaking out. Also, it would be owned by representatives of the community. Welsh Water, which was established under a similar model, can pay what is in effect a dividend to chargepayers if it outperforms its targets. Scottish Water is a fabulous example of a really good public sector company—for example, it has made 40 per cent capital efficiencies and 30 per cent operational efficiencies. Similarly, Welsh Water's bills are in the lower quartile for the UK as a whole and the company is still able to give money back to chargepayers. That particular model aims to address some of people's concerns about privatisation.

On local authority sale of assets, you are absolutely right to point out that the economic circumstances are against us, but I hope that the situation will improve as we come out of recession. The UK growth figures that came out yesterday are certainly encouraging, although we do not know what the Scottish figures are.

It is still worth while for local authorities to look closely at how they use their assets and people. It might be more efficient to mothball properties, given the running and servicing costs, if authorities can slim down their operations. In the past, I have considered office accommodation for various clients. In certain areas, space standards per individual are about 30 per cent higher than might be accorded in the private sector. Whole areas to do with asset usage can be looked at, even though the climate for sale is not currently great.

11:15

The Convener: I am conscious that I allowed about an hour for this part of the meeting, which we have skipped through. We talked about the scale of the problem and we discussed some of the impacts. We might spend another 15 minutes on what local authorities can do to mitigate the financial problems and impacts on services that we agree they face.

The possibility of raising additional revenue has been mentioned in the past; we might get that issue on the table. We could also consider the costs and risks of other funding models, if local authorities move away from prudential fundraising; the role of efficiency savings; and the arm's-length use of the third sector, which was mentioned. Does anyone want to pick up on one of those themes?

Alastair MacNish: Let me preface my remarks by saying that nothing that I say is political. It is important that I say that before you hear some of the issues that I will put on the table.

The Parliament must be brave in the decisions that it makes during the next few months and years, regardless of who is in power. For example, there is currently a debate about whether we should have three police forces or one force instead of eight. Why is there not a similar debate about reducing the number of fire services?

In 2000, Richard Kerley produced a report on councillors' expenses and allowances, the result of which was an additional cost of millions of pounds, which the Parliament approved. One of Richard Kerley's proposals was to keep the number of councillors to 870, but we now have 1,222 councillors. If we went back to having 870, we would save £7 million per year. I do not know whether other people have had this experience, but when I talk to the public they say that they think that we are overgoverned. However, local government will not cut the number of councillors.

Sir John Arbuthnott produced an excellent report for the eight councils in the Clyde valley, in which he considered the sharing of services such as road maintenance, waste management and back-room functions. However, the sharing of

services is not taking off. There are one or two good examples, but by and large local authorities are playing at it and the shared services agenda has stalled, for whatever reason. I can come up with examples of where it is working, but given what is required, nothing seems to be moving forward and major decisions are not being taken across the board. Why do we need 32 heads of education and 32 chief executives? We are talking about millions of pounds, which in my opinion are not funding front-line and support services.

I would love local authorities to say that they will go down the Arbuthnott road and share services and property, so that we can start to eat into the deficit. However, if they do not do that, I passionately believe that we must merge councils. For example, there could be an Ayrshire council, with a roads maintenance programme and a waste management function. Why does Lanarkshire have 100 people in North Lanarkshire Council's finance department and in South Lanarkshire Council's finance department who work off the same computers and the same payroll system? They are in different properties, but the systems are the same.

There are vested interests all over the place. It has been suggested that we should have 12 mainland councils and balance the health boards—in other words, there would be continuity between the councils and health boards. Will 17 council leaders wish to go down that road? I have my doubts.

The last point is outwith the control of local government. I find it strange that we are freezing council tax at this time. Instead, we should have 15 councils, 12 of them mainland councils.

John McLaren's point is valid. There are no savings in the first year, because of redundancy payments. However, it is not a three or four-year problem; it will go for a lot longer than that. By sharing services, or at least genuinely considering that, councils will have an opportunity to save.

We spend £18 billion gross per annum. Roughly 10 per cent of that—£1.8 billion—is back-room expenditure alone. If there were a 60 per cent cut in the number of councils and we took only a third of that, the saving would be £400 million to £500 million. The first year is a problem because of redundancy costs, but it is a long-term issue.

Only the Parliament can make that change. The argument will be that boundary changes are complicated. However, they are not nearly as complicated as they were in the previous reorganisation, because the boundaries now exist. If you remember, we had district and regional councils, but they are now all gone and there are 32 councils. The boundaries only need tweaked in

certain areas—not many—to give us single councils for regions such as Ayrshire.

David McLetchie: Well seeing you are not standing for election. [*Laughter.*]

Jenny Stewart: We clearly have an immediate short-term problem across the public sector of delivering the £1.3 billion of savings that John McLaren mentioned. There is a medium-term position: how does local government deliver around £2.5 billion of real-terms savings by the end of the current comprehensive spending review? Looking at Andrew Goudie's figures, it will take 10 years at least before we are back to last year's spending levels.

To pick up on Alastair MacNish's point, the issue is leadership. It is really important that the short, medium and long-term potential changes are all examined now. That is a big challenge. Some clients whom we see will focus on how to get through next year and others will think of the grand vision of how services might look in a transformed model in three or four years' time. However, we must have the drive and ambition to consider all three timescales.

In the short term, as I outlined, there are savings that could be made over the next six to 12 months. We go in and help councils to reduce costs and protect services. There is a huge piece of work to be done on productivity. That is simply about good management, focus, having good performance regimes in place and people being called to account for the performance in their area. Why do we need three bin lorries when another council of a similar area is using only two? That is the kind of issue that I mean.

Short-term savings can be achieved. There needs to be an absolute focus on productivity, which will drive out a lot more savings in the short term. In the medium term, we should consider the overall number of councils in Scotland, but in the meantime each local authority should pull together its common functions—such as IT, HR and administration—into a common pool that could be externalised if needed or transferred into a wider council area.

There are other measures, such as alternative delivery models and externalisation. We all know that the average cost of social care in the public sector per hour is something like—I have lost the figure. I have used it in front of a committee before, but I cannot remember it off the top of my head. It is between £10 and £14 per hour, but that is not the actual figure. The differential is not so much around what an individual home help or whoever is paid; it is about the overall management costs of local authorities that are added on top. There are issues to consider. I appreciate that individual councils will have

different views on the value of externalisation, but that is clearly another avenue that some councils will want to go down.

A whole series of short, medium and long-term actions can be taken to address the savings that can be made. I am not being doom and gloomish about it, but I know that it will be difficult and priorities will have to be agreed on services. However, a lot can be done to minimise the impact on services as far as possible.

John Wilson: In an earlier contribution, Jenny Stewart made a comment about how KPMG saved 10 per cent in internal costs by reducing hours rather than through redundancies and pay-offs. Has that suggestion been made to the local authority client group that she is working with? We are trying to look at the wider impact of any cuts that are made in local authorities. Redundancies have a major impact on individuals, their families and communities, whereas reducing people's hours and salaries by 10 per cent could mean making savings and, although there would be a slight detriment, people at least still having their job. The family would still have an income and money would continue to be generated in the community. It would also help the Westminster Government, because it would not have to pay benefits.

Jenny Stewart: Clearly, local government works in a different setting from us. I usually make the point to clients that the private sector recession is different from the funding crisis, or the cuts that are coming. Private sector recession means a collapse in demand and clearly some areas of work are just not being done. In our case, mergers and acquisitions were not happening, so the work was not there to be done.

If we were to translate that approach into the public sector, we would have to use it in an area in which a view had been taken on the prioritisation of a service and there had been a downturn in the volume of work, otherwise everyone would end up doing a lot more. The situation needs to be looked at creatively.

I should declare an interest in that I am a director of Volunteer Development Scotland. Cuts were made in our Scottish Government grant this year, and voluntary redundancy was offered to cope with those cuts. Rather than make people redundant, the staff agreed that everyone would pull together and they would all go on reduced hours. That was relatively easy to do in the voluntary sector; I am not sure whether that could be done under local government terms and conditions. There are certainly other ways of looking at the problem.

The Convener: This might just be my opinion, but I would not be hopeful. There were 30,000

people at equal pay tribunals and we have seen the imposition of equal pay agreements. In the majority of local authorities, we have seen a pay freeze imposed for all workers. There is an issue to be considered, and the alternatives will need to be discussed by the trade unions and people who work in local authorities. However, the mechanism for negotiation has been severely damaged, if not broken. I do not know how we can get that back on track. That is just my observation.

11:30

Fraser McKinlay: In your introduction to this wee session, convener, you mentioned fees and charges as a potential mechanism to soften the blow. I am pretty sure that every council is considering introducing new charges or in some way increasing existing fees and charges as part of their forward planning for next year, and it is entirely legitimate for them to do that.

Our concern relates to consistency within councils and across council areas and how that plays out. There is a risk that people in one area will be charged for things while those in another area will not, as there are very different levels.

We are concerned about the extent to which the process of increasing fees and charges or introducing new ones is rigorous and methodical. In some areas, it feels as if the council does that because it thinks it can get away with it. Such changes will have a direct impact on specific groups of people, so we will keep an eye on those processes.

As Jenny Stewart rightly said at the start of the session, fees and charges make up quite a big chunk of where councils get their money from. It is important to remember that the Scottish Government grant to local government is less than half of the money that councils generate and spend. Councils are looking closely at all that other stuff, and it is important that they take the same approach to that as they do to considering which jobs to cut or which services to reduce.

The Convener: Are there estimates for the amount that could be raised? What is the potential revenue for councils from increased charges?

Fraser McKinlay: I do not have that information, convener. On the basis of the accounts for last year, fees, charges, grants and housing rents contributed about 31.5 per cent of the money for 2010—about £5.6 billion.

Alastair MacNish: Is that housing?

Fraser McKinlay: It includes housing and rents; there is all sorts of stuff in there.

Jenny Stewart: There are grants, and the UK housing benefit changes will have an impact.

The Convener: That is another one, which will cost Glasgow £700 million or something; I do not know.

Jenny Stewart: We should consider the economic impact; John McLaren is the economist, so he will know more about that than I do. If councils were to raise fees and charges significantly, people would have to spend more of their income. If they use current income rather than savings, that will take more money out of the economy, which will have an overall impact. They would be spending money on council services rather than on other things.

John McLaren: The theoretical view is that you can either raise taxes and put more into spending, or you can reduce taxes and give people more money and independence. There is also the question of how spending goes through different channels, and whether those are more or less stimulative.

Until the past few years, the idea was that it was more stimulative to reduce taxes, but now the Krugman and Stiglitz theory is pushing us back in the other direction: the idea that, given where we are, the only way to get some momentum is to give the economy more of a push. However, Scotland does not have borrowing powers, so we are somewhat outside that argument.

There is still the important issue of fairness. After the spending review, there was quite a lot of discussion about fairness—in the Institute for Fiscal Studies analysis, for example. We should remember that Scotland has a £28 billion budget; the fairness issue does not stop at the border.

On where you want to spend the money and how that is done fairly, again there is a resource-spending split. In Scotland, we have not had much discussion so far about the resources that we might use—the dreaded words “tax-varying powers” have barely left anyone’s lips. Those would not have to be used permanently; it could be for just a short period. It takes a bit of money for them to kick in, but in exceptional circumstances—which I think these are—using them is something to think about. The split between higher resources and taxation and spending cuts is certainly an issue.

Our tax powers are fairly crude, but you could make them more progressive if you wanted to—the structure and the bands of council tax could be changed, for example. That might take a bit of time to get through Parliament, but it could be done if there was a desire to change the progressiveness of council tax.

It also comes down to issues such as whether benefits should be universal or targeted and whether there should be free prescriptions, no tolls on bridges and so on. We are talking about issues

as basic as education versus museum charges. The subject of fairness in Scotland—rather than the fairness of what has been imposed on Scotland—has not been brought up much.

I have a few more points that build on what has been said. Reorganisation is important, especially in the longer term, and it will become more important, but the more radical the reorganisation, the greater the unrest among the people who are reorganised and the greater the concentration on the reorganisation as opposed to the services. That must be borne in mind, but in three, five or 10 years' time, reorganisation will be extremely important. The Arbuthnott report came out almost a year ago and the follow-up report came out yesterday, so that pace reflects a will to take serious action.

I do not understand the point of the council tax freeze, other than as a political move. There is a good argument for a living wage of £7 an hour, but it is difficult to see how that will help in the short term, because the supply of funds will not grow that quickly. The demands on social care and health will continue to increase, so that is a long-term issue for the next five, 10 or 20 years.

In the short term, £1.3 billion will have to be found next year, and there will be things on top of that, so it is important that you do whatever you can, especially in year 1, to ensure that there is no extra increase in pay—whether for the low-paid or through grade inflation, with people moving to a higher grade—or even that there are pay cuts. It is also important to ensure that as little extra as possible goes into health in year 1—not necessarily in all the years—to prevent cuts that you cannot manage very well because you have only six months to make them. There will still be huge cuts in capital, in particular, and in other areas in year 1, but it will be important to offset those as much as you can by not having increases in other areas. Those are my main points.

Alastair MacNish: On increased fees and charges, it is very easy to put hall lets and so on up, but my fear is that we will suddenly have white elephants on our hands, which will be counter-productive. I agree with Fraser McKinlay that there does not seem to be any consistency in what councils are trying to do in that regard.

I do not disagree with what John McLaren said about radical change, but there will never be a right time for it. People will always say that it cannot be done now because of the need to consider services. I am sorry, but that is a fact of life. If the issue is not grasped now, it will be harder later.

The Convener: You said that it is never the right time, which is perhaps a good point at which to end the round-table discussion. I thank our

witnesses for joining us this morning. We appreciate their attendance and input.

We will suspend for five minutes to rearrange.

11:39

Meeting suspended.

11:44

On resuming—

Subordinate Legislation

Firefighters' Pension Scheme Amendment (Scotland) (No 2) Order 2010 (SSI 2010/332)

Firefighters' Pension Scheme (Scotland) Order 2007 Amendment (No 2) Order 2010 (SSI 2010/333)

The Convener: Under agenda item 3, we will consider two negative instruments that amend the administration of the firefighters' pension scheme.

The Subordinate Legislation Committee is satisfied that the orders have been drafted appropriately to effect the proposed changes. The orders were circulated to members on 6 October and no queries have been made or points of clarification sought. Are there any comments?

Members: No.

The Convener: Do members agree that they do not wish me to make any recommendation on either of the orders?

Members *indicated agreement.*

The Convener: Thank you.

As we decided earlier, we will take item 4 in private.

11:45

Meeting continued in private until 12:24.

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