



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

Wednesday 24 November 2010

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LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE
28th 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:

Douglas Black (Unison)
Joe Di Paola (Convention of Scottish Local Authorities)
David Dorward (Society of Local Authority Chief Executives)
John Downie (Scottish Council for Voluntary Organisations)
Fiona Farmer (Unite)
Annie Gunner Logan (Community Care Providers Scotland)
Alex McLuckie (GMB Scotland)
Douglas Sinclair (Consumer Focus Scotland)

CLERK TO THE COMMITTEE

Susan Duffy

LOCATION

Committee Room 2

Scottish Parliament

Local Government and Communities Committee

Wednesday 24 November 2010

[The Convener opened the meeting at 09:48]

Draft Budget Scrutiny 2011-12

The Convener (Duncan McNeil): Good morning and welcome to the 28th meeting in 2010 of the Local Government and Communities Committee. I remind members and the public to turn off all mobile phones and BlackBerrys.

Item 1 is oral evidence on the Scottish Government's draft budget for 2011-12. I welcome the first panel of witnesses: John Downie, director of public affairs at the Scottish Council for Voluntary Organisations; Annie Gunner Logan, director of Community Care Providers Scotland; and Douglas Sinclair, chair of Consumer Focus Scotland. Thank you all for your attendance this morning. In the interests of time, we will go directly to questions.

Jim Tolson (Dunfermline West) (LD): Good morning. As you will be aware, there has been considerable discussion about the impact on public sector bodies of the fact that the 2011-12 draft budget sets out spending plans for just one year. In the absence of a spending review covering a three or four-year period, what impact will the budget allocation announced in the draft budget have on the ability of your organisations, local authorities and the organisations that rely on local authority funds to put in place longer-term plans to deal with the current financial situation?

Annie Gunner Logan (Community Care Providers Scotland): Thanks very much for the invitation to come and speak to the committee again, convener.

Members will know that the service providers that belong to CCPS work in social care and support and that their funding comes predominantly through local government. The impact on local government will have a knock-on effect on our sector. Our members' key consideration is whether they are asked to take a share of that cut or whether it is visited on them disproportionately.

We have had discussions with the Local Government and Communities Committee before about some of the disparities between social care and support funding that is in-house in local authorities and social care and support funding that is given to organisations that contract with

local government. Our experience to date has been that local authorities are already asking our members to take cuts of 4 or 5 per cent in some cases and of 20 per cent in other cases. Our concern is whether local authorities see the third sector generally, and our members in particular, as a problem to be managed, or whether they share our view that, in the wider context of public sector cuts, we are part of the solution, given that the work that we are involved in is arguably about preventing escalation of need and escalation of cost further down the line.

On one-year budgeting, in practice a lot of third sector organisations in our field live from year to year in any case. Contracts might be for longer periods than that, but there is always a period of contract and price review year on year. However, one-year budgeting will make it very difficult for local authorities to plan ahead in relation to commissioning, which will affect us.

I have a lot more to say, but I will stop there and hand over to the other witnesses.

Douglas Sinclair (Consumer Focus Scotland): Perhaps I could look at this from the other end of the telescope—from the consumer point of view, rather than the provider point of view. One of the points that we made in our submission was that research by Ipsos MORI found that 75 per cent of the public felt that efficiency savings could meet the deficit. I do not think that that is realistic, but the sub-text is compelling. We tend to have a debate that is too much about cuts, rather than one in which we ask whether we get value for money from the high levels of expenditure that we have in Scotland at present.

The Beveridge report—the report of the independent budget review panel—did not discuss at any length the differences between per capita spend in Scotland and per capita spend in England. In areas such as education and health, there is a differential of probably 30 per cent per head. I do not think that poverty or rurality necessarily explain all that. The problem is that we do not have good, comparative information in any part of the public sector about how efficient it is.

I was intrigued to read about councils planning to close their libraries. The Accounts Commission performance indicator on libraries is the number of books the library issues, not the unit cost—the actual cost of issuing a library book. Without necessarily knowing the cost of running the library, how can a council say that it will close the library or that its costs are greater than the costs of the library in the authority next door, and that it should therefore try to be as good? There is a whole issue about setting out who is best in class, so that councils can try to meet that standard.

There is a danger that we always see shared services as the solution, although they might be the solution in some cases. Although local authorities operate in different contexts, they all do the same things. They all provide the same services and they all send out council tax demands, but the cost of sending Mr Tolson a council tax demand in Fife might vary greatly from the cost of sending me a council tax demand in Stirling. Consumers are entitled to ask why there should be a difference. Why cannot every council be best in class and get down to the lowest cost?

There is a huge amount of money washing about in the public sector. We need to have a debate about cuts, but, just as much, we need to have a debate about whether we are getting value for money from the enormous amount of public expenditure that we have.

On Mr Tolson's point about the one-year settlement, the danger is that the public sector will just get through this year by reducing head count. I would like to see more evidence of fundamental service redesign. The danger is that, in four years' time, we will see the public sector reduced but not necessarily reformed. There is huge scope for getting better value out of the resource that we have. The debate has to be about that just as much as it is about cuts.

John Downie (Scottish Council for Voluntary Organisations): I agree with Douglas Sinclair's final point. The whole agenda is about service redesign and the reform of public services. The problem with a one-year budget is that it is a holding situation and it does not enable anyone to plan for reform and for the future. Contractual arrangements and budget or grant settlements to organisations in the third sector that last for a short period do not enable organisations to think about building their capability and capacity, planning for the future and investing to take on the role that we want them to play in public services. A very welcome thread that says that we want the third sector to do more is embedded in the draft budget, but a one-year budget is an immediate barrier to that as it does not enable organisations in the third sector to think very clearly about the future, because they are concerned about their survival next year.

Our view is that, as the committee knows well, we have had difficulties over the past few years in trying to get local authorities to think about moving their third sector funding cycles to three-year cycles. Although a number of authorities have done that, progress has been slow. The one-year budget will put a major block on any further action on that, because, as Douglas Sinclair says, people are thinking about getting through the situation rather than about reform.

Mary Mulligan (Linlithgow) (Lab): I will pick up on that point. As we are focusing on service redesign, can you say a little bit about the discussions that there have been, and the approaches that have been taken, with local authorities to ensure that you are able to deliver the services that are needed, rather than the services that you may be being forced to provide because they are all that can be afforded?

John Downie: Looking at the bigger picture, there is obviously a lot of talk around community planning partnership tables, but it has not gone as far as we would probably like. At the moment local authorities are, if I can paraphrase, talking a great game on reform but introducing very little real reform and doing little thinking about how they involve what we refer to as the client group—the service users—and service providers, whether voluntary sector or private sector, and about how we make the services more efficient and more effective. They are not thinking about outcomes.

That picks up on Douglas Sinclair's point that we are talking about local authorities' role and the value of what they do, but the real issue is what outcomes we want to achieve to protect the most vulnerable in society. For example, we want to prevent acute admissions to hospital, so everybody seems to agree that we should move to a prevention approach. The difficulty is that although we have agreed that prevention and co-production are good ideas, no one is taking the necessary steps towards that approach, and there has not been enough of a direct steer from the Scottish Government telling us that that is the approach that we must take. The Scottish Government has been too hands-off in that respect; it must get a bit heavier with local authorities to drive through the change agenda, because I do not think that they will do it on their own.

Annie Gunner Logan: The dialogue that local authorities have with third sector care and support providers tends to be about local authorities asking for the same thing for less, but it needs to be about them asking for something different. If our starting point is to ask whether we can achieve better outcomes, personalise services and be more creative with the budget, there is a very good chance that that approach will save money, because all the things that we want to do, including building resilience and independence, promoting self-help and increasing well-being, will have an effect on the demand for public services. However, a lot of the dialogue is not around those issues. If the starting point is the need to save money, there is a very good chance that we will end up not looking at outcomes, value for money, resilience and independence.

If we are looking at reducing demand, I point out that the work that our members do tends to reduce demand elsewhere in the public sector. For example, the funding that we get from a local authority for our activity accrues savings somewhere else: in the national health service, in the prison service or in institutional care—you name it.

We are very keen to look at the possibility of taking a public sector budget view, rather than a local authority budget view or an NHS budget view, of activity. Single outcome agreements and community planning were starting to try to drive at that whole-systems approach. However, from where we stand there is not a lot of evidence that our contribution to that agenda is being fully utilised—with honourable exceptions.

10:00

Douglas Sinclair: I would rather see a user point of view than a public sector point of view. The debate between the voluntary sector and local authorities about service redesign is missing a crucial component: the user of the services. There is a sense that co-production is still being done to, rather than with, people. For example, the history of direct payments in Scotland shows that we are well behind what is happening in England. We intend to do a study on how well informed people are about direct payments. I think that the position varies enormously. What is the nature of the engagement when decisions are made about levels of direct payment? I think that that is still very top down.

The public sector has taken significant strides towards a consumer-first agenda, but we have a long way to go yet in embedding that. I remember that when I started my local government career, a senior manager told me, “The customer may know what he wants, but I know what’s good for him and he’ll get what he deserves.” Okay, we have moved on from that, but there is still a long way to go. As Annie Gunner Logan pointed out, the danger is that the agenda is being driven by a desire to reduce the amount of money that is being spent. We should instead ask how we can redesign the services to get better outcomes for citizens and consumers.

Annie Gunner Logan: I absolutely endorse Douglas Sinclair’s point. We are seeing some systems changes around personalisation, particularly in adult care and support, where the starting point is that the amount of money that goes into the pot for individual budgets is automatically 10, 20 or 30 per cent less than the cost of existing packages for the same group. The argument that personalisation is cheaper therefore becomes a foregone conclusion, because the decision right at the beginning is to spend less on

it. However, on the user-driven agenda, there is evidence that shows that if people are enabled to direct their own support, what they will choose is sometimes less expensive than what a local authority or, indeed, a provider might decide is best for them. You have to let that emerge rather than assume it from the outset, otherwise the whole personalisation and self-directed support debate, which pre-dates the budget crisis, actually starts to be driven by that crisis, and the whole outcomes agenda becomes diluted by that.

Mary Mulligan: I have a quick supplementary for Ms Gunner Logan. A resource has clearly been identified that will come out of the NHS budget and go to local authorities to ensure development around care services. Have there been any discussions so far about how that resource will be divvied out, and the impact that that could have on prevention in relation to more expensive services, such as hospital admissions, which people do not really want anyway? Where are we with that?

Annie Gunner Logan: The £70 million change fund has been directed to health boards with the intention that they spend it on something new and innovative that will help in the first instance to shift the balance of care from institutional care to community care. Further, we very much hope—colleagues in SCVO have been working on this with us—that at least some of that money will come to the third sector so that it can do some of the lower-level, upstream support. It will be completely up to health boards how they spend that resource, but the positive thing about it is that the third sector will need to sign off on the plans locally. That is very positive. Seventy million quid is not a huge amount, but it is something. We are interested in how that will be followed up in terms of accountability and monitoring, because in the past change funds tended to disappear into plugging gaps. We are really keen that that does not happen this time.

John Downie: We have had a lot of discussions with the health department on total place-type initiatives and pooled budgets. A number of local authorities and health boards have told us that they cannot do pooled budgets—we totally disbelieve them, but never mind. The problem with a change fund is that it is a bit of a compromise position on the attempt to drive through the change that we all want. In the present context, we would probably welcome it as a step forward, but it is a bit of a compromise, because local authorities and health boards are putting up barriers to really driving through radical change through total place initiatives and pooled budgets.

The Convener: I have some general, follow-up questions. In your submission, you say that there are 137,000 paid staff and approximately 1.3 million volunteers in the sector, and that the sector

manages £4.4 billion. We have the Christie commission and the change fund going on; the Convention of Scottish Local Authorities is making the case for local authorities with the Government directly; and the Cabinet Secretary for Health and Wellbeing is making the case for the health service within the Cabinet. Where is the sector and where is the consumer influence in this whole process? It does not seem obvious to me that there is proper engagement with the sector, which we all expect to be delivering. We know that it is delivering significant services now and we expect it to grow and to deliver more services in the future, but there is no discussion about the significance of the sector at any stage of the budget process, either with local government or with the Scottish Government.

John Downie: We had discussions with the Cabinet Secretary for Finance and Sustainable Growth before the budget in relation to the independent budget review. We took a delegation from the sector to see him. Nigel Henderson, who is chair of Annie Gunner Logan's organisation, was there, too. That made a strong impression on the finance secretary. The key message from the sector was in effect an offer to the Government. We said, "We can do more. We can help you. We are the solution to a lot of the problems that we're facing at the moment." We did not say that we are a cheap solution; we said that we are an effective, high-quality solution and that opening up the potential of the third sector would enable us to deliver some of the stuff in the independent budget review group's report, as well as other things.

So there have been discussions. As Annie Gunner Logan said, there have been discussions with the health department about change there. However, are we sitting around the strategic table at the highest level? Not so much. COSLA has obviously had much greater, in-depth discussions than the third sector and the private sector. We do not yet have that genuine strategic social partnership with the third sector, whereby we are involved in design and making decisions on the strategy.

Annie Gunner Logan: Our relationship with the Scottish Government is one thing, but given that local authorities, which are our main funding agencies, are autonomous organisations that make their own decisions, that is where our focus tends to be. I read the COSLA submission to the committee and there is very little in it that we disagree with; it raises all the same issues of early interventions, upstream investment, seeking outcomes and seeking service redesign—we could probably have written some of it ourselves. However, when it comes to hard-line funding decisions at the front end, where third sector organisations are involved, we are still seeing the sharp end of some of that. We have been here

before in discussions with the committee about procurement. We have not really moved on from that.

The Convener: According to the SCVO paper, the third sector budget will decrease from £35 million to £24 million over 2011-12. You might not have left the meeting with a heavy heart, but you left with less money at the end of the day.

Douglas Sinclair: On the way that individual local authorities are taking forward their budget, we have been aware of some good examples of some councils engaging with their community. Highland Council is a notable example, as it conducted a series of roadshows to try to engage seriously with the public about the financial difficulties that it faces.

At national level, a constraint that we face as an organisation is that consumer protection and competition policy are reserved. Most of the work of Consumer Focus Scotland, like our predecessor the Scottish Consumer Council, deals with consumer issues that are within the competence of the Scottish Parliament, for example issues to do with education, health and legal services, but the Scottish Government is lacking a cross-cutting agenda that puts the consumer at the heart of its work. The Scottish Government tends to deal with patients or pupils in isolation, if you are with me, rather than having a cross-cutting agenda. That is a missed opportunity and it probably reflects the fact that Scotland has been dominated by two big interests: business interests and trade union interests. That is legitimate, but all trade unionists are also consumers, and we argue that the consumer interest is equally important, not in terms of consumerism but in putting the user at the heart of the design and delivery of public services.

The Convener: We will hear from the trade unions later, but it should be noted that, in the public sector, local government has imposed a pay freeze for two years, with no minimum increases and compulsory redundancies. That is worse than what is happening at a United Kingdom level. The unions are not doing very well either at this time.

Douglas Sinclair: I am not suggesting for a minute that they are. I am simply saying that their access to Government is established within the culture of the way that Scotland is run. I am arguing that, as is the case in many other European countries, the consumer voice should be equal at the top table with the voices of business and trade unions.

The Convener: I think that I was labouring the point, because that is the point that I was trying to make: the third sector is not treated as a partner in this whole process, and if we are talking about fundamental redesign of public service delivery,

that begs the question why that partnership is not in place. What expectation do you have of playing a more formal role in the Christie commission, which will bring us all the solutions next September—after the elections in May? Is there engagement with the commission?

John Downie: We had some discussions with Campbell Christie about the remit and he invited Alison Elliot, who is the SCVO's convener, to take part on an individual basis. She accepted the invitation after some negotiations about the commission's remit. Martin Sime, the SCVO's chief executive, will also be involved if that is required.

A number of the parties have set up commissions and reviews of different areas of health and other policies. We will certainly participate in as many of those as possible to ensure that our voice is heard. Our key role is to ensure that the sector has a voice, has an influence and can try to shape the debate, but obviously that depends on invitations to participate.

The Convener: Do you expect the Christie commission to be taken any more seriously than the independent budget review panel?

Annie Gunner Logan: One always hopes so. I thought that the independent budget review was really interesting—I could go down a whole side track on that. The point is that some of the things that it mentioned are already happening in the third sector. For example, on workforce issues, the IBR referred to pay freezes, head count and pensions. We are about halfway through a survey of workforce terms and conditions in the third sector, and I have some of the early findings, which the committee might be interested in: 50 per cent of third sector providers in social care and support have already implemented pay freezes in the last three years and 82 per cent of them have been unable to award a full cost-of-living increase in pay in line with inflation.

That raises a number of issues. The point is that the third sector is already a very efficient sector, which is why I am trying to position it as part of the answer to budget problems rather than as another budget problem to be dealt with.

We certainly hope that the Christie commission will look specifically at some of the issues that Douglas Sinclair and I have raised this morning about user focus and outcomes, and we certainly want to make strong submissions to the commission.

10:15

Bob Doris (Glasgow) (SNP): I would like to continue some chat about the Christie

commission. The evidence that we have heard this morning is that people would have preferred a three-year outline budget. Obviously, the Parliament passes only an annual budget, but we have heard that a three-year vision would have been preferable. Instead of that, we have the Christie commission. The Cabinet Secretary for Finance and Sustainable Growth has said why he thinks that the Christie commission is the right way forward. Without going into the rights and wrongs of all that, what opportunities do you think that the Christie commission presents?

Just before you answer that, I want to pick up on something that Ms Gunner Logan said, which rang a bell with me and made me think of the Christie commission. You said that quite often when local authorities and the public sector reform, they want the same thing for less, but that it is not about getting the same thing for less; it is about getting something different. That might well offer better value for money, but it is about getting something different, rather than the same thing for less. With that in mind, do you all see the Christie commission as a potential opportunity?

Annie Gunner Logan: I hope it is. I am not entirely sure how the commission is going to work, but it would be useful to take to it illustrations of how different service models can achieve better outcomes for people and potentially cost less, too. If it is more of a forum for getting exposure for some of the things that our sector can achieve, that will be something. The report of the independent budget review group was very interesting, but it was a strategic-level document that did not get into the specifics of how public services could be different. That is our ambition for the Christie commission.

John Downie: As I understand it, the key difference between the independent budget review and the Christie commission will be the recommendations for change. I had a brief discussion about that with Campbell Christie. I asked him what was the difference between the independent budget review and his commission, and he said that the commission will make real recommendations for change. We see the commission as an opportunity, as is the Labour Party's commission on integrated care, in which David Manion from Age Scotland is one of the key players, which is ensuring that the sector has a voice in shaping a potentially significant change—depending on the result next May, of course. We see the Christie commission as an opportunity and we will work very closely with it to ensure that, as Annie Gunner Logan said, it is shaped by the third sector.

The SCVO is not quite running a campaign on the state of the sector but we are focusing on putting on our website examples of where the third

sector is doing things differently and is delivering very high-quality, cost-effective services. That is giving small local organisations as well as bigger organisations a chance to say, "This is what we do really well and here are the lessons for the future on how we could radically redesign public services."

Annie Gunner Logan: To put it another way, if the independent budget review was about the cost of things, maybe the Christie commission could be about the value of things.

John Downie: And how we do things.

Annie Gunner Logan: Yes. I can give you an example of that from a youth justice organisation in the third sector. It provides intensive one-to-one support to young people in trouble in pursuit of stopping reoffending. It is quite expensive, but what is more expensive is secure care, which would be the alternative, or prison further down the line, which would be even more expensive. That organisation is under pressure to reduce the cost of the service, because we are looking at short-term savings, rather than a longer-term view. The challenge for the provider is that if it reduces the cost, it has to reduce the inputs. It has lots of evidence to show that the reason why the service is effective is that it provides one-to-one support from highly skilled people and it has a strong supervisory layer of management for the front line. If you reduce that, the chances are that you will not get the same outcome, so you will eventually incur the costs of secure care, which is the alternative.

What I am trying to say is that the downward pressure on short-term savings, which tends to be the focus at the moment, is accruing longer-term difficulties further down the line. That follows on from Mr Doris's question about whether we want the same for less or whether we want something different.

Douglas Sinclair: I have a few thoughts to add. At the end of the day, the independent budget review and the Christie commission can only make recommendations; it is up to the Government or Parliament to decide whether to accept them. My observation on the Christie commission is that, given the scale of the task, it has an incredibly short timescale in which to deliver a redesign of Scotland's public services. Those of you who can remember the Wheatley commission will know how long that took to deal with the first major review of local government. I have a concern about the ability to do the job within the timescale.

We all recognise that, in Scotland, we are managing fragmentation, wasting resources, confusing accountability and protecting too many institutions. If we had a blank sheet of paper, we would not design what we currently have. When

times were good, a few years ago, that was the time to reorganise the public sector. It is difficult to do that now because any reorganisation will have substantial costs.

Having said that, we need to consider whether we are maximising the potential of what we currently have. We have community planning partnerships, but they do not operate on an equal basis. Only the council in the partnership is held statutorily accountable for discharging its duties on best value and community planning. The other partners do not have the same statutory duties, so there is an unequal partnership. More fundamentally, the partnerships are voluntary, not statutory. A health board can decide to listen to its masters in St Andrews house, rather than to the needs of the community planning partnership. The level of buy-in varies between institutions. I suspect that, as John Downie suggested, partnerships will be under more pressure as budgets get tighter. There will be a danger that institutions will say, "I'm taking my ball home and I'm not prepared to play any more."

There is a device in local government legislation that enables a community planning partnership to become an incorporated body—a statutory body. I return to the point that I am not convinced that we have maximised the potential of what we have to work better. We should have explored that first before saying that the only answer is reform of our public services.

Bob Doris: I am delighted to hear in Mr Downie's evidence that he has had initial conversations with Campbell Christie and that we all agree that the third sector should be a key player and perhaps a strong agent for change in the public sector and service redesign. We heard from Mr Sinclair about what he considers to be one of the barriers to reform, but I ask the witnesses to put on the public record what other barriers or impediments to service redesign and reform they see and what they would like to happen.

Annie Gunner Logan: To return to what I said about short-termism, if we need to save money, we need to save it now, and the obvious thing to do is to start cutting budgets. The whole-system approach that we have discussed is absolutely key. That goes back to what I said about activity in one area that is funded by one budget accruing savings for another budget somewhere else. There is a huge barrier there.

John Downie: One of the biggest barriers, which people have probably spoken about to various parliamentary committees, is the culture in different organisations. People think, "This is my budget, this is what I'm supposed to do and these are the outputs I'm supposed to deliver," but they do not think about what outcomes are needed for

the people in the area. That is why we need, as a step forward, a series of total place pilots, as is happening south of the border in many areas, or something similar. In that approach, the health boards and local authorities consider what they want to achieve on health, education and other matters and then put their budgets together and work to achieve solutions.

The biggest barrier to that is the culture of the organisations. That is what needs to change. As well as a service redesign, we need a culture redesign to drive forward change. In the short term, the difficulty is the current financial situation, but we should see that as an opportunity to rethink what outcomes we want and what the most vulnerable in society—the people we really want to help—need at this time. As Douglas Sinclair said, we need to consider what role we want local authorities to play in the future. What do we want them to do for us? People need to recognise that they will have to do more to help themselves at the same time. People have to be more active citizens and be more empowered. They need to start thinking about how we do more for each other in the current environment.

Bob Doris: Do you agree with Mr Sinclair's suggestion that community planning partnerships or other bodies should be put on a statutory basis to drive change? Can we rely on local authorities to change themselves if there is that culture of resistance that you referred to?

John Downie: I am not sure whether it would change the position significantly if they were statutory bodies. I will certainly go away and think about it and we will come back to the committee with a view. I would not give you a quick, off-the-cuff answer because the area is too complicated.

We all know that community planning partnerships are working really well in some areas, but in others the sector is not involved at all. There is not a black-and-white picture of good and bad. There is lots of movement in certain areas. We need to see what is actually working. I take Douglas Sinclair's point. Let us build on what is working and consider how we can improve it for the future.

Douglas Sinclair: Bob Doris talked about barriers. It will be important for the Christie commission to stick to its script and consider what outcomes we want to achieve. People's needs do not fit into tidy institutional boxes of one organisation or another but go across them, and that is why partnership working is important. Beveridge got that right. Once we have said which outcomes we want to achieve for the Scottish people or Scottish consumers, we must consider the best structure to deliver that and maximise a joined-up approach. Then and only then do we

come to the arrangements for service delivery to make that happen.

A fundamental principle of the service delivery arrangements should be whether they deliver best value. That might mean that they are provided by the local authority or by the voluntary sector, but it has to be shown that the chosen arrangements represent best value and deliver value for money for consumers. That should be the key thing. The barrier for Christie will be that people will want to move away from that approach—an outcomes approach that is based on the user—towards trying to defend the producer interest. We need to invert the pyramid.

Bob Doris: Thank you.

The Convener: But we had a statement last week that makes that difficult, or creates a barrier to the shift that you want to see. The statement seemed to imply that people who want to remain in the public sector will do so. We heard, "There will be no compulsory redundancies, and by the way we are going to introduce a living wage." Why would someone want to work in the third sector for less job security and a lower salary?

John Downie: We could add that as an additional barrier. Job retention policies tend not to work. The no compulsory redundancies policy could act as a barrier to reform and change, and could export job losses to the third sector, because local authorities will decide to keep services in house. In third sector organisations, contracts will come to an end and grants will be cut because local authorities will think, "We can do this—not better, but we can do it, and we have people we need to allocate to jobs." There is a big fear about that.

The Convener: Do you not consider that the living wage should apply to people in the third sector as well?

John Downie: As you know, the third sector has had issues for a number of years about contracts and full cost recovery. There is an expectation that because the third sector leverages in other support in some cases, it should do things more cheaply or below cost. It has been difficult for organisations to say, "This is the cost of delivering this contract, and this is the price that should be paid for it." We are going to see more of that. The third sector is more than willing, in terms of the contract side, to pay within those contracts a living wage.

10:30

Annie Gunner Logan: I am really interested in the living wage and the proposals. I take the committee back to the discussion that we had last year about the pay and conditions disparities

between public sector, third sector and private sector workers. Earlier, I quoted some of the statistics from our workforce survey, but there are more. Some 40 per cent of the organisations have closed their final salary schemes to new employees and another 36 per cent have closed them to all employees. We found that 36 per cent have reduced sick pay entitlement, 61 per cent have reduced their training budgets, and 78 per cent have given broader areas of responsibility to line managers. I could go on.

Last time I was here we had an interesting discussion about whether it was a good move to increase pay and improve conditions where high value and quality are already being delivered. The committee discussed quality being reflected in the gradings from the Scottish Commission for the Regulation of Care and the fact that, in all areas of adult support and care, the third sector was delivering a much higher quality of service at a much lower rate than applies to in-house services.

In some ways, the living wage is putting money into the sector, but that is not as effective—with all due respect to public sector colleagues. If pay awards are granted in only one section of a market or for a minority provider of a market, we have a problem.

When the living wage was introduced in Glasgow City Council, one of the big discussions was whether there would be a trickle-through effect on procurement. Third sector and private sector service providers were contracted by the council, and the question was whether it was possible to fund those organisations so that they could implement the same living wage that the in-house service employees were getting. We had some interesting discussions around that. First of all, we were told that it was impossible under procurement regulations. The jury is out on that. We sought some legal opinions about that, and we got several different answers.

There was also a question about whether it could be ensured that the funding that is given to an organisation goes to the specified purpose or whether it could go somewhere else. We had some lively debates about what happened to the contract compliance legislation that was around in the 1980s, whereby the purchaser could set thresholds for terms and conditions in contracted organisations. We never really resolved that point. With the proposed initiative in the budget, we will have to get back into some of that stuff.

From a third sector point of view, it seems bizarre to reward workers in one part of a market without taking the same approach to the other parts, particularly when disparities in quality already exist.

I do not understand whether the living wage proposals in the budget apply to local government or relate only to Scottish Government employees. I think that it is the latter. The principle is the same, and the proposals throw up some interesting conceptual difficulties for us in the third sector.

John Wilson (Central Scotland) (SNP): I might be tempted to get into the interesting debate on the living wage, but I will try to avoid that as much as possible. I will take up a point that Annie Gunner Logan raised about the voluntary sector and the third sector trying to reduce costs through pay freezes and so on. She also spoke about pension schemes and various other things being cut back in an attempt to reduce the running costs or operational costs of the third sector where it is providing vital services. That takes us back to the issue around the consumer, where the third sector provides vital services for those who are most in need. Costs seem to get reduced by organisations based on the demand from the procurement organisation, local authority or health board.

For a number of years, I have been hearing about how the voluntary sector and the third sector are facing crisis. In the panel's opinion, when will we reach crisis in the voluntary sector and the third sector in relation to the budget that has been set out for next year? Do you envisage more voluntary sector organisations deciding to step aside, or will they be pushed aside by local authorities that decide to deliver a service themselves, even if it is not to the same quality?

John Downie: A number of different scenarios could be painted. A lot of third sector organisations could see all this as an opportunity, given that threaded through the independent budget review and the draft budget is the recognition that, if we get all this right, the third sector will play a greater role. That is the big debate. Indeed, Annie Gunner Logan's conference, which is being held tomorrow, is all about whether there is an opportunity to open up the third sector's potential. After all, the sector has responded by trying to do things differently and work in different ways. For example, the SCVO's future jobs fund consortium has successfully accessed European social fund money and, in recognition of the current circumstances, there have been a number of mergers and much more collaboration and partnership working within the sector.

However, although the sector has an opportunity, if local authorities react by, as Douglas Sinclair suggested earlier, simply trying to get through this period and making some of the panic cuts that they made last year when they automatically pulled contracts and cut grants without thinking about what the organisations do, how much they cost and the best value that they deliver for the public purse, many organisations

will be put under substantial pressure. The sector has to rise to the occasion and grasp any opportunities that might emerge, but at the same time in the overall settlement the Scottish Government has to give local authorities a real steer on how to build the sector's capacity and capability. We should be working in greater partnership with COSLA and the local authorities to enhance potential solutions and protect services for those most in need.

Annie Gunner Logan: I sent—perhaps a bit belatedly—the committee clerk a copy of the latest version of what we have rather hilariously called our optimism survey for providers, which has been based on a similar survey by the Confederation of British Industry. It is more about trends than data and figures and, in response to Mr Wilson's question, I should highlight some of the comments that we received. One organisation said:

“we will exit rather than sustain continued deficit”,

while another said that it is

“no longer prepared to operate services which are not fully funded.”

I think that the crisis will hit organisation by organisation. Indeed, our survey showed that some third sector organisations are still growing, because they are working positively with local authorities to take up some of the redesign opportunities. However, if the message is “We want the same for less, please”, organisations will either pack it in, with their services being taken back in-house, or they will simply be driven out of the market. At a time when we are trying to increase choice and give people more control over who they want to provide services, it will be a disaster if high-quality service providers exit the market. Much depends not only on the way in which local authorities handle the cuts with third sector providers but, as I have said before, on whether the value of the third sector's contribution to the wider public sector budget is recognised.

Douglas Sinclair: Decisions about who provides a service should not be based on a preference of one sector over another—in other words, on whether the service is delivered in-house or externally by a private sector provider or the voluntary sector. First, we should ask whether there is a need for a service; if there is, we should then specify the outcomes that we want from it; and finally we should find out who is best able to provide it in terms of quality and cost. There should be no presumption that the service will be delivered in-house, by an external provider or by the voluntary sector, and we should be able to prove transparently that our decision represents best value. I do not think that there is an awful lot of that going on; instead, there is a lot of protectionism.

On the wider issue of the voluntary sector, as we say in our submission in relation to advice services, I do not think that consumers easily understand the difference between statutory and non-statutory services. After all, everything that a local authority does has a statutory basis. In some cases, it has to provide a service to a certain standard specified in legislation while, in others, such as leisure and recreation, it has discretion. Ultimately, deciding which services should be reduced or increased is a political choice for councils. In the current climate, the cuts that some councils are making to advice services seem incredibly short-sighted, because demand for those services increases at a time of cutbacks and recession. I hope that local authorities will have a strategic response to the recession—they should not only protect services that they think are important but think of the wider community interest. Maintaining citizens advice bureaux, for example, is really important, because demand for such services increases at a time of recession.

Annie Gunner Logan: I am not here to engage in special pleading for the third sector. We are encouraging the public sector to discriminate and to identify services that it thinks are valuable, will achieve an outcome and will meet a need. We are confident that the third sector will come out of that process reasonably well, because of the evidence that we have shown to the committee on the quality of and outcomes from what we do and on people's response to that. However, we do not want there to be a blanket approach, with the whole third sector or the whole public sector being either cut or increased by X amount. We are encouraging funders to discriminate, but to do so not simply on the basis of how cheap something is but on the basis of the value that it accrues for them and for the individuals whom they serve.

John Wilson: That leads on to the question of best value, to which a number of the witnesses have referred. As members have indicated, we have discussed the issue with regard to care provision, in particular. The committee has seen figures for the hourly cost for which the voluntary sector can provide quality care and for what it costs local authorities to provide the same quality of care. There is a big disparity between what the voluntary sector can provide and local authorities' charges.

For me, it comes back to Douglas Sinclair's point about consumer choice in the process—how the consumer can engage with the service that they want to be delivered. Despite the existence of the independent living fund and the fact that we have person-centred development and delivery of services, what I see and hear in communities suggests that local authorities are deciding what is best for the consumer—that point was made earlier—rather than looking at the consumer's

individual needs and how services can best be delivered in the communities that they represent. How do we get that issue debated in local authorities and elsewhere, given that we are seeking a person-centred approach and value for money? I hate to use the term “best value” because, unfortunately, in the past local authorities have equated that with cost and the cheapest delivery mechanism, rather than the best value and delivery for individuals.

John Downie: The difficulty is in how we drive through reform and change. Everyone around the table and in Government believes in the co-production approach that you have described and that we need to move spending towards prevention rather than acute services. All of us get that—the biggest issue for many organisations is how to deliver it. At present, the solution is for the Scottish Government to give them much heavier direction and to tell them to change.

How do we drive through cultural change? The Government has tried to do it in partnership and by encouragement, but that has patently not worked over the past few years. Some people are optimistic that the current change situation will drive through reform but, as Douglas Sinclair said, it is more likely that people will try to get through the situation without reforming but protecting their positions. That will be a real opportunity missed. Public services have an opportunity to reform. It would have been better to do that in the good times, but we must do it now. A real cultural change is needed.

10:45

Annie Gunner Logan: The type of scenario that Mr Wilson describes is already happening, or beginning to happen, in adult care and support. The agenda is about choice and control; the self-directed support strategy was launched yesterday.

We can have choice and control at a number of levels. Many voluntary organisations would argue that the support that they provide to individuals who are referred to them is already substantially personalised, in the sense that it is person centred, outcomes focused and so on. However, we can move up a level from that and offer people choice in the markets. There are ways of doing that, such as individual budgets.

I would not pretend that that does not present an enormous challenge for providers whose systems are set up to deal with large cost-and-volume contracts from local authorities rather than—potentially—hundreds of people bringing in individual budgets, but we are doing it.

The danger, as I said before, is that the agenda becomes driven by the need to reduce cost. If we start by working on the assumption that people will

choose something that costs 30 per cent less, we are undermining the concept. However, the choice agenda is already happening in adult care and support, and we cannot get much more user focused than giving people control over their own resources.

Douglas Sinclair: I absolutely agree that best value is as much about quality as it is about money. There are two elements to it. One is Annie Gunner Logan's point about choice: in areas such as adult social care, the agenda involves empowering front-line staff to make those decisions, which is a challenge for health boards and councils alike.

I did a piece of work a while ago on complaints in the public sector. Local authorities did not know the cost of handling the complaints, and many complaints could have been resolved at the front line if councils had empowered and trained their staff to deal with them rather than going to the chief executive. There is a need for an agenda to empower front-line staff.

The other element for consumers is that while choice is sometimes appropriate, voice—the right for the consumer's voice to be heard—is equally important where choice does not exist. This might seem like a slightly curious example, but look at the variety of ways in which recyclable materials are collected across our 32 local authorities, which is quite incredible. In some council areas, people have to take their glass to a central depot and in others it is picked up outside their door. What is common is that that has been driven by what is easiest for the local authorities, rather than what the consumer wants to do. The net effect is that we have stifled demand for recycling by making it harder rather than easier for some consumers. Local authorities need to consider how they engage with the consumer to say, “We have to make changes to this service. How can you provide an input to that?”

I read recently of a council that proposed to make changes to its music tuition service. The traditional way of doing that would have been for an officer to take a report to the council and for the council to say, “That's what we will do.” It would be much more productive and constructive for the council to go to the parents of the pupils who receive music tuition and say, “We have a problem here, and we need to save some money. Have you got ideas for how we can redesign the service so that you are an equal partner with us in that?”

That is the type of change in culture and attitude that we need in our public services. The service user needs to be viewed not as an opponent or as someone to be pressed down, but as an ally who has an interest in maintaining the service and may well have good ideas about how to improve it. It

should be about co-production: "Let's do it together rather than us doing it to you."

The Convener: In applying those business-like systems, is there not a danger that we will lose out in terms of value and quality, and the ethos of some of the voluntary organisations? As a consequence of the reduction in the investment fund, we hear that voluntary organisations should be more efficient and work more closely together, and they should jointly apply for bigger contracts to produce economies of scale. John Downie will be familiar with all that business language. If we apply that in the voluntary sector, will we reach a stage at which someone will complain not about the local authority officer, but about whoever is delivering the voluntary services for a wide area—in Stirling, for instance? What will the outcome be if some people are actually walking away?

John Downie: The issue is not all about contracts. We have told local authorities and the Scottish Government that they need to protect small grant funding. Many organisations are doing a lot with a very small amount of money to protect the most vulnerable people and some of those organisations are perhaps the most vulnerable in the current provision. I accept your point about potential difficulties, but we need to consider how many organisations that receive grants of £10,000 or £20,000 from local authorities provide a good service in mental health advice, helping people to access benefits or supporting people.

When the head of a small organisation that helps women with their mental health attended our recent parliamentary reception, she expanded on what that organisation does and the women whom it helps. She found it difficult to put a cost on that but, at the end of the day, her organisation's cost was £6.14 an hour for what it provides and its engagement with people, in comparison with probably £150 an hour for a social worker. That organisation receives a particularly small grant from a local authority—it does not have a contract—but it saves money elsewhere in the health service and in other budgets.

We need to be clear that many things that are happening in the third sector are still grant funded and need to be protected. As Annie Gunner Logan said, the knock-on impact of taking such services in-house and cutting the grant will be an increase in cost to local authorities and health boards, because someone else will have to provide the services.

Annie Gunner Logan: The convener has put his finger on one of the great contradictions of our time. We are being told that the future is in community-based organisations, choice in the market and plenty of diversity, but third sector organisations—even some large organisations—are now under pressure to merge. We hear,

"There are too many of you—why don't you get together? Why are there 18 providers in this market?" The pressure on our sector is immense and the question in the atmosphere is why so many charities and voluntary organisations exist.

However, as has been said, we are supposed to be talking about more choice for consumers and users and more diversity of provision. That is a massive contradiction. Voluntary organisations are always keen to and do consider opportunities to collaborate but, if the pressure for economies of scale led to the emergence of super-providers somewhere, that would be a backwards step rather than progress.

David McLetchie (Edinburgh Pentlands) (Con): Good morning, everyone. I will return to our discussions last year, to which Annie Gunner Logan referred. It is worth making the point from last year's evidence sessions that the care commission ratings and rankings of community care showed conclusively that independent sector providers produced higher care standards and higher service user satisfaction at a lower cost to the public purse; that has been re-emphasised this morning. It is extraordinary that some people wanted to do their best to undermine those dual benefits, but we will leave that to stick to the wall.

My question is to Annie Gunner Logan. If one wanted to maximise those benefits, that would seem to lead to more contracting out of service provision to third sector providers. To what extent does your sector have the capacity to take up that slack and take on responsibilities from an in-house service team, for example?

Annie Gunner Logan: The question is interesting. The best-value argument for the third sector is powerful and would suggest that whatever remains in-house should come out to the third sector.

If the challenge was to achieve the same for less and not to do something different, would a third sector organisation want to take over what a council already did? In our field, what is left in councils is some care homes, some care at home, a little bit of housing support and some day centres. I do not want to traduce local authorities and say that that is all they do, but that is much of the remaining in-house provision. Those are the kind of services that are up for change. Some councils are changing their care-at-home teams into reablement teams, which are a different proposition from somebody just doing a home visit and helping with washing and dressing. We are talking about increasing people's independence and getting them back on their feet. It is not just, in the jargon, a transfer of undertakings; we want to do something different rather than just inherit what councils do and run the service for less.

Secondly, the trade unions have been very successful in building significant protections around the public sector workforce when workers are transferred out. Congratulations to the unions, but the consequence is that it would be unthinkable for most third sector organisations to take on such liabilities under the Transfer of Undertakings (Protection of Employment) Regulations. They simply would not be able to afford to. The local authority may not save that much anyway, because of the costs of the TUPE liabilities that would be transferred out.

There are, therefore, limited options around using the third sector in that way. It would be preferable to return to giving choice to the individual about their provider and who they want to support them, rather than the local authority deciding what sector, or even which provider, will provide the service. If the whole thing is reconfigured towards self-directed support and personalisation, individuals make the decisions. There are powerful arguments about why it would look attractive for the third sector to take over services, but there would be significant challenges in making that happen. Fundamentally, one would ask oneself whether that would be the right way to go or whether it would be better to empower individuals to make the choice.

David McLetchie: The point on the legal barriers to change is very interesting. If councils were to adopt the living wage that has been talked about—I understand that it is £7.15 an hour, whereas the statutory minimum wage is £5.93 an hour—pay would increase by £2,000 per annum for the group of workers that we are considering. If someone who was thinking of reconfiguring their services saw a living wage coming down the line, would it not make sense for them to do so before they adopted the living wage? In that way, the people who perform the service would end up not getting the living wage.

Annie Gunner Logan: It would turn upon the proportion of the current workforce that falls below that level. In third sector care and support, the wages of some support assistants and support workers certainly fall below that level. A couple of weeks ago, I chaired a debate at the Scottish care conference in which that issue was a significant concern for care home operators, because a substantial proportion of their workforce would fall below the living wage level.

Earlier, I discussed a scenario of this issue being filtered through the procurement system. I think that a lot of providers would say, “If you expect us to pay the living wage, the fee for the service will rise.”

David McLetchie: I agree. There is also the issue—I think that you alluded to it—of whether, contractually, an obligation for a rate of pay can be

imposed on a provider or, indeed, whether one would want to do that, if the motivation for the new service model is to reduce costs. If a higher rate of pay was imposed, there would not be any saving at all, would there?

Annie Gunner Logan: It depends how much of the costs are workforce costs. I hope that the evidence that I have given you from our surveys shows that workforce costs in the third sector are pretty lean and have got a lot leaner. The issue is not necessarily the hourly wage, but some of the terms and conditions around that. However, there are a lot of providers who have adjusted their wage rates downwards and who might be caught in your scenario.

Douglas Sinclair: I would like to add a postscript to the comments about the third sector, as I think that they raise an issue around the capacity for change in local authorities.

The model tends to be that services are either provided in-house or exported to the private or voluntary sector. I think that there has been a missed opportunity in local government to consider alternative models of provision, such as social enterprises and mutuals, which could be used to create companies that are owned by the employees. In the time of Strathclyde Regional Council, huge organisations such as Strathclyde catering and Strathclyde cleaning could hold their own against the private sector. An opportunity was missed during local government reorganisation when the possibility of making them into mutual companies, owned by the employees, was not considered. That would have increased the range of providers and ensured diversity in the supply of providers in the marketplace in Scotland.

I still think that there are opportunities in local government for that to be done. Why should the catering, cleaning and building operations that provide local government services not be owned and run by the employees? Why do they have to be run by the councils? Ultimately, those services are not the core business of councils.

The Convener: As we have no other questions, I thank our witnesses for their attendance.

I suspend the meeting for a few moments while the new witnesses come to the table.

11:00

Meeting suspended.

11:04

On resuming—

The Convener: I welcome David Dorward, chief executive of Dundee City Council, who is here on behalf of the Society of Local Authority Chief

Executives; Fiona Farmer, Scottish regional secretary of Unite; Douglas Black, regional organiser and secretary of the local government services group of Unison; Alex McLuckie, senior organiser in GMB Scotland; and Joe Di Paola, from the Convention of Scottish Local Authorities.

Bob Doris: This question might best directed to the representatives of SOLACE and COSLA.

The proposed settlement for local authorities suggests that, depending on conditions, there will be a 2.6 per cent cut in their budgets. It could have been worse, but a cut is a cut, and it will be challenging, irrespective of how we view the figures. I want to ensure that we have an understanding of the overall pressures on local authorities. We have read that, at a UK level, there will be further financial pressures as a result of the comprehensive spending review, for example through the increase in interest rates on loans from the Public Works Loans Board, the prospect of a carbon tariff and housing benefit changes. What assessment has been done of those pressures?

David Dorward (Society of Local Authority Chief Executives): For some time, local government—through SOLACE and COSLA—has been doing work on the likely financial impact of the UK settlement. We probably had not appreciated the knock-on effect of the UK settlement on welfare benefits, and the carbon tariff came completely out of the blue, so we are now having to build in those pressures. The combination of those additional pressures from the UK Government could total in excess of £1 million, so you are correct to say that they will have an effect.

At this time, we cannot estimate what the changes to welfare benefits—particularly tax credits—will mean for the population at large and what their impact might be on demand for our services such as social care and welfare rights. Those are elements that we will have to work through.

You are correct to say that the settlement was better than we anticipated, but the modelling that we had done beforehand showed that the gap between funding levels and our expenditure patterns was due in equal measure to income—predominantly grant income—and expenditure pressures. Although the settlement might be slightly better than we anticipated—of course, that is conditional—the expenditure pressures still grow and will have to be met.

In Dundee, although we are looking at having to make a lower level of savings than we anticipated, they are still significantly higher than anything that we have experienced in the past 15 years.

Bob Doris: We are operating in challenging times and we have only a one-year budget. I should say that we always have a one-year budget, but we also usually have a three-year budget plan to outline high-level spending commitments. Now, however, we have the Christie commission, which is considering the possibility of significant service redesign. We have just heard from representatives of the voluntary sector, so I would like to hear from local government and trade union representatives about their views on the degree to which the workforce should be involved as co-designers of service redesign. Do you think that the workforce should have a key role in the Christie commission?

Joe Di Paola (Convention of Scottish Local Authorities): The fact that we have the budget figures for only one year makes things difficult, as local government would ordinarily plan on a three or four-year cycle. On behalf of COSLA and the local authorities, I should say that we would always prefer to have the ability to plan on a three or four-year cycle. It is important that local authorities have the opportunity to plan forward not only for transactional service delivery but also for workforce development and capital investment. Three years is always better than one year, but that is where we are.

It is true to say that if we are to get through the next difficult period, during which we face a huge funding gap, we will need to talk to colleagues in the trade unions and to many other stakeholders about how we can remodel and redesign to deliver the services that local authorities will need to continue to deliver.

We cannot forget that the problem is not only our financial difficulties and the 2.6 per cent real-terms; the work that we have done with colleagues in Government—not just yesterday, but for the past six or seven months—shows that the real problem is the rising demand curve. There is a huge financial deficit, but the rising demand curve is what is taking the two arms of the graph further away from each other every day. That is why we need to talk to colleagues in all areas about how to redesign services.

Douglas Black (Unison): I would certainly hope that all trade unions are fully involved in any process that is considering the future of local government and any type of service redesign. That is not to say that that is not happening at the moment. We are engaged with authorities on a regular, indeed daily basis. We are looking at how to stave off the financial pressures and how service redesign can deliver services more efficiently and effectively. I want to see that continue and broaden.

Fiona Farmer (Unite): I echo those points. There is a view that we have yet to start this

redesign and restructuring process, but it is already going on. We do have questions about the commission, including on the remit—what is included and what is excluded—and the cost. We know the cost of bringing in consultants to produce reports, which has happened in many areas of the public sector, including local government. At the end of the day, many such reports are not even implemented. In many instances, if there had been direct engagement with the unions and stakeholders at the initial stages, we might have had a better outcome.

Bob Doris: Are the on-going discussions between local authority chief executives, their administrations and the trade unions happening on a local authority by local authority basis or at a COSLA level across Scotland?

Joe Di Paola: Where the discussions are happening locally, that is because of disparities in how local authorities organise their service delivery models. In other areas, authorities will have discussions at the COSLA level, particularly with trade union colleagues. For local authorities, the impact of single status is that the models used to deliver services and the way in which their workforces are organised are done on an authority by authority basis. The ability to reach agreement at Scottish level on workforce areas is restricted. That said, there are areas that COSLA is taking forward with the appropriate trade unions.

David Dorward: Each local authority is engaging with the trade unions on service redesign. I listened to the committee's discussion with the previous panel and I would not want members to think that the redesign of services happened all of a sudden because of the financial position. It has been on-going for quite a long time. Councils are trying to engage more with their communities on the level and types of service that they require. There is no assumption within local authorities that we are the only people who can provide those services.

I turn to the one-year deal. Local authority planning is done on a three-year basis. We will continue to plan on that basis even though the deal is only for one year. We cannot take our eye off the ball given the difficult financial years that we anticipate from 2012-13 onwards. While much of the focus is on the financial position in 2011-12 and the significant cuts that we will have to make in that year, we now know, having had the settlement announcement of last week, that our revenue and capital planning will continue as it has been for the past eight or nine months on a much longer timescale. Implementing some of the service redesign and savings that we have to deliver over the next three years will take a significant amount of planning and consultation with the trade unions and so forth.

11:15

Alex McLuckie (GMB Scotland): What has just been outlined is not the world that I operate in. As a trade union official, I am not involved in any situation in which we have been included at an early stage in discussions about the design of the service or the impact on the workforce. Trade unions react to decisions that have been made by councils. The idea that we are all in it together and pursuing joint solutions is not the world that I operate in. We respond to decisions that have been made without any input from the trade unions.

Should we be there at that early stage? Yes, I would think so. Are the workforce significant stakeholders in the provision of solutions? Absolutely. Are we involved at that stage of the process? No. We react to the decisions—to the HR1 forms that come in. There are no discussions with us about the number of people involved. We deal with the consequences of the decisions that are made, and we are not involved in the decision-making process. Under a true partnership approach, we would be involved in the decision-making process.

The Convener: I will open up the discussion and give others an opportunity to respond to that. The committee has expressed concerns—formally—over a long period about the negotiating machinery in local government. The committee has heard about the imposition of equal pay agreements. We have heard about and taken an interest in 30,000 cases at tribunals. We know that a pay freeze has been imposed, which goes beyond even what the UK Government is proposing. We know that compulsory redundancies have been threatened.

Before people come back into the discussion, we should recognise the context. We have expressed concern that the relationship between employers and the unions has all but broken down. This is not a case of an anti-union employer. There is supposedly an environment of real partnership here, and it seems to me that, unless that partnership is in place, we cannot achieve the necessary co-operation to defend quality public services in the future. I invite responses in that context.

Bob Doris: Can I just say, convener—

The Convener: No.

Bob Doris: The question was about the Christie commission, convener.

The Convener: Excuse me!

Bob Doris: Can I make a brief comment? I wanted to say—

The Convener: I am saying no, Bob.

Bob Doris: Fine, convener.

The Convener: I have asked for a response from the witnesses.

Bob Doris: I was just trying to develop a line of questioning.

Douglas Black: I wish to respond to the issues that you raise, convener, in particular the bargaining arrangements for local government. The issues that you have highlighted are indeed a big source of concern for us. We do not believe that the bargaining arrangements are working as well as they could, and the trade unions want them to be improved. An annual meeting of the council is coming up in the next week and we hope to make some progress. However, I will say publicly that we put pay imposition and lack of engagement firmly at the feet of the employers. We have tried very hard to ensure that the bargaining arrangements move forward and are maintained, but that has not happened. We put the fault with the employers.

The same might not be the case when it comes to local engagement with trade unions elsewhere, within individual authorities, which deal with budget issues in different ways. They have their own and different pressures. There is good engagement and there is bad engagement—and there is a different form of engagement locally. In some areas that I cover we have a reasonably good relationship with the employer. That is not to say that we have a basis of partnership or an agreed approach, but we have a relationship that enables us to discuss the direction of travel that the employer is taking and what our response to that might be. In some instances, that has involved engaging in service redesign. We are clear that in that process there are big issues for us in the trade unions to do with workforce protection and service protection.

Joe Di Paola: Convener, you would expect me to respond on behalf of the councils as local authority employers. I hear what Douglas Black says, and we have had that dialogue over the past six months or more. I would also say that, quite formally and properly, the local authorities are still intent on maintaining the current bargaining arrangements. However, it is unrealistic to expect those arrangements to operate smoothly in times of difficult financial challenge for the authorities as employers. Douglas Black is right—there is an annual meeting coming up. The way forward will be to discuss frankly and properly at that annual meeting the issues that lie between us and to seek to put the grave issues that lie between us on a business footing so that we can take things forward. There is no diminution in the 32 councils' commitment to bargain with colleagues in the Scottish joint council. You should remember that we bargain with the teachers' trade unions in

another body, and also on behalf of every other member of local authority staff, and all those bargaining arrangements remain in place.

It would be useless and facile to say that there are not huge issues that are affecting councils. That is why we are here. Our concern is to continue to deliver the services that local authorities require to deliver and to keep as many people employed as is necessary to deliver those services in a proper manner. We are about job protection as much as the trade unions are, but job protection means hard choices, and those hard choices require to be dealt with between us as best we can.

David Dorward: Locally, we meet the trade unions on a monthly basis. We have agreed with them—"agreed" is probably too strong a word. We have engaged with them on the introduction of our voluntary early retirement scheme and they will be engaged in any service redesign that comes out of that before decisions are taken.

I agree with Douglas Black that the position varies. Some authorities and trade unions are better at working together than others. I do not agree with Alex McLuckie's point that it is a different world. The position varies council by council according to the relationships that they have had over many years and the new relationships that they are coming into. The trade unions that I work with fully appreciate the situation that the public sector finds itself in and the cuts that we will have to make, and we have tried to make them aware of that in great detail, so that they know the context in which we are taking difficult decisions and putting difficult proposals before them.

Alex McLuckie: We need to be careful that we do not open up a debate on the negotiating parameters for us and the employers, but I have to say that if we were talking about partnership in the truest sense of the word, we would be involved at the earliest stages of the redesign. We are faced with certain councils coming to us after their decision has been made, and when we try to engage and then try to change things, we are told, "Sorry, you can't do that. The council has already made the decision."

We have situations in some councils where parts of the workforce have had their contracts of employment terminated and they have been re-engaged three times in a year. That is not my concept of partnership working. If there are one or two shining lights in local authorities that have best practice, maybe they should share it with their colleagues and we will all benefit from that.

The Convener: I think we have confirmed that there is a difficult background to making progress.

Alasdair Morgan (South of Scotland) (SNP):

My questions are on a similar theme. Mr Dorward is right to suggest that a theme ran through the previous session about the need for reform of council services. I think that somebody said that real cultural change is needed. It was argued that that is not just driven by finance but was needed anyway. It should be happening even if the budget was going up by 100 per cent. In response to one of the final questions, John Downie said, in effect, that he did not think that it was happening. He said that the Government had tried persuasion but it had not worked, and that the Government now needs to drive it through.

I have three questions. First, all of you have talked about service redesign, not real cultural change. Is that just a semantic difference? Is service redesign just weasel words to hide something deeper, or are there substantive differences between what the previous panel talked about and what you are talking about? Secondly, do you think that there is any truth in the allegation that local government has not stepped up to the challenge, whatever it is? You have partly answered that question. Thirdly, if there is any truth in the allegation that you have not stepped up to the challenge, is it the Government's fault that you have not done that?

Fiona Farmer: When we talk about redesign, alternatives and cultural change, we must look at the issue of social enterprise—outsourcing and removing core services from local authorities. If we go down the road of social enterprise, as England has done in relation to health, we raise a lot of questions about quality control and consistency across the service. I do not believe that trade unions want to take the social enterprise route to achieve cultural change.

Joe Di Paola: I will address briefly the issue of cultural change. I go back to the point that I made about one-year or three-year budgets. In the work that we did with Government civil servants, we looked three, four, five and six years ahead. It remains central to our thinking that we cannot look only at a year's figures. We must look not only at the figures for the period from now to six years hence but at how we deliver services. The issue is transformational change and looking at how services are delivered. A member of the previous panel talked about personalisation of personal social services; local authorities are looking at that area. Across Scottish local government, there is a mood for transformational change.

However, the issue is not for local government alone. Given the interaction between the health service and local authorities on primary personal care, we must consider what the public sector looks like and how it delivers transformational change. We are up for that, but everyone who is

involved in delivering services to our communities and to individuals must be involved in the discussion. It is not just about 32 councils; it is about the public sector in Scotland. Government clearly has a part to play; we hope that the committee, too, will play a part in supporting such change.

It is not the case that we have not understood or stepped up to the challenge—we have and we will. In some ways, we are disappointed that the discussions that we have had until now will be truncated one year from now under the budget. We were looking not just at what services will cost three and six years ahead but at how they might be reformed, transformed and delivered during at least six difficult financial years and, perhaps, beyond that. Fundamental redesign, rather than tinkering at the edges, is needed.

David Dorward: It has been suggested that service redesign is not driven solely by the financial position in which we find ourselves. However, in every one of the 10 years up to 2009-10, there was growth in the local government financial settlement, so the need for service redesign and shared services was not there as a driver. Suddenly we have a situation in which there will be real cuts for the foreseeable future. The Scottish Government's economic adviser says that we will not get back to the same level of spending until 2025 or 2026, so the financial position is now a real driver.

I have sensed a real cultural change in local government as regards the pace at which we need to pursue service redesign and issues such as shared services. Scottish Water described the situation that we face as the burning platform. We have really picked up the pace on service redesign.

The cultural change pervades all levels. Staff are concerned about job security and are now, with us, considering other ways of working, such as mobile and flexible working. There will be a lot more job sharing.

With cultural change, local government will look beyond its boundaries, to the private and voluntary sectors, and will consider best practice for the transformational change. Partnership working with health professionals and the police has been taken to a new level. The change fund gives us another opportunity to make change happen.

I believe that local government has stepped up to the mark. Previously, we were not making enough progress quickly enough in areas such as the sharing of services. However, we now have no choice but to take things on. We are doing so aggressively.

11:30

Douglas Black: The trade unions have not been frightened of change; it would be wrong of anyone to suggest that we have been. However, when we consider how changes are made and how services are then delivered, we have some bottom lines. As public sector trade unions, we have a strong public sector ethos: we believe in the public sector and we want services to be provided within the public sector. However, we are being presented with a myriad of changes such as outsourcing, privatisation, shared services in public-private partnerships or public-public partnerships, and joint working among authorities.

A myriad of options are being explored. Shared services are often discussed, because of the potential financial gains. However, the evidence suggests that gains would not be made. Evidence that I have seen suggests that it can take anything up to five years for shared services arrangements to realise any type of savings. Even then, the savings probably do not reach the levels predicted when the sharing of services was first established. The drive is financial, but I would sound a word of caution over the amount of savings that can be made through the new initiatives.

David Dorward: I agree with that. Shared services are part of the solution, but it will take a relatively long time for savings to be achieved. In Tayside, we have a joint committee, called Tayside Contracts, on road maintenance, catering and cleaning. It has existed since 1996 and has provided significant savings. With shared services, there is the prize of getting improved services at a lower cost. However, it will not happen overnight; it will take time to develop. In my council, I am not assuming any savings from shared services in our 2011-12 budget.

On the subject of the Christie commission, our fear in SOLACE is that it does not include the whole of the public sector. Before the announcement, elements of the public sector, such as police and fire, were going their own way in considering reform. The commission must consider public sector reform widely; it must consider how services are delivered in all public sector services. I fear that the timescale is fairly tight for a report in June 2011 on such an extensive review. The review must be comprehensive and must not focus simply on local government. On the ground now, services are delivered in a comprehensive and joined-up way between health, the police, local government, fire and so on. Also, a very important partner now is the voluntary sector.

The Convener: That takes us back to the issue of the one-year budget, which was raised earlier by Bob Doris. The COSLA submission puts the position on the one-year budget rather more

strongly than you do, Mr Di Paola. It suggests that local government is operating in the dark. What worries me more is that the submission suggests that local government would be able to plan more effectively and perhaps avoid cuts if the budget was for a longer period. How do you manage workforce planning and so on without knowing what your budget will be?

Joe Di Paola: We have said quite openly that that is more difficult in the context of a one-year budget and that we want to look at the longer term. We can extrapolate from the amounts of money that have historically been available to local government. That is not ideal, but we will continue to do that. Local authorities cannot and will not operate on a one-year basis. It is always better to have as much hard information as possible but, even if we do not have it, we will continue to plan ahead. We acknowledge, and we said in our submission, that this is a difficult situation and that we are disappointed. We will, however, continue to do what we have to do.

The Convener: I realise that someone else was meant to come along and speak to the committee this morning and that there has been a late change, but you said that you had a fundamental, not an incidental, problem with the one-year budget.

I have a specific question on another area explored by the committee, which is the cost of redundancy. Have you made any progress in achieving the flexibility that is required from the Scottish Government to allow you to put in place the funding of redundancies?

Joe Di Paola: We have discussed with the Scottish Government borrowing to finance the equal pay costs and spreading those costs over more than one year. We seek to do the same with redundancy costs. You are right. Apart from the human cost and the cost to services, the cost to authorities of making people redundant is very high. We are still trying to avoid compulsory redundancies, but redundancies of any description have high costs and we continue to seek a way to spread the costs across more than one or two years. David Dorward has had some involvement in that.

David Dorward: In Dundee we brought in an early retirement scheme in April and let it run until August for applications. That scheme, in addition to the teachers' scheme, will probably provide 50 per cent of our savings in 2011-12. It will cost us approximately £2 million net, in the current year, to have an on-going saving of circa £7 million to £8 million per annum. A voluntary early retirement scheme that is properly funded can deliver significant savings to councils. Some councils are having to fund that out of reserves and balances. Some councils do not have the reserves and

balances to do that. Some need to modify their early retirement scheme to make it less expensive, although that makes it less attractive to their employees. There is a balance to be sought there.

We are still discussing with the Scottish Government whether we can borrow to meet the up-front costs of early retirement, which would allow us to make substantial future savings on staff costs. We go through every one of our applications in Dundee to ensure that, financially, we can allow the person to go—it has to make sense. Not only that, but we should not lose sight of the big issue of service delivery. If we are losing that number of staff—voluntarily, remember—we have to take cognisance of what impact that may have on service delivery.

The Convener: There may or may not be a difference between an early retirement scheme and an outright redundancy scheme—the two may be intertwined. Unison's paper talks about tens of thousands of jobs. Was it 60,000?

Douglas Black: We have said that it would be about 70,000 in the public sector, and about 100,000 in the private sector.

The Convener: What impact would that have on local government?

Douglas Black: The impact on local government would be huge.

The Convener: In terms of the number of jobs?

Douglas Black: Probably around 30,000 to 40,000.

The Convener: What is the cost of that?

David Dorward: It is difficult to envisage how 30,000 to 40,000 job losses would be achieved through voluntary redundancy. We are talking about the long term, not just one year. Each year the opportunity for voluntary redundancy reduces, and the reality is that we get closer and closer to a compulsory redundancy horizon.

The cost to local government at this point with a voluntary scheme in 2011-12 is probably containable, but we need the power to borrow on a voluntary scheme in order to carry it on for a few more years. There comes a point at which service redesign is inevitable because of the number of staff that are going. As we state in the SOLACE submission, we are trying at every turn to avoid compulsory redundancies.

The Convener: But you would not reject the figures that have been put forward.

David Dorward: I am nervous about figures. We have never quoted a figure in Dundee, for two reasons. First, the scheme is voluntary, so we do not know who will come forward and who we will accept and, secondly, we are going through other

service redesigns that do not involve a reduction in head count.

The Convener: Even if you halve the quoted figure, it is a significant number to fund.

Joe Di Paola: The point is that no one is rejecting what has been said—they are accepting that there will be a smaller local government workforce next year, the year after and the following year. However, we are concerned to keep enough people in jobs in local authorities to ensure that we can deliver the services. We are having to match carefully the service delivery and the workforce numbers, and we must be clever about transformational change if possible to ensure that we deliver services more efficiently.

I will not argue that the figures that Douglas Black has given you are right or wrong. We do not know at the moment—David Dorward is correct. Douglas is presenting a particular scenario in which all those specific things happen, and the worst case might be those figures. We are trying to avoid worst-case scenarios. I am not accepting or rejecting the figures; I am just saying that there are too many variables. That is a headline, and I will not go along with headlines.

Douglas Black: It is not as clear cut as that. Most authorities in Scotland are considering some type of retirement or severance scheme that will be attractive to their workforce. They will base their financial predictions on what they would expect to achieve from that.

What happens when that financial envelope is not realised? An authority that might want to attract up to 10 per cent of its full-time equivalents through a severance scheme might get only 5 per cent expressing interest. Where does that leave the financial predictions, and what does that mean in terms of cuts in the other services that councils provide?

The early retirement or severance schemes are no longer attractive to people. As David Dorward said, authorities are cutting back on the finance that they are prepared to put into the schemes. If a scheme is not attractive, why would anyone volunteer to go under those terms?

Fiona Farmer: There are concerns about voluntary schemes. For example, a disproportionate number of front-line and low-paid workers may be allowed to go. There is no involvement from unions in the voluntary schemes, and our experience has shown that the majority of people who end up leaving the employer as a result of those schemes tend to be front-line low-paid workers.

How does that take us forward in delivering services for the future? What opportunities for other employment are out there? It is a complete

myth that the private sector will pick up all the jobs that will go in the public sector, as so much of the private sector is dependent on public sector contracts in transport, manufacturing and construction, for example. We have real reservations about the voluntary severance programme.

11:45

Alex McLuckie: There was a commitment in the budget statement that job losses could be managed through voluntary redundancy or by using skills differently and being more flexible. I agree, however, with what David Black and Joe Di Paola said. To me, a job loss is a job loss, whether it is lost through voluntary or compulsory redundancy.

If there are to be job losses, then voluntary redundancies would obviously be better, but employers have a difficulty; councils are using their discretionary powers to reduce the early retirement calculators, which makes the available packages less attractive. I do not want to go back to the issue of consultation—we were not consulted about that.

I agree that if funding was in place to keep the voluntary option attractive, employers might be in a better position to achieve the goal without going down the compulsory redundancy route. Although the employers are being a bit coy, I think that it will be very difficult for us to meet the current situation without compulsory redundancies. Anything that could help us to avoid going down that route would be very much appreciated.

The Convener: The Cabinet Secretary for Health and Wellbeing has been able to say that there will be no compulsory redundancies in the health service. The Cabinet Secretary for Finance and Sustainable Growth has said that as far as he is concerned there will be no compulsory redundancies for people employed directly by the Scottish Government. Is that the same in local authorities?

Douglas Black: Absolutely not. This is a real question raised by the budget proposals. Although there is a feeling that the no compulsory redundancies statement applies across the public sector, that is not the case. That statement does not necessarily transfer down to local government. I would be interested to hear the employers' view about sitting around the table with the trade unions and coming to a no compulsory redundancy agreement that would apply in all 32 local authorities. I would also be interested to engage with the employers about pay restraint and pay freezes. The cabinet secretary has said that there will be a £250 payment for those earning up to £21,000 a year, but that does not apply

automatically in local government. We would certainly be interested in engaging with the employers on that.

David Dorward: Each local authority will need to look at its own situation, but many local authorities are advising me that there will be no compulsory redundancies and that they can manage 2011-12. One or two are perhaps considering that that will be difficult.

Douglas Black is absolutely right that local authorities are not committed by what the cabinet secretary said. It will be a decision for each individual council. SOLACE's submission states that we will try to avoid compulsory redundancies at every turn in 2011-12 with the settlement that we have. We are also looking at other ways of reducing our staff costs through reduced hours, a reduction in the working week, offering staff career breaks and reducing the reliance on temporary contracts. There are lots of ways in which we can reduce staff costs, which are more than 50 per cent of our total costs, without having redundancies.

We are disappointed that there is only a one-year budget, but we will continue to plan on a three-year basis. I hope that there will be a comprehensive spending review in 2011 that will go back to the principle of a three or four-year budget that will then allow us to continue to plan on that basis. There is no doubt that it is easier to do workforce planning and so on when we are looking at a much longer horizon than simply one year. I hope that the principle of three-year budgeting will return in 2011, after the May election.

The Convener: Your ambition to avoid compulsory redundancies is for a year only, is that right?

David Dorward: That is the only settlement that we have at this time.

The Convener: The length of the settlement applies to more than just compulsory redundancies, does it not?

David Dorward: In terms of forward planning, yes.

The Convener: If it applies to that, it applies to everything else.

Mr Black mentioned the pay freeze. Are there any upcoming discussions on that issue?

Joe Di Paola: We have a separate settlement in local government. The Cabinet Secretary for Finance and Sustainable Growth is responsible for the people for whom he is responsible; the local authorities are quite separate in terms of their pay arrangements. Mr Swinney's budget statements

about staff do not directly impact on local authorities at all.

David Dorward: There is a strict relationship between a pay freeze for the public sector and our ability to maintain our workforce levels. If we did not have a pay freeze, there would be pressure to reduce that workforce even more.

Alex McLuckie: The important issue is the seeming unwillingness of employers to engage on the issue of low pay. Earlier, a living wage was mentioned. Around 10 per cent of local government workers—250,000 people, many of them part-time workers and many of them women—are on less than £6 an hour.

The UK Government's statement concerned civil servants and workers who are directly employed by departments. Mr Swinney's statement, however, also concerned teachers, fire fighters and police officers. I should say that I do not know how many teachers are earning less than £21,000, but that is another matter. The point is that the bargaining bodies that represent teachers, fire fighters and police officers work with COSLA. It seems to me that local government workers such as caterers and cleaners are being denied any thought or discussion on the issue of low pay as it affects them. Quite frankly, that is wrong.

When we talk to COSLA, it says, "Money is too tight. We cannae afford to do this." However, when we talk to the Government, it says, "We've given the councils enough money to deal with low pay." Somebody is telling us the truth and somebody is not. We need to get to the truth of the matter.

In our negotiations, we said that, rather than applying the provision to workers earning less than £21,000, we would agree to it being applied to the bottom two pay bands. However, COSLA demonstrated an unwillingness to deal with that group. I should point out that many of the workers in those two bands are not in the category of people who, as we were told by that Government adviser, have never had it so good because of the recession. They are feeling it, and feeling it hard. I do not understand why COSLA is quite blankly refusing to discuss the issue of low pay, despite the fact that we are all talking about a living wage. Why can we not address low pay in local government?

Fiona Farmer: If local government was to implement the deal whereby those earning less than £21,000 were paid an annual rise of £250, that would affect 65 per cent of local government workers in Scotland. That shows the extent of low pay in local government in Scotland.

Douglas Black: Alex McLuckie highlighted the issue of low pay well. Earlier, convener, you mentioned bargaining arrangements. It is right and proper that bargaining issues are dealt with

through the appropriate bargaining arrangements, but we come back to the point that assertions are being made about the public sector getting no compulsory redundancy agreements and certain things for the low paid. We have to be clear that those things do not transfer to local government. Nevertheless, it would be absolutely wrong for the employers and the trade unions not to have engagement on those issues. Why should low-paid workers in local government lose out?

Joe Di Paola: I suppose I should try to answer all the points that were made by colleagues, as I have done before.

First, I will talk about Mr Swinney's statement and the provision for people earning less than £21,000. That applies to the people in relation to whom the Scottish Government has direct involvement and influence in terms of the pay bargaining. In the case of teachers, the Scottish Government is involved under the Scottish Negotiating Committee for Teachers tripartite arrangement. In the case of the police, Scottish Government representatives are involved at a UK level. In the case of fire fighters, the Scottish Government is involved at a UK level. Mr Swinney was therefore able to say that he has an interest and involvement in those three areas. No teachers are paid less than £21,000 in this country, for a start.

Let us be clear what we are talking about. Each individual authority has a different pay structure under single status and equal pay. We have had that discussion before. There are real and proper fears that any attempt to do something at the bottom end of the scales will affect and upset equality-proofed pay structures. That remains a real concern for many of the 32 councils in Scotland. They have looked at the issue more than once. We have looked at how we might do something at the bottom end. The point is that we have equality-proofed pay structures. On the point that 65 per cent of employees would be affected, I do not think that David Dorward recognises that the figure will vary between authorities. We need to be careful about assertions.

I am not saying that the employers will not discuss any issues that arise from the budget. Of course we will. The trade unions will have an opportunity to discuss the issues as soon as next week, at the annual meeting, where I am sure Douglas Black, Fiona Farmer and Alex McLuckie will not be slow in putting forward the impact, as they see it, of the budget. The dialogue can continue. The issues are always up for discussion, but let us not accept the facile argument that we can just translate into local authorities what the UK Government and/or the Scottish Government has said about employees that they directly bargain with and control. I am sure that colleagues

understand that there is a democratic imperative in terms of what those local authorities and their elected members may wish to do.

My final point is that COSLA cannot impose that from the centre. The local authorities are our members and they will tell us what their wishes are. In the area that we are discussing, they can do their own thing individually, or they can give us a mandate to seek to reach a collective agreement with the workforce representatives at a Scottish level. However, it will go back to local authorities to determine how the approach—on this question or any other—is dealt with.

The Convener: I do not want to prolong the discussion. I think the point has been made. If Mr Dorward comes back in, we might go on too long.

David Dorward: Convener, I have to say that I do not recognise the figure that 65 per cent earn less than £21,000. We have carried out our own analysis in our council and the percentage is significantly lower than that.

The Convener: What is your percentage?

David Dorward: It will be under 5 per cent.

The Convener: That is a big disparity. I will leave you—

David Dorward: The difference, I believe, is that many of those staff are part time. A significant number of part-time staff are paid less than £21,000 per annum. The full-time salary is the important thing. When we looked at the issue—

The Convener: We will welcome any additional information on that.

Alex McLuckie: I would just like to come back on some of the things that Joe Di Paola said. I am conscious that—

The Convener: No, leave them until next week's meeting, when you will have him direct.

Alex McLuckie: For the committee's benefit, what we are talking about is low pay. What I take from Mr Swinney's statement is that he recognises that there is an issue with low pay and that we need to deal with it. Joe Di Paola mentioned talking about the issue, but the problem is that we are not talking about low pay in local government. We are talking about low pay for everybody else, but we seem to be isolating the issue of low pay in local government.

I will finish with a point on the equality proofing. Some 95 to 96 per cent of people in the bottom two pay bands are women. Women! It is about inequality, not equality.

12:00

Jim Tolson: I will try to keep my couple of questions short because I know that time is pressing for everyone this morning. My first question is principally for COSLA and SOLACE colleagues. Obviously in the past few years, COSLA has been a significant partner with the Government in helping to make suggestions such that the 32 local authorities have agreed to the council tax freeze, given various conditions. I suggest that, by and large, that has meant that local authorities in Scotland have delivered more services for the same amount of money. However, the current funding round and John Swinney's recent budget statement have created a different picture for the council tax freeze because COSLA's members are being asked to put in place a council tax freeze with conditions that are more significant in many ways. In particular, there will be less funding to deliver the policy. In your view, is the council tax freeze sustainable? If it is not, how can we make the leap to get out of it?

Joe Di Paola: David Dorward says that I will go first.

We entered discussions with the Scottish Government with our eyes wide open about what it wanted, part of which was a continuation of the council tax freeze. As in every discussion and negotiation, the sides wanted their own objectives, but no one can achieve all their objectives. I am sure that trade union colleagues to my left understand that in negotiations we get some of what we want but not all of it. A well-known trade union phrase is "The deal is the best that can be achieved by negotiation." That is what went back to COSLA leaders last Friday. What came back was a report of the discussion, including the proposal that the council tax be frozen and what was to be asked for in return.

I will explain: forgive me, but it is difficult to isolate the council tax from the package, because that is not how it was put to Scottish local authorities by Government. What we got was "As part of it, you'll freeze the council tax, but in return we'll do this." So, we faithfully reported that to council leaders last Friday. There was a fairly frank debate, as you would expect, about the respective positions. We have done what we said we would do and what the discussion document says, which is to get the proposal back to individual councils for agreement. That is not a cop-out, Mr Tolson; that is the way it has to happen, because the councils are the only bodies that can set a council tax, which means that COSLA cannot impose a single agreement on individual authorities.

The council tax freeze proposal was part of hard-fought negotiations, and it is now part of a much bigger package that is out to councils for

their individual determination. They must write back formally to John Swinney and say what they are prepared or not prepared to do in that context. I make no apology for saying that they are the people—the elected people—who should be doing that and taking those decisions. In just about every authority in Scotland—bar three—there are political coalitions in which the councils require to take a decision that they can defend in terms of where they are going with the council tax.

David Dorward: Over the past three years the council tax freeze has been universal. The reason is fairly simple: the £70 million grant was enough of an incentive to have a council tax freeze. The deal that is on the table increases that incentive quite significantly, so that the hold-back is £426 million, and councils would receive a 6.4 per cent cut in grant as opposed to a 2.6 per cent cut in cash terms. I believe that local authorities will find it difficult not to take that level of grant reduction on board when arriving at their decisions.

There are certain issues in the deal that make it difficult for local authorities to sign up to it, but I am sure that it will happen. Some of the commitments, such as those on police and teacher numbers, are Scotland-wide. Each authority signs up to maintain a certain number of police officers as part of the deal. We have got to bottom out how that will work. The situation will be difficult for authorities that do not sign up because those authorities will suffer an extreme level of grant reduction. I hesitate to say it, but in my council's case it would probably require a significant increase in the council tax to close the gap.

Jim Tolson: Those were helpful comments from both of you. However, I asked how we can get out of the situation that we are in to ensure that our local authorities provide good-quality services in the longer term. Is a council tax freeze sustainable?

David Dorward: In the grant situation, we are looking at 2011-12. I go back to my assertion that there needs to be a comprehensive spending review in autumn 2011. An element of that is whether the council tax freeze grant—if that is what it now is—will be sustainable.

There is quite a focus on council tax, which raises only 10 per cent of our income. Be assured—it is as low as that. I am taking into account fees, charges and Government grant. Once we take fees and charges from our total income, council tax is only 10 per cent. If we in Dundee increased council tax by 2 per cent or 3 per cent, it would raise approximately £2 million. Council tax is not a significant element of our funding, although it is the part that we have control over, so it is important from that point of view. By

far the most significant part of our income is the Government grant.

Jim Tolson: My second question is principally for our union colleagues. I am sure that you are all very good negotiators on behalf of your members. I am thinking of your membership in general, not just the TU representatives and senior guys like yourselves. Unfortunately, in the past, when negotiations have broken down, members have been faced with a recommendation from the unions to take industrial action of one form or another. If and when that situation is reached in current and future negotiations, is it not an awful lot less likely, given the current financial climate, that your membership at large will give you that support? They might consider the risk of financial hardship to be much more stark now than it was five, 10 or, especially, 15 years ago.

Douglas Black: That is a statement that I have made many times in the past about industrial action. Whenever we enter any type of industrial action, it is a last resort and comes after full and proper consultation of our members. We do not do it lightly. That will continue in the future. It is an option, though. You are right—there are challenging times ahead of all of us, but at the end of the day, it is not the people sitting round this table who will say that industrial action will happen; it is ultimately our members who make that decision. It is also about the law, which we must comply with. We have to jump through various hoops before we get to the stage of industrial action.

Jim Tolson: That happens, however, based on your recommendation, Mr Black.

Alex McLuckie: We need to bear it in mind that there is no agreement with the trade unions for anything like a three-year deal and that the decision on pay has been imposed. We are free to return to COSLA at any time to say that we want to discuss further terms and conditions of employment.

The three priorities at the moment for trade union members are job security, maintaining their terms and conditions of employment—which will be under threat in the times ahead, as councils consider costs—and having safe and secure pensions. I do not think that this year we will consider a ballot on industrial action on pay, because the priorities for our members are different.

Funnily enough, pensions are of concern to me, because the Scottish Government and the Scottish Parliament have the potential to do something different. The comprehensive spending review increased members' pension contributions by 3 per cent. In local government, our members will receive a 0.65 per cent pay increase, but their

pension contributions will rise by 3 per cent. That will reduce their spending power, which will produce a drop in their living standard.

When we met Lord Hutton, he said that any discussions on pensions would take into account the constitutional settlement. I believe that the Scottish Government and the Scottish Parliament can consider whether to implement the increase for the pension schemes that they deal with. The actuarial valuations will be done next year, which does not help. If we had good, sound pension schemes in local authorities throughout Scotland, it would be good if the Scottish power was exercised, because that would limit the impact of the 3 per cent increase on our members' spending power.

Fiona Farmer: We do not go down the route of industrial action lightly. As colleagues have said, to take action nowadays we must jump through momentous hoops—not least, court challenges by the employer. In these days of austerity, our members appreciate that the choices that face them relate not just to pay increases but to pensions, job security, their long-term future and the delivery of services. People who work for local government are users of local government, of the health service and of education services.

If a package of hits against our members such as increased pension costs and pay freezes—in real terms, they are pay cuts—was introduced, those types of issues would motivate our members to take industrial action. However, I do not know whether they would take action just on the pay freeze.

Douglas Black: Was the question about the council tax freeze directed to the trade unions?

The Convener: Yes.

Douglas Black: The question was whether the council tax freeze is sustainable. The answer is probably no. In the current situation, we have said that councils have been presented with Hobson's choice. If they do not accept the council tax freeze and a cut of 2.6 per cent, they must accept a cut of 6.4 per cent, with the possible consequence that they would have to raise council tax by anything between 15 and 18 per cent to bridge the gap, which would be a suicidal option for many authorities.

The issue goes back to low pay, which is why I wanted to comment. The council tax freeze disproportionately hits low-income households. Under the freeze, a band H house saves on average £441 per year, whereas a band A house saves £147 per year. That saving is disproportionate.

The employers on the first panel said that local government is an autonomous unit in the context

of decisions on redundancies, equal pay and so on. That is fine on one hand; on the other hand, local government ought also to be autonomous in the setting of the council tax, but the employers have signed an agreement with the Government on the issue, and lower-paid people are being disproportionately hit.

12:15

David Dorward: I want to follow up Alex McLuckie's point about pensions. I understand that the 3 per cent increase that he mentioned refers to civil service and NHS pension schemes. The local government pension scheme has an actuarial valuation every three years. The valuation is due in April 2011 and will be effective in April 2012. Employees already pay significantly more into the scheme than NHS or civil servants pay into their schemes. Therefore, the 3 per cent refers to those schemes and not to the local government scheme, which has a higher employee contribution rate.

Joe Di Paola: That is an important point. I absolutely accept what colleagues said about the need for people in local government to have safe and secure pensions: all working people are entitled to safe and secure pensions. During the past five or six years, that is one of the few issues on which we have been able to agree with our trade union colleagues. We have consistently fought for a proper ability for the local government pension scheme in Scotland to be looked at as what it is: a properly funded scheme. That is important, because the NHS and civil service schemes, for example, are unfunded. The local government pension scheme is funded by the contributions of the employees and employers and by investments that are based on those contributions.

We want to keep control of the scheme as it stands and we will say to any Government in Scotland, as we have said to previous Governments, that it must exercise proper stewardship of the scheme, because it is important to employers. During the past three years we brought in a new version of the scheme, in agreement with trade union colleagues, which increased contributions but tiered them properly, so that the people who earn the most pay the most. We were able to effect a small reduction in the employee contribution at the bottom end of the scale. I hope that, for all our differences, we can fundamentally agree on the need to keep working towards a proper, safe and secure funded local government pension scheme in Scotland.

We are committed to security of employment for our workforce as far as we can be—to the limit—but hard choices must be made. However, I am passionate about keeping the pension scheme for

all our employees. We also need to attract more people into it, particularly low-paid women.

John Wilson: We heard this morning that there are three methods of reducing staff in local authorities: voluntary redundancy, early retirement and compulsory redundancy. Ms Farmer's impression is that a larger proportion of lower-paid workers in local government seems to be taking up voluntary redundancy. Is anyone in COSLA or the trade unions monitoring the impact of voluntary redundancy and early retirement, so that they can say where the impact is being felt most? As Ms Farmer said, the taking up of voluntary redundancy by the lowest-paid workers will have an impact on front-line services.

Fiona Farmer: I do not have figures on the matter, but certainly the information that is fed back to us from our local representatives is that when voluntary packages are offered, people who are in the lower-paid, front-line jobs are more likely to be accepted for voluntary redundancy, because the hit to the employer is lower.

David Dorward: That is not what we have found in the Dundee scheme. We have had 500 applications and have already approved 167. The average salary of the 167 is approximately £30,000.

It does not cost less to allow lower-paid workers to go because there is, equally, a lower on-going saving. We need to look at the situation in the round, and the decisions that we have taken on a case-by-case basis in Dundee do not support the assertion that it is the lower-paid workers who are being allowed to go. I assure you that that is not the case. A broad spread of employees from very senior officers down have applied. In fact, some of those senior officers do not cost anything to let go because they have reached the age of 60 and their pensions do not require any added years. We would like to see them go before they reach 65 because of the change in the legislation. Their leaving does not cost anything and they give us a large saving because we are not replacing the posts. The schemes in each of the 32 councils will be different, but the evidence that I have from our scheme is that the assertion that the lower paid are being let go is not the case, and that a broad spread of employees is being allowed to go.

The decision on allowing people to go is based on two criteria. First, does the post need to be replaced? That is really down to whether the service can continue to be delivered without that person. The second is the financial cost: we have a lump-sum payment to make now, and we then get an on-going saving. Many of those who are going will get a small lump-sum payment at the start, but it is payable by the council to the pension fund and not to the employee. There is then an on-going saving for every year thereafter. I have

previously given the committee figures that demonstrate that the scheme is cost-effective, if it is operated and managed prudently.

John Wilson: I have a further question for Mr Dorward about one of his comments. Were you describing Dundee's criteria for selection for voluntary redundancy, or are those criteria applied throughout the 32 local authorities that are members of COSLA?

David Dorward: They are Dundee's criteria. I cannot assert that what I said is true for all 32 local authorities.

John Wilson: Part of the reason for our examination of the situation today was to get a general impression of what is happening throughout the 32 local authorities in Scotland. What we have had today so far is information about individual cases, including David Dorward's comments about Dundee. He also told us about Dundee reducing the working hours of some—not all—staff. Three weeks ago, we heard evidence from a local authority representative who referred to their local authority increasing working hours for some staff. We seem to be getting different pictures, depending on the local authority.

I seek the panel's view on the lowest paid people and the 0.65 per cent pay award that COSLA has imposed. In certain areas of industrial or employment relations, COSLA seems to be able to impose conditions, and in other areas, it seems to fall back on the single status agreements with the 32 local authorities. Does anyone want to comment on whether we would be better going back to a national pay and conditions bargaining arrangement than we are having 32 different arrangements through the single status agreement?

Douglas Black: I will kick off on that one. We have a single status agreement that is made up of different parts. Some parts are for national conditions and others can be negotiated and alternative provisions made at the local level. We bargain nationally on pay, and we would bargain on terms and conditions that apply in the national part of the agreement.

I suppose that the question is: should the national agreement be expanded back to what it was prior to 1999? The trade union's answer would certainly be yes. We would like to see the national agreement being expanded over the years.

However, the reality of the situation is that we have 32 local authorities with individual terms and conditions on, for instance, hours of work and working patterns. They are able to set those under the single status agreement, but that is not the best way of delivering terms and conditions throughout the local authority workforce in

Scotland. I would like to see moves back towards a national bargaining framework. That would fit well with the better Scotland approach, but it is unlikely that we would be able to generate that discussion just now.

Fiona Farmer: Unite supports that position. If we are talking about austerity and considering costs, we must question the cost of individual bargaining in all those employers and local councils and ask what cost savings national bargaining could generate.

Joe Di Paola: I permit myself a wry smile about Douglas Black's comment. He and I were on the same side when we negotiated the single status agreement. It was clearly set out that there was a trade-off between what could be done nationally and what could be done locally under that agreement.

As I have said before, the single status agreement was not about equal pay, but about equalising conditions between white-collar workers and blue-collar workers, as they were known. One of the fall-outs from that agreement was that the examination of those pay structures outed the inequalities that existed between men's and women's pay in local government. We cannot put that genie back in the bottle.

To be frank, a national bargaining framework will never happen. Unless the 32 individual authorities are really willing to put some of that stuff back into a national arena, it will not happen, because we would need the 32 of them to say yes to it. That does not mean that it would not be neat and tidy and would not suit us when we wrap up bargains.

The matters that are agreed nationally were left that way because it was understood and agreed that they were so fundamental that they should remain the same for all local authorities. It was clearly agreed that the rest could be negotiated locally to suit the varying circumstances of each local authority and its trade unions. Although it might be desirable for some of us in some situations to have certain bits of pay and conditions back in a national agreement, we cannot reassemble what has been disassembled into 32 parts. We are left with certain national elements: that is all we have.

David Dorward: I will respond to Mr Wilson's comments about my comments about Dundee. When I talked about reduced hours, I was making a general comment; it was not about Dundee.

The problem with collecting data on the early retirement schemes is that we have, potentially, 32 of them. I am not aware that anyone is collecting data on all 32. They are all different, and I felt that it was only fair to give evidence on my scheme because that is the detail that I know.

Mr Wilson said that there were three methods of reducing head count, but I do not think that we have mentioned vacancy management. I imagine that, as we do in Dundee, when any posts become vacant—be it through normal retirement or people moving to a new post outwith the authority—every one will be reviewed to determine whether it needs to be filled. It would be imprudent to fill every vacancy when we are trying to reduce our costs.

Douglas Black: I will clarify a comment that Joe Di Paola made. He seemed to suggest that the trade unions were in bed with the employers on the break-up of national bargaining, which was absolutely not the case. As a matter of fact, the employers held a gun to the trade unions' head over the introduction of single status. We had to negotiate some elements that would be national and some that would be out to agreement with the individual local authorities or the alternative would simply have been local bargaining.

12:30

John Wilson: The Cabinet Secretary for Finance and Sustainable Growth has indicated that any Scottish Government staff who earn less than £21,000 will have their earnings raised to offset any impact of the wider economic situation. As an aside, I note that, under single status, we have ended up with 32 different pay scales—they have multiplied over the piece.

Today trade union representatives have indicated that the lowest-paid workers in local government will suffer most from the imposition of the current pay award and the pay freeze. Do any of you wish to comment on the fact that, over the past 10 years, pay differentials between the lowest-paid and the highest-paid workers in local government have increased dramatically, to the extent that in 2003-04 chief officers in local authorities received a one-off pay increase of 13 per cent? Would you like the pay gaps that exist in local authorities to be examined and reviewed, to ensure that the lowest-paid workers do not bear the brunt of some of the cuts that are being imposed in local authorities?

Fiona Farmer: We have always supported initiatives to improve the position of the low-paid. It is a mistake to say that that cannot be done under single status. It has been done in other areas of the public sector, such as the NHS. There are ways of addressing the issue of low pay without disrupting pay agreements as a whole.

Douglas Black: John Wilson is correct. The differentials between higher-paid and lower-paid people in local government have increased over the years. The principal reason for that is the fact that local government settlements have been percentage settlements—2 per cent on £70,000 a

year is much more than 2 per cent on £15,000 a year.

Over the years, the trade union side has always tried to include a flat-rate payment in its claims, to address some of the issues. The difficulty that we have had in pay negotiations is that employers have refused to engage with us on the matter. They tell us that implementing any flat-rate payment would distort the pay and grading structures that apply in the 32 local authorities, although they have never managed to provide the evidence to sustain that argument.

Fiona Farmer is right to say that there are ways in which the issue of low pay can be addressed. One of those would be to delete the bottom two or three bands of the spinal column. At the moment, the lowest hourly rate in Scotland is £6.16. That rate, which rose by 3p an hour following the employers' imposition in September this year, is only 23p above the minimum wage in Scotland. That is scandalous.

Alex McLuckie: I am the last remaining person yet to sign up to the single status agreement, which worries me a bit. I remember Pat Watters in a different guise saying that single status would produce a workforce that was smaller but more highly rewarded. We are getting the smaller workforce, but we are not getting the higher reward, which is a difficulty.

Fiona Farmer is right. The NHS in Scotland had a three-year deal with an element of bottom loading, which allowed the pay of the lowest-paid to rise more quickly. It goes back to the point that we made earlier about COSLA's resistance to the proposal to increase by £250 the pay of those earning up to £21,000. In the lifetime of single status, there was one year in which we made an across-the-board payment of £500. That had the biggest impact on the low-paid in local government, but it has never been repeated. If we had some bottom loading—even if we applied the £250 increase—it would help us to address the issue.

Douglas Black is right, too. If we remove the lowest incremental point in the pay structure, that will move the lowest-paid up. We do not agree in the slightest with those who fear that the skyscraper that is the single status pay structure will collapse in a heap if we have the audacity to increase the pay of the lowest-paid workers in Scotland. There is scope for us to deal with low pay in local government, and where single status was heading on low pay has failed. There is still an opportunity to deal with that, but we need the employers to be willing to do it.

When we were involved in the discussions on wages this year, one of the reasons that we were given for not implementing the £250 increase was

that it would apply to 60 per cent of the workforce. That was said by Michael Cook at the negotiations that we had. If there is a difference there, I do not know what it is. In the negotiations that we had with the negotiating team, we were told that £250 would be too rich because that would apply to 60 per cent of the workforce. That was the reason why we then said, "Let's reduce it and look at a lower level, as long as we do something for the lowest-paid."

The Convener: Perhaps we can get the COSLA figure that everybody would agree with, if that is the source. I will allow Mr Di Paola a quick response.

Joe Di Paola: Thanks very much. Colleagues and I are having an old argument in front of you. It is all good, knockabout stuff but I am not entirely sure that it adds to the discussion. The fact is that there are 32 different pay structures in Scottish local authorities, based on the single status agreement. You cannot just say, "Do that right across the country," as there will be differential impacts. Even if you take off Alex McLuckie's bottom two spinal column points, although that might not have any real effect in one authority, you will find that it causes inequalities in another. We have had the discussion before and we will continue to have it. I hope that we will resolve it at some point.

The Convener: We need to move on and reorganise the delivery of public services, so it is important to resolve the division that we see before us.

David McLetchie: Good afternoon, everyone. If I may, I will move the discussion on from pay issues and pay negotiations to the issue of funding and the agreement between COSLA and the Scottish Government. We have established that, in return for being given an additional £426 million, Scotland's councils, through COSLA, have signed up to a whole set of commitments, including the council tax freeze. My question is for Mr Dorward and Mr Di Paola. Does COSLA believe that that figure is sufficient to fund all those commitments, and are all the member councils committed to fulfilling them?

Joe Di Paola: The document that came out of the discussions is a reflection of the negotiations and indicates to councils the best that can be achieved. It is not an agreement with Scotland's councils yet. The COSLA leadership went to the discussions and were present all the way through, and, along with John Swinney, Pat Watters signed the letter that has gone out to councils. I reiterate, however, that it is a matter for individual councils to decide whether they are prepared to accept the commitments on both sides of that agreement, and that the discussion document is currently with

councils for agreement. That is the absolute position—there is no agreement yet.

David McLetchie: But is it the COSLA view that £426 million would enable all your councils to fulfil those commitments? Where did the figure of £426 million come from? What is the correlation between the figure of £426 million and all those commitments?

Joe Di Paola: I think that you know the correlation. The difference between a reduction in grant of 2.6 per cent—which is what is being offered in return for those commitments—and a reduction of 6.4 per cent, which is the average reduction across departments, is approximately £426 million, including the £70 million for the council tax freeze. So, the price of the agreement to deliver the commitments is £426 million.

David McLetchie: Yes, but we know from previous cases that, broadly speaking, £70 million a year delivers the council tax freeze. Some people would suggest that £70 million was marginally generous, but we will not go into that. The issue is whether the balance of £356 million funds all the other things to which you have signed up.

David Dorward: There is a difference in the calculation of those two figures. You are correct that the £70 million funds a council tax freeze. The 6.4 per cent is the average cut in the public sector, and that is how the figure was arrived at. I do not believe that the conditions that were put in were costed to equate to that figure of £426 million; it just happens to be the average cut that the rest of the public sector is getting.

To go back to your original question, I agree with Joe Di Paola that it will be up to each individual council to say whether it agrees to the deal, as it is for each council to set its own budget and council tax. The cabinet secretary is asking councils to produce a signed letter from the council leader by 21 December that sets out whether or not they agree to the deal. I believe that they will now need to take those decisions to their committees and councils.

As I said, there are some elements in the package that it is difficult for a council to say that it will achieve—I mentioned the commitment on the number of police officers, for example. However, that is part of the deal, and we—as 32 councils in the local government family—will have to take an individual view on it before we sign up to it individually.

David McLetchie: Right. So, according to the councils, there is no correlation between the figure that you are being given and the commitments that you are making.

David Dorward: I do not believe so.

David McLetchie: Has the Government expressed the view in the negotiations that there is a correlation between the £426 million and your commitments? Does the Government think that the commitments are fully funded? Did it say so?

Joe Di Paola: I am not in a position to answer that, as I was not at the negotiations. I am not being coy, but I am not prepared to say something at second hand when I have no direct knowledge of whether it was said in the discussions.

David McLetchie: Some of the commitments on education interest me. They are in your domain—I accept that the number of police officers is a more indirect commitment. There is a commitment to maintain the pupil teacher ratio in primary 1 to primary 3, and commitments on teacher posts, employment and so on.

We have been here before with COSLA, as there was a specified set of commitments on education in the “historic concordat”, as it was once termed. We had commitments on maintaining teacher numbers, delivering free school meals and making progress on reducing class sizes in primaries 1 to 3 to a maximum of 18 pupils. Those commitments all failed.

The commitments were part of a funding agreement that was signed by all the councils and the Scottish Government, and they related to education, which is wholly in your control. They failed at every turn. What reason do we have to believe that you will succeed in delivering the commitments that we are discussing today in one year, when there has been such conspicuous failure during the past three years?

David Dorward: For some of the commitments there is a matching commitment from the Scottish Government. For example, there is a commitment from the Government to ensure that funding will be provided to police forces in order to retain the existing number of police officers.

12:45

David McLetchie: I accept that, but my question was on the education of children, which is wholly within your domain. I accept your qualifications on policing, but we are not talking about that; we are talking about COSLA’s commitments, and the commitments of councils, to the Government on the delivery of education, for which you are wholly responsible. You signed up to the commitments in the previous concordat, and you have failed miserably to fulfil them. Why should we believe the concordat any more?

David Dorward: I was going to finish by saying that an extra £15 million will cover the protection of the number of teaching posts. Part of the deal set

out by the Scottish Government is to maintain the existing pupil teacher ratio.

David McLetchie: But that is maintaining a pupil teacher ratio that represents the failure to implement the previous agreement. All that you are doing is sustaining failure. That is not taking anything forward, is it?

David Dorward: I can tell you only what is in the deal.

David McLetchie: I know what is in the deal, but it does not seem to be much of a deal when all that you are doing is reinforcing failure. You failed to honour the deal the last time round. Is that not a fair comment?

David Dorward: I would not say that we have failed, universally, to honour the deal.

David McLetchie: Well, many councils must have failed to honour the deal because we did not get progress, we did not get the free school meals and we did not maintain teacher numbers throughout Scotland. Somebody failed somewhere.

David Dorward: Many councils used the free school meals money to introduce breakfast clubs, for example. That gave a greater focus on providing meals to children in deprived areas.

David McLetchie: I absolutely agree, and some of the children of constituents in my area received exactly that. However, that was not what you signed up to. That is my point.

Mr Di Paola might wish to tell us why all COSLA members failed to fulfil their undertakings and why he thinks that we should have more confidence in them this time.

Joe Di Paola: The Government seems to have confidence in local authorities, or it would not have offered another deal. An offer lies on the table, which our councils will pick up—or not, as the case may be.

Mr McLetchie makes points about the failure of local authorities to deliver on parts of the concordat. David Dorward is absolutely right: different authorities delivered at different levels on different parts of the concordat. If anyone told me that the playing field remained level over the past three years, I would say that they were living on a different planet. The reduction in council budgets and the tightening financial constraints were occasioned in the main by the credit crunch and the banking collapse, which were no fault of any local authority. We think that our authorities have done pretty well to continue to deliver as much as they could of the bargain that they struck. This Government has been prepared to put another set of proposals on the table; it will be for our councils,

as happened last time, to say whether those proposals are acceptable and appropriate.

David McLetchie: You talk of constraints. However, the preface to this discussion was that we were in an unprecedented situation. I think that Mr Dorward spoke of 10 years of real funding increases. On page 13 of the COSLA paper, I am told that—and we have heard it many times on this committee—cumulatively over the past four years, our councils have made more than £1 billion of efficiency savings. We keep being told how those savings are “cash-releasing” efficiency savings. If you have accumulated £1 billion-worth of cash-releasing efficiency savings, how come you did not maintain teacher numbers? How come you did not produce all those school meals? When you had all that cash-releasing stuff sloshing around, why on earth was it not employed in fulfilling the core commitments to which you had signed up in your agreement with the Scottish Government? Would you not have thought that those would have the first call on all those great efficiencies that you had managed to achieve?

David Dorward: That is painting a very black-and-white picture. What has to be said—

David McLetchie: I am a black-and-white fellow. It is a sensible point.

David Dorward: The environment in which local government and the public sector are working is constantly changing. I go back to the fact that 50 per cent of our funding gap is a result of increased demand on services such as social care, children’s services and education services. All the efficiencies that you mentioned have been used to support the very significant increases in demand on those services and to achieve the council tax freeze for the past three years, which was quite a significant element of the concordat.

The background is that the pressures that are placed on the public sector and our employees, particularly in social work and education services, grow year by year. In part, we must meet that demand by having efficiency targets of 2 or 3 per cent and by redesigning services.

David McLetchie: But earlier you told us that you have budgets that are increasing in real terms. You said that the present situation was unprecedented in the past 10 years. Your council tax freeze was fully funded and, cumulatively, you managed to make more than £1 billion in cash-releasing efficiency savings. Should not all the demands have been met out of all those great savings? The cash-releasing efficiency savings were not top-sliced—you got to keep them—were self-certifying and were incapable of being audited properly by Audit Scotland.

David Dorward: The cash-releasing savings were part of the settlement. Previously, an

assumption was made that local authorities would have 2 per cent efficiencies when the grant settlement was determined. That is unlike the situation with the current settlement, whereby efficiencies of 3 per cent have been assumed but not top-sliced off the grant settlement. If we make efficiencies of 3 per cent, we will use that money to make savings or to redesign services. There is a distinction between that arrangement and how grant was calculated previously, when an assumption that 2 per cent efficiencies would be achieved was made when the grant was distributed.

David McLetchie: Mr Swinney has been telling the Parliament for years that there has been no top-slicing—I have heard that for at least three years in a row. It is a proud boast of Mr Swinney's that there is no top-slicing of efficiency savings and that you get to keep all your money, so there seems to be a major variance in perception.

According to COSLA's submission, the efficiency savings target that you agreed with the Scottish Government was £676 million, but you claim to have made £1.033 billion of efficiencies. Regardless of whether it was assumed that that figure of £676 million would be achieved when the grant was settled, you have managed to achieve another £357 million in efficiency savings.

Joe Di Paola: With respect, you are being extremely selective.

David McLetchie: You are the one who wrote it.

Joe Di Paola: But you missed out the last part of the paragraph, which says that the fact that we have prioritised efficiencies means that

"the capacity for making future efficiencies is reducing and the financial gap going forward cannot be addressed by efficiencies alone."

We made it clear that although we had made more efficiencies than we had been asked to by a long way, that would not continue. The situation has got so much worse that we cannot rely on efficiency savings to close the funding gap. We said that right at the start. The funding gap will never be closed using efficiency savings alone.

The fundamental difference is that, as a result of the demographic changes in this country, the rising demand for local government services means that there is a widening gap between the resources that we have and the demand that we have to meet. All our work has been an attempt to identify the size of that gap and to do something about it for the future. We are talking not just about one year's cuts—which will have to be made—but about looking at how services are delivered, and at what services could and should be delivered by local government and what should be done by a reconfigured Scottish public sector. There is no

way that any single measure in any of the papers that are before the committee will deal with the size of the funding gap that we face.

David McLetchie: Yes, but some of the efficiency savings that we keep hearing about are ones whereby more is achieved for the same as opposed to the same being achieved for less. If more is achieved for the same, by definition, rising demand will be met using the same amount of money.

I am just one of those people who is very sceptical about all these efficiency savings. COSLA seems to have got itself boxed into a serious corner with all the claims about self-certifying efficiency savings that are never properly audited. Are they real? I will give you a chance to tell us. Are they real savings? Did you really make them?

Joe Di Paola: Yes. Local authorities have made those savings year on year.

David McLetchie: With those savings, you were able to deliver more for the same, or the same for less. That is what an efficiency saving is. Is that right?

David Dorward: All in all, we achieved a council tax freeze.

David McLetchie: No, no. That was separately funded.

David Dorward: The savings that you are talking about are for the five-year period from 2005-06 onwards.

David McLetchie: It was a four-year period, actually. It is in your submission.

David Dorward: Sorry; it was the four-year period from 2005-06. The savings do not match up to those that were made during the period of the concordat, to be honest. The figures for the efficiency savings come from 32 individual efficiency statements that were drawn up by the 32 directors of finance who recorded the efficiencies.

Let me give an example. I know from my experience that the local authority procurement landscape has changed dramatically, and that efficiency savings made in that area are real.

David McLetchie: Well, that is excellent, because you had an on-going commitment to save 2 per cent per annum even before the current financial crisis. Since you have been so successful in the past, we can look forward to even greater success in the future.

David Dorward: The tighter the budgets get and the higher the reduction in anticipated funding from the Scottish Government, the more difficult it becomes to make those efficiency savings and

keep them going on a cumulative basis. I come back to the point that I made earlier about why it is so important to look at redesigning services and to work with our partners to reduce our costs in that way. Although the efficiencies that we have made to date were achievable, we cannot hope to keep finding those efficiency savings over and over again. They are only one part of the equation for a balanced budget.

David McLetchie: I could not agree with you more, but you agreed to that, so we expect you to deliver it.

Patricia Ferguson (Glasgow Maryhill) (Lab): Mr Dorward, you said that money is coming to local authorities to maintain the number of police officers, and that £15 million has been ring fenced to protect the number of teacher posts as far as possible.

Joe Di Paola: It is not ring fenced.

David Dorward: No, it is within the overall settlement; it is not ring fenced.

Patricia Ferguson: So once again, we are in a situation in which something might or might not happen.

David Dorward: If a local authority signs up to protect teacher posts, I expect that that is what will happen. Also, a local authority has greater control over the number of teachers than it does over the number of police officers.

Patricia Ferguson: Okay. We will leave that one sticking to the wall for a moment or two.

Who is going to set up the independently chaired review of all aspects of the McCrone agreement? Will it be local government or the Scottish Government?

David Dorward: As Joe Di Paola said earlier, teachers agreements are tripartite agreements. I assume that an independent review of the McCrone agreement would be set up by the Scottish Government, but it would have to include all those who are party to teachers' pay negotiations. I assume that, but I do not have the details to give you.

Patricia Ferguson: But it is part of the agreement with COSLA.

David Dorward: It is part of that agreement.

Patricia Ferguson: COSLA does not know who will be responsible for it.

Joe Di Paola: That has not been agreed yet. The arrangements are not in place.

Patricia Ferguson: But it has been agreed that there will be an independent review.

Joe Di Paola: Yes, indeed.

Patricia Ferguson: But COSLA does not know who will be responsible for putting it in place. There is supposed to be a report in June 2011.

Joe Di Paola: I am not sure what you mean by "putting it in place". We will be having discussions with the Government about that very soon.

Patricia Ferguson: Last week, for example, the cabinet secretary announced that the Christie commission was about to get under way and would report in June 2011. This independent review is going to report only one month later, but no one seems to know how or when or what its remit might be.

13:00

Joe Di Paola: There will be discussions with Government colleagues and civil servants within the week about this commission.

Patricia Ferguson: Those will take place this week.

Joe Di Paola: Within the week.

Patricia Ferguson: That will be very interesting. What is the likely remit of the review?

Joe Di Paola: I do not know. I think that, 10 years on from the publication of "A Teaching Profession for the 21st Century", the review will examine all aspects of the McCrone agreement. At the moment, all aspects of the agreement will be examined, so nothing has been excluded from the review.

Patricia Ferguson: There must be a remit that will be given to whoever will be part of the review.

Joe Di Paola: I am not aware of the remit at the moment.

Patricia Ferguson: That is very interesting.

To come back to Mr McLetchie's points and perhaps to rephrase the question, has COSLA costed what these agreements, which are additional, enhanced, or the same but worded differently, will cost local authorities, if it is not the £15 million that the Government is talking about and which already appears to be in the settlement? Has COSLA not costed how much the agreements will cost?

Joe Di Paola: I am not able to give a figure at the moment, although I can refer your question to my finance colleague, who had been going to be here today. Finance is not my area of expertise, so I will refer that question to my colleague.

Patricia Ferguson: The cut might be bigger than 2.6 per cent if all these items are still to be costed and considered as part of the discussions?

David Dorward: I apologise, as I can answer only from my experience. For my council, there is

not a significant additional cost. There is some element of cost, but it is not significant and does not add greatly to the 2.6 per cent. I have no overall COSLA figures for the cost.

Patricia Ferguson: Could what you say be because your local authority has already achieved most of these requirements?

David Dorward: That could be the case.

Patricia Ferguson: But your experience is not necessarily typical of the picture in the other 32 local authorities.

David Dorward: I cannot say that it is not typical.

Patricia Ferguson: But it is possibly not typical.

Joe Di Paola: It is clear to us that the measures that we have discussed with the Government will mean a drop of 2.6 per cent in cash terms in the revenue funding to local authorities compared with 2010-11 figures. The comparison figure is the average cut in revenue budget for all other non-protected public services, which we reckon will be 6.4 per cent. The total of £11.5 billion equates to a 2.6 per cent cut—there is no dubiety about that—and the comparison figure is 6.4 per cent.

Patricia Ferguson: That figure must be an average so, for local authorities that have not yet met some of these conditions, the cut will be bigger than 2.6 per cent.

David Dorward: It may be, but the difference will be marginal. The cut will get nowhere near 6.4 per cent. If there is a marginal difference, it will increase the figure by a few basis points.

Patricia Ferguson: We also discussed the redesign of services. Local government is managing vacancies, taking through an early retirement process, possibly reducing hours, possibly introducing career breaks and looking at voluntary redundancy. I accept that the pay bill is your biggest single outlay, but I presume that other budgets are also reducing in terms of what you procure, what you purchase and what you serve. How do we ensure that services are redesigned and not reduced as a result of all those measures?

David Dorward: Some services, such as child protection, will not be reduced at all. Indeed, they may have to be enhanced. Some authorities are looking at the prioritisation of services, and that is what we will need to do. As local authorities, we may determine that we have to stop some non-statutory, non-core services altogether. Those might be relatively small services, but that must be the view that is taken—we have to consider all services in terms of service delivery and what is required in the local community. I imagine that there will be cuts to some services, and that we will have to reduce our current level of service. It

will vary across all councils and all services. In child protection, I have given you an example of a service where I would not expect there to be a cut. Because of the demand, we are investing more money in children's services.

To go back to a previous point, our difficulty is that we know that we should be investing in early intervention to reduce on-going costs, but that is very difficult in a period when resources are being cut. We must protect budgets for those services where it is imperative to continue to provide a high-class, responsive service.

Patricia Ferguson: I am very sympathetic to that argument, but if you have to enhance some services at a time when cuts are being made, there will be bigger reductions elsewhere.

David Dorward: That is a truism.

The Convener: Mr Di Paola, you mentioned “non-protected” budget lines in response to Patricia Ferguson. What are the non-protected budget lines?

Joe Di Paola: If any protection is given for any part of the public sector, that will impact differentially on other parts of the public sector. If health was protected in a way that differentially impacted on local government, that would be the fact of the matter. My point was an extrapolation of Ms Ferguson's point about services within authorities. If we take the public sector in totality, if one part of the organic whole is protected in any way, other parts of the public sector will take a disproportionate hit. I was speaking in that context.

David Dorward: One of the benefits that we saw in the settlement was that local government's share was protected. There was a fear before the settlement was made that health would somehow be protected at the expense of all other elements of the public sector, including local government, so the cuts to local government could have been greater than 2.6 per cent. That is a general point about the protection of local government services. To some extent, that has happened.

The Convener: In terms of evaluating what is a good agreement, yet another factor in the negotiations was the share to be taken by local government. We have learned and been advised that that share has been marginally protected. The share going to local government is marginally down, in fact—it is not up or maintained.

Is the cut of 6.4 per cent a cut on the non-protected budget lines?

David Dorward: My understanding is that 6.4 per cent is the average reduction in all elements of the Scottish Government block, except the NHS and local government. It is the average cut that the rest of the Scottish block is receiving. That is where that figure has come from, and it has been

applied by the cabinet secretary, in that it is the percentage cut that local government will share if individual councils do not sign up to the deal.

The Convener: We might wish to take the matter up with the cabinet secretary.

Mary Mulligan: What is your view on the impact of an 18 per cent decline in capital funding?

David Dorward: The cut, as we understand it, is 17.9 to 18 per cent. That cut might have limited effect in 2011-12 because, by its very nature, capital involves long-term planning. My fear is about what effect that cut will have in the longer term if it continues at that level or worsens. Councils will certainly have to review their capital plans given the reduction in the grant, although the grant figure is not the sole source of funding for our capital programmes. We have prudential borrowing and we can use capital receipts, although we are all having to revise downwards our capital receipt estimates in light of the current financial position and our ability to sell surplus land or buildings. The reduction will have an impact on the capital programme. Over one year, the impact may be limited, but my worry is what level of capital resources we will have over the longer term. Most local authorities appreciate that the public sector capital programme is a key element of keeping employment in their area, particularly in the construction sector, and have therefore tried to maintain their capital programmes as far as possible. Certainly, that is what we have done in Dundee.

Mary Mulligan: Can you put a figure on the number of public and private sector jobs that might be affected by that kind of cut?

Joe Di Paola: I could not do that at this time.

Mary Mulligan: At this time. So, you could at some stage.

Joe Di Paola: I would have to ask finance colleagues whether any work of that sort has been done. I will ask the question.

Mary Mulligan: One way in which to address the shortfall—Mr Dorward referred to this—is through borrowing. Clearly, local authorities will have different levels of outstanding debt. What is your view on that, including on the opportunities for borrowing?

David Dorward: We are governed by the prudential code that the Chartered Institute of Public Finance and Accountancy brought in. It is up to each council to look at their level of current borrowing and the affordability of any future borrowing. Where we can demonstrate that there will be savings from new building—for example, if it allows us to rationalise schools—any resulting saving allows us to borrow. I know of some councils where that will still happen, despite the

cut in grant and the financial position that we all face. There has also been a 1 per cent increase in the Public Works Loan Board rate, which will have a marginal effect in 2011-12 but will increase the cost of our borrowing in the longer term. With every passing year, those increased finance charges will have an effect on our revenue budget, but I believe that the effect in 2011-12 will be minimal.

Mary Mulligan: Interest rates are very low at the moment. If they started to rise, at what stage would you start to have a problem?

David Dorward: That is a crystal-ball question.

Mary Mulligan: Let me ask a proper question. Has the Government discussed with COSLA and individual local authorities the present borrowing situation and how the reduction might impact on capital programmes? The council that can borrow the most may not be the one that needs to spend the most. Is there a way of managing that? Is that discussion taking place?

David Dorward: I am not aware of that discussion.

Mary Mulligan: It is each local authority for itself.

David Dorward: Yes.

Joe Di Paola: COSLA set up an infrastructure task group last year, which comprised directors of finance and other interested professionals. The group looked at a whole range of capital-related issues. I am happy to take the question back and try to find out what conclusions, if any, were reached in that context.

Mary Mulligan: Were minutes of the meetings made available?

Joe Di Paola: I do not know.

Mary Mulligan: It might be interesting to see where the discussion went on that.

David Dorward: Historically, prior to prudential borrowing, we used to get consents from the Scottish Government. Councils, which might not require the consent one year but might the next, could trade those consents. Prudential borrowing decisions are taken individually by each council. The level of debt of each council varies, as does its level of need, so decisions are very much made on a council-by-council basis. Individual councils decide on the level of prudential borrowing that they can afford to enter into. The austerity that we are feeling on capital through a reduction in grant and a reduction in capital receipts, which has bitten earlier than the reduction in grant, means that we have started to look at alternative methods of capital funding. I know that tax-incentive funding is one area that some councils are looking at to try and supplement the reduction in capital capacity.

13:15

Mary Mulligan: I listened to the Minister for Housing and Communities last night say that he wanted to make more land available for housing and that he would encourage the public sector to make that land available, possibly with a lead-in time so that it would make the land available now but get the receipt for it in five or 10 years when, hopefully, the market will be better. Have you discussed that?

David Dorward: No. Local authorities have a very significant asset management planning regime under which they are looking at all their assets, such as buildings, land and fleets, and reviewing what they need to carry forward. We are trying to do that in a pan-public sector way, so we are dealing not just with local authorities but with health authorities, the police and so on. The outcome of that is that we will be releasing buildings and land. Unfortunately, if we flood the market at one time, particularly a market that is not keen to buy or develop, we will have a problem. We are trying to work out a strategy for how to release those assets.

The idea of deferred payment does not attract me. It would be good to know that we had a receipt coming because we could then plan our capital programme with that knowledge. I know that many authorities have had to revise their assumption on capital receipts simply because of the market situation that they find themselves in. However, we know that there will be a tidal wave of more and more freed assets coming on to the market or becoming available. Hopefully, we will see the market turning so that we can start to release some of those assets and realise the funds in order that we can invest in our own capital programmes.

The Convener: Are there any more questions from the committee? No.

I am dreading to go here, but we have not mentioned equal pay and the risk that the liability in that regard has for the whole financial situation. We covered the issue in previous evidence sessions, in which we heard from witnesses that there has been some progress and that local authorities have made some provision to address that risk. Certainly there has been progress on what they described as conceded claims. I do not want to do a full circle on this, but is it your impression that we are starting to make progress and that there is money in the system to address the risk?

Joe Di Paola: There is money in the system. There is a scheme in place to assist councils in coping with the impact by spreading costs associated with equal pay over more than one year.

David Dorward: In addition, in closing their accounts, local authorities will need to have made a provision for what they estimate to be the equal pay claims.

Alex McLuckie: From the trade union point of view, we are beginning to see some councils settling, but I think that it is more a trickle than a flood. The issue has been kicking about for a few years now—certainly we have been here on a number of occasions talking about the logjam. I am heartened to see that there is money in the system. An old-fashioned saying of mine is, “We want our money and we want it now.” If the money is in the system, it would be very helpful if we could turn that trickle into a flood and get the issue of equal pay in local government dealt with. A cost is still there for the councils, but if it is dealt with and got out of the way, that is one less worry for them and our members will receive payment for their inequality of treatment in the past.

The Convener: Okay. I thank you all for your attendance today and the valuable time that you have given us.

Subordinate Legislation

Non-Domestic Rating Contributions (Scotland) Amendment Regulations 2010 (SSI 2010/391)

Ethical Standards in Public Life etc (Scotland) Act 2000 (Register of Interests) Amendment Regulations 2010 (SSI 2010/392)

The Convener: As previously agreed, items 3 and 4 will be taken in private.

13:20

Meeting continued in private until 13:39.

13:19

The Convener: Item 2 is consideration of subordinate legislation. We have two negative instruments. No concerns have been raised and the Subordinate Legislation Committee agreed that it did not wish to draw the attention of Parliament to either instrument on any grounds within its remit. Are we agreed that we do not wish to make any recommendation?

Members *indicated agreement.*

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