The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

LOCAL GOVERNMENT AND REGENERATION COMMITTEE

Wednesday 5 October 2011

Session 4

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LOCAL GOVERNMENT AND REGENERATION COMMITTEE
7th Meeting 2011, Session 4

CONVENER

*Joe FitzPatrick (Dundee City West) (SNP)

DEPUTY CONVENER

*Kevin Stewart (Aberdeen Central) (SNP)

COMMITTEE MEMBERS

Ruth Davidson (Glasgow) (Con)
*Kezia Dugdale (Lothian) (Lab)
*Mark Griffin (Central Scotland) (Lab)
*David Torrance (Kirkcaldy) (SNP)
*Bill Walker (Dunfermline) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Douglas Black (Unison)
Bob Christie (National Community Planning Group)
Gary Gillespie (Scottish Government)
Peter Kelly (Scottish Living Wage Campaign)
Fiona Kordiak (Audit Scotland)
Lynn Norwood (Cordia (Services) LLP)
Graeme Roy (Scottish Government)
Jenny Stewart (KPMG)

CLERK TO THE COMMITTEE

Eugene Windsor

LOCATION

Committee Room 1

Scottish Parliament

Local Government and Regeneration Committee

Wednesday 5 October 2011

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

Draft Budget 2012-13 and Spending Review 2011

The Convener (Joe FitzPatrick): I welcome everyone to the seventh meeting in 2011 of the Local Government and Regeneration Committee in this session. As usual, I ask everyone to ensure that mobile phones and other electronic devices are switched off. We have received apologies from Ruth Davidson, who cannot be with us today.

Agenda item 1 is to take evidence on the spending review 2011 and the draft budget 2012-13. I welcome our three panel members. Bob Christie is outcomes programme manager at the Improvement Service, which provides the secretariat for the national community planning group, and he represents the NCPG today. Fiona Kordiak is director of audit services for Audit Scotland, and Jenny Stewart is head of infrastructure and government Scotland at KPMG.

Before we go into questions, I invite members to declare any interests.

Mark Griffin (Central Scotland) (Lab): I am a member of North Lanarkshire Council.

David Torrance (Kirkcaldy) (SNP): I am a member of Fife Council.

Bill Walker (Dunfermline) (SNP): I, too, am a member of Fife Council, at present.

Kevin Stewart (Aberdeen Central) (SNP): I am a member of Aberdeen City Council.

The Convener: I thank members for that. I will kick off with a general question. Will panel members briefly outline what they consider to be the main issues for local government in the draft budget?

Jenny Stewart (KPMG): I run KPMG's public sector business in Scotland and I am part of our United Kingdom leadership team, so I have a view of what is happening in local government across the UK and more widely. Our firm has worked in the past year with more than half of Scottish local authorities, as well as with the Scottish Government in a range of different ways, so we have quite a good sense of what is going on in individual councils.

On the budget, clearly we will be in tough times for the next few years. The critical issue is the reduction in the overall revenue grant, which members will see—I am sure that the committee has been briefed on the budget papers—will drop in real terms by about £1 billion over the spending review period. That is offset in cash terms by assumptions and increases in non-domestic rates and annually managed expenditure grants, but not in real terms. There will be significant challenges for local government in responding to that situation in terms of how efficient they can be and what costs they can drive out, how they can change how they operate and how they will deliver services differently, and in terms of the switch to preventative spend.

I do not want to make this a long introductory statement—I know that members are keen to get to questions—but I must flag up something that we are looking at quite closely, which is the differential spend across local authorities. As members will know, about 52 per cent of the local government budget is spent on education and social work. However, when we delve into the services that individual local authorities provide, we find huge variations in costs. There are very good reasons for that in some cases, of course; clearly, for a very rural area that has a widely dispersed population, such as Orkney or Shetland, it will cost more to do certain things. That is understandable.

However, we have done work across the UK, and more widely, on a particular issue regarding costs, which involves getting the average provider up to the top quartile. For example, a local authority that was halfway in the rankings for costs at number 16 and that could get up to number 8 could save around 20 per cent. There are obviously huge issues around the detail , but it is an area of performance management that people will be looking at quite closely.

The Convener: How can we tease out whether variations in spending are down to efficiencies, inefficiencies or demand?

Jenny Stewart: The detail is not great, as ever, and there is a lot of work to do on that. However, there is a clear framework around which we can ask why there are differences and what is driving them. In some areas there will be factors to do with deprivation—that is the case in relation to health, too. However, we can ask, for example, why it costs more to collect the council tax in one location than it does in another, when the locations are similar. There is much detailed work to be done underneath the figures. It would be rather dull management stuff, but it could help significantly, because there are big political decisions and choices for politicians to make. The question is how well performance is being driven, so that as much headroom as possible is made for politicians to make those choices.

Kevin Stewart: That was interesting. The committee has talked a lot about how difficult it can be to benchmark, because sometimes we are comparing apples with oranges. In your experience, do the costs in one authority sometimes include things that are not included in the costs of other authorities, and does that make it much more difficult to judge what is going on?

Jenny Stewart: Yes—it is true that there is an issue about whether data are comparable on a like-for-like basis. However, problems with data should not stop us trying to ask the right questions, and should not stop local authority X taking cognisance of the issue and asking what local authority Y is doing differently and whether it, too, can do things differently in order to release savings.

The differences in part reflect previous priorities—I must phrase this carefully—because a local authority cannot necessarily excel and be the best at everything. Local authorities represent huge agglomerations of very different services; they collect bins, but they also provide deeply personal social care services. It is understandable that the pattern of spend in the past has reflected local priorities. That is an issue, too.

Bob Christie (National Community Planning Group): Thank you. I will talk about that from the perspective of the national community planning group, which comprises local authority chief executives, national health service board chief executives, chief police officers and chief fire officers. The group came together in 2008 to try to think its way through the challenge of delivering shared outcomes in partnership, on the back of the national performance framework and the advent of single outcome agreements.

The group would not want to comment in detail on local government matters, but its focus in examining the local government budget—as with any other part of the budget—will be on whether the budget helps local partners to focus on outcomes and to drive demand out of the system by investing in preventative spend, and whether it helps with local integration between partners, which the group thinks will be the key to efficient service delivery and improving local outcomes. That is the perspective from which the group comes.

On efficiencies, it would—given the committee's interest in the matter—be remiss of me as an employee of the Improvement Service not to note that a substantial amount of work on benchmarking is in train. The work is still very much developmental and there are challenges to do with data definitions and other matters, about which the committee can find out more through direct contact with the Improvement Service.

Fiona Kordiak (Audit Scotland): Some of the points that I will make on behalf of Audit Scotland are similar to points that Jenny Stewart made. There are clear challenges in the budget for local government in delivering with a reduced settlement. It is also facing a number of cost pressures, in particular the impact of demographics. We will be looking to see how local government manages such pressures not just in the short term, but in the long term. We think that there will be real challenges in moving money to prevention because there is a squeeze, and there are declining resources and increasing cost pressures. The question is how we can make that shift to prevention while still delivering services day to day.

A key issue for local government is that there must be clear leadership, in particular to determine each individual council's priorities, and councils must have good information about what services will contribute to achieving priorities and getting the outcomes. The question then is how money will be moved into the priority areas. Obviously, that means that some services may decline. There are risks to leadership, particularly in the run-up to the May 2012 elections and particularly where there are coalitions. Some council coalitions may come under pressure, so we hope that there will not be a hiatus in that period—local government does not have time for that.

Good community engagement is needed. Some councils have started to engage with and to consult their communities on the budget, but so far that has been done on quite a short-term basis. More consultation of users and citizens on their priorities for the medium and longer terms is needed.

As Jenny Stewart said, there has never been a greater need for good performance management, good data and good benchmarking. I echo that. Benchmarking can be difficult, but that does not mean that it should not be done.

David Torrance: I want to talk about preventative spend. Over the next three years, the Government will spend some £500 million on three funds. What areas of local government are best suited to taking that work forward? We often throw money at things but do not get an end result. How can we measure outcomes? Partnership working was mentioned. I know that many services in certain areas of Fife are delivered by voluntary groups or groups of that sort. How can we get them to work together? They resist coming together as partners to work together at every stage.

Jenny Stewart: There were quite a lot of questions there. Will you go over what you asked? You asked about outcomes.

David Torrance: How can we measure outcomes? We often throw money at things but do not get outcomes. What areas of local government would be best to take work forward? How can we get partnership working among the different groups to deliver services, for example in Fife?

Jenny Stewart: I am sorry, but I should have mentioned at the outset that I am a director of Volunteer Development Scotland and of the Royal Lyceum Theatre Co Ltd. Obviously, as a director of Volunteer Development Scotland, I have an interest in the third sector.

On the shift to preventative spend, the opportunities around integrated health and social care and support to keep people in their homes are big issues. We have seen a lot of evidence that that support provides better health outcomes for individuals and better patient satisfaction. Obviously, in providing that, pressures are shifted predominantly to local budgets, because they support people staying in their own homes. Preventative spend could be used effectively on that.

We are waiting for a big piece of evidence on the whole system demonstrator programme in England; three big areas were chosen for the largest-ever telehealth pilot, and the results are being academically peer-reviewed at the moment. We advised the Department of Health on it.

It is clear that there is a focus on keeping people in their homes and on shifting preventative spend to that, which helps to deal with the demand issue. Many more people can be looked after more cost effectively in their own homes. It also prevents a lot of the expense of readmissions into hospital. Costs are driven up not so much by people going to accident and emergency departments as they are by people who have fallen over or whatever ending up in hospital for two days. It is not just about the local government cost; it is about the interplay between local government and health.

10:15

Bob Christie: There is a challenge in measuring outcomes. Right from the start of the single outcome agreement process, it was recognised that that was going to be a huge issue for us. Currently, all our measurement systems measure the processes by which we convert inputs into outputs, not whether we are achieving the results that we began by saying that we wanted.

The Society of Local Authority Chief Executives and Senior Managers and the Scottish Government jointly have undertaken a huge piece of work called the improving local outcome indicators project, information about which can be accessed on the Improvement Service website. With the help of the statistical analysts in the Scottish Government, the project has gone through all the available indicators on the key outcomes that partnerships throughout Scotland are looking for, such as educational attainment, health improvement and employability. It has identified those that are most robust and has promoted them throughout Scotland as the best possible measures of progress towards the common outcomes for most communities in Scotland. It is useful to be aware of that work as a balance to the focus on efficiencies, which the benchmarking process is about. Our concern is that we achieve better outcomes; efficiencies are only one part of the picture and are about creating the capacity to achieve those outcomes. They should not become the sole concern of measurement. That is the view of the national community planning group.

On the areas that are best suited to prevention, I echo what Jenny Stewart said. Across Scotland, we spend about £1.4 billion per annum on emergency admissions of older people to hospital. However, in at least 25 per cent of cases, no cause is attributed to the older person ending up in hospital. There is no diagnosis; it is “cause unknown”. Often, that is because the person had a fall at, say, 2 in the morning and the public services were somehow alerted to that. At that time, there are only two places where the person can be put outwith their home, if their home is no longer safe for them: hospital or prison. If we could do something to prevent people from falling ill, prevent emergency admissions and support the independence of older people—which would mean bringing funding upstream into the services that keep people safe, comfortable and confident in their homes—that would be a huge early step forward. Measures that were focused on prevention of unnecessary admissions to hospital being drivers in the system would be a huge step forward. That would be an easy win, but that is not to say that the overall shift towards prevention would be easy to achieve.

The £500 million combined total of the three change funds has been mentioned. That money is for exactly the areas in which local government and its partners can be most effective in supporting prevention: services for the early years, for reoffending and for health and social care. It is of huge concern to the national community planning group that we do not yet know what the mechanisms of those three change funds will be. As described, £500 million sounds like a lot of money; however, it is rather less than 0.5 per cent of the more than a hundred thousand million that is being allocated over the period of the spending review. Our concern is that those funds should be used in ways that support the community planning process and delivery of single outcome agreements. They should not become the focus of concern; they should be, as the Scottish Government intends them to be, the levers of mainstream resources that enable partners to achieve the shift to prevention.

David Torrance mentioned the resistance of services to working together in partnership. As you may know, in its submission to the Christie commission, the national community planning group, being comprised of the chief accountable officers for a big part of public service delivery in Scotland, made it clear that until everyone is working together with a common set of duties for the achievement of measurable outcomes, for the same communities in the same local areas, the existing tensions in the system will pull them apart. They may want to work together or they may not want to work together and use the existing system as an excuse; however, until we are all bound by a common set of duties under which we are accountable for improved outcomes—rather than being concerned with to whom we are accountable—the problem is not going to go away, I am afraid.

Fiona Kordiak: At its simplest level, measuring outcomes is pretty straightforward—for example, educational attainment improves or health improves—but there is a need to get better information on what preventative measures and what services actually contribute to improvements in outcomes.

A year or so ago, we did a bit of work on drug and alcohol services. We found that a lot of work had been done on which treatments work, but that very little had been done on which preventative measures work. That is the key challenge. Furthermore, it is not just a question of outcomes: we must think about efficiency. There is a role for both.

On the question of which areas it would be best to start with, I echo the answer that health and education are the key areas that stick out.

On partnership working, there is an issue in that there are different accountability frameworks, which can make it difficult to support good partnership working. Again, however, it is as much a question of leadership: where there is a will, there is a way. New statutory duties are not always needed to encourage good partnership working. Partnerships need to be clear on accountability arrangements. There is a need for agreement up front about how problems in partnerships will be resolved—good conflict-resolution measures—and for robust governance arrangements and good performance information. Accountability issues can be a problem and can hinder partnership working, but they can be overcome.

David Torrance: I want to go back to the point about keeping people in their own environment. Why have local authorities been so slow to take up initiatives such as telecare when the only other option for some people is residential care? Telecare works in a lot of cases, and the investment in it is small compared with the costs of residential care for a year or two. The technology already exists, but local authorities have been slow to take it up.

Jenny Stewart: I can send you heaps of stuff on telecare and telehealth. We are trying to widen the definition so that we are looking across the whole piece—taking the individual along the whole clinical pathway. I know that Audit Scotland is also doing really good work on telehealth at the moment.

The evidence base is building up, and at the moment some good pockets of work and small trials are going on, but the appropriate scale of telehealth or telecare—whatever definition you want to use—does not exist in Scotland. People are waiting on two things: first, the whole system demonstrator evidence is due to come out in November. It will be a bit of a trigger in that when people see it, they will realise what can be done. Secondly, the DALLAS—delivering assisted living lifestyles at scale—funding programme is being run. It is a UK-wide fund that Scottish health boards are looking to get some money from. The issue might also be that telecare and telehealth deal with pressures in demand rather than drive out immediate cost savings.

I want to make a wider point in relation to outcomes and what is preventing some projects from coming through. The generic point is that as a country we are producer driven, so we think much more about the teachers, doctors or nurses. If we could change our system to focus on what the citizen needs, what the citizen wants and how we provide services to meet those, we could turn the situation round. That is not to undermine in any way what is going on—people in local government, including members here who are also councillors, clearly care passionately about what goes on in their local areas and what services can be provided. However, we need somehow to drive into the system the focus on the individual, what the individual needs and what services can be provided.

There is some good work in Glasgow and elsewhere on co-production. That is the jargon, which basically means giving people money to decide the services that they need. We have worked on a number of projects across the UK and we have found that, when people buy services, they each buy something different. Some people just want a bit of support to get out and meet their friends instead of having to sit in a day-care centre all day long. I am sorry—I am going into too much detail, but I think that that is a key point.

Bill Walker: Like David Torrance, I am a Fife councillor.

The question that I had intended to ask has mostly been answered, but I have a supplementary about Jenny Stewart's very interesting comments about inputs and outcomes which mirrors Mr Torrance's point about measuring such things. Might KPMG be able to suggest some clever method of establishing direct links or causal relationships between inputs and outputs or outcomes, rather than simply making correlations? After all, claiming that what are, actually, correlations are evidence of cause and effect is the stuff of politics. How can we properly link the kind of outputs and outcomes that David Torrance has been talking about to particular causes? That is the problem and the issue that people argue about all the time.

Jenny Stewart: The holy grail of outcome-based budgeting is being able to know that if you put £10 in one place you will get X amount of output in another. As we know, however, the world is a lot more complicated than that and a lot of outcomes are, quite rightly, long term. For example, benefits from preventative spending now might not be realised for some time.

A number of steps can be taken in this area. First, you need to be absolutely clear about the outcomes that you want. Secondly, your outcomes need to be quite ambitious. With a lot of outcomes, we might be in a bit of a better position than we were last year or whatever, but looking at Europe we will see that we are not keeping pace with improvements elsewhere. We might have made great strides in our health outcomes—I realise that this is the Local Government and Regeneration Committee, but I will use the example of health—but the fact is that we have not done anywhere near as much as other countries. We need to be clear about and then focus in on outcomes and understand how they support what we are doing. At the moment, the current outcomes are wide—and quite rightly so.

I note that Bill Howat is the committee adviser. When a few years ago the Howat review, of which I was a member, examined outcomes and how they fed back into individual service lines, we found that everyone could justify their spend as contributing to an outcome. However, these are tough times and the question is not simply whether spend X contributes to the outcome but whether it contributes to the outcome more than spend Y or Z would. That is the real challenge. Nevertheless, being clear about priorities and, indeed, having some form of priority-based budgeting would go a long way towards dealing with the issue that you raised. There is no magic bullet, but there is a lot of good stuff out there; good work can contribute in that respect.

Bob Christie: The challenge of knowing what works chimes very well with the three key challenges that Fiona Kordiak identified and which I will, if I may, summarise. First, what matters in these very hard years? Secondly, what is the evidence of what works and how do we design services to deliver in that respect? Thirdly—and crucially—there is the political challenge of deciding what has to be stopped. As Jenny Stewart said, it is a question not just of what works but of what works best, so things that might work will have to be stopped. We have been facing that challenge for a number of years—indeed, since before 2007—and it would be helpful to find out what the Scottish Government has been doing with the accumulated knowledge of what works. We understand that an exercise is under way to support community planning partnerships and to identify best practice across the key outcome areas and it might be helpful to follow that up.

Bill Walker: At a national level, everyone has agreed that preventative spend is a good thing. We need to separate out preventative spend, with regard to the causal links to the benefits, from the general revenue support that we provide on a day-to-day basis. Kevin Stewart mentioned earlier that different councils accounted for things in different lines. Those of us who are councillors know about that: if you put something in a different line, it has a different effect on the way in which the budget is constructed. That is important, and you might want to comment on it.

10:30

Fiona Kordiak: It is always a good idea to ask users what works. Sometimes they will give you a different answer from the one that you expected.

Kevin Stewart: That leads me on to my question. Jenny Stewart mentioned priority-based budgeting and Fiona Kordiak spoke about consulting with communities over a long period of time. Why has it taken so long for many local authorities to reach the stage of priority-based budgeting, and why have they not come up with medium-term and long-term financial plans? I come from Aberdeen, which is undertaking a priority-based budgeting exercise and has a long-term financial strategy in place. Those things were consulted on over a long period of time.

That leads us to Bob Christie's comments about the three things that we need to do. He missed out communication, and Fiona Kordiak corrected him.

Those three things must be brought together in conjunction with priority-based budgeting and long-term consultation. At the end of that, you will get your medium-to-long-term financial strategy.

The Convener: It is good when our witnesses work as a team.

Bob Christie: Aberdeen faced financial pressures on a scale that we are only now beginning to appreciate throughout the rest of Scotland, and we can learn from it. The Improvement Service—I will put that hat on—has co-funded an outcome-based budgeting project with the Scottish Government that is working with Aberdeen and Fife community planning partnerships. That has taught us that our current system does not help to measure the delivery of outcomes. The next phase of that work with the Government will involve being clearer about what works.

On the point about consulting with communities, I did not deliberately miss that out—there was a logic to asking three questions about what matters, what works and what has to be stopped. The national community planning group raised concerns at its meeting last week about the Government's silence on the national performance framework and on the future of single outcome agreements, beyond the rhetoric that those are important. The group felt that we have reached a point at which the single outcome agreements must be revived—although not rewritten, because there is a great deal of constant improvement going on. It also felt that the Government and its national partners should convey some messages to community planning partnerships. One key message is the need to engage communities in the challenge of resource prioritisation, so the group has recognised that issue.

Mark Griffin: What are panel members' views on the financial and accountability issues that local government will face as a result of the draft budget proposals on council tax, non-domestic rates and capital spending?

Jenny Stewart: The cut in revenue funding and the implication that non-domestic rates will take up some of the slack will provide a challenge for local government. That shift involves replacing a more certain income stream with a more uncertain one.

You asked about accountability issues. Are you referring to the shift to voluntary organisations and the third sector?

Mark Griffin: I was referring to accountability on council tax, given that central Government is now taking the decision on whether to change council tax levels, and accountability on capital spending. Councils are being asked to borrow money and feed it back to Government to be spent on national priorities, rather than capital borrowing being used for local priorities. How will that affect the accountability of local government?

Jenny Stewart: There is a particular dip in capital in years 1 and 2 of the period. Yesterday, I was at the Scottish Futures Trust conference, at which there were discussions about priorities. The capital budgets for local government will be squeezed. Local authorities have always borrowed to support capital funding in their areas. It will be for them to decide on the priorities, such as schools. However, the challenge for the capital programme is about the affordability on the revenue line. With capital being so constrained, can local authorities afford the revenue consequences of the capital funding that they would like to undertake? If a council is to borrow £200 million for capital, it will need about £20 million in revenue to support that. Although we are talking about capital budgets, revenue budgets are also being constrained. It is a question of affordability.

I do not think that I have answered your question properly.

Mark Griffin: It was about accountability. In years 1 and 2, local authorities are being asked to borrow £100 million and £120 million and give that back to the national Government for it to spend in their areas.

Jenny Stewart: I am not sure that I have seen those figures in the budget. Maybe I have missed something.

Mark Griffin: On another issue, the increase in non-domestic rates income is based on predictions of increased economic activity. Are those predictions feasible?

Fiona Kordiak: I am not sure that I am equipped to comment on whether those assumptions are reasonable. The next panel of witnesses, who are economists, are probably better qualified than I am to talk about that.

To pick up on the issues of capital, councils have always had the ability to undertake prudential borrowing to finance capital expenditure. In the past few years, financing patterns in councils have changed, with more borrowing being undertaken to finance capital expenditure and less funding from capital receipts, and that is particularly evident in the current climate, in which asset sales are more difficult. A key issue for councils is to assess the affordability of borrowing in the longer term. As Jenny Stewart said, there are revenue consequences. Another significant issue is that borrowing costs are fixed costs in the longer term. Similarly, public-private partnership or private finance initiative annual payments are fixed costs. That means that councils will increasingly have less flexibility because, if their fixed costs increase, their element of discretionary funding reduces, particularly at a time of financial constraints. Councils must have good medium to long-term planning in place to judge the impact of any borrowing decisions that they take.

Bob Christie: The national community planning group cannot comment on aspects of local government funding. You will hear about that from the Convention of Scottish Local Authorities, SOLACE and other interests. However, there is a link between non-domestic rates and the capital allocations, which is probably relevant for the community planning partnerships. We believe that local partnerships are well placed to support local economic growth, but we have concerns about the way in which capital is being reprofiled in Scotland towards national infrastructure and national economic growth. That is a good thing but, by implication, it is a move away from local capital investment that could support local economic growth, which could make it problematic for some areas to achieve the projected rise in non-domestic rates income. That is just a concern in principle, rather than an evidenced one.

Jenny Stewart: I want to come back in on the point about capital, because I think that I can see where it is leading. Generally, it makes good economic sense to invest in capital, particularly at this point in the economic cycle, because doing so generates jobs and is good for growth and so on. Clearly, however, not all capital spending is equal and, depending on which capital projects are supported, there will be a differential impact on the economy. Some will improve services. For example, if local authorities build new schools, clearly they will have better educational services, but they might not create as many jobs as they would if they supported a local transport project. In principle, it is a good thing for local authorities to use their financial power to invest in capital now, which will promote the local economy. More widely, it is similarly important that we have a shift into capital spending nationally.

On the borrowing front, we clearly have to be mindful of all the prudential borrowing rules and we must be careful. I can see the argument that borrowing now will constrain local authorities in future but, equally, the charges involved maintain the assets in a decent condition. The instinct in tough times—this has happened across the UK—is to cut the capital budget, but that results in local authorities not maintaining what they have, which has long-term consequences. I caution against being so concerned about the medium to long-term constraints of supporting that borrowing, because, in PPP or non-profit-distributing schemes, the charges maintain the asset in a decent condition. Councils have to balance those different points in deciding how much their local capital expenditure is.

Kezia Dugdale (Lothian) (Lab): I want to return to a point that Fiona Kordiak made about medium to long-term financial planning. How aware is Audit Scotland of 32 different versions of such planning? How well-equipped are councils to deal with it? I found it quite difficult to get a simple table that says, “This is how much capital debt each local authority has and this is how much of their revenue budget they spend satisfying that capital debt.” Am I missing something obvious or is such information difficult to find? If such a table does not exist, how do we get to a point where that kind of information is readily accessible?

Fiona Kordiak: It is difficult to find but, last year, as part of our “An overview of local government in Scotland 2010” report, we produced a table that shows how individual borrowing levels in councils have been changing year on year. We have been doing a bit of work on that and we expect to do similar work this year as part of the overview report for 2011, which we are currently working on. We are analysing all the councils’ audited accounts, which were received on 30 September—they are hot off the press—and we expect to comment on the different levels of borrowing of different councils in this year’s overview report.

Obviously, the prudential limits set by councils differ, because their circumstances and their views on affordability differ. There is not a standard mechanism for that. The indicators themselves are standard, but how councils develop and agree what is affordable for them differs. Auditors review that annually.

We think that there is scope for better reporting to elected members on the implications of prudential borrowing and the indicators because, sometimes, there is a risk that borrowing goes through on the nod as part of budget allocations and agreements each year, which can be quite techy. There is an onus on officers to explain some of that in transparent and clear terms for members, so that they know what they are signing up for in the longer term.

10:45

Kezia Dugdale: Thank you. That is helpful. Will that information quite clearly tell us what local authorities are in a better position to borrow than others? I am aware that Edinburgh spends roughly 11.5 per cent of its revenue budget satisfying capital debt. I would be quite concerned about Edinburgh being asked to borrow more money to build and satisfy its desire to increase non-domestic rates income. Is that something that can be drawn out from the report? Can it be used for the benefit of financial planning across Scotland? Will it be presented in a way that we can use?

Fiona Kordiak: We are just starting to work on the overview report at the moment, so I cannot say in any detail what it is likely to examine. However, it will certainly comment on levels of borrowing by councils.

Kevin Stewart: One of the things that it is difficult for folks to get their heads round is the situation in which there is investment in capital that delivers a revenue saving that can be used to pay for the capital finance costs of what is being put up. Is there any good practice out there that can be used to show that that can work?

Fiona Kordiak: Spend to save, basically.

Kevin Stewart: Yes.

Fiona Kordiak: It all comes down to good option appraisal. In any business case for any programme or project, the costs have to be balanced against the benefits that the project will deliver in the long term. Spend to save comes down to good option appraisal. I cannot think of any examples of good practice off the top of my head.

Jenny Stewart: I echo that. When we think about capital, we think of the bright and shiny new projects, such as new schools. However, a lot of capital expenditure delivers those revenue savings. As an economy, the UK has invested much more in capital than our European competitors. Again, that has involved not so much the bright, shiny projects but the basic capital that allows us all to be much more efficient in our day-to-day jobs and in the delivery of services in the public sector. My concern about the squeeze on capital spending is that not enough attention will be paid to those capital projects that can make operational savings that will continue to deliver benefits for many years to come. It is not just about option appraisal, though. People know how to do a green book option appraisal, but what is important is the will to make those particular choices.

The Convener: As there are no other questions, I thank our witnesses for their evidence.

10:47

Meeting suspended.

10:51

On resuming—

The Convener: I welcome our second panel on the draft budget and spending review. Gary Gillespie is the chief economist and Graeme Roy is the senior economic adviser in the Scottish Government's office of the chief economic adviser. We have received a brief submission from Gary Gillespie and I believe that you have an opening statement to make.

Gary Gillespie (Scottish Government): Yes—thank you very much, convener.

I will take a few minutes to talk through the background to the slides that I have provided, to give a bit of context for the session. I will cover three areas: what has been happening in the global economy, what has been happening in the UK and Scottish economies, and some of the impacts on local authorities through the labour market. I will then give a very brief summary.

I ask members to turn to the first slide, which looks at developments in the global economy. It is worth providing some background context. It is around three years since the collapse of Lehman Brothers, which triggered the recession that is still an issue. Prior to that collapse, there was a lot of volatility, particularly in what are called the interbank lending rates between financial institutions. I want to show that there is still volatility in the global economy and that the phase of the recession has moved around a little.

The first chart looks at stock market indices for Europe, the United States, the UK and Japan. It shows the recent volatility between August and October, when the indices really dropped. That volatility picks up the outlook for the advanced economies in terms of their growth prospects, the concerns about the sovereign debt issues in the euro zone, the risk of default on Government bonds and the impact that that will have on financial institutions, which will feed back into the economy and confidence. The first slide just sets the global context and the volatility that exists there.

The next slide mirrors those developments in the global economy. I will make two quick points about it. It shows quarterly growth rates for the US, the UK, Japan and the euro zone. On the right of the chart, we can see the quarter 2 growth rates, which show a softening in growth in the major economies. The outlook for quarter 3 and quarter 4 is a further softening in growth, which is linked to risks in the global environment. Global economic growth is forecast to grow by 4 per cent, but the International Monetary Fund downgraded growth in the developed economies in 2011 to 1.5 per cent. That is the context.

Let us move closer to home and turn to the chart on page 4 of my submission, which picks up Scottish and UK gross domestic product growth. It shows, on a quarterly basis, the change between 2005 and 2011. The growth patterns for Scotland and the UK were broadly similar during the recession, although today the Office for National Statistics has published new statistics on the UK, which suggest that its recession was deeper than it was first thought to be. The general trend was one of broad similarity. UK growth has been revised downwards for Q2 to 0.1 per cent. The Scottish Government will publish GDP growth for Q2 on October 19.

Slide 5 looks at unemployment over the period from 2000 to the most recent quarter using the International Labour Organisation definition of unemployment. We see that in Scotland in particular there is a gradual decline in unemployment over the piece to a series low in mid-2008 of just over 4 per cent. There is then quite a steep increase during the recession and an improvement during 2011, with the rate falling back to its current level of 7.5 per cent as opposed to 7.9 per cent in the UK. It is interesting that we see Scotland's unemployment figure falling by 33,000 over the year in the most recent figures. The UK figures were up slightly at around 40,000, but the UK unemployment rate has been slightly more stable.

To put the figures in an international context, US unemployment is at around 9 per cent and the figure in the euro area is around 10 per cent. However, there are challenges within those figures. As we know, youth unemployment in Scotland remains stubbornly high at 19.4 per cent, against 19.2 per cent in the UK. However, to put that figure in context, even before the recession when unemployment in Scotland was at around 4 per cent, youth unemployment was between 13 and 14 per cent. The segment is really difficult, as new people enter the labour market for the first time.

Slide 6, on employment rates, shows a similar trend to unemployment. Over the piece, there has been positive growth in employment rates; a big fall during the recession was followed by a bounce back during the most recent quarters, with Scotland showing positive growth during the quarter and the year of 23,000 and 36,000 respectively. The bounce back in employment growth comes against a background of reduced employment in the public sector. As we saw in the Scottish public sector figures that were published last month, there was a fall in public sector employment over the year to Q2 of around 23,000. During the same period, total employment growth in Scotland was close to 60,000, so there is a different dynamic in the labour market.

Moving down a level, local authority labour markets are shown on slide 7, which shows the claimant count rate for local authorities based on the resident population at August 2011. The claimant count, which is a subset of the bigger unemployment figure, is an administrative database that shows those who are receiving jobseekers allowance. The Scotland average is in the middle; North Ayrshire, West Dunbartonshire, Glasgow City, and Dundee City are at the upper end; and Perth and Kinross, Aberdeen City, Aberdeenshire, Orkney Islands and Shetland Islands are at the lower end. The chart shows the distribution of unemployment and is a useful indicator.

It is also interesting to see how unemployment has impacted on different areas of Scotland. The pictures on page 8 show two segments. The top part shows the 12 local authority areas that had the highest claimant count in August 2008, and that exercise is repeated for August 2011. In effect, the areas are the same, so we can see that the impact of the recession causes the largest adjustment in areas that started with relatively higher levels of unemployment. In both segments, Falkirk and South Lanarkshire are at the bottom end. If we extended the charts across the 32 local authorities, Falkirk and South Lanarkshire would be 13th and 14th, which is only marginally different from what we can see. It is interesting to pick up the variation at local authority level.

11:00

That was a bit of a gallop through quite a lot of pictures, but we can come back to the slides. The position is summarised on the final slide. The context of the global economy is important for us. Although it remains positive, there is increasing uncertainty about what is going on regarding the euro area and risks to the banking sector. The UK and Scotland have both had their growth rates revised downwards in 2011 to around 1 per cent, which suggests a weak recovery in output.

The Scottish labour market has improved throughout 2011, but challenges remain, particularly around youth unemployment and issues around part-time and full-time work. The immediate outlook remains positive, based on the survey evidence that we see for the Scottish economy, but there are increased downside risks regarding what happens in the rest of the UK and elsewhere.

The Convener: Thanks very much for that sweep-through of the economy. How will the draft budget, as it relates to local government, help the economy and how will it help local authorities improve the economy in their areas?

Gary Gillespie: In a sense, we start with a national economic picture and the combined local authorities give us the aggregate picture. On the draft budget, the Scottish Government published "A Scottish Budget for Growth" last Monday, which outlined how the budget provides that support and picked up on key areas around capital investment.

The committee discussed with the previous witness panel the impact of the reductions in capital investment. Our diagram on that shows that although capital investment over the period has fallen in terms of Scottish Government-funded investment, non-profit distribution and the annual switches from revenue to capital make up the shortfall. That is important for the economy more generally. Many of the national schemes that will be funded will be in local authority areas, so that will provide a stimulus locally. National-led activity benefits local authorities. So, capital investment is obviously key in supporting the budget.

Access to finance is important in that regard, too. Local authority areas and their business base must get access to finance, so they work around what the budget is doing in terms of the Scottish loan fund and related projects. Renewables are also key. There is a broader argument around what is being done to support households and confidence in the economy.

The Convener: You referred to capital spend in the context of local government. Obviously, the spending review counts on local government increasing prudential borrowing and other borrowing in order to increase the amount of available capital. What assessment has been done of local government's ability to borrow?

Gary Gillespie: I could not comment on individual local authorities. My understanding is that the capital budget for local authorities has been back-loaded so that in the first two years they have less, then they receive additional money in the subsequent years. Obviously, individual affordability will relate to individual local authorities.

It is important to step back and think about what the economic rationale is for investing in capital at the minute. Around 2005-06, there was a real cost to delivering infrastructure projects. Our economy was at the top of the cycle, construction price inflation was high and authorities competed with one another to deliver their projects. Now, we are coming out of a recovery and there is spare capacity in the economy, with 200,000 people unemployed. There is an opportunity through capital investment to stimulate domestic or national demand and build on that to provide resources that will improve productivity and services or generate resource efficiencies through projects.

The rationale for capital investment is absolutely clear. It is for individual local authorities to decide what the right balance is for them, given where they are in their financial outlook. However, the economic rationale is absolutely certain.

The Convener: Given that capital money will be moved from local projects into national projects because local government can borrow whereas the national Government cannot, it would be useful to know what general assessment—not in relation to specific local authorities—has been undertaken of local government's ability to increase its borrowing. If you do not have that information with you, perhaps you could write to us with it.

Gary Gillespie: No, I do not have that information but we can certainly get back to you with it. I refer you to the paper that was published last week, which talks about how, through non-profit distribution, the housing trust and the transfer of revenue to capital, the budget tries to fill the gap in terms of maintaining aggregate capital expenditure in the economy.

Kevin Stewart: Mr Gillespie has just mentioned NPD and the housing trust as new ways of getting moneys into capital. Has any assessment been made of how old ways could be used to get moneys into capital? A number of local authorities have substantial common good funds, for example, and many of the investments in which those funds are held are not making much money because of the current interest rate situation. It may be an idea to allow some flexibility for common good funds to be invested in, say, social housing so that there is a return. The same principle could be applied to pension funds, especially public sector funds, which are also not getting much of a return. Has that been considered by the Government? I am sure that we can learn lessons from the days of old in Aberdeen, when the common good fund was used to open quarries and build houses, which created a substantial income from it.

Gary Gillespie: I cannot comment on the detail of either the common good funds or pension funds, but I know that, in the past, there have been discussions with local authority funds of that type about the opportunity to invest in, for example, the Scottish Investment Bank, which would provide an investment with a guaranteed return. I will get back to you on that point. I am not close enough to the detail around the financing of local government.

Kevin Stewart: That would be appreciated.

Bill Walker: I refer you to page 4 of your introductory slides, which shows "Scottish and UK GDP Growth". I want to ask about the veracity of the numbers, so that I understand them. This is not intended to be a political question. What is the contribution of oil and gas around the shore in the North Sea and the north Atlantic? The numbers are huge, especially in the context of the Scottish economy. Do you divide up the figures on a territorial basis, in terms of activities around Scotland, or do you do it on a population basis or some other basis? We need to know the true contribution of oil and gas—which will be around for a long time—to the Scottish economy.

Gary Gillespie: I should have been clearer. The figures are for on-land GDP and exclude the North Sea. The figures are calculated on a similar basis for the UK. The North Sea makes a massive contribution to the Scottish economy, and in other work that we do that includes a geographical share it can add up to £20 billion to Scottish GDP and increase the GDP figure by around 10 per cent. This is an index of growth from quarter to quarter, showing what is happening with GDP.

Bill Walker: Thank you.

Mark Griffin: Let us return to the other methods of raising money for capital spend. You will know that a number of tax increment financing applications have been approved and are in the pipeline. They are based on the borrowing being paid back by increases in non-domestic rates. How does that marry with the move towards local government budgets having a greater dependence on increased non-domestic rates? How will those councils pay back the borrowing if the increase in non-domestic rates is used to support their budgets?

Gary Gillespie: I heard you discuss the matter with the previous panel. My understanding is that the local authority numbers are guaranteed. The non-domestic rate income estimates are there and the settlement for local government is guaranteed, so in a sense the risk of the NDRI figures is not a real risk for local government.

If you look at the NDRI figures, what is projected over the period is interesting on a number of fronts. The bulk of the change—more than 50 per cent—relates to the retail prices index and how the poundage rate has increased. This morning, we looked at some figures from the Office for Budget Responsibility's report on the UK fiscal outlook in March, which showed that, over the UK spending review from 2010-11 to 2014-15, UK business rates are projected to increase by 25 per cent. The comparable figure for Scotland over the same period, with no policy change, is 26 per cent. I do not get a sense that the NDRI numbers are any more risky or significant than in previous periods. The estimates have a statistical base. We know last year's outturn for NDRI—we know the different components of it. It is a robust source of revenue. Even during the downturn and the recession in 2008-09 and 2009-10, when all other Government revenues collapsed, there was still growth in NDRI. I do not see the risks that you suggest.

Mark Griffin: The main budget may be protected, but there is still a risk to local authorities that are going to borrow for their TIF projects if that is based on an increase in non-domestic rates income. Do you see any complications for local authorities that proceed with that sort of TIF borrowing?

Gary Gillespie: I take your point that TIF is ring fenced and local authorities get the benefits back from the investment. That risk is related specifically to the TIF in those areas and whether the additional revenues come back in. However, I do not see a contradiction. Perhaps Graeme Roy could add something.

Graeme Roy (Scottish Government): There is a business case underlying each TIF, which will be based on projections for non-domestic rates. They will be critical to the outlook for the application. However, as Gary Gillespie says, non-domestic rates have tended to be relatively robust during the recession and the forecasts, at the aggregate level, do not seem to be too much unlike what is happening in the UK.

The Convener: There are no further questions. I thank our witnesses again.

11:12

Meeting suspended.

11:21

On resuming—

The Convener: I welcome our third panel of witnesses: Peter Kelly is from the Scottish living wage campaign; Douglas Black is regional organiser for Unison; and Lynn Norwood is the head of people development at Cordia (Services) LLP.

This evidence-taking session will focus on workforce issues, and we will go straight to questions. Will the witnesses give us their initial thoughts on the impact of the budget on—sorry, Kevin Stewart has something to say.

Kevin Stewart: I am being a little bit cautious, but I refer the committee to my entry in the register of members' interests. I am a member of Unison.

Kezia Dugdale: I am a member of Unite and Community. Staff in my office are active in the Scottish living wage campaign.

The Convener: I apologise to the committee for being blinkered.

I will kick off with a general question. What impact do the witnesses think that the budget will have on the local government workforce?

Douglas Black (Unison): The budget for local government is clearly facing particularly difficult times. There is no investment in local government and, in effect, the budget is being cut year on year. Services are being reduced, privatised or outsourced. There are staffing cuts and hours are being cut for many low-paid members of staff. A wide range of services are being outsourced with any number of staff—up to 15,000 or 20,000—

under threat. There have been widespread redundancies; many of them were voluntary but more and more are now compulsory.

The Christie commission's report makes recommendations on key principles for the future of local government, but the current situation is particularly fragmented. The basic direction is that local government services have been hit badly over the past three years, and that will continue in the same vein over the years to come, with a diminishing workforce and services not being delivered to the standard that people expect or being outsourced or privatised.

Peter Kelly (Scottish Living Wage Campaign): It is clear that local government and the workforce within it face difficult times and will continue to face difficult times over the next few years. Douglas Black outlined the various impacts of that, such as pay freezes, reductions in services and redundancies. We see an impact across the voluntary sector as well, although the staff there are obviously not directly employed by local government.

In that context, when we are looking at the Scottish budget and the implications for the workforce in local authorities, we need to be mindful that there is still a significant proportion of low-paid workers in that workforce and that we need to do more to protect the lowest-paid workers in the public sector.

Lynn Norwood (Cordia (Services) LLP): As a provider of services to Glasgow City Council, we are affected by the pressures, too, as our customer groups require us to deliver services ever more efficiently. Cordia has tried hard to safeguard jobs and services by engaging with our workforce and trying to achieve a variety of voluntary means by which we can change our service delivery models, impacting as little as we can on staff within our organisation. Last year, more than 200 jobs were lost from our organisation through voluntary means. At the moment, we estimate that we have 127 jobs that will be under threat in the coming year due to reduced budgets coming from our customer groups.

The Convener: The attempt to avoid compulsory redundancies has been mentioned. Across local government, that has been handled by an attempt to use flexible working and the pay freeze. How does the panel feel that that is going?

Douglas Black: It is horses for courses: there are different examples in different parts of the country. Some areas have been much more proactive in being able to do that and being successful in not going down the route of compulsory redundancies. In Fife, there have been in the region of 200 to 250 compulsory redundancies, which contrasts with what is happening in Falkirk, which has so far managed to avoid compulsory redundancies. The budget pressures that there will continue to be on local authorities make the situation more and more difficult to handle as time goes on.

Kevin Stewart: Obviously, Aberdeen City Council hit on some hard times before other places. It has avoided compulsory redundancies, and I would hope that other local authorities could follow that example. I believe that the leader of Aberdeen City Council said yesterday that there would be no compulsory redundancies on his watch.

My question is on single status. Single status was agreed in 1999, and it took local authorities a very long time to implement equal pay and modernisation, which is soul destroying considering that the equal pay legislation was introduced in the 1970s. I have a fear that some of the agreements have not been completely equality proofed, and I would like some comment on that. Beyond that, I would like the panel's views on whether some of the agreements actually make it more difficult for local authorities to implement the living wage and on how we get round that problem without massively adding to the pay bill at the top of scales.

11:30

Douglas Black: The equality proofing of any agreement is clearly at the top of our agenda, but it would be difficult for me to sit here and say that every agreement has been equality proofed, because I am not aware of every agreement across the country.

A major issue in single status is job evaluation. The trade unions have serious concerns about whether the evaluation scheme is discriminatory and, with the employers, we are reviewing the scheme to address any areas of inequality. Our belief that there are inequalities in the scheme has led to our lodging thousands of equal pay claims, but they have still not been addressed and are sitting in the tribunal system.

In negotiating any agreement either with individual local authorities or nationally with the Scottish employers, we require as a first step an equality impact assessment, which we use to judge the equality issues that have to be addressed. However, such assessments are not particularly robust and our trade union would like them to be expanded.

Peter Kelly: Although single status deals are not my area of expertise, I have to say that, after four years of campaigning for the living wage in Scotland, I do not recall their ever being cited as a barrier to implementing the living wage in local government.

Kevin Stewart: Perhaps they are being a bit overcautious, but folk in the local government world, particularly lawyers involved in these issues, have suggested that it might be difficult to implement the living wage because it would mean looking again at the various pay grades. One difficulty, especially in tough budgetary times, is that if you increase one wage you might well have to increase wages all the way up. In my council, people are paid not far off the living wage. Obviously, I would like them to get the full living wage, but some folk have highlighted barriers in that respect. How can we get rid of those barriers, particularly in these tough times? I believe that paying folk the living wage will lead to a decrease in demand for council services and, probably, decreases for the public purse across the board.

Peter Kelly: Douglas Black might have more to say on this, but in certain public sector pay deals flat-rate lump sums have been paid to the lowest grades. However, I do not know whether that contravenes the terms of single status deals. The half dozen or so local authorities that have introduced the living wage have taken various approaches, but they have certainly not been held back by any threat from single status deals. If we are to implement the living wage, we need a proper assessment of the real legal position and impacts with regard to procurement—which we might discuss later—single status or whatever. There seems to be a great deal of caution in this area and we need to test whether it is appropriate.

Douglas Black: The question raises two issues. First, on whether implementation of the living wage could skew grading structures in individual local authorities, the Scottish employers have always argued as much. We have tried to address that argument on various occasions, but the fact is that the employers have not been able to provide the trade unions with any evidence as to why that would be the case.

The second issue is how the living wage would be implemented. I think that eight local authorities have implemented the living wage. As far as I am aware, only one of those—Glasgow—has done that on the basis of restructuring its grading structure. The others have implemented the living wage on the basis of pay supplements. For instance, if the minimum wage in a particular authority was £6.70 an hour, that was simply uprated to £7.15, which then became the minimum wage. That created some local difficulties, with some people at different places in the hierarchical structure being on the same wage. However, with regard to equality issues, we were clear that that was a sustainable position to be in.

The Convener: Douglas Black said that Glasgow City Council is a living wage council. Does that extend to Cordia, which is one of the council's outsourced bodies?

Lynn Norwood: Prior to Cordia coming into existence on 1 April 2009, the service was part of Glasgow City Council, which meant that it had been involved in the workforce pay and grading review, which had been on-going since 2006. That dealt with some of the issues of single status in terms of reassessing each of the jobs in our organisation. Consequently, the final outcome in 2009 was that the basic grade staff at level 1 were on a grading structure that contained two points. One of those points was for new employees coming in; the other point was awarded after a year. At that time, the wage at the entry point was £6.52.

When Glasgow City Council took the decision to introduce the Glasgow living wage, in March 2009, we were involved in the movement of staff from the entry point to the proven point, which became £7.31. Because at that time the entry point was used only for new employees coming into direct and care services, only around 100 people were involved in that uprating of the grade from entry to proven.

The changes on 1 April 2009 were subject to the Transfer of Undertakings (Protection of Employment) Regulations, which means that the organisation has continued with that wage rate. Consequently, all our employees are paid above the living wage rate. We kept that when we applied a wage award across the board, which resulted in the basic rate for an employee moving up to £7.35.

Bill Walker: Does the panel see any scope for any efficiency savings or reductions in costs within the general workforce so that the people who I feel strongly should have the living wage can be paid properly? Returning to the subject of scales, we are talking about people who are earning £6 or £7 an hour, but there are people in councils who are earning £40 or £50 an hour, as the witnesses well know.

Is there anything that we can do, short of starting a revolution, to examine the scales and the numbers that are involved? Does the panel have any views on that?

Douglas Black: I have a view on the efficiency savings that local authorities have been asked to make over the past years—any number of years, to be honest. I take the view that few efficiency savings are being made and what we are getting instead are cuts to services. In many instances, local authorities are pared to the bone. They have made on-going efficiency savings year after year, and there is only so far that they can go before the services that they provide begin to be impacted on.

We should remember that the minimum wage in local government is way below that anywhere else in the public sector in Scotland. In local government, the minimum wage is £6.19 an hour, and the national minimum wage is £6.08 an hour. That is a damning indictment, particularly when we compare it with the minimum wage in the health service, for instance, which is £7.28 an hour. There is a considerable amount of ground to make up. Local government is one of the biggest public sector areas, but its minimum wage is set at a low level.

Kezia Dugdale: When we talk about the living wage, we often talk about how much it would cost to implement. In that context, I ask the witnesses to take a second to put on record the benefits that the living wage brings. More important, on the issues of procurement, Peter Kelly mentioned that an assessment of the legal position must be carried out. Should the Scottish Government do that, or could the committee do it? What can we do to help progress the case for a living wage?

Peter Kelly: There were two points there, but I will first reflect on Bill Walker's question. The issue that he raises is about pay inequality. The Scottish living wage campaign has not formally adopted a position on that issue in the local government context. There are good examples from other areas. Douglas Black rightly mentioned that the living wage has been implemented in the NHS in Scotland. I think that the chief executive of NHS Greater Glasgow and Clyde took a pay cut the year before last, which was expressly related to the issue. There is a need for leadership. However, I think that the scope for efficiencies at the top end of pay in local government, which have been mentioned, is perhaps overstated. I am not sure that there is a great deal of scope to cut pay at the top to support those at the bottom.

On the benefits of the living wage, it would be good to hear from Cordia about the benefits that its employees have felt from the introduction of the living wage. The experience in London, where the living wage has been implemented to perhaps its fullest extent across a range of public and private sector employers, is that the employers talk about reductions in staff turnover and improvements in staff morale. So there is a business case, given the impact of the living wage. It also brings benefits to individual employees. Almost half the children who live in poverty live in households in which someone is in paid employment. In-work poverty is a crucial issue in Scotland and the UK, and the living wage is a practical way of dealing with that. The figure of £7.20 that has been arrived at was developed as a result of extensive research that was carried out in part by the Joseph Rowntree Foundation to consider what an adequate wage and income would be.

The living wage is about trying to give people the basic ability to take part in society in the way that the rest of us do. A couple of years ago, as part of the living wage campaign, we did some case studies with low-paid workers. It will probably not surprise members to hear that they talked about the experience of getting into debt because of living on low pay and being unable to save for the future. I was particularly struck by that. One case involved a young worker who had been working in retail on the minimum wage for a long time. She did not want to be there, but she found it almost impossible to get out. She had been through education and done all the right things, but she was still trapped in a low-paid job and unable to save enough to get out. She was still living at home with her parents when she did not want to be. There was a sense that she was being denied independence.

11:45

We must not understate the importance of in-work poverty to the individuals that it affects. We must also be mindful of the impact on businesses, given the efficiencies that many companies are seeking.

We need to view the living wage—in local government, elsewhere in the public sector and in the private sector—as part of the broader corporate social responsibility agenda, which is where we believe it should be. It is not a pay policy as such: it should be fundamental to the way in which businesses—in the public sector and in the private sector—operate in Scotland.

I am sorry for the long response, but Kezia Dugdale also mentioned the Scottish Government's role. Our campaign has argued for some time for a living wage unit in the Scottish Government to take over responsibility for setting the living wage, based on the evidence that comes from the Joseph Rowntree Foundation, which is now regarded as the best standard for examining income adequacy issues.

We would like the Scottish Government to take on that role and consider issues around procurement. It should consider whether the European Union directive on procurement presents a real barrier, and how genuine the legal obstacles are to implementing a living wage to the fullest extent, including the impact on procurement.

The Scottish Government—and perhaps the committee—could play a crucial role in airing some of those issues and getting the best legal advice.

Kezia Dugdale: Lynn Norwood might like to comment, too.

Lynn Norwood: Cordia is proud of the fact that we employ a workforce that is paid beyond the living wage that has been set. That has a huge impact, particularly for the 3,500 staff who are at grade 1 in our structure, and it means that we have very low staff turnover, which is great news for the business. That reduces our recruitment costs, which saves us money that is vitally needed elsewhere. It has helped with training, because we are not training people only for them to walk out the door—perhaps to a competitor—and it allows us to be efficient with our training costs.

Having a more stable workforce helps us to focus on delivering quality services to the local community. Our workforce is local, and what local people earn from an organisation such as Cordia is ploughed back into the community, so it helps us in that regard—with free meals or food in schools, for example. The money that we give our staff circulates, and our staff are citizens of the area covered by Glasgow City Council, for which we provide many services.

There is a feel-good factor because people can see that we are a good employer. We can use that in our materials to promote who we are and what we do, and we can present it as one of the key benefits when we tender for new business as part of our growth and development strategy.

However, we begin to hit a stumbling block in that regard. Unfortunately, although we pride ourselves on doing all those things, it means that we are not competing on a level playing field. When we bid for other business, especially in the catering, cleaning and hospitality arenas, we find that we can compete equally—if not better—on quality, service delivery and the reputation, training and skill levels of our people, but we fail in the bids because our competitors' staff costs for running the same services are considerably less.

Kezia Dugdale: I find that very helpful. Lynn Norwood identified benefits such as a lower turnover, reduced sick leave, better training opportunities because of the low turnover, and all the rest. Do the witnesses agree that the living wage is a preventative spend policy? It should not be viewed simply as adding a huge cost for local authorities, as it brings significant savings.

I am aware that West Lothian Council recently tried to use the living wage in its procurement process and encountered legal stumbling blocks in relation to EU legislation. That suggests to me that it is urgent that we get to the heart of the legal situation. Do the witnesses feel the same urgency? Do we need to move quite quickly to address that?

Peter Kelly: I work for the Poverty Alliance. We submitted evidence to the Finance Committee for its scrutiny of the budget, and one element of that evidence was the living wage as an aspect of preventative spend. Colleagues have mentioned the long-term impact of lifting people out of poverty. The core preventative spending issue for the Poverty Alliance—I speak as a representative of the Poverty Alliance at the moment, rather than as a representative of the Scottish living wage campaign—is how we can reduce the costs to the public purse of a range of services through getting to the roots of poverty and tackling it. We may see that as a matter of getting people into work. Over the past 15 years or so, that has traditionally been the main focus of our anti-poverty initiatives, and that remains the case. Getting people into work is often the best route out of poverty for them, but for many people, it is not. For too many people, to move into work is to exchange one form of poverty for another. A useful way of viewing the living wage—and a range of anti-poverty measures—is to see it as part of a range of approaches to preventative spend, getting preventative spend out of the box of just early years spending and not just focusing our money on particular key client groups.

Kevin Stewart: It was interesting to hear Ms Norwood talking about competition. I think that what she talked about happens in many places. Sometimes the quality is better and sometimes it is just the same, as she said, but services that pay their people a little bit more are outpriced.

Do the panel members think that minimum wage policy should be devolved to the Scottish Parliament and the Scottish Government? I am looking for a yes or no answer to that question.

Douglas Black: We campaign hard for a living wage and for our claims in the joint council and the local authority to up the current minimum wage. That is a devolved issue. We bargain separately in Scotland, support the Scottish living wage campaign and use the experiences of other living wage campaigns throughout the country.

Kevin Stewart: You did not really answer the question, did you?

Douglas Black: I am aware of that.

Peter Kelly: I will follow Douglas Black's lead and not give a yes or no answer.

The question is partly about devolution and who has responsibility for setting the minimum wage, but a range of other questions would flow from Scotland having that control. Would it be higher or lower? How would it be set?

The Scottish living wage campaign is not dealing with those issues. We see the living wage as going beyond the minimum wage. The minimum wage has been an extremely important step forward in pay protection for workers in Scotland and the rest of the UK. We do not want the living wage to be introduced as a legal requirement. There is a lot of scope for businesses and organisations in the public and the private sectors already to pay more than the minimum wage and not wait for it to be uprated at some point in the future. That is the focus of our campaign and that is why I am not taking a position on whether the ability to set the minimum wage should be devolved.

Lynn Norwood: I am not in a position to give a yes or no answer. Cordia thinks that it is important to value its workforce and pay staff a wage that enables them to conduct the rest of their lives and come to work to produce good-quality work so that the organisation can grow and flourish. I am head of people development, so I think that such an approach can only be good for an organisation, as well as for the people whom it employs.

Mark Griffin: I am thinking about areas in local government where efficiencies might still be made. Have there been studies to establish whether the introduction of the living wage has had an effect on sickness absence levels? Kezia Dugdale mentioned the issue.

Douglas Black: I am not aware of a study specifically on the living wage’s effect on sickness absence. I think that Lynn Norwood said that a benefit of introducing the living wage in Cordia is that sickness absence has reduced. I echo what she said. Better wages and conditions for workers, whoever the employer is, make individuals feel that they are part of the organisation and make them more motivated, which reduces sickness absence.

Peter Kelly: The London living wage unit in the Greater London Authority, which advises on what the figure should be and so on, has done work around implementation. I am not certain what has been done, but I can speak to the unit and get back to the committee with information.

A number of years ago, before we launched our campaign, I had discussions with private sector employers who had got involved with the London living wage—I think that it was a federation of contract cleaners—who said that the introduction of the living wage had had a positive impact on employees in the way that Lynn Norwood described, in relation to staff retention and reducing turnover and absenteeism. I will get back to the committee if there is firmer evidence from London.

Kezia Dugdale talked about the urgency around the European dimension, in relation to West Lothian Council’s decision. I agree that implementation of the EU procurement directives in Scotland needs urgent consideration, because it seems to us that the Scottish Government could do something about the matter. I am not sure whether it is possible to amend regulations retrospectively, but we need clarity on the issue. Currently there is no clarity.

The Convener: Does Lynn Norwood think that having the living wage has helped to reduce sickness absence? If there have been no surveys on the matter, I guess that we must rely on anecdotal evidence.

Lynn Norwood: There has been an effect, but it would be unfair to say that the downward trend in our absence rate is directly correlated with the introduction of the living wage. The living wage is one component; another is Cordia’s attendance strategy, which is about employee wellbeing. All the issues go hand in hand. It is about how money is used in an organisation to invest in staff for the future and make staff understand what part they play in the organisation’s growth and development. The living wage has a part to play in that, because it makes people feel valued, so they want to come to work to deliver services.

Kezia Dugdale: On the issue that Peter Kelly picked up on, does Unison agree that, given that outsourcing by councils is increasing, as is evident in the City of Edinburgh Council, we urgently need to ensure that tenders include living wage or community benefit clauses?

12:00

Douglas Black: I agree entirely. To assist with the tendering process, we have at the moment the section 52 guidance from the Local Government in Scotland Act 2003. However, that statutory guidance is just that—guidance. It does not compel local authorities to include a living wage base in a tender document. If the living wage were established in local authorities, and if the section 52 guidance were more than just guidance, there would clearly be an impact on any tendering process, any outsourcing, or any privatisation.

David Torrance: We are talking about the loss of jobs from local authorities to the private sector, but another issue arises. My local authority has gone down the road of offering direct payments to members of the public. The hope was that people would buy social work services from the council; however, they are buying services from the private sector. That has defeated the purpose of the system of direct payments.

People are pushing for direct payments. They are becoming more popular, and councils are going down that road. Will that not lead to a drastic reduction in the workforces of local authorities? The private sector will not meet the living wage, and local authorities will not be able to compete with that.

Douglas Black: That is almost inevitable. If we consider social care provision around the country, we see the threat of outsourcing and privatisation.

I have direct experience of some home care issues. The level of service offered to elderly people in their own homes has decreased. Because of controls, the amount of contact time with clients has been reduced to around 15 minutes. That may not seem like an important issue, but it is. For somebody who is housebound, that contact may represent their only contact with another person during the day. We should be proud of our public provision; we should say that we value certain services. We should want to be better. However, we are seeing the inevitable consequences of what is happening in the whole of the social care sector because of outsourcing and privatisation. Mr Torrance is right to say that a base will be built up in the private sector if things continue as they are.

Lynn Norwood: One of Cordia's key business streams is home care; we employ about 3,200 staff in that arena. Budget pressures, and the introduction of direct payments, mean that we are feeling the strain.

I talked earlier about how our organisation tries to ensure that it takes its workforce with it—for example, by introducing the living wage, and by trying to offer employees better packages. That has been our ethos since we came into being in April 2009.

On the social care side, we are moving towards putting in place reablement models. That will be part of the way in which social care will be driven in future. Our staff have responded very well to being part of that new delivery of service. However, at the end of the reablement period, customers and clients will require fewer home care services. That is the basic principle. At the start of the process, people may need 20 hours of assistance, but, after the reablement programme, they may need only 10 hours of assistance. That will have an effect on the number of staff at Cordia, because of the number of hours of service ordered.

There is a huge push to put some mainstream work out to the private sector and to share the work among many organisations, not just Cordia. That will be difficult, because many care organisations do not pay staff at the same rate as we do. If there was TUPE, the local authority would have to consider our rate of pay and the rate of pay offered by the other organisation after outsourcing. That is another danger to be taken into account, because we pay at a rate above the living wage.

The Convener: As we have no further questions, I thank our witnesses for their evidence. The committee has a great interest in the living wage and I am sure that we will return to the topic.

12:05

Meeting continued in private until 12:32.

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