



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

PUBLIC AUDIT COMMITTEE

Wednesday 28 March 2012

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PUBLIC AUDIT COMMITTEE

5th Meeting 2012, Session 4

CONVENER

*Iain Gray (East Lothian) (Lab)

DEPUTY CONVENER

*Mary Scanlon (Highlands and Islands) (Con)

COMMITTEE MEMBERS

*George Adam (Paisley) (SNP)
*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
*Mark Griffin (Central Scotland) (Lab)
*Colin Keir (Edinburgh Western) (SNP)
*Tavish Scott (Shetland Islands) (LD)
*Humza Yousaf (Glasgow) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

John Baillie (Accounts Commission)
Mr Robert Black (Auditor General for Scotland)
Angela Cullen (Audit Scotland)
Fraser McKinlay (Audit Scotland)
Gordon Smail (Audit Scotland)
Carolyn Smith (Audit Scotland)

CLERK TO THE COMMITTEE

Jane Williams

LOCATION

Committee Room 1

Scottish Parliament

Public Audit Committee

Wednesday 28 March 2012

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

Decision on Taking Business in Private

The Convener (Iain Gray): I welcome members of the committee and any members of the press and the public. Mary Scanlon is at a Scottish Parliamentary Corporate Body meeting—it was due to finish at 10 am, so we hope that she will join us soon. I have not heard from Tavish Scott. I ask everybody to ensure that their mobile phones are switched off.

Agenda item 1 is to decide whether to take item 5 in private. Item 5 is consideration of our approach to the section 23 report on progress on the Commonwealth games.

George Adam (Paisley) (SNP): I declare an interest as a member of Renfrewshire Council.

Mark Griffin (Central Scotland) (Lab): I declare an interest as a member of North Lanarkshire Council.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I declare an interest as a member of Midlothian Council.

Colin Keir (Edinburgh Western) (SNP): I declare an interest as a member of the City of Edinburgh Council.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): I declare an interest as a member of East Ayrshire Council.

The Convener: Do members agree to take item 5 in private?

Members *indicated agreement.*

The Convener: Thank you.

Section 23 Report

“Commonwealth Games 2014 Progress report 2: Planning for the delivery of the XXth Games”

10:01

The Convener: Item 2 is consideration of the section 23 report “Commonwealth Games 2014 Progress report 2: Planning for the delivery of the XXth Games”. I welcome Robert Black, Angela Cullen, and Carolyn Smith from Audit Scotland. Mr Black, the Auditor General for Scotland, will present the report.

Mr Robert Black (Auditor General for Scotland): This Audit Scotland report was prepared for the Accounts Commission—because Glasgow City Council is a major participant in planning for the games—as well as for me. It was published on 22 March. As we are all aware, the games start in July 2014, just over two years from now. The games involve some planning challenges because of the specialist nature of the venture. It is a large and complex project with an immovable deadline and there are many partners involved.

I am sure that committee members recall that we published our first progress report on planning for the games back in November 2009. The Public Audit Committee subsequently published its own report in 2010. The March 2012 report is Audit Scotland’s second look at the issue and it follows up the recommendations from our first report and the committee’s report.

Four strategic partners are involved in the games: the Scottish Government, of course; Glasgow City Council; Glasgow 2014, which is known as the organising committee; and Commonwealth Games Scotland. In the report, we attempt to provide a position statement on whether the partners were on track in November 2011. We have moved on a bit from that time, so I emphasise that the evidence base is from November last year. The report considers the main risks and how well the partners are managing them. It also comments on the partners’ progress in legacy planning.

I will highlight the four main sets of findings from the audit. The first set of findings relates to the infrastructure planning—it is generally where it should be at this stage. However, there is still a lot of work to do and an important point to emphasise is that the pace of planning will increase significantly over the next two years as the games get closer. The organising committee and the other partners therefore need to ensure that they

have the staff capacity in place to meet the challenges that lie ahead.

A key advantage of hosting the games in Glasgow is that a lot of the infrastructure is already in place. There are six new venues and an athletes village is being built, but a further seven venues already exist and are being refurbished. Four of those venue developments are now complete. In November 2011, all the other venue developments and the athletes village were forecast to be ready in time for the games.

However, we highlight in the report that there are particular risks with Hampden Park and the athletes village developments because they are due to be completed less than five months before the games start. The projects also have financial and technical risks associated with them. We found that the partners are managing the risks, but they may not be able to eliminate them completely.

The second key set of findings relates to the budget. The strategic partners that I have mentioned are committed to delivering the games within the £524 million approved games budget. The original budget of £373 million was prepared at 2007 prices and that was increased to £454 million—also in 2007 prices—in 2009. In 2010, after our last report, the budget was restated to £524 million to include an allowance for inflation, and that is the number that is currently being worked to.

The Scottish Government and Glasgow City Council are funding up to £424 million of the games budget, and the organising committee is expected to raise the other £100 million from sponsorship, broadcasting, licensing, merchandising and ticket sales. By September 2011, which was the cut-off point for our analysis, it had secured 33 per cent of its commercial income target from three in-kind sponsorship deals and two broadcasting rights deals. That agenda is proceeding as we speak.

However, as you would expect at this stage, the budget remains inherently uncertain because only 17 per cent of the games budget was committed by November 2011, and many of the budget areas are based on early planning assumptions. Security costs are particularly at risk of increasing based on the experience of other games, and it is not yet clear whether the £27 million provided for security is expected to cover all the security costs.

A third set of findings relates to legacy planning. The Scottish Government and Glasgow City Council have developed Scotland-wide and Glasgow legacy plans. There is no specific legacy funding, but the partners have aligned their existing initiatives to support legacy initiatives. However, in the current climate, other

organisations, such as local authorities, might find it difficult to invest in legacy initiatives. According to the strategic partners, some economic and social benefits have already been achieved, including more than 2,000 young people starting apprenticeships. We are told that many Glasgow-based companies are securing contracts to deliver the games projects. The Scottish Government and Glasgow City Council are developing their approach to the evaluation of the legacy, which is needed to demonstrate the impact of the investment in the games.

The overarching governance structure is clear and it allows the strategic partners to maintain an oversight. However, joint working arrangements below the high-level structure are complex. For example, there are 68 joint working groups, but their specific responsibilities and accountabilities are not always clearly documented. As the number of staff and the scale of the activities increase closer to the games—as will definitely happen—there is the risk that the complex arrangements will not be clear enough to everyone involved, which might lead to some duplication in effort or delays in decision making.

We make some recommendations for the four strategic partners in the report but, overall, this is a reasonably positive assurance as to how the planning for the games was proceeding as at November 2011.

The Convener: To build on that final point, it seems to me that the report is broadly positive. Clearly, I was not involved in the committee when it looked at your first progress report, but that led the committee to take evidence and produce a report making a series of recommendations. Will you comment further on progress between the first report and the work that the committee did then, and this stage? To what degree and with what effect have the recommendations that were made at that time been implemented?

Angela Cullen (Audit Scotland): In appendix 2 of the report, which is on pages 36 and 37, we have provided a readable summary of progress against the previous recommendations. The summary uses a traffic-light system to state whether each recommendation had been fully implemented or was in progress when we looked at it in November. One recommendation, on estimating the cost of plans to manage and mitigate risks, had not been accepted by Glasgow City Council. It still does not accept that recommendation, and we comment on that in the report. That is the only recommendation from the previous work of Audit Scotland and the Public Audit Committee that has not been taken forward. Of the rest, 17 have been fully implemented and seven have had good progress made against them.

The Convener: So it would be fair to say the report is positive about the response to Audit Scotland's previous work.

Angela Cullen: Yes. There has been a positive response to that work.

The Convener: Good.

The one area in which there seemed to be a continuing, unquantifiable risk was security. In his presentation, Mr Black said that it is not clear whether the £27 million budget covers all the security requirements. The report points to other similar events where security costs have been, in the end, significantly higher than planned. It is a budget where overspend seems to be the norm. To what degree is the risk unavoidable, as nobody is sure what the security context in 2014 will be, and to what degree is the risk exacerbated by the fact that security planning has not progressed as far as planning for other areas of the organisation of the games?

Mr Black: On balance, it would be reasonable to expect that the security planning will come slightly later in the planning process. Clearly, it will be essential to know what the venues look like, to have clarity about everything to do with the movement of people, and to know how the events will be managed. Her Majesty's inspector of constabulary has produced a report on the security aspects. The team will be able to tell you a little bit more about what is in that.

About half of the core number of £27 million is earmarked for police security costs. The other half relates to venue security, including all equipment. The police security budget is based on the estimated costs of providing what might be called core security, rather than on the costs of enhanced security provision, which might be needed if there were an increased level of threat. It is not yet clear whether the budget includes the full cost of bringing in other police forces during the games; there is an element of uncertainty there. I have no doubt that Strathclyde Police, which is the lead agency for co-ordinating overall security, will be addressing that as we speak.

It is the organising committee's responsibility to organise security for the venues. Security planning for the venues is at a very early stage, for the reasons that I have outlined—there must be absolute clarity about the detailed organisation of the venues and the movement of people. If we compare the Commonwealth games with the experience at other games, we think that security is probably an area where there is a risk of the cost increasing. It is not yet clear whether the £27 million security budget will cover all the security costs relating to the games. It will be important to capture the costs, to help planning for the detailed security of this event and other events to follow.

Angela Cullen: I absolutely agree with the Auditor General. There is a combination of the two factors that the convener mentioned: we do not know what the security situation will be in 2014, and security planning is at an early stage. It has not necessarily been decided yet what the venues will be used for or how many people will be at them. That level of security planning has not yet been completed, but work is under way on that.

10:15

The Convener: The report identifies a specific risk with venue security in that there might be a shortage of trained and appropriate staff when the time comes, so that even if the budget is right come the time, it will be difficult to find the right people. Is that fair?

Carolyn Smith (Audit Scotland): The report picks up on that point, which was picked up by the last Commonwealth Games Federation review that looked at security. The Commonwealth Games Federation is carrying out a more detailed technical review of security planning. I imagine that the results of that will be known in the next few weeks. It will give more details about how security planning has advanced since we looked at it in November.

The Convener: So work is under way that might address some of these issues.

Carolyn Smith: Yes.

Humza Yousaf (Glasgow) (SNP): I have met the organising committee on a number of occasions and, each time I do, I am incredibly impressed at how it is emphasised from the very top level that the legacy is the most important thing. There is a real understanding that, although the games are the centrepiece and are therefore incredibly important, they will last for two weeks out of a 10-year project. In fact, the project will last even longer than 10 years. I take my hat off to the members of the organising committee.

I read the entire report with interest but was particularly interested in the part that focuses on the legacy. It mentions that the Scottish Government has a legacy vision and Glasgow City Council has a legacy framework. They are juxtaposed very well in exhibit 8 on pages 26 and 27. Are you assured that those two big partners that have a legacy vision are looking in the same direction?

Mr Black: We, too, were impressed with the commitment to taking legacy planning seriously. Given that the games are still more than two years away, exhibit 8 demonstrates that some relevant and strategic thinking has gone into the planning. It would be unreasonable to expect the planning to be much further down the road at this early stage.

In my opening remarks, I mentioned how some benefits are already being delivered through the letting of contracts and the creation of apprenticeships and so on in association with the games. I am sure that the team will be able to say a bit more about that.

Carolyn Smith: We highlight some of the legacy benefits that the partners have already identified. Scottish companies won 133 of the 171 contracts that were awarded through the Commonwealth games business portal between October 2009 and October 2011. Scottish companies have also won 158 London 2012 contracts. As a result of staging the games, Scotland has also attracted other high-profile events, such as the world junior track cycling and world youth netball championships. Legacy benefits are already coming through.

The report also mentions that planning for evaluating the legacy to demonstrate the return on investment was at an early stage but, since we published the report, more planning has been done on evaluating the benefits. The Scottish Government and Glasgow City Council recently published their high-level plans for evaluating the games' legacy, so the planning has moved on since we did our work, which is encouraging.

Humza Yousaf: Thank you. I agree with the Auditor General. There is a clear focus on the legacy. However, an eyebrow may be raised in concern at the fact that, although 40 projects have already been developed and many more legacy projects are in the pipeline, no fund has yet been created. Does that worry you? Have you heard noises from the Government or local authorities that they intend to create a legacy fund?

Mr Black: In talking about the future, by and large, we use the language of risk rather than prediction, and the achievement of the full legacy potential might well be at risk because of the resource constraints on local authorities and other partners. Unfortunately, we cannot do more than mention that that might be an issue.

Humza Yousaf: Perhaps the committee might follow that up.

You mentioned that, when it was contracting for the velodrome and the national indoor sports arena, Glasgow City Council included a community benefit clause. In the current difficult financial climate, and in talking not so much about prediction as about risk, might that be a model for future procurement contracts?

Mr Black: The velodrome is an interesting development. I do not have to tell the committee that it is located at the heart of an area of deprivation and relatively low incomes. The vision that the council has of encouraging community

involvement offers the prospect of a template that could be used for similar developments.

Humza Yousaf: When I visited it, I was impressed with how much thought had gone into that.

Mark Griffin: One of the recommendations in the report is that the Government should ensure that public sector organisations have allocated the resources that they will need to deliver the Commonwealth games. Now that those organisations know their budgets, in general terms, for the next three years, has any direction been given by the Government on the proportion of those budgets that should be reserved to cover the cost of the games?

Mr Black: I do not think that we have any evidence of that sort of direction being given, and I am not sure that I would expect that to happen. It is for the major agencies that are involved to determine their priorities within the budgets that they hold. As I mentioned earlier—in response to the convener's question about security, I think—a lot of work still has to go into planning the detail of the security arrangements and the associated costs.

Colin Beattie: I welcome the report, which is quite positive. It is encouraging to see that so much is happening on time and on schedule. I have three questions. First, paragraphs 38 and 85 both refer to an old favourite of the committee—the gathering of data and information in connection with projects. How serious is the lack of data that is referred to?

Mr Black: That is a difficult call to make. My colleagues and I at Audit Scotland are acutely conscious of the fact that we like data. Generally speaking, in the Scottish public sector—as, I am sure, Mr Beattie will recall—there is a recurrent theme about the quality of the management information that people use. Overall, however, the planning for this project is going well. There are certain areas about which we would, on balance, like to see more information, but I would not wish to give the committee the impression that we think that there are significant shortcomings that it should be concerned about.

Angela Cullen may be able to say a bit more about our recommendations with regard to data.

Angela Cullen: The availability of information was a theme of our first report, but that was at a much earlier stage. This time, we found that a lot of improvement had been made in response to that. However, as is the case whenever you start improving, there are still more improvements to be made. The Government has made progress in capturing information but, as we say in paragraph 38, it now

"needs to improve its system for ... monitoring and reporting changes to the programme plan".

It needs to highlight changes to milestones and the achievement of milestones, and flag up due dates so that it is easy for those who are responsible to have an idea of what is going on and capture that information. Work has been done, but there is always room for improvement in capturing and reporting information to make things as easy as possible. As we get closer to the games and things start to move apace, it will become more critical that the partners are on top of exactly what is happening.

Colin Beattie: Overall, that seems to be reasonably encouraging.

I ask my second question really just out of curiosity. Paragraph 51 mentions

"security costs related to some transport activities."

What are they?

Carolyn Smith: That relates to the security costs of bringing athletes and officials from airports and transporting them around during the games. That aspect was picked up in the report to which we referred. It did not give any more details about that, so the issue could be broader.

Colin Beattie: Are we talking about people to escort athletes and officials from airports, for example? Will physical security be provided? What is the security?

Carolyn Smith: The security details and the planning for security for the officials and athletes have not been finalised, so we are not exactly sure what the security will be at this stage. It may involve security guards being with officials and athletes at certain locations.

Colin Beattie: So you are really just looking at a line in the document.

Carolyn Smith: Yes.

Colin Beattie: My final question is about part 4. The report says:

"joint working arrangements are becoming increasingly complex."

I suppose that many stakeholders and people must be involved in the games because of their very nature. Are you saying that the arrangements are unnecessarily complex, or that they are and must be complex because that is the nature of the beast?

Mr Black: We are saying very much the second. We recognise that, as the tempo of activity builds up towards the start of the games, a huge amount of effort will go in in almost countless different ways. We offer the cautionary note that there needs to be awareness at the highest level of all the working groups and project teams that

have been established, as much clarity about their roles and interrelationships as possible, and a good understanding by the different groups of their respective roles. In that way, we hope that the chances of delay and confusion can be avoided. We are not doing anything more than making a general cautionary statement at this point.

The Convener: You said "at the highest level". Will the organising committee be responsible for at least keeping an overview to ensure that things do not become so complex that they start to undermine the organisation?

Mr Black: The organising committee is key, but I should also mention the Glasgow 2014 strategic group and the working group that reports to it. That body has the overview of everything, including the involvement of all the public sector agencies other than the lead partners.

Tavish Scott (Shetland Islands) (LD): I want to ask about contract compliance and the management of risk in contracts. Obviously, those matters are a significant part of your on-going assessments of how well the project is moving forward. What role, if any, does the sponsoring department—in other words, central Government—play in assisting the organising committee with procurement and procurement advice?

Carolyn Smith: The Scottish Government provides advice to the organising committee on its procurement, but Glasgow City Council has also provided support to the organising committee on setting up its policies and procedures on procurement.

10:30

Tavish Scott: Is it your assessment that Glasgow City Council and the Government are saying the same thing in their procurement advice?

Mr Black: We have not done an audit of procurement arrangements for the report. Audit Scotland might want to do something on that retrospectively, but we have not looked at any of that at this stage. However, I think that the general assurance that Carolyn Smith is giving you stands at the moment.

Tavish Scott: Very fairly, Carolyn Smith mentioned the number of contracts that have been awarded to Scottish companies. You would not be aware whether, in terms of the on-going work, any procurement advice was specific to that geographic point.

Angela Cullen: No.

Carolyn Smith: It was more around putting procurement policies and procedures in place.

Willie Coffey: I have a couple questions about Hampden Park. I note from the current report that we are still considering the technical solution for the stadium. I recall that the last time that we looked at the issue, we did not know what the solution for the stadium would be. I understand that the capacity will be reduced from its present 52,000 to about 40,000 to accommodate the new running track. Do you have any concerns about the fact that a design solution for Hampden has not been chosen yet?

Mr Black: Again, the language is about risk as we see it at the moment. We attempted to capture the Hampden position in case study 1 on page 20. On the face of it, the issue looks relatively straightforward: the installation of a temporary track-and-field facility by raising the playing-field level by 1.5m. This is by far not my specialist subject, but my understanding from general conversation is that that is extremely complex and technical and that, for games at this level, it is really important that the technical solution works to the required standard.

The position at the moment is that the work will not be completed until about five months before the games. Thereafter, the facilities will require to be tested before the games, which does not leave a lot of time.

On the wider Hampden decision, we itemise in case study 1 some of the other activities that are required and which need to be managed collectively around the creation of other sporting facilities in the area.

Willie Coffey: I suppose that we just have to keep a close watching brief on how the technical solution emerges. I think that there will be a decision in May on the chosen option.

The second issue in relation to Hampden is transport, which will also affect Celtic Park, given that it is the venue for the opening ceremony. I was a spectator at the Scottish communities league cup semi-final match at Hampden Park, which was basically a test, using supporters, for security issues surrounding the stadium. The crowd was only 25,000, but transport to get to the stadium that day was a nightmare. I expect that for the Commonwealth games many more people will come by private transport and not on supporters' buses. That means that there will be a big impact on the transport infrastructure around both Hampden and Celtic Park. The transport arrangements to get the public to and from the stadium venues have never been a clear feature of Audit Scotland's reports. Is any further thinking being done that could be brought to the committee's attention—hopefully soon?

The Convener: Is that a hypothetical question, given that the member for Kilmarnock is unlikely to be at Hampden again in the near future?

Willie Coffey: I was there twice.

Angela Cullen: The current report is the second in a series, and we have committed to producing another report after the event to pick up on the legacy issues.

We will keep a close eye on developments over the next few years to see whether there is anything specific that we want to do another report on, but we do not want to make any commitments on that at the moment. Transport is linked to security. Until we know exactly what each of the venues will be used for, the likely audience levels and who the participants will be, the transport and security costs will be unclear. Neither we nor the partners know that information yet.

We highlighted Hampden Park as a particular risk. It is fair to say that the partners are aware that it is a high-risk venue. They are attempting to manage the risks but, at this stage, they cannot eliminate them completely. They are keeping an eye on that, and we will keep an eye on developments over the next few years.

Willie Coffey: Interestingly, although there was double the crowd at the cup final, the arrangements seemed to work much better in getting the supporters in and out of the stadium. I do not know why that was. Perhaps it was to do with earlier preparation or route planning by the police. The outcome was very successful—not just in transport terms, but in terms of the result of the match, which I was delighted about.

I am interested in the issue, because we know that both the big stadiums have strongly urbanised locations and are tricky to get to, particularly if lots of people travel to them by private transport. We should keep a watching brief on that.

Mary Scanlon (Highlands and Islands) (Con): Willie Coffey mentioned Hampden. The other facility that seems to pose a risk is the athletes village, as paragraph 76 highlights. Given that it is due to be ready five months before the opening, there is not a lot of leeway. I was quite concerned to read that

“At November 2011, there were 37 recorded risks in the various Games partners' risk registers related to the Athletes' Village, some of which were significant ... Ultimately, an increased public sector contribution may be required to ensure the Village is ready in time for the Games”.

I would have thought that, if anything has to be ready, it is the athletes village. That paragraph caused me a degree of concern. Will you clarify whether the readiness of the athletes village is a serious issue at this point?

Mr Black: There are probably two aspects to that, the first of which is the funding risk. I will pass over to the team to deal with issues relating to the site.

Because of the difficulties in the economy generally, the public sector contribution to the athletes village has had to be increased significantly. That happened not long ago. We understand from a Glasgow City Council report that the public sector contribution will be about £140 million, which is significantly higher than was previously anticipated. That includes a combination of housing association grant funding, regeneration funding and the funding of a care home through the council, which rebalances the funding package in favour of the public sector. The funding risk is being managed. In addition, negotiations have been held between City Legacy and the Strathclyde pension fund to help with cash flow. That is how the financial risk is being managed at the moment.

The other set of risks relates to construction on the site and some of the detailed design and delivery matters. Carolyn Smith might be able to help with that.

Carolyn Smith: Yes, I can give some indication of those risks.

As members know, the athletes village is a major development. It is situated near some of the other venues, so there are risks to do with getting the building work done on time and co-ordinating that with work on other venues that are being developed in the same area. In addition, it will be necessary for utility companies and various other companies to go in and out to do different bits of work. For example, the pylons around the athletes village need to be removed. That obviously presents a risk.

The timescale is fairly tight, so it is critical that things happen when they are supposed to happen—otherwise, there could be slippage, which could impact on the opening dates. We see that as a potential risk because, if there is slippage, more money could be required to get things done more quickly.

Those are some of the risks involved.

Mary Scanlon: I am not familiar with such development projects, but I am slightly surprised to hear that some money is being taken from the Strathclyde pension fund. Is that what you said, Mr Black?

Mr Black: Yes.

Mary Scanlon: Is that normal?

Mr Black: Yes. There is an issue about ensuring that the cashflow keeps flowing. Angela Cullen will keep me right on this, but my

understanding is that there have been negotiations to take money from the Strathclyde pension fund, underwritten by Glasgow City Council.

Mary Scanlon: Was that the pension fund for Strathclyde Regional Council, and is it now managed by Glasgow City Council?

Mr Black: The pension fund is clearly the owner of the funds and will make the loan available to the games, but it will be underwritten by Glasgow City Council to keep the money safe.

The Convener: I presume that the pension fund is managed by its trustees.

Mr Black: Yes, that is correct.

Mary Scanlon: Okay.

Carolyn Smith: I can clarify the position. The application has been made to the pension fund but, at this stage, we do not know the outcome and whether the loan from the pension fund has been granted. As far as we are aware, at the moment, it is not definite that Strathclyde pension fund will contribute that funding.

Mary Scanlon: It is the last sentence of paragraph 76 that I am concerned about. I hear what you say about utility companies and the removal of pylons. I appreciate that there are many different factors and significant risks. However, do you have any idea what the “increased public sector contribution” could be?

Mr Black: No, we do not.

To set the context, I emphasise that, within the overall budget of £524 million, there is a general contingency fund of £75 million to meet unforeseen costs. Even beyond that, the Scottish Government has set aside £24 million in a special reserve, which could be drawn on in special circumstances. The organisers are confident that they will deliver the project within the £524 million, and I consider that the contingency provisions are reasonable in the circumstances.

Mary Scanlon: You are saying that it is unlikely that there will be an additional public sector contribution over and above the two contingency funds.

Mr Black: I suspect that I am not saying that to the committee. I am saying that the planning arrangements are reasonable at this point in time.

The Convener: Thank you.

Humza Yousaf: I have a final question on something that the convener mentioned in relation to the recommendations in appendix 2. It is good to see that four out of the five recommendations for Glasgow City Council have been implemented. Councillor Archie Graham—who eats, sleeps and breathes the games—is doing a good job on that

front. Like many members of the committee, I am a new member, and I do not know how these things work. Does the fact that one recommendation, about planning and the cost of managing risks, has not been implemented cause you concern, or are you fairly relaxed about that? Budgets are a key factor in the public perception of the success of an event.

Angela Cullen: We pursued the recommendation with Glasgow City Council, as you would expect. We made the recommendation for good reasons. We would expect the plans to mitigate risks to be costed, and a sensitivity analysis to be done, to give us an idea of what the range of costs might be.

We pursued that issue again with the council. It still does not believe that that action is necessary and that it would take more effort and resources and divert attention away from tasks that have to be done right now. We have not made that recommendation again.

However, we are keeping an eye on developments with the games over the next couple of years. The risk register is one of the areas that we will continue to look at and, if there are significant risks that do not reduce or the risk ratings change, we may come back to and pursue that through our annual audits of Glasgow City Council and the Government.

10:45

Mr Black: To build on Angela Cullen's point, it is probably helpful to distinguish between the costing of the risk, where there has been a conversation, and the preparation of a risk register. It is fair to say that the council has done good work on the risk register front and Audit Scotland will keep an eye on that.

Humza Yousaf: Thank you for that clarification.

The Convener: Yours was not quite the final question, Mr Yousaf; that privilege falls to me.

This is probably an unfair question, but I am the convener and I cannot resist. Paragraph 69 of the report states that

"The Organising Committee has signed leases with seven venue owners to use their facilities for certain sporting events."

The related footnote identifies Ibrox as one of the seven venues. The ownership of Ibrox—although not at the time when Audit Scotland was producing its report—is a question of some contention. Has the organising committee allowed itself some leeway in the leases that have been signed for unexpected changes in the ownership or the running of some of the venues?

Mr Black: I encourage you to ask that question of the organising committee because we would not have that information.

Tavish Scott: Ask it of Ibrox.

The Convener: I thank the Audit Scotland team and the committee. Once we move into private session, we can discuss how to proceed with the report.

I will allow a moment for the witnesses to change over.

“An overview of local government in Scotland—Challenges and change in Scotland 2012”

10:48

The Convener: Item 3 is the committee's consideration of the Accounts Commission report “An overview of local government in Scotland—Challenges and change in Scotland 2012”. I welcome to brief us on the report John Baillie, chair of the Accounts Commission, and his colleagues, Fraser McKinlay and Gordon Smail.

John Baillie (Accounts Commission): Thank you, convener. I have some brief opening remarks.

The Accounts Commission welcomes the opportunity to brief the committee on significant matters in local government, based on our recent overview report.

Local authorities have coped well, so far, with the financial pressures, but they continue to face tough challenges from reducing budgets and growing demands for services. We welcome the progress that local government has achieved in recent years, but we also recognise the significant scale of the task that it faces.

The year ahead offers opportunities for fresh thinking on service delivery, making the shift towards preventative spending and achieving more from partnership working. The aim, of course, is to deliver more integrated services that provide better value for money and improved outcomes for people and communities. Achieving best value is crucial; we cannot say that often enough. Those local authorities that place best value at the centre of all that they do will be well placed to deal with the challenges and changes this year and beyond.

Those who are familiar with our overview report might note that there has been a significant shift in its focus this year. It is still firmly based on audit work, but it is very much a forward-looking document in which we explore the pressures and demands that local government is facing. The report sets out four responses that will help to counter those pressures: strong leadership and governance; effective partnership working; investigating new approaches to service delivery; and using good information about performance to help to drive improvement. The Accounts Commission believes strongly that effective action in those areas will help to ensure that local authorities that work in partnership with others will achieve best value.

Of course, this is an election year for local government, and those who are elected in May will need to get up to speed quickly. Our overview report aims to assist new and returning councillors by setting out a concise picture of local government and its context, and by highlighting what we see as the priorities for 2012.

We are, of course, happy to take any questions that the committee might wish to ask.

The Convener: Thank you, Mr Baillie. I will kick off.

As you indicated in your opening remarks, one of the themes that runs through the report is the financial pressures on local authorities, and you provide some figures for those as well as an indication of how local authorities are dealing with them, for instance, by reducing their staff.

In paragraph 129, you point out:

“In 2010/11, there was a significant increase in the level of usable council reserves”,

and paragraph 130 says:

“The overall level of usable reserves increased by £204 million (16 per cent) ... and totalled £1.47 billion at 31 March 2011.”

Although that is a figure from all 32 local authorities, you also say that

“Two-thirds of councils increased usable reserves in 2010/11.”

One reaction could be to say that although local authorities are strapped for cash and are reducing their staff to deal with that, they appear to be stashing away significant amounts of money. Is that good husbandry of resources, or is the level of reserves higher than it needs to be?

John Baillie: I will come to your question in 10 seconds, if I may. The question of reserves starts with transparency about what reserves are for and disclosing those reasons in the first place. Councils have different policies on earmarking reserves and on the ways in which they keep money back. Our concern is to make sure that reserves do not grow too much, and we monitor closely the relationship between net costs and expenditure. Gordon Smail might like to answer your question.

Gordon Smail (Audit Scotland): John Baillie does well to emphasise that point. We do not have to go back too far in our work on local government to a time when the position on reserves was not particularly clear. We have been monitoring the trend of reserves and a lot more information is now available on the subject.

Reserves are an important part of a council's overall financial strategy. It is important to note that, although the trend analysis in our report shows that reserves are increasing, only a

proportion could be described as free or non-earmarked. A large chunk of that money has been identified for future use and, going through all the figures, we can see that something of the order of £270 million across all councils is non-earmarked and available for contingencies.

The Accounts Commission and Audit Scotland have been careful not to say what an appropriate level would be. It is important that councils look at their local circumstances and come up with an appropriate figure. As soon as we said that X per cent of spend should be held back in reserve, the figure would become a benchmark, which would detract from the consideration of local circumstances.

We will continue to monitor reserves and look at the way in which councils set up their reserves policy. We make the point in this year's report that it is perhaps time for councils to refresh their policies to ensure that they are fit for purpose in the current context. We will continue to look at the issue; it is also a key issue for local auditors in each council to look at as part of the overall financial assessment.

The Convener: Mr Baillie said that the key to reserves was transparency in what they are for, and that there were different policies on transparency. There must surely be good practice in how reserves are defined.

John Baillie: That is a good point. By and large, councils are now much better than ever at declaring what their reserves are for, so there has been progress. My point is that sometimes it comes down to almost a difference in culture between councils. Some reserves may be described as non-earmarked and they truly are non-earmarked. However, others might be described non-earmarked but somebody is about earmark them. There is sometimes a timing issue.

The report is a snapshot. The chart in exhibit 17 on page 24 shows the trend. The earmarked part at the top of each column has grown slightly.

Would Fraser McKinlay like to comment?

Fraser McKinlay (Audit Scotland): We have spoken to the committee about this important issue in the past. For me, in addition to the overall levels, the variety in non-earmarked and earmarked reserves and the differences across councils that exhibit 18 demonstrates are striking. Our local auditors will keep a close eye on that.

You must get into the detail of the local plans to understand whether they are reasonable. As Gordon Smail says, that is the main reason why we have never said what the right overall level is, but the differences across the country are striking. There may well be good reasons for such differences, but we keep a close eye on the issue.

Mary Scanlon: I have two questions. The first relates to paragraph 137 and is about Shetland Islands Council. All councils were given a clean audit certificate apart from Shetland. If that happened in one year, we might think that it was odd. I appreciate that my area covers the Highlands and Islands, but I am shocked that you have qualified Shetland for six years. How long can the situation go on? What is being done in the background to ensure that Shetland Islands Council is working towards achieving a clean audit certificate?

John Baillie: The situation has not only been going on for the six years that you mention but has covered two separate auditing organisations. Before Audit Scotland became the auditor of Shetland Islands Council, the auditor was an external firm, PricewaterhouseCoopers. It likewise referred to the difficulty with not including the Shetland Charitable Trust in the group accounts.

To come to your question, the council has done quite a lot of work to try to resolve the issue. I would not say that it is at the stage at which it is about to be resolved, but a lot of thought has been given to how it might be resolved. We hope for further progress when we look at the results of this year's audit. In fairness to the council, it believes ardently that its position is correct as a matter of principle and is not some nonsense. The advice that we have been given is fairly unequivocal that the financial standards should be applied in a way that would allow the information to appear in group accounts. I do not know whether Fraser McKinlay, as controller of audit, wants to add anything.

11:00

Fraser McKinlay: There is a lot of constructive discussion going on on both sides to try to resolve the issue. I do not think that anyone wants to see the qualifications continue but, as John Baillie said, there is a fundamental difference of view on the issue. Changes are happening separately on the make-up and governance of the Shetland Charitable Trust, which is part of the discussion. If they go through, they may well have an impact on our discussions with the council around grouping. It is a continually changing picture. As I said, very constructive discussions with the council are still going on to try to resolve the issue.

Mary Scanlon: I appreciate that, but if there have been constructive discussions for more than six years, you are being very patient.

My other point is about paragraph 157 and the issue of maintenance. Mr Baillie said that the main point was to get best value. I would have thought that the basic thing to do to get best value from assets is to maintain them, because otherwise they fall down around your ears. Paragraph 157

states the cost of the maintenance backlog for council properties is £1.4 billion. However, I want to concentrate on the £376 million for urgent maintenance. Is undertaking that maintenance not the best spend-to-save policy? Where will that £376 million come from? That is one of the issues in the report that is of most concern to me.

John Baillie: I agree. We, too, were very concerned about the urgent aspect when we did the report, for the reasons that you have indicated. The example that I use of remedial work is simply about the old problem of having a roof that you do not repair, which then becomes a far wider and deeper problem. The situation to which you refer concerns us. Our exhortation—I make a point of repeating it here—is that something has to be done about that. Does Gordon Smail want to comment? Was that your area, Gordon?

Gordon Smail: I do not have anything to add, other than to say that it is important to place the maintenance issue in the context of everything else that is going on. That is why we highlighted it in paragraph 157, and in an earlier diagram in the report, against everything else that councils have to deal with. We just wanted to give a sense of the scale of the issue in relation to property assets—that is, buildings—and roads, which we also refer to in paragraph 157.

Mary Scanlon: That is the next point that I was coming to. Paragraph 157 says that the cost of removing all road defects in Scotland is £2.25 billion. Surely that cannot be ignored. I noticed recently that the cost for claims to councils for damage to vehicles from potholes and so on is rising by millions every year. I just cannot comprehend the £2.25 billion. Where will the money come from to sort the road defects and to pay for the urgent building repairs?

John Baillie: May I use that question to expand your concern even more? It is all part of the same issue.

Mary Scanlon: Yes, please do.

John Baillie: Sometimes I bore my colleagues in Audit Scotland by talking about dangling debts. You referred to the councils' properties and roads; other issues to take into account are inflation, servicing public-private partnership contracts, the pension scheme, equal pay and fuel duty increases. Those are all listed, among other things, in exhibit 3, which also refers to £713 million for roads as the urgent part of the £2.25 billion figure to which you referred. Councils have to face up to all that. It is the old story, as you touched on earlier: the less that is spent today on preventative work, the worse it becomes tomorrow. We keep flagging that up and we monitor how it is addressed; that is all that we can do.

Mary Scanlon: I am new to the committee, which is why I ask my next question. Paragraph 157 states that there is a cost of £1.4 billion for the maintenance backlog for council-owned property assets, with £376 million for urgent repairs, and a cost of £2.25 billion to remove road defects. Have those figures been increasing in recent years? What is the trend?

John Baillie: I think that the figures have been increasing, but I defer to my team on that point.

Gordon Smail: We do not have that information. The figure for the buildings is based on the 2009 Accounts Commission report, but I do not have any more up-to-date information than that.

Fraser McKinlay: We can check that for you, Ms Scanlon. Your question about where the money will come from is a good one—we do not have an answer to that. Across the country there are examples of councils trying to do their bit in their local area. In some places councils have been able to find more money for roads in the budget process, but it is difficult. There is competition with other budgets that are under significant demand around social work and other services to vulnerable people. Councils are in a bind, and there is no easy answer.

From around paragraph 159 onwards, we talk about the need to consider a slightly more collaborative approach to using assets across the public sector—that has to be part of the solution. More innovative thinking is needed about the wider public sector estate and how it is used, rather than looking just at health and councils and others. That is a potential way of driving some efficiencies into the system for the greater good.

Mary Scanlon: Those costs certainly cannot be ignored.

Fraser McKinlay: Indeed.

John Baillie: We have tried to exhort councils to consider how assets are used and to consider getting rid of them altogether if they are sure that the assets are surplus to requirements. That would solve part of the problem.

Mary Scanlon: Are you talking about buildings?

John Baillie: Yes.

Mary Scanlon: What type of buildings?

John Baillie: Any buildings that are not used fully or from which councils can relocate and so cut running costs as well as maintenance or capital costs.

Mary Scanlon: I understand.

Colin Beattie: Paragraphs 38 to 41 quite rightly highlight the impact of the welfare system reforms.

They emphasise how profound the changes will be, how they will change the way in which local government delivers services and so on. Are there any plans to find out how well the councils have adapted once those changes have taken place? Welfare reform is quite a serious issue for councils.

John Baillie: Councils are concerned about the impact of those reforms. Fraser McKinlay will expand on that point.

Fraser McKinlay: We are not making any commitments just now, but we need to keep a close eye on the impact of the changes as the plans become clearer. The transition arrangements for going from the current set-up to universal credit will be absolutely key. Our local auditors in councils will keep an eye on things, but we will also keep an eye on things from the national perspective to ensure that the issues are being dealt with. Certainly—as Mr Beattie will know better than I do—in speaking to council chief executives, we find that the impact of the welfare system reforms and the shift to universal credit are giving them real cause for concern. As Mr Beattie says, it is a fundamental shift to the way that the process currently operates. We are not making any promises, but the issue is certainly up there on our radar in terms of risks to the public sector and to councils in particular.

Colin Beattie: In connection with arm's-length external organisations, the last sentence of paragraph 48 states that:

"a lack of clarity about roles and responsibilities undermined governance with serious consequences for services and public finances."

That is quite a strong statement. What is the background to it?

John Baillie: How councils should deal with ALEOs is a source of concern to us and has been for some time. We published a report on it last year. Any councillor who is appointed to an ALEO has a dual responsibility, as you know. If the ALEO is a limited company, the councillor has a responsibility to comply with the companies legislation and look after that ALEO. At the same time, the councillor has a responsibility to the council to ensure that public money is well spent.

Our earlier report, "Following the Public Pound", outlines the principles that should be followed. As far as we can, we constantly try to ensure that councils adhere to following the public pound principles when they are dealing with ALEOs. Sometimes there are good reasons for the formation of ALEOs, but that does not negate the need for councils to adhere to those principles.

Colin Beattie: From what you are saying, it seems that many councils are not following that

process. Are we saying that that is more prevalent than not or that it is true of a very small minority?

Gordon Smail: Those are strong words in paragraph 48, but it is worth pointing out that we were trying to reflect the generality that Mr Baillie has described. I refer to a piece of work that we did last year on Highland Council's involvement in a project called Caithness Heat and Power. That is a separate report, which is publicly available and which set out the real-life consequences of not getting an ALEO right.

The previous document, on ALEOs is a general good practice guide for councils. However, the report on that particular council highlighted what happens when roles and responsibilities are not made clear from the start. That gave us the evidence base to comment in the report; in other words, we were able to make it real for people reading the report and to show that it is not just theory—it can happen in practice.

Humza Yousaf: I have been approached by a number of third sector organisations regarding ALEOs; I think that all the elected representatives here will have had such approaches. Those organisations feel that ALEOs are sometimes used to plug gaps and divert funding away from them. Does your report look into that extensively? Are those fears founded, or is the issue one of perception rather than reality?

John Baillie: The report makes it clear that if an ALEO is to be formed, there should be well-documented reasons for that to happen and that a good business case should be established.

Gordon Smail may want to cover whether ALEOs were plugging gaps.

Gordon Smail: We provided a briefing to the committee on that subject in October when we published the report on ALEOs, which has helped to clarify quite a number of the issues relating to ALEOs. We are not trying to encourage or discourage their use; we want to point out their pros and cons and the possible pitfalls around governance and the like.

With regard to funding, it is very much about being able to use the phrase, "Following the public pound". In other words, clear decisions must be made by councils about why they want to deliver a service and how they will provide it. Closely associated with that is the amount of money that councils will provide in that way and how they will ensure that they get the same value for money from a pound that is spent indirectly through an ALEO as they would if they spent it themselves. There are important points in that regard about openness, transparency and, ultimately, accountability for public money—that is the key point. At the end of the day, it is public money

regardless of whether it is being spent directly by the council or indirectly through the ALEO.

Colin Beattie: I move on to paragraph 82. This is the second report that I have seen that has commented on the savings that are likely—or, more correctly, unlikely—to arise from shared services. I am well aware that many councils anticipate considerable savings from shared services over a period. Obviously, these reports look back rather than at what might or might not be possible in future.

Perhaps councils are being optimistic in their budgeting in the hope that they will save millions of pounds from shared services. I am not talking about the possibility that we might have a more efficient service to the end users. If we are looking for cash savings, from what you are saying it looks unlikely that that will be achieved.

John Baillie: Again, we always stress that when councils are entering into shared services agreements, the business case should be tested robustly, for the very reasons that you indicate.

On the specific savings in each case, I think that a number of recent exercises have shown that sometimes there are benefits and sometimes there are not the benefits that had been hoped for. Fraser, do you want to amplify?

Fraser McKinlay: The point about shared services is well made, and it relates to paragraph 75, in which we talk about different ways of delivering services. It is not just about shared services. As the chair of the Accounts Commission says, it is critical that there is a good business case, but in a sense, it is even more critical that people know how they will deliver the efficiencies that are set out in the business case. That is the hard bit, in fact. Even if the point of making the decision to go forward with a project is reached, delivering the savings and taking the tough decisions that are involved in it are not straightforward.

11:15

As has been said, our reporting—even the more forward-looking bits of the report that we are discussing—is based on experience of the past. The comment that it is unlikely that significant savings will be delivered in the short term is based on experience of shared services projects to date. There are simply not that many that we have seen that have delivered big numbers quickly. Therefore, if people are embarking on a shared service, they should be clear about why that is being done and they should go in with their eyes open and with a realistic business case that includes when and how they will realise the efficiencies.

Colin Beattie: Have any of the shared services that you have looked at failed to deliver any savings or, worse still, lost money?

Fraser McKinlay: We have not looked at any specific projects as part of the exercise, but there are occasionally reports across the country of projects that have not delivered what they were supposed to deliver. That is critical, because budgets that are set in February every year quite often require savings to be delivered through transformation projects, or whatever they happen to be called. If they are not delivering, those savings need to be found from somewhere else. There have been examples of that in various parts of the country in the past 12 months.

Colin Beattie: Let us move on to the old favourite of information gathering. Paragraph 104 refers to

“a lack of consistent and robust information at a national level”.

Practically speaking, is a great deal of progress being made on that? The question of information gathering and proper comparative figures coming out keeps coming back. There does not seem to be consistency.

John Baillie: The Accounts Commission and Audit Scotland have been banging on about that for many years on the basis of the question: how can proper decisions be taken if the information on performance and costs is not available? I think that that is behind your question. A lot of work is being done in the background to try to improve matters, but so far it is not at a point at which it can be launched.

Fraser McKinlay may want to speak further about performance information.

Fraser McKinlay: That is a long-standing issue. I know that members' colleagues on the Local Government and Regeneration Committee are considering it in their inquiry.

The Accounts Commission already has statutory performance indicators, which all councils are required to report against. To that extent, the commission plays a role in ensuring that some comparative benchmarking information is available. However, a couple of years ago, the commission rightly handed on the baton or threw a challenge back to local government by saying, “You should be doing this yourselves. This is your job.” Since then, council chief executives have been working on a set of benchmarking data and indicators, and we expect to see some of the fruit of that work this summer. We await that with interest. I hope that it will provide a set of benchmarking indicators that will go at least some way to providing a national picture of performance across councils.

John Baillie: There are two types of benchmarks, which are used for self-evaluation—as Fraser McKinlay said, they should be in councils already; they should not have to be devised at this stage—and for public reporting. Therefore, there are two banks of performance indicators that we are keen to see established robustly and running forward in a trend, as the trend is particularly important.

Gordon Smail: I want to return to the issue of costs. This ties in a bit to the previous discussion about shared services.

To be able to identify what efficiencies will be generated, people need to know about their costs. That should be part of the fundamental decision-making process. There is something that the commission has been keen on, which has come through in many elements of our work. In May, we will say a bit more through the “How councils work” series about why cost information is so important in decision making and performance management, and try to unpick a bit what we mean by cost information. It is easy for us to say, but we need to say a wee bit more about what it involves and how it can be used with reference to case studies, for example, to make real for people what we expect and why it is vital in managing services and making vital decisions about them.

Colin Beattie: I have one last question. Paragraph 128 says:

“Councils are considering new ways of financing capital expenditure.”

Specific mention is made of tax increment financing. How many councils are successfully adopting that? I am always a bit concerned by talk of innovative ways of raising capital, because as such methods become more intricate and exotic, the risks increase incrementally, as we have seen with the banks. Do you have a view on councils getting involved in that sort of financing?

John Baillie: I invite Gordon Smail to answer that but note, in passing, that I whole-heartedly agree that the risks increase with the complexity.

Gordon Smail: We are flagging up TIF as one of the ways of providing the financing for capital that councils are looking at. A couple of big projects that involve that method of financing have been approved in Edinburgh and North Lanarkshire—the one in North Lanarkshire is to do with the site of the former Ravenscraig steelworks. Those are pretty big projects, particularly the North Lanarkshire one, which involves very large sums.

All that we want to do is to flag up TIF as one of the new ways of raising capital that councils are thinking about. In the report that we produced this time last year, we said a bit more about what was involved in TIF arrangements. For us, the key

issue was the risks that are associated with the fact that the whole system is predicated on the production of non-domestic rate income. In the current environment, there are inherent risks in anticipating a flow of funds from non-domestic rates on retail properties, for example. As in the previous item on the Commonwealth games, we are using the language of risk. We have done no further work on the issue.

As part of our performance audit programme, we will do a study of major capital projects in local government, which will look across the piece at how such projects are taken from the initial idea through to completion and at some of the funding mechanisms that are available, including the TIF option. More work will be done on that.

Tavish Scott: I start by saying how grateful I am for the Accounts Commission’s understanding of Shetland Islands Council’s position; one accountant’s qualification is another accountant’s careful treatment of accounts. I have always been told that accountants are like lawyers in that they can come to different views on such things. As a former member of the council, I have a lot of sympathy for the principled position that has been taken, but I take Mr McKinlay’s point that constructive discussions are being held to resolve the matter.

I have two questions, the first of which relates to Mr Beattie’s point about shared services. Is any work being done on that? I was very taken by what was said about there being circumstances in which the aspiration to deliver shared services is not conducive to delivery of savings. Is the Accounts Commission, Audit Scotland or a parliamentary committee doing any work on that?

John Baillie: I am not aware of any specific work that is being done on that, other than all the local activities that are under way.

I wanted to make a point earlier—it may be tangential; I am not sure. One of the big problems with shared services is getting people to cede control of parts of their areas. It is assumed that when all the plans are laid and the calculations are done and tested robustly, control will be ceded just like that, but human nature being what it is, that is an extremely difficult hurdle to get over. That is one reason why shared services are sometimes difficult to see through to proper fruition.

Tavish Scott: We have seen that from previous reports on community planning partnerships and community health partnerships. I take that point.

Would it be fair to say that shared services is an area on which further work needs to be done for this committee or another committee?

John Baillie: Fraser McKinlay will comment in a second—I am sorry, Fraser.

We have seen evidence that suggests that some immediate expenditure is necessary to set up shared services and that the gains are made in the medium-to-long term. That would be worth exploring much more fully.

Fraser McKinlay: I will take that away and we will think about whether there is more that we can do. Shared services are being covered as part of the Local Government and Regeneration Committee's inquiry into public service reform, so it will be interesting to see what comes out of that.

Tavish Scott: Okay. Thank you.

My second question is on the third bullet point in your summary and conclusion. I am not trying to read too much between the lines, but you state:

"It is vital that statutory officers, and in particular the statutory officer for finance, have appropriate access and influence."

I was struck by the expression "access and influence". Can you expand on that?

John Baillie: Yes. It is a fairly basic point. It always worries us when the statutory officer who is responsible for the resource called financing is not at the top table. That is not to say that that is the only way to do it, but if that officer is not at the top table, other arrangements must be in place to ensure that that senior voice is heard, otherwise there is an obvious difficulty regarding advice on figures and financing getting lost in the general debate and, perhaps, in the general zeal to pursue a project.

Tavish Scott: Is that recommendation firmly aimed at elected members, or is it much more about management teams and chief executives setting up the right structures within the 32 local authorities?

John Baillie: I am sure that the panel will all comment. It is really about both; it starts with the councillors who have to agree the decisions—the council cabinet—and goes on from there.

Fraser McKinlay: I reiterate that it is about both. The statutory officer for finance has an important independent responsibility to the council—not just to the chief executive—so it is important that that person has, as we said, "access and influence". In the past, the Accounts Commission has debated whether to produce a clear policy statement that begins, "There shall be", but we are more interested in how things work in practice. We have also seen examples in which officers acting under section 95 of the Local Government (Scotland) Act 1973 being at the top table has not worked. It is not a given; a number of factors need to be in place to make that work.

We are flagging up the fact that things have changed quite a lot over the years; council

structures have changed and the nature of chief executives has changed. There was a time when most chief executives were ex-directors of finance—although I am not suggesting that they always make good chief executives. There has been a change and we are flagging up the need to ensure that that voice—which is important not just for keeping an eye on the books, but for the strategic advice and influence that the role should have within a council—is at the top table and is heard.

Gordon Smail: Fraser McKinlay has covered the point that I was going to make, so I will not repeat it.

There is a question of visibility in terms of elected members recognising the statutory roles, whether it is the section 95 officer for finance, the head of paid services, the chief executive of social work or the monitoring officer for legal issues. Those are the four key roles, although there are others. When we speak to elected members, we get the sense that they are not quite as aware of those vital roles as they might be. Following the elections in May, there will be an opportunity to restate to elected members who those people are, what they do and how their statutory roles sit slightly separately from their day-to-day roles in the council.

Tavish Scott: I have a last question. We had a period of ascending public expenditure post 1999, but we are now in a period of descending public expenditure for councils as well. Does that make the statutory role all the more significant? I am very taken with Mr McKinlay's point that you nearly went for making the director of finance, in that context, a statutory role—or egging it up to some extent or making it a requirement. That could come. We are in a difficult period. Do you think that you will have to revisit that at some stage?

John Baillie: I would never say "never". The importance of having somebody at the helm of all the finances must be stressed, and I think that everybody sees its importance.

Tavish Scott: Should the role be not complicated by corporate services? Should that officer do just finance?

John Baillie: What is important is that the function is at the top table, either physically or in spirit, with the mechanisms to ensure that it is always heard loudly. All councils, even the smallest ones, as Tavish Scott will know, are complex—there is significant expenditure and complex operations. In the private sector, it would be untenable for there not to be a finance director at the top table. Accountants have an expression: "Ashes to ashes, dust to dust, cash to cash." There is a flavour of that in all this.

11:30

Mark Griffin: Paragraph 125 of the report states that

“Slippage in capital programmes is a recurring and worsening issue”.

Is that because of project and programme management or is it more related to resources and the reductions in capital receipts, particularly because of the 1 per cent increase in the cost of borrowing from the Public Works Loan Board?

John Baillie: Gordon Smail will comment on that; I do not have the detail.

Gordon Smail: One of the report’s purposes is to monitor trends; we have been monitoring that trend. It features in the local reports—they are on our website—that we do for each of the 32 councils.

The slippage occurs for a number and mixture of reasons. It could be down to individual projects, or it could be that an anticipated asset sale is not achieved within the right timescale. In the current environment, money that was anticipated from the sale of land or buildings not being realised can knock a programme back.

There are also programme management issues, as Mark Griffin mentioned. To an extent, that is to do with councils having the right expertise; some projects are very complicated.

The key issue with slippage for us is to have a read-across to the service delivery plans. If service delivery plans rely on having assets available in a certain condition at a certain time, but they are not available, how can the council make its planned service changes and improvements? A lot is wrapped up in this issue. We are doing work on capital projects and local government, and slippage is one of the issues that we are looking to unpick a bit more.

There are sometimes very good reasons why programmes slip. We know of some councils that have decided to put a break in a programme because of other things that are happening in the locality. In other words, they have had to choose to wait for something else to happen in order to make the capital spend come along at the right time.

Mark Griffin: Should councils have in-house the detailed expertise that is required for such capital programme, or should they rely on external consultants? Is there a knock-on effect from councils being reluctant to go to consultants because of newspaper stories about big bills from consultants?

Gordon Smail: We do not have in our evidence base anything that would allow me to comment on that or to come back to you. We have picked up

on the question whether councils have the right skills to deal with projects, and there could be additional points to raise about sharing resources across projects because the required expertise might be in areas that councils could share. That might to an extent be going on already, but there could be scope for more. As I said, however, I have no evidence that would allow me to give you a firm response.

John Baillie: The question moves us towards procurement capacity, which we touch on later in the report. There has, under the general thrust of Scotland Excel and so on, been discernible improvement in councils’ ability to procure.

Mark Griffin: Paragraph 150 of the report starts: “Large reductions in senior managers may affect ‘corporate capacity’”

and you have linked that to reductions in the numbers of back-office staff impacting on front-line police officers. As budgets, management and back-office and administration staff numbers reduce, is there a risk that there will be an impact on teachers, social workers, and classroom assistants and their ability to deliver front-line services? Do you see more of their time being caught up in administrative or management functions?

John Baillie: If the reductions go too far, there is a real risk of that in the examples that Mark Griffin has given. One of the difficulties—I suspect that this is what is behind your question—is in ensuring that backroom services are not cut so far that the council has to start transferring duties silently, if you like, to front-line staff.

Another point is that the more the back room is cut, the more necessary controls may disappear. Internal control relies on division of duties. In the future, if the reductions go too far, councils might not have available the people who are needed for division of duties. Corporate memory is another aspect; the learning from bad experience earlier in the history of the council—by history, I mean even five years ago—may not be retained.

Fraser McKinlay: A challenge of this debate is to identify what “front line” actually means. It is not an easy line to draw. We can understand that teachers are front line, but what about quality improvement functions for education authorities, which colleagues in Education Scotland have been concerned about? When making savings in education departments, councils do not start with teachers; they start with the quality improvement function. However, there is a lot of evidence that the quality improvement function can have a real impact on the quality of teaching. It is not a straightforward issue. We are raising the point that if councils make those kinds of decisions on

staffing they must be clear on what impacts and implications there will be on service delivery.

George Adam: I am interested in some of the points you made regarding the time when chief executives came mainly from a finance background. Your report states that we live in “challenging” times, and that we have to think and work differently. There is a need for a good balance and strong political will to make decisions. In my experience as a councillor, nine times out of 10 a finance officer will say “Keep the money for a rainy day, councillor”, I will say “It’s thunder and lightning out there”, and the officer will say “But it could get worse!” We are in a position where we have to think a wee bit differently, and move away from that type of attitude. Is that why things are changing in a lot of the local authorities?

John Baillie: I do not think that we have any clear evidence that supports or denies your point. I stress again that we are not saying that finance officers have to be front and centre all the time. Balance is needed, as you said. The key for us is that in a well-functioning council, the councillors should have good working relationships with the executive. In the very first of the improvement series we have stressed that point and explained how councils can go about building those relationships, and all the things that must happen. For us, good working relationships in which everyone—including people whose political views differ—can get on and collaborate to get things done are the key.

George Adam: You mentioned the tax incremental finance scheme, and you said that it is a risk, but you are not really concerned as long as every programme goes through the correct process. I see the scheme as being a way to get capital investment for local authorities to invest in the future.

I was not an elected member when public-private partnerships came in. On page eight you have listed some of the councils’ costs for PPP contracts. I know for a fact that my local authority has £100 million-worth of education estate that has cost us £400 million to finance. You mentioned “Buy now, pay later? A follow-up review of the management of early retirement”, a report you published in 2003. My example is a classic case of “Buy now, pay later”. Did you attach risk to the PPP projects reports when they were going through the process?

John Baillie: I was not chair of the Accounts Commission in those days, so I am unable to comment on that.

We are not saying that PPP or private finance initiatives are good or bad; we are just stressing that, if councils go into them, they should make sure that they have made the right decision, that

the proper options appraisal process has been followed. Proper robust evidence—or the best available robust evidence—has shown that to be the answer. That is all we are saying.

Gordon Smail: The context is that we are in a position where budgets are tight and tightening. The increase of the—if you like—first calls on budget means that there is less flexibility in the remaining budget. The issue is how councils draw together budgets, what the implications are, how much flexibility they have and where they can make decisions when there are already substantial first calls on budgets.

George Adam: The lack of flexibility that PPP contracts impose on setting a budget makes that even more challenging for elected members, given councils’ current position.

On shared services, I note that paragraph 78 indicates that Clackmannanshire Council and Stirling Council have a successful programme, in that their education and social care services work together. However, it would be difficult to do the double reporting involved on a larger scale. For example, that would be difficult with the Clyde valley model. Do you have any ideas on reporting structures in that regard? There could be a problem in getting the reporting back down to the local level for every local council’s decision-making process.

John Baillie: Our general approach is to say that, having worked out the business case, you determine what your aims are for the project. You then put in place the performance measures that you will need to look at to ensure that the project remains on track. It is absolutely critical that you determine who does what and when. All those factors then drive the reporting process. Having addressed those factors, you then just keep the reporting as simple as possible, for the reasons that you indicated. If there is confused reporting, by definition you get confused or no monitoring.

Does Fraser McKinlay want to add anything?

Fraser McKinlay: I think that Mr Adam’s point is that it is horses for courses. The model that Clackmannanshire Council and Stirling Council developed works for them, which is partly because of scale. It is an interesting model because it has allowed the politicians to retain the governance of those important services for their areas, so the issue of ceding control that the convener mentioned earlier has not become such a problem in Stirling and Clackmannanshire. They will manage to join up and make efficiencies in how the services are delivered.

As Mr Adam said, it is difficult to see how that model would work in the Clyde valley. Our informal understanding is that some bits of the Clyde valley partnership might share some bits of the back-

office services between them. Rather than seven or eight councils getting together, perhaps two or three councils could think about getting together. Perhaps that model has more mileage. It will be very interesting to see what happens with the other bits of the Clyde valley work in the coming months. We will keep a very close eye on that. However, in a joined-up arrangement, what works is most important.

George Adam: The reporting mechanism for the Clyde valley model is extremely important because the more local the decision-making process, the better for everyone in the area. However, that must be balanced against the larger Clyde valley scale. In that regard, I can see why you say what you say in paragraphs 80 and 81, which outline the difficulties with the Clyde valley model. I have sat through many a meeting on those issues.

Willie Coffey: I have a couple of questions. The first is on housing and preparations for future housing demand, and the second is on the role of councillors.

A table in the report tells us that the number of those aged 75 and over will increase by 23 per cent in the next 10 years, with consequent increases in demand on housing services, social care services and so on. The social care aspect of that was raised in a report from the Auditor General that was discussed at a meeting of the previous Public Audit Committee, which I think Mr Baillie attended.

Do you get the impression that enough preparation and planning are being done in Scotland's local authorities for the increase in the elderly population in order to provide adequate housing for the future? The Scottish housing quality standard is due to be met in 2015, so I am interested in your view of where we are in terms of reaching that. What will be the impact on the private rented sector? Will demand diminish or increase over the next few years? What will be the impact on overall demand for housing over the next 10, 15 or 20 years from the increase in the elderly population that you predict?

11:45

John Baillie: I will start with a general point, which is that we have always said that, in relation to the medium and long term, councils should try to look further ahead than the three-year and five-year cycles that they often use. That is a general point that applies to all council activities.

I will ask my colleagues to supplement the response to your first question. The private rented sector is dependent on so many different market features that it is difficult to give you an answer that could be considered remotely authoritative.

The general point is that the more houses that are supplied that were not there before, the more that must help to meet overall demand. At the same time, greater demand and rising expectations for houses drive us the other way. I am not saying anything that you do not already know; I am just making general observations.

Gordon Smail might like to comment.

Gordon Smail: I will pick up on the general point. There are pressures on finance and there are longer-term demands, but my strong sense is that the longer-term demands far overshadow the current pressures.

I will address the specific question about meeting the Scottish housing quality standard by 2015. In the background, we work closely to look across each council area with our scrutiny partners, including Social Care and Social Work Improvement Scotland and the Scottish Housing Regulator. Our work with the Scottish Housing Regulator covers the scrutiny risks. One risk that it will identify is the extent to which councils are far enough down the road to meeting the housing quality standard. That gives you some reassurance that work is going on in the background with housing experts to look at the progress that councils are making. It comes into the mix in the scrutiny response when auditors, regulators and inspectors work together to look at such issues.

Fraser McKinlay: As members probably know, as part of our rolling programme of performance audits on behalf of the Accounts Commission and the Auditor General, we keep our eye on housing provision. If the committee is increasingly interested in the matter, we will consider that.

Willie Coffey: Okay. My second question is about the role of councillors. You said that we are in a very challenging environment. I have been a local councillor for almost 20 years. My colleagues across Scotland are finding it particularly difficult to deliver services and meet local people's expectations in this challenging environment. The context is, of course, that many elected members also work in industry or business.

Did you speak to elected members during the survey or the analysis to find out their view of their future? A lot of good work has been done in recent years to provide training for elected members, but I still have a concern about remuneration. I say that without fear of anyone suggesting that I am feathering my ain nest, because I will not be returning to the local authority. Is there a feeling that local authority councillors are remunerated sufficiently for their work? Some of them are in charge of budgets worth hundreds of millions of pounds yet, of necessity, they have to fulfil the role part time and work for a living. That is a huge

demand, which we sometimes overlook in Scotland. We expect a high level of service from our councillors, but many of them are part time. Did you have a wee opportunity to talk to councillors across Scotland and establish their view on the issue?

Gordon Smail: Our work in councils—for example, on best-value audits of councils or police authorities—involves us speaking to elected members, so we have quite a good feel for what they think about their workload. As you say, a key theme throughout the report is the demands on elected members, including their fundamental role of representing people in communities, providing leadership and providing good scrutiny of services to drive improvement. When we overlay those responsibilities with some of the other aspects of the role that we have discussed, such as representation on ALEOs, it is clear that a lot is required of councillors.

The report highlights the main issues as we see them from an audit point of view. As we say up front, we hope that we have produced a report that, among all the induction programmes and the like that councillors get, helps to give new councillors an overall feel for the main issues.

As auditors, we would not comment on remuneration. An organisation called the Scottish Local Authority Remuneration Committee looks at that very subject. That is probably the best place to take your point about how much councillors are remunerated for the role that they undertake.

John Baillie: As councillors take on more and more work, pressure will build for them to go on to a different remuneration scale. That is not based on evidence; it is just an observation—I am playing back what you said, in fact.

Willie Coffey: My experience over the years is that the ability of local councillors to interact with local communities has never been in question, because they can do that almost any time of day or night, at weekends and so on. However, the ability of potential local councillors to give up some paid employment to do the job of a councillor is being seriously challenged these days. I imagine and hope that that will be reviewed in the near future.

John Baillie: Yes. As you well know, it is particularly acute for new councillors, who have lots to learn and take on board. As with previous elections, it is expected that after the elections in May there will be an awful lot of new councillors with that burden to bear.

Colin Keir: Paragraph 148 on single status says that

“future costs are likely to be of the order of £180 million.”

However, the final sentence says:

“Employment tribunals continue and recent cases have opened up the possibility of more claims for compensation.”

Is that on top of the estimated £180 million? If so, are local authorities budgeting prudently for the possibility of more claims? I am returning to the issue of unallocated reserves, I suppose.

Gordon Smail: Single status has been a significant issue for local government over a number of years, and it is an area that we continue to monitor.

On the figures in the report, it is worth reflecting on some of the underpinning accounting rules that we are applying. We have a figure for the amount of money that has been spent and another set of figures for money that has been set aside. However, there is another part—an unknown part—that in accounting we would call a contingent liability.

The way in which the figures are built up is based on a council legal department’s assessment of the outcome. As auditors, we look at the assumptions that are made and work out whether they are reasonable and whether the figures that are included in the accounts are correct under the accounting rules. I know that that is a very technical response but that is how we come to the figures. In short, taking together the amount spent and the amount set aside, we estimate that the cost of equal pay, to date and in future, is about £630 million.

However, there is another unknown factor. We know that there are continuing legal cases going through the courts. As I say, it is for council legal departments to make an assessment and provide evidence to us. We then look at the figures that councils include in their accounts. I do not know whether that is a helpful response but I wanted to try to build a picture of how we come to those figures.

Colin Keir: I may have to read that again.

John Baillie: If I may offer to supplement that, we talked earlier about reserves and earmarking, and I referred to the fact that while funds might be earmarked, there may be one or two timing issues. This may be an example of that. There may be a circumstance in which the council may not want to provide against something because by doing so it is giving the tactical game away in terms of negotiations.

Fraser McKinlay: As Gordon Smail said, there is no doubt that case law has such an impact on all of this that it is genuinely difficult for councils to predict accurately what will happen. The cases seem to keep coming. We have had this conversation with the committee for however many years, and there have been more cases recently, at the start of the year, which have

moved the whole thing on again. As Gordon said, our job really involves a test of reasonableness. Do we think that what the councils have set aside is reasonable? Obviously, we do not see the detail of the cases and we are not lawyers so it is difficult for us to go beyond that.

The Convener: Thank you. As there are no further questions, I thank Mr Baillie, Mr McKinlay and Mr Smail.

Section 23 Report

“Reducing Scottish greenhouse gas emissions”

11:55

The Convener: Item 4 is consideration of correspondence relating to a section 23 report, “Reducing Scottish greenhouse gas emissions”. The committee will recollect that, having received correspondence from the Scottish Government, we wrote again, asking a specific question about when the next report on proposals and policies would be published. The reply received from Graeme Dickson at the Scottish Government, which has been circulated, says:

“We plan to lay the draft Report in Parliament following the 2012 summer recess. This draft report is subject to a 60-day period for Parliamentary consideration under the terms of the Climate Change (Scotland) Act 2009.”

I invite comments from members, although that seems to be a straightforward answer to the question that we asked. I suggest that we simply note the answer.

Members *indicated agreement.*

11:56

Meeting continued in private until 12:16.

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