



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# LOCAL GOVERNMENT AND REGENERATION COMMITTEE

Wednesday 5 June 2013



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**LOCAL GOVERNMENT AND REGENERATION COMMITTEE**  
**18<sup>th</sup> Meeting 2013, Session 4**

**CONVENER**

\*Kevin Stewart (Aberdeen Central) (SNP)

**DEPUTY CONVENER**

\*John Wilson (Central Scotland) (SNP)

**COMMITTEE MEMBERS**

\*Stuart McMillan (West Scotland) (SNP)

\*Anne McTaggart (Glasgow) (Lab)

\*Margaret Mitchell (Central Scotland) (Con)

\*John Pentland (Motherwell and Wishaw) (Lab)

\*Stewart Stevenson (Banffshire and Buchan Coast) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Alex McPhee (East Ayrshire Council)

Alan Puckrin (Inverclyde Council)

Gavin Stevenson (Dumfries and Galloway Council and Society of Local Authority Chief Executives and Senior Managers)

John Swinney (Cabinet Secretary for Finance, Employment and Sustainable Growth)

**CLERK TO THE COMMITTEE**

David Cullum

**LOCATION**

Committee Room 1



# Scottish Parliament

## Local Government and Regeneration Committee

*Wednesday 5 June 2013*

[The Convener *opened the meeting at 09:30*]

### Budget Strategy Phase 2014-15

**The Convener (Kevin Stewart):** Welcome to the 18th meeting in 2013 of the Local Government and Regeneration Committee. I ask everyone to ensure that mobile phones and other electronic devices are switched off.

Agenda item 1 is oral evidence in our pre-budget scrutiny of the 2014-15 budget. The purpose of that scrutiny is to look back at the challenges that have been faced by local authorities in recent years, and to look forward over the next few years. We aim to examine the big picture and will look at high-level local government budget information. The evidence that we receive from this pre-budget scrutiny will feed directly into our formal budget scrutiny in autumn 2013.

Last week we heard from the Accounts Commission for Scotland, academics and key service providers. Today, we will hear from two panels of witnesses, from the Scottish Government and local authorities. I welcome our first panel: John Swinney, the Cabinet Secretary for Finance, Employment and Sustainable Growth; Bill Stitt, the assistant team leader of the local government division of the Scottish Government; and Terry Holmes, the head of corporate reporting, accountancy and governance at the Scottish Government.

I invite Mr Swinney to make an opening statement.

**The Cabinet Secretary for Finance, Employment and Sustainable Growth (John Swinney):** I welcome the opportunity to discuss local government finance settlements past, present and future, ahead of the Scottish Government's draft budget for 2014-15. I know that the committee will want to concentrate on the prospects for 2014-15. However, before doing so, it would be helpful to reflect on some of the steps that have been taken to get us to this particular point.

It is clear that local government and central Government in Scotland will continue to face many challenges in 2014-15, but it is clear to me that the solution to many of those challenges can be found in the partnership working that is at the heart of

this Government's approach to local Government in Scotland. A clear example of that was the joint agreement to provide additional funding for a new council tax reduction scheme, with the Government contributing £23 million and local government providing £70 million to help to fill the gap that was left by the United Kingdom Government and to ensure that those who previously got help with the council tax will continue to have access to the same level of support this year.

As the committee knows, the foundations of our partnership working approach were set out in the concordat that was jointly signed with local government in September 2007. That provided the framework for the joint working that we have established over the past five and a half years, based on mutual respect. It has freed up councils from previous central Government micromanagement and has delivered real benefits for the people of Scotland.

Clearly, a key benefit for the people of Scotland has been the six years of the council tax freeze. The Scottish Government has fully funded the freeze, but it could not have happened without the full agreement of local government partners. The 2014-15 plans that were set out in the 2013-14 budget include a further £70 million to enable the policy to continue next year, and we are committed to its continuation for the remainder of this session of Parliament.

The key benefits for local government have been the fair and reasonable funding settlements and the reduction in ring fencing, along with the associated regulation and bureaucracy costs, which have fallen from a total of £2.7 billion in 2007-08 to less than £200 million this year, which equates to a reduction of more than 93 per cent in six years. Indeed, the only remaining revenue ring-fenced grant that is distributed to individual local authorities is for the Gaelic language, and that amounts to £4.5 million.

On funding settlements, the resources that are within the Scottish Government's control increased by 6.4 per cent between 2007-08 and 2012-13, whereas local government's budgets have increased by 8.9 per cent, which demonstrates the strong financial settlements that were agreed with local government during very challenging times.

The Government has already started discussions with the Convention of Scottish Local Authorities on next year's local government finance settlement. The outcome of the spending review in 2011 resulted in flat-cash local government revenue settlements for the three-year period from 2012-13 to 2014-15, and the maintenance of local government's share of the total capital budget at 28 per cent. Those outcomes were factored into the updated plans for

2014-15, which are set out in the draft budget, but will need to be reviewed in the light of various changes to local government responsibilities since the figures were first published.

First of all, there is the transfer of responsibility for the police and fire services to the new single bodies, which resulted in the removal of £1.6 billion from the local government finance settlement and is reflected in the updated plans for 2014-15. Local government is also facing a number of additional pressures, not least those resulting from the UK Government's reform programme, and we know from the UK Government's approach to public expenditure that future budgetary concerns will be a key challenge.

The Scottish Government has worked with local government on reshaping the overall spread of local authority capital expenditure to assist the Government in delivering its capital priorities but, over the spending review period, local government will receive 28 per cent of the capital resources that are available to the Government.

Local government has a key role in the successful transformation of public services to improve outcomes, to respond to financial and demographic challenges and to create a fair and more equal Scotland. In particular, local government and its community planning partners can play a significant leadership role in driving the shift towards prevention which, as the committee knows, is a major feature of this spending review period. Local government is strongly supportive of that approach and we are working effectively together through the national community planning group to ensure that we make progress on the approach to public service reform.

Over the past few years, the Government has endeavoured to deliver the strongest financial settlement to local government in the context of the public expenditure pressures with which we are wrestling. I look forward to discussing those issues with the committee.

**The Convener:** Thank you, cabinet secretary. I want to begin by asking about demographic change. Last week, witnesses talked a lot about the difficulties that an increasingly elderly population will create for local government finance. You mentioned preventative spend, but how is the Government dealing with the shift to a more elderly population and how will we tackle some of the spending increases that some foresee and which might well happen if we do not move towards prevention?

**John Swinney:** The answer to the question essentially lies in the Government's response to the Christie commission report and, in particular, in our focus on the four pillars of public service reform: partnership, people, prevention and

performance. Those unifying approaches across the public sector recognise that we have, in responding to the issues that you have raised about the pattern of demographic change and the financial constraints under which we are operating, to adapt significantly our delivery of public services.

The situation makes necessary greater joint working among public bodies. For example, the adult health and social care integration agenda that Alex Neil is taking forward, very much in partnership with local government, is designed to draw together the elements of public service that deal primarily with elderly care issues in our society. That is an illustration of the partnership element. Our approach to prevention is designed to allow us to envisage as far as possible instances in which support will make a material difference to the quality of life of any of our citizens, thereby avoiding the necessity for more expensive forms of care than we would ordinarily want to provide to individuals.

We are dealing with the demographic and financial challenges that the convener has highlighted by pursuing the agenda that was set out in our response to the Christie commission, which has been embraced by local government and our public sector partners, and which is being driven forward by the national community planning group. As members will be aware, the group is chaired by Mr Pat Watters, who already has extensive experience in the local government sector but is now acquiring wider expertise in the public sector as convener of the Scottish Fire and Rescue Service board.

**Stuart McMillan (West Scotland) (SNP):** Are you satisfied that the large sums of money that the Government has allocated for preventative spend are being used for what they should be used for, and that the money is not being taken aside within the public sector to shore up existing services?

**John Swinney:** I am satisfied on that point. In relation to all three change funds, there is a mechanism in place to judge the details of the projects for which the resources are utilised. There is a requirement for those resources to be used to support projects that deal with early intervention, which is the essential qualification criterion.

I caution against the view that the only money that should be used on prevention is the £500 million in the three change funds. I want to make it clear that I do not view that as being the case. Over a three-year period, we will allocate £500 million in the change funds to be deployed on prevention. Meanwhile, in general funding between the health service and local government in Scotland, we will spend in excess of £60 billion; I want as much of that money as possible to be spent on prevention.

The change funds are there to initiate good practice and to encourage joint working, but the evidence from community planning partnerships shows that we are now beginning to see an increasing amount of joint working at local level between the health service, local government and other partners, particularly third sector partners, to consider how the £60 billion of public sector funding can most effectively be deployed to deal with prevention.

**Stuart McMillan:** You mentioned the third sector partners. Do you foresee a greater role for the third sector in helping to deliver some of the services that we are talking about?

**John Swinney:** Yes, I do.

**Stewart Stevenson (Banffshire and Buchan Coast) (SNP):** My question can probably be answered fairly briefly. Given that we are looking at public service reform, it may be time to revisit the question whether a number of the bodies that are part of the local government family are worth having or whether their current roles should be refined so that they cost less or deliver more. I am thinking particularly about regional transport partnerships and community planning partnerships—although I can see that work on CPPs is repositioning them to be more useful—and there may be other bodies outwith the remit of the committee, such as the national parks authorities, that supplant the responsibilities of local government. Is the Government looking at whether those ancillary bodies, which are costing a fair bit of money, are delivering value for money or sufficiently significant policy interventions to address the people, prevention and performance agenda?

**John Swinney:** The short answer is that the Government is always looking at the architecture of organisations and the costs that are associated with them. That is a continuous priority for me, as the committee will be aware. The Government is committed to reducing the number of public bodies by 25 per cent, and we are heading to exceed that target as part of our reform work, so I acknowledge the importance of keeping those issues under review.

That said, I am not aware of any active proposals to reform regional transport partnerships. That is an area for which I no longer have ministerial responsibility, but I am not aware of any proposals emerging from Keith Brown's department in that respect.

I can say definitively that the Government is content to maintain the national parks, and we believe that they add significant value to the co-ordination of the stewardship of important parts of our natural landscape.

09:45

Community planning partnerships have been around for a long time—they were legislated for in the Local Government in Scotland Act 2003—and it is pretty fair to say that they have been talking shops for most of the time. We have acknowledged the shift of our policy thinking towards a broader role for local government, which was envisaged under the concordat. With the subsequent acceptance of the Christie commission recommendations, community planning partnerships are utterly central to delivering the reform agenda, as they are the forum in which we must have meaningful discussions about how we draw together the agendas of different public sector partners. It is not just about drawing together the health service and local government agendas, principal though that it is in the dialogue; it is also about drawing together the inputs of Police Scotland, the Scottish Fire and Rescue Service and various other public bodies. In certain parts of the country, the national parks will be relevant in that respect.

I am convinced that no public services will be delivered and no major outcomes will be achieved unless we work outwith policy compartments. That is at the heart of the Government's public services reform agenda, and the community planning partnerships are designed to do exactly that for us. We must break down the boundaries between organisations.

Mr Mackay, Mr Neil and I have encouraged the relevant public bodies to come to community planning partnerships not to present budgets that they have decided on, but to have a conversation before they set their respective budgets about how their budgets can be formed to meet the community planning partnership's objectives. That is just one example of how we envisage a more integrated and cohesive agenda being delivered at local level to assist us in achieving public services reform and in meeting the expectations of the public, which was inherent in the first question that the convener asked me.

**Margaret Mitchell (Central Scotland) (Con):** Good morning, cabinet secretary. In your opening remarks, you said that the national community planning group is providing leadership and that you will work with it on the preventative spend agenda, and you mentioned the need for an holistic approach as opposed to everyone working in splendid isolation. I can see how you could look at the national community planning group as a way of providing strategy, but there is concern that there could be another top-down approach.

You talk about working with local organisations and public sector organisations at the local level, but the one thing that you do not appear to have covered is real community engagement. The

committee knows from going out and talking to various groups that they can tell to a penny what they can save and they can give clear examples of preventative spend and of how their suggested projects really work, providing value for money and a good service, and catering for the vulnerable. How will you ensure that those organisations are listened to and that they get the funding that they deserve, which is entirely in keeping with the preventative spend agenda?

**John Swinney:** I accept the significance and importance of Mrs Mitchell's question. I give an absolutely clear assurance that I do not view the national community planning group as a supervisory governance structure or chamber for regulating what goes on at the local level. It is there to encourage, motivate and ensure that all community planning partnerships are delivering on the agenda in their localities. It is not there to say, "It must be done this way." I acknowledge that the solutions to some of the questions that we are wrestling with will be fundamentally different in different parts of the country, given the localities' geographies, the make-up of their populations and the social and economic challenges that exist in them.

The second bit of reassurance that I give is to explain to the committee the approach that I took last week at the second session of the early years collaborative. That was a major event at which 800 public servants and interested parties from all 32 community planning partnerships from around the country gathered, and it focused on how we integrate services to deliver better outcomes for our youngest citizens.

The group contained the people that Margaret Mitchell is talking about—the folk who get their hands dirty designing projects at the local level and making the difference. I told them that I want them to feel that they have a green light to undertake the reform at local level and that, instead of waiting for someone way up in the national community planning group, the Parliament or the Government to say, "Yes, that's okay—go ahead and do that", they are empowered to proceed with the reform agenda. I completely accept Margaret Mitchell's point that meaningful reform will have an effect only if it happens at the local level. I hope that that gives a bit of context on my view of the national community planning group and the role that it can perform.

I accept that community engagement will largely determine whether we are successful in that endeavour. I imagine that an out-of-the-blue reform proposal from a public body that is launched on a community in the fashion of somebody saying, "This is what we've decided on and we're coming to do it to you" is pretty much

destined to fail. The most successful community engagement exercises are when communities are invited to formulate in partnership with public bodies how we might reform and revise public services. I am the first to acknowledge that the public sector is not always perfect at designing such exercises, although I have seen some good examples in the communities that I represent and other parts of the country. However, meaningful dialogue with communities to ensure that we understand their aspirations and plans and the reflection of those in public sector reform proposals is fundamental to the exercise.

**Margaret Mitchell:** I am partially reassured, cabinet secretary, but I still think that it is a case of saying, "Here's an idea. We will engage fully and we will take your ideas on board." Sometimes, the initiative or the plan can be delivered by the community. The issue is where the checks and balances are to ensure that the local authority lets go and does not just say that it has consulted on the matter and that the exercise was interesting, and then do what it had intended to do. Communities should get the funding where they have proved that they can deliver value for money.

**John Swinney:** I pretty much agree with all of that. I have tried to suggest that the Government is actively encouraging a culture of empowerment. The sense that communities should feel free to take the initiative, be empowered and develop the agenda will be reflected in the community empowerment bill that the Government will introduce to Parliament. I want to encourage an understanding and acceptance of that point.

This morning, I happened to be responding to a constituent about an excellent venture at a lunch club for senior citizens in Alyth in my constituency. The other day, it was awarded the Queen's award for volunteering. The club was self-starting. It went to the local authority and the health board and told them that it was doing quite well, that it was gathering 120 senior citizens together every fortnight for a lunch and that it was doing other things, such as having walking and reading groups and this, that and the next thing. The local authority and the health board put in a very small amount of money, but the impact on what is delivered for the senior citizens is extraordinary in comparison with the amount.

Crucially—this is what Margaret Mitchell has talked about—it is a local venture that is run by the local community. The public sector supports the club. It does not get in the road or try to control the club, but it does all that it can to help the club on its way. Consequentially, we are seeing good outcomes for citizens in that locality. I very much want to encourage the type of support that has been suggested.



**Margaret Mitchell:** That is reassuring, cabinet secretary.

**John Pentland (Motherwell and Wishaw) (Lab):** You mentioned the Christie commission. How does the wider public service reform agenda assist in dealing with budget reductions? Are we being dishonest if we refuse to accept that budget cuts are a huge obstacle to effective public service reform?

**John Swinney:** I see the Christie commission and the Government's response to it as being about the way in which we deliver public service reform and manage the budgetary pressures that we face. That is my strategy for dealing with those budgetary constraints and the wider necessity of public service reform, arising out of the convener's question to me earlier.

It is important that we encourage participation in that agenda among all public bodies at all levels of government in Scotland. That is the focus of the agenda that the Government is taking forward.

**John Pentland:** Are the budget cuts an obstacle to public service reform?

**John Swinney:** I do not take the view that we need to spend more money to improve public services. If we create the right climate, it is possible to use the same amount of money to deliver better outcomes for the public. If we compartmentalise resources, do not get organisations to work together and say that we will not break organisational boundaries, those will be impediments to public service reform.

As a public sector, we have to work together increasingly. That is the partnership sense of the Christie agenda. We have to focus much more on preventative interventions, which is what the integrated health and social care agenda is all about. We have to work with people in local government to get them to work differently and collaboratively. In my experience, there is tremendous enthusiasm to do that at the coalface of public services in Scotland. We also have to be open to improvements in performance and how we deliver them, but not in a crude league-table fashion. We have to look around the public sector and see where things are being done better and more efficiently, learn those lessons and be prepared to explore them more widely throughout Scotland.

**John Pentland:** Again, do you think that public service reform will be slowed because of budget cuts?

**John Swinney:** There is no need for public service reform to be slowed because of the financial situation. Public service reform is an imperative brought about by the reductions in public expenditure that we face and the changes

in the population. We have to respond to that with an imaginative agenda, which is what the Government is taking forward.

**John Wilson (Central Scotland) (SNP):** I have a supplementary question on the issues that John Pentland raised. The constant cry that we get from local government is that it is being squeezed by financial pressures. Will the cabinet secretary say what discussions have been held with local authorities in Scotland regarding the on-going council tax freeze and the additional £70 million that is being given to local authorities? What issues are being raised by local authorities regarding the council tax freeze?

**John Swinney:** The council tax freeze was part of the spending review settlement that was agreed with local government. As I said in my opening remarks, it is entirely a decision for local authorities whether they apply that council tax freeze. We make the resources available to enable them to apply it.

I do not think that we have discussed the council tax freeze with local government since we agreed the settlement for 2013-14. As I indicated, we are beginning to look at the 2014-15 settlement, and I am sure that we will cover the council tax freeze in those discussions.

10:00

At a general level, in terms of the quantum of local government funding relative to the wider public sector, between 2007-08 and 2012-13, the resources in the Scottish Government's control increased by 6.4 per cent; over the same period, local government's budget increased by 8.9 per cent. With regard to the resources that are available for me to distribute, local government has done better in the funding settlements since 2007-08 than the Scottish Government has managed to do.

**John Wilson:** Before the current squeeze, local authorities were asked to make 2 per cent efficiency savings. That trend was begun by the previous Scottish Executive and continued by the Scottish Government. Audit Scotland and the Accounts Commission said clearly that it could not identify where efficiency savings were being made by local authorities that proclaimed that they were making 2 per cent efficiency savings. Are the current pressures on local government equivalent to the 2 per cent efficiency savings that were previously requested by the Scottish Executive and the Scottish Government?

**John Swinney:** The fundamental difference between the efficiency savings that were required by my predecessors and those that I have required is that I have enabled local government to retain its efficiency savings within its own

resources. My predecessors assumed an efficiency saving from local government and then removed it from the local government block grant to allocate it to other public services. I have never done that since I became the finance minister. I believe that, if local authorities retain the benefits or fruits of their efficiency savings, it encourages a more efficient way of working.

Local government is well able to evidence where it has made efficiency savings through changes in practice in delivering services. I think that we see, in the communities that we represent, that public services are deployed in a different fashion and that, as a consequence, resources are saved to the public purse. We live in a financial environment in which there will be a continuing requirement to undertake efficiency savings to deal with the financial pressures with which we all wrestle.

**Anne McTaggart (Glasgow) (Lab):** I have a tiny supplementary question. You said that the council tax freeze is fully funded. Has inflation been added to the amount that is fully funded?

**John Swinney:** The Government's assessment is that council tax could have increased by £70 million. We have applied that figure since 2008-09. During that period, the rate of inflation has varied quite significantly. However, my estimation is that £70 million is an adequate and appropriate sum of money to reflect in the freezing of the council tax.

**John Pentland:** What has been the real-terms change in local government revenue and capital allocations since 2007? You are probably aware that there has been a health warning about the impact of ring-fenced funds being incorporated, the underfunded council tax freeze and the police and fire split. It would be useful to know how much has been added to the budget each year for additional responsibilities. That is necessary to put the figures in context.

**John Swinney:** I can help Mr Pentland with regard to the proportion of the Scottish Government's revenue resources that we have at our disposal. When we came into office in 2007-08, the local government share of the revenue resources that were available to the Scottish Government was 37.1 per cent. In 2013-14, it is estimated to be 37.6 per cent, so it is higher than when we came into office.

I reiterate the statistics that I quoted to Mr Wilson a moment ago. The revenue resources available to the Scottish Government increased by 6.4 per cent between 2007-08 and 2012-13. Over the same period, local government's budget increased by 8.9 per cent. That is indicative of strong financial settlements for local government, given the financial pressures that we face and

given that I cannot allocate money that I do not have.

Turning to capital, the Government gave local government a commitment that we would maintain its share of the total capital budget that is available to the Scottish Government at 28 per cent. That has been fulfilled. I acknowledge that it has been a bit lumpy. By agreement with local government, I reduced the capital allocations to local government in 2012-13 and 2013-14 because local authorities had borrowing powers, which I did not have, and I was facing enormous capital pressures. However, I will inflate the local government budgets for capital expenditure by £120 million in 2014-15 and £100 million in 2015-16 to make good that change in profile.

That was agreed with local government. I appreciated the pragmatism of local authorities in recognising that they had borrowing powers whereas I did not, and that, by our joint endeavours, we could expand the capital resources that are available for the Scottish economy, which was a joint, shared priority.

**John Pentland:** The cabinet secretary will know that it is all very well providing capital moneys but that, if the revenue is not there to support that, it is a no-win situation.

Can I move on to—

**John Swinney:** If I may, convener, I had better put some comments on the record on that point. The capital figure that I am talking about is the capital departmental expenditure limit. That is hard capital expenditure, and it requires no borrowing by local government. It is capital expenditure for local government to deploy.

The borrowing was conditional on the £120 million and £100 million—the availability of borrowing was recognised by local government as being a way in which it could contribute towards capital investment in Scotland, but that was undertaken on the realisation that what local government lost over two years it would gain over the subsequent two years, so it was no worse off as a consequence.

**John Wilson:** Last week, the committee received evidence showing that the decisions that local authorities made prior to 2007 gave rise to additional financial pressures on those local authorities. I am referring to the public-private partnership and private finance initiative commitments that were made.

We were presented with figures showing clearly that, year on year until 2024-25, the amount being paid back under PPP/PFI will increase substantially. I understand that that has taken away from the ability of local authorities to spend money, as they entered into contracts with clauses

that cannot be broken. Therefore, there is a greater squeeze from PFI/PPP projects on local authorities' spending commitments.

**John Swinney:** Once PFI commitments are entered into, they have to be honoured. I have examined whether it is possible to renegotiate those contracts and reduce the costs, and I am satisfied by the awfulness of the negotiation of those agreements. Even if I was able to negotiate a better deal, I would have to give large proportions back to the contractors involved and to those who had financed the deals. They are great examples of the terrible negotiations that were undertaken.

Let me say for the benefit of the record that, in 2000-01, the amount of the budget that was reserved for PFI repayments was £70 million. By the time I came to office in 2007-08, it was £510 million, so there was a substantial increase in that type of activity. Those contracts have to be honoured, so there is certainly an on-going financial commitment.

I should stress that that figure is not all for local government; I do not have a split of the local government figures in front of me just now.

**Anne McTaggart:** Cabinet secretary, it would be remiss of me not to ask this. The committee received information about equal pay claims in local government and how some are still outstanding. In the past, money has been made available by the Scottish Government to assist local government in settling those claims. Is that funding still available?

**John Swinney:** If I have to write to the committee about this, I will do so, but, as far as I can recall, it is pretty certain that all local authorities have come to a deal with their workforces on equal pay. That is not to say that the issues have all gone away, because there are existing legal challenges to some of the arrangements. I am pretty sure that all local authorities have made a deal, but I will check and confirm it to the committee in writing if I need to.

The Government undertook to negotiate with the Treasury some further borrowing capability for local authorities to deal with equal pay claims. When I have offered those arrangements in the past, they have not been fully utilised by local government. However, I would be happy to explore any further initiatives that would assist local government.

**Anne McTaggart:** Thank you.

**John Pentland:** I want to return to Mr Wilson's question on PFI. I know that it is highly unlikely that Scotland will vote for separation next year but, rather than assume that, I must ask the cabinet secretary what research he has undertaken into

the impact on local government borrowing and credit ratings of the approaching referendum and possible independence.

**John Swinney:** I am confident in Scotland's financial health and that, in an independent Scotland, local authorities will be able to borrow at competitive and sustainable rates of interest, given that we have strong public finances, we contribute more to the United Kingdom than we receive in return, and we have balanced our budget throughout devolution, thus demonstrating an ability that has not been demonstrated by the UK Government.

Any talk of credit ratings is interesting in the current context. I have received leaflets that tell me that the United Kingdom can guarantee me an AAA credit rating, but—surprise surprise—I am no longer receiving such leaflets at my house because the UK has lost its AAA credit rating. That is quite illuminating.

**Margaret Mitchell:** On equal pay, South Lanarkshire is still maintaining that it has a foolproof system in place that means that it is not answerable. It has lost various appeals and I understand that the case is now going to the Supreme Court. Figures of up to £200 million have been bandied about as having to be paid if the case is lost. Are there any circumstances in which the Scottish Government would step in to protect taxpayers' money?

**John Swinney:** Equal pay in local government is a matter entirely for local government. The local authority is the employer of the individuals concerned and, as I said to Anne McTaggart a moment ago, there might still be legal challenges to some of the equal pay deals. If that is the case, I am certain that local government will contest any legal processes, but it is a matter for local government to deal with any possible financial consequences.

**Margaret Mitchell:** What about when the level is reaching outrageous proportions that are far above any other local authority, just because South Lanarkshire Council maintains it has a foolproof system?

10:15

**John Swinney:** Local authorities will have either negotiated the arrangements with or applied them to their workforce. As local government is the employer of the individuals concerned, it would be inappropriate of me to interfere in issues of pay and remuneration for local authority staff. I do not set local authority remuneration or local government pay policy; it is entirely up to local government to take those decisions in their financial settlements. Likewise, the question of

equal pay has been negotiated by local government, so it must deal with that issue.

**The Convener:** We still have a number of questions, so I must ask for brief questions from members and brief answers from the cabinet secretary.

**Margaret Mitchell:** Does the Government support local authorities' use of arm's-length external organisations?

**John Swinney:** There is nothing wrong with the use of ALEOs in the correct circumstances. For example, the leisure facilities in Perth and Kinross, where I live and which I represent, have been handled very successfully by what would be described as an ALEO for—my goodness—the best part of 20 years, and the model has been replicated in other parts of the country.

Some elements of ALEO practice have left a lot to be desired, and I have intervened to stop what I thought was the completely inappropriate practice of paying remuneration to councillors on the boards of ALEOs. There is a proper place for ALEOs, but in deciding whether to pass a function to an arm's-length organisation a local authority has to satisfy itself that the governance arrangements and accountabilities are appropriate and strong, particularly if public money and the public interest are involved.

**Margaret Mitchell:** Am I correct in thinking that some ALEOs have trust and charitable status and therefore do not pay non-domestic rates? Is that a good use of money?

**John Swinney:** You are correct in that, if such an organisation has charitable status, it will not be paying business rates. That is obviously an issue for me, given my responsibility for non-domestic rates, but I can quite understand why it is felt appropriate for some of the functions that have historically been undertaken by local authorities to be taken forward under a charitable umbrella. For example, that can open up other funding streams that can be used to pay for the refurbishment of premises or the redesign of services that could not be afforded under traditional local government finance.

**Margaret Mitchell:** You mentioned the accountability of ALEOs, and you will be aware that Audit Scotland has raised a number of concerns about the performance of some of the organisations. Are you satisfied that the right checks and balances are in place to ensure that they are accountable and fully transparent and that things are being carried out as they should be?

**John Swinney:** The supervision of local government and the examination of such questions are properly matters for the Accounts

Commission and Audit Scotland, and it is not for me but for those organisations to be satisfied on such points. However, I will say that local authorities going down the route of using ALEOs must be mindful of the importance of ensuring that the governance and accountability arrangements are correct.

**Margaret Mitchell:** Finally, a number of witnesses have referred to the large drop in the number of directly employed local authority staff since 2010, and the Accounts Commission report has highlighted a reduction of 14,100 full-time equivalent posts. Do you have figures for the number of jobs that have been transferred to ALEOs?

**John Swinney:** I do not have those figures in front of me, but if I can find them I will certainly pass them to the committee.

**Margaret Mitchell:** That would be appreciated.

**The Convener:** We would be grateful for that.

Mr Pentland has a very brief question to which I would appreciate a brief answer.

**John Pentland:** With high street shops and businesses closing, can you explain the Government's approach to non-domestic rates, particularly the rationale behind its forecasting for increases in non-domestic rates income in 2013-14 and 2014-15 as set out in the 2013-14 draft budget?

**John Swinney:** Non-domestic rates are calculated through an assessment of the valuation base, which is a product of the independent valuation that was undertaken and applied in 2010. We apply an inflation increase to the non-domestic rates poundage based on the retail prices index each September; assess the level of buoyancy in the economy and how much we expect increased economic activity to contribute towards non-domestic rates; and assess the cost of reliefs such as the small business bonus and the likely losses as a result of appeals, which are, of course, a constant feature of the current revaluation period.

**John Pentland:** Do you have any contingency plans for filling the black hole or gap if your forecasts turn out to be wrong?

**John Swinney:** The Government makes its best assessment of non-domestic rates, and the funds that are held in respect of such rates start the financial year sometimes in credit and sometimes in debit. I am confident in my estimates for non-domestic rates and that the resources that are required in the budget will be delivered by the rates realised under the non-domestic rates process.

**The Convener:** I am sure that the final question of this session will come as no surprise to you; after all, we cannot really discuss local government budgets without talking about the funding formula.

You have previously said that, if COSLA wanted to review or requested a review of the formula, your door would be open. Has COSLA indicated whether it would like the local government funding formula to be reviewed, and is your door still open?

**John Swinney:** My door is still open. However, COSLA has not requested a review of the funding formula, and when the issues were considered at the time of the 2011 spending review the very strong message that I received from local government was that it wanted stability in that respect.

**The Convener:** I guess that that means that I will have to go and talk to COSLA.

I thank the cabinet secretary for his evidence and Mr Stitt and Mr Holmes for their attendance. I suspend the meeting for about five minutes for a change of witnesses.

10:22

*Meeting suspended.*

10:26

*On resuming—*

**The Convener:** With us on our second panel of witnesses are Gavin Stevenson, who is the chief executive of Dumfries and Galloway Council and a member of the Society of Local Authority Chief Executives and Senior Managers, whom we welcome back to the committee; Alex McPhee, who is the director of finance at East Ayrshire Council; and Alan Puckrin, who is the director of finance at Inverclyde Council.

I invite our witnesses to make some opening remarks.

**Gavin Stevenson (Dumfries and Galloway Council and Society of Local Authority Chief Executives and Senior Managers):** The first thing that I would like to say is that we very much welcome the cabinet secretary's approach, which has attempted to smooth the initial impact of the reductions in public finances over the past couple of years. Certainly, as chief executive of a council that borders England, I have seen the impact of the short sharp, shock in Cumbria County Council, Carlisle City Council and Newcastle City Council, whose representatives I regularly meet. The longer-term planning approach is bearing fruit and has ensured that well-kent services that no longer exist in Carlisle still exist in Gretna.

It will be a long time before public finances recover, so it is absolutely crucial that we maintain the on-going dialogue with the Government, particularly in relation to the development of policy, the costs of policy and—which is important—the impact of policy. It is also important that we can keep up the dialogue about consequential decisions that might have to be made as a result of new policies as funding goes down.

We want to ensure that we do not end up in five years with a postcode lottery of service delivery across Scotland as a result of individual authorities' decision making. Those decisions might have been made based on local priorities, but that could end up with there being different degrees of eligibility for services or care across the invisible boundaries of local authority areas. There needs to be constant, on-going dialogue about the impact of policies and what the consequences might be of their implementation if they are not fully funded.

In order to deliver sustainable services, we need to make radical changes and to challenge existing models of delivery. Those here who have local government backgrounds will know that that is not the easiest thing in the world to do. Change is difficult in a local authority context—services that have not been well used suddenly become vital, and people turn up with placards and so on. From experience, I see that across the political spectrum the public are not quite ready to face those changes, so we need to take them to that point in the development of that process.

Health and social care integration presents a fantastic opportunity for us to develop models of governance that work, and to develop new ways of delivery and of empowering our front-line staff to act and think differently, from a position of security. In that regard, I note what was said about ALEOs earlier. That process will be invaluable in ensuring that our communities are confident that radical changes to models of delivery are not threatening.

Everybody is resistant to change. Given the scale of the changes that we are talking about and the demographic that we are dealing with, particularly in terms of health and social care, we need to demonstrate that a lot of the decision-making can be done close to our communities and in our communities. Some of the answers lie in our communities and not in the centralised model that we have used in the past. However, it will take time to build that confidence.

10:30

We need some certainty in the numbers—as a chief officer, I would be expected to say that. The system does not react well to change—especially

in-year change. We in Scotland have benefited from having greater certainty than our colleagues in England on some of the numbers. Certainly, moving forward into 2014-15, just holding to the pre-announced numbers is really important for planning. However, beyond that, we all have the elephant in the room of the 10 per cent cut to local government funding that was announced for England and Wales for 2015. How will that impact? It could be significant, and the amount of time that we have to plan for such a reduction is important, but my colleagues and I have not really been engaging in conversations about what it might mean if it comes our way.

With central Government, it is important that we do not pretend that that reduction does not exist. It will come through the Barnett consequential at some point and if it results in such a cut, the longer we have to plan how we would work together and how we might accelerate more radical models of service delivery to protect our priority areas in Scotland, the better. As an officer, I say that any degree of certainty is good—the further away the horizon is, the easier it is to engage with our communities and with our front-line staff to deliver the right answer, which is what we are all looking for.

**The Convener:** Thank you. Does Mr Puckrin or Mr McPhee want to add anything to that opening statement?

**Alex McPhee (East Ayrshire Council):** It might be helpful for the committee to hear what we have been doing locally in East Ayrshire to try to combat what we currently face. We have considered a best-case scenario of a flat-cash grant settlement until 2017, which coincides with the next local government elections. Given that scenario, we estimate that we would by 2017 have an annual recurring savings requirement of £37 million. That essentially comes from inflation alone—it would not be from demand pressures from care for the elderly and so on.

We have identified the strategic imperatives that we need to stick to over that period. Rather than immediately launch into salami-slicing cuts packages, we are trying to focus our resources on what is most important and we are trying to ensure that our approach is outcomes based. The things that are important in our single outcome agreement need to be the things that are important in our budget. Anything that is not attached to the SOA has to be questioned closely.

We have sought to deliver with communities, rather than for communities. We are engaging closely with organisations across our area to establish whether we might transfer services or assets to them. We are getting a fairly positive response to that, partly because of our engagement with them to make them aware of

why we are in this position and how we have to move forward together to get ourselves out of it.

Part of our prevention strategy is to ensure that any investment in preventative spend can be evidenced to show that the savings will materialise at some point in the future. We have equalities issues, as do all the councils across Ayrshire. Sustainability has been key to ensuring that by the time we get to 2017, our organisations have a size and focus that can live within those reduced funds.

We have been looking closely at alternative delivery models. ALEOs are one option; another is shared services with neighbouring authorities. We are examining a roads shared service for Ayrshire that looks fairly promising, but we have looked at such things in the past and when we have reached the final hurdle of finance, they have not delivered the savings that we expected when we set out.

There is also asset management, which involves sticking to the Scottish Futures Trust target of a 25 per cent reduction in buildings—we are considering how we can do that. Part of that will inevitably mean rationalisation of school buildings, which currently have an occupancy rate of about 67 per cent across East Ayrshire. We have a target of 85 per cent occupancy.

Those are the kind of things that we are looking at. We are trying to protect front-line services while transforming how the council delivers services and to whom it delivers them.

**The Convener:** Mr McPhee, you outlined a number of areas that you are working on. I have a simple question. Are you carrying out a zero-based or priority-based—whatever you want to call it—budgeting exercise across all services? Is that what you are describing, or is it about bits and pieces here and there?

**Alex McPhee:** We are looking at a range of workstreams rather than going back to basics, which evidence suggests is not always very effective. We are looking at property and estate rationalisation, energy efficiency, terms and conditions of employees—

**The Convener:** Why do you think that it is so bad to go back to the baseline and to build up from there?

**Alex McPhee:** Some services will always be required, no matter how much investigation you undertake.

**The Convener:** I understand, but that is going back to the baseline and automatically looking at your statutory obligations and at what is required.

**Alex McPhee:** In that respect, we are looking at what we are trying to achieve through our single outcome agreement, to ensure that our resources are clearly focused on those things, and that we

are as efficient as possible, through benchmarking and considering good practice in other local authorities. We make a detailed annual review of each service budget, and the chief executive and I go through it line by line, and sometimes invoice by invoice, asking why expenditure has been incurred in the previous financial year and taking out spurious costs for the future.

**The Convener:** Can Mr Stevenson or Mr Puckrin comment on whether Dumfries and Galloway Council or Inverclyde Council are considering a priority-based budgeting exercise to deal with the future?

**Gavin Stevenson:** We have got to be careful with the language. I ask the committee to show me where zero-based budgeting has been done, because it is a huge exercise that misses the political imperative of local government. Priority-based budgeting is a different matter. We have put together an activity-based budgeting book that puts each activity—costs, benchmarking and how it relates to outcomes—before our members. The problem with that is that it is a huge amount of information that is difficult for members to get their heads around, so we have to explain it to them. We are getting used to that.

The information is all out there. The challenge is to present it in such way as to reflect clearly the political priorities that need to move forward. For example, we could have a priority to protect the vulnerable, but when we get down to issues such as closing estate we will probably spend as much officer time trying to close a village hall in Newton Stewart as I would taking £2 million out of the education budget.

Members now find that budgeting book to be an effective tool, but it has taken until this year, with a majority administration—we have found that they are difficult documents when there is not a majority administration—for the members to start dealing with the size and scale of the challenge, because it is all there in front of them. The staff, workforce, assets, benchmarking information and the priorities that the spend links to are all available to them, which helps greatly. We also need to recognise that putting that sort of information in the middle of a table in a minority administration does not help to achieve a consensus budget, and other councils need to work through that political challenge. When I had a minority, it was not a useful document. Now that I have a majority administration, it is a very useful one.

**Alan Puckrin (Inverclyde Council):** I concur with Gavin Stevenson that taking all budgets back to a zero base is a hugely intensive process and requires resources that councils, by and large, do not have. You are looking at a mixed-bag approach. There are certain areas—the school

estate, office estate, depots estate and so on—in which the approach to asset management is to build from the bottom up and to ask what will be required over the next 20-plus years. We have done that in Inverclyde, but there are other areas where there are priorities for what we are going to stop doing, particularly given the financial settlements. As a result, when we consider savings, there will be commentary on how every individual saving links with our single outcome agreement, what the impact on vulnerable groups will be, and so on. That all feeds in on a saving-by-saving basis.

**The Convener:** I find it interesting that Mr McPhee has described priority-based budgeting within a service but not corporately. I may return to that point, but other members want to come in.

**Stewart Stevenson:** It is pleasing to hear that our officials are looking as far forward as they are—over the next 20 years, as Mr Puckrin said, and up to the 2017 council elections, as Mr McPhee said. The majority of the committee and of Parliament are working on the project to substantially increase the powers that are exercised closer to communities by assuming the normal powers of an independent country, which will lead in turn to additional responsibilities in this place and to the devolving of responsibilities from this place to local authorities. Indeed, powers that might be acquired from Westminster might bypass this place and go straight to local authorities. In social services, in particular, I think that clear economies can be made and reasonable things can be done, although that might be less the case for employment services, for example.

The year 2016-17 has been mentioned. Given that that would be the first year post-independence, albeit that I suspect that it would be a year of consolidation rather than radical change, what thinking are you doing around identifying the additional powers that it would be good to get, which would serve the agendas on public sector reform and moving powers closer to communities? How far have you got in that regard, and what plans for further thinking do you have?

**Gavin Stevenson:** I am not going to answer the political question—

**Stewart Stevenson:** It was an “if”. I was not trying to ask a political question.

**Gavin Stevenson:** I understand that. The point about the need to devolve power to our communities is at the heart of work on health and social care integration. There are capacity issues. I think that all members will recognise that they represent not just empowered communities but disadvantaged communities, which are not ready to take on devolved powers and to get involved in

social enterprises. We need to build capacity in communities, to varying degrees.

Therefore, the planning that most authorities are undertaking is about how we can better build capacity with our community planning partners. We have been doing a lot of work on building capacity in important areas such as healthy weight collaboratives, but at this stage we need to empower communities to look after themselves. How do we connect the third sector and start the delivery of services for communities by communities? How do we create that model?

The approach comes with real complexities about how sustainable organisations can be and how we avoid merely passing on bureaucracy. The Office of the Scottish Charity Regulator rules are very difficult when it comes to councils providing the legal and administrative support that we are good at, so considerable work is going on on that.

At national level, my organisation is considering, for its two development days, a workstream on exactly the issues that you are talking about, because we need to prepare.

The real issue is how we create capacity in our communities, so that they are able to take on more. That brings out the old-fashioned accountant in me. The cost base of local government is high, and therefore a straight full cost for some of the third sector is a saving to the public purse. The counter side to that, which we need to be aware of, particularly for a rural economy like Dumfries and Galloway, is that if we replace high-paid jobs with lower-paid jobs there is an impact on our economy. Dumfries used to pride itself on having one of the lowest unemployment rates; it now has one of the highest rates. The jobs that we are creating are in the care sector and the jobs that we are losing are in manufacturing.

The issue is complex. I want my elderly mother to be able to access services in her community that are provided by her community, so that she does not have to leave her community. That is crucial to me and to my mother. I think that we are still a couple of years away from having models that can do that with certainty, but the clock is ticking. The issue fills up a large proportion of time in my area—which I am sure is true for my colleagues.

That work is under way; if we can do it for health why cannot we apply the model to other services, such as street cleaning, to support communities? There are other local community services that we could look to commission from communities, rather than have local government provision. However, such debates raise complex issues with trade unions, as you can imagine.

**Anne McTaggart:** The committee has received a deal of evidence that there is no salami left to slice. What has been the impact of the council tax freeze? You will have heard the cabinet secretary implying that the £70 million for local authorities is sufficient. Do you agree?

**Gavin Stevenson:** Officers must deal with the taxation base that we have. I think that we have gone on record as saying that the council tax freeze, although it is politically good, does not fit into a progressive tax system.

There is also a real issue with where we were in the council tax comparative ladder when the freeze came in. Dumfries and Galloway had the lowest mainland council tax, so we were significantly disadvantaged because of decisions that were made before the freeze was introduced.

10:45

My colleagues will give you details on whether the £70 million is index linked to inflation. It is almost at the margins of the issues with which we want to deal. The lack of flexibility to deal with the difficult balancing-act issues—which may be acceptable to a local population—is a difficulty. When council tax was fixed, the difference between the council tax in Dumfries and Galloway Council and the average council tax in Scotland was about £4.5 million a year, which is about half my annual savings target. That presents a challenge.

Whether the £70 million that was set is enough depends on the council's appetite for where it would have wanted to set its local taxation, which is a political view. However, the council tax freeze has taken out of the toolkit a tool that would have allowed us to mitigate some of the impacts to this point and some of the impacts moving forward, particularly when we might have been able to put before the electorate options from which to choose.

**The Convener:** I realise that you face a fine balancing act in trying not to stray into the political.

Mr Puckrin, do you want to go next?

**Alan Puckrin:** There are two points to make. First, I listened to what the cabinet secretary said earlier. We have a flat-cash settlement and the £70 million is within that—it is not over and above the flat-cash settlement. Secondly, I agree with Gavin Stevenson on the impact of the freeze. Giving councils the ability to increase their levels of council tax would not be a panacea in closing the budget gaps, as there are considerable pressures—inflationary, demographic and so on—on councils. However, it would give us another tool to use. The more flexibility that I, as a director of finance, am afforded to use my professional



expertise to balance a budget, the better is the job I can do for my council and the people who live in the area.

In February, Inverclyde Council set a three-year budget. There was obviously a degree of estimation as to future settlements, but we assumed a council tax freeze. We had a funding gap of £18 million at the time, and a 1 per cent year-on-year increase in council tax would have closed £1 million of that £18 million gap, so there would still have been a gap of £17 million for us to deal with. That gives you some idea of the scale of the problem. Nevertheless, it would take the edge off some of the more difficult savings decisions if members were able to increase council tax. That flexibility does not exist at the moment.

**The Convener:** It might be useful for us to get an indication of how much would be raised if your local authorities were to increase the average band D council tax by £1. I believe that, in Aberdeen, it would be about £80,000.

**Alan Puckrin:** In Inverclyde, it would be about £30,000.

**Gavin Stevenson:** Dumfries and Galloway is twice the size, so it would probably be about £65,000 or £70,000.

**Alex McPhee:** In East Ayrshire, it would be about £50,000.

**The Convener:** Thank you. That gives the committee a fair indication of what is going on. Mr McPhee, do you want to respond to Ms McTaggart's question?

**Alex McPhee:** The £70 million is over six years, so the total is six times £70 million that is no longer there. How that money could otherwise have been spent is a political decision, so I do not have anything to add to what my colleagues have said.

**Margaret Mitchell:** Good morning, gentlemen. You may have heard me ask the cabinet secretary about local authorities' use of ALEOs. Do your local authorities use those? If so, can you give examples of how? How many staff who were previously directly employed by local authorities have been transferred to ALEOs?

**Gavin Stevenson:** My council does not use an ALEO. However, as we move forward, it is a tool. If the non-domestic rates relief that ALEOs receive can prevent additional cuts in social work, we may have to put that before our members as a proposal. It is not really a financial decision; it is very much a political decision, as it involves the transfer of staff and the arm's-length removal of cherished assets. Those are issues that we would need to consider in taking the idea forward.

In considering the use of ALEOs, we need to separate two issues. What is the reason for their use? If it is purely to get non-domestic rates relief, perhaps we are not fully realising that the purpose has to be to get better outcomes for the money that we put in. Councils in the past have moved towards the use of ALEOs without a full understanding of the implications. The assets still belong to the public. We cannot remove the decision-making process fully, and the impact of moving those assets must be fed back to the council.

I am in the middle of such a debate with my council, and it is a difficult and challenging one. If the rules stay as they are, my finance colleagues have no option, as professionals, but to point out that my council currently may be paying £1 million in rates that does not necessarily have to be paid. That could be a persuasive argument. For me, however, the issue is how we create sustainable services were those services to be at arm's length from the council.

**Margaret Mitchell:** As the only chief executive on the panel, do you know whether SOLACE has figures for the jobs that are being transferred?

**Gavin Stevenson:** No—any such information would be available through COSLA. Our organisation consists just of the senior officers: we do not gather the statistics. Workforce returns are submitted that should be able to make that clear within the accounts. I do not think that it would be difficult for COSLA to collate such information.

**Alan Puckrin:** In effect, we have created two ALEOs in Inverclyde. The first was Inverclyde Leisure, which is our leisure trust. That has existed for 12 years and involved the transfer of about 200 employees. It has proved to be successful, to the extent that we had a subsequent transfer of the community facilities on top of the sports facilities. There are plans now for the outdoor leisure facilities to transfer over as well. The main advantages of that—over the financial one of the non-domestic rates relief—have probably concerned the nimbleness of decision making. ALEOs bring an element of extra commercial edge; there is also the attraction of external funding.

The other organisation that I would class as an ALEO was formed because of the housing stock transfer in Inverclyde. We transferred our housing stock in 2007, which involved about 300 employees in housing and building services going over.

**Margaret Mitchell:** Do you have information on the amount of resources saved by transferring those jobs, or on other savings that were made? How were the resources redeployed?

**Alan Puckrin:** There are two issues. First, the amount of money that we are paying Inverclyde Leisure now is less than the amount that we paid it in 2001, which is significant when one considers the passage of time and the impact of inflation. Inverclyde Leisure has gained extra money through direct charging and by expanding gyms and other facilities, so it has brought that to the table. Secondly, by the same token, in the budget that we have just set, we were able to reduce our management fee to Inverclyde Leisure by about £250,000 without impacting on direct service delivery, due to the savings that Inverclyde Leisure has been able to make. From that perspective, therefore, the process has been successful.

**Stuart McMillan:** Mr Stevenson, when Mr Puckrin mentioned the nimbleness of decision making just now, you had a big smile on your face. I am curious about why you reacted in that way. Is there a suggestion that there is a lack of speed in decision making in local authorities?

**Gavin Stevenson:** I need to remember that I am on telly.

In a large bureaucracy such as a council, the importance of a local leisure centre will be debated in the context of the need for social work, schools and so on. You end up with a debate that is far more complex than it would be if it were just about the commercial or financial merits of that one facility. Given that leisure, sport and community facilities are emotive issues, the debate invariably ends in a call for further information, so you tend to put it off—I see that you recognise that.

Councils have ended up with a range of services that probably would not end up being there if you started again at the beginning. Issues that benefit from a commercial focus must be proven. Some of the ALEOs work best if they are allowed commercial freedom.

That brought back memories of endless debates about trying to close a leisure centre in a particular place. Even a discussion about investing in a leisure centre in a particular place was far longer than a school closure discussion.

**The Convener:** Mr McPhee, would you go back to Mrs Mitchell's original question, please?

**Alex McPhee:** We have one long-standing ALEO, which runs one leisure centre in Kilmarnock. It is around 25 years old and is very successful and efficient. From 1 July this year, we will outsource the remainder of our cultural and sporting facilities to the new East Ayrshire Leisure Trust. The advantages that we see are similar to those that Mr Puckrin has described. There are savings of around £1 million a year, which helps the overall council budget position, and the trust is able to attract people to the trust board who have detailed expertise in culture and sport. There was

a very successful recruitment campaign to achieve that. We expect a closer focus on what they are doing. They do not have the same chatter around other services; rather, they are able to focus on leisure and culture specifically. The more than 200 staff who are transferring appear to be very positive about the move. Their terms and conditions will be protected, and the council will have to be consulted if the trust is considering any change to those terms and conditions in the future.

**Margaret Mitchell:** Finally, you will have heard me asking about accountability a little bit. The cabinet secretary said that that is really not his responsibility but very much the responsibility of the local authorities. Given the Accounts Commission's concern about the operation of ALEOs, can you tell us how you achieve that in your local authority?

**Alex McPhee:** We looked at Audit Scotland's report on the ALEOs, which came out some months ago and included a range of best practices that should be adopted. We ensured that we adopted all of them.

We have five local authority councillors on the board, the director of neighbourhood services and I are non-voting members, and there are six external trustees, who were recruited only recently. There will be no payment for holding those offices. We have also engaged the services of a consultant who has been over the course a couple of times before with other trusts. Ensuring that there is transparency and accountability on the part of the trustees to the local community and back to the council has been uppermost in our minds.

**Alan Puckrin:** Similarly, we will have councillors on both River Clyde Homes and Inverclyde Leisure. Obviously, they are supported by officers.

In a broader context, we have an external governance framework under which reports are made to the relevant committees and the overarching policy and resources committee. The reports are not just on the ALEOs but on the major suppliers that we deal with. That is particularly on the social care side, given what has happened recently with care homes, quite a number of which have got into financial difficulties. We have regular meetings on the client side in which we look at both the financial position and the governance. We ask whether organisations are meeting, as some of the smaller community groups that are vital to the delivery of services sometimes struggle to organise meetings or struggle financially. We want to get an early heads-up that those things are happening so that we can perhaps help and support them. That information and information on the qualitative side are reported back to the committee. The ALEOs are part of a far bigger framework in our monitoring of organisations.

**Margaret Mitchell:** Are the councillors or their officials paid for being on the ALEOs?

**Alan Puckrin:** No.

**John Wilson:** I want to follow up the questions that Margaret Mitchell asked about ALEOs with a couple of questions.

Mr McPhee, you indicated a potential saving of £1 million to the council by transferring services to an ALEO. What makes up those savings?

**Alex McPhee:** The initial £1 million is purely on non-domestic rates.

**John Wilson:** So it is through the non-payment of non-domestic rates that the savings will be made. I just want to clarify where the savings will come from. If the savings are from not paying non-domestic rates, that will have a consequence for other forms of income elsewhere.

Mr Puckrin indicated that in 2007 Inverclyde Council transferred its housing stock to River Clyde Homes, whose board includes councillor members. Are councillors in the majority on that board?

11:00

**Alan Puckrin:** On neither the board of Inverclyde Leisure nor the board of River Clyde Homes do councillors form a majority.

**John Wilson:** Can Mr McPhee and Mr Puckrin explain how there is accountability in how those organisations operate, if there is no majority of elected members on their boards? How is that accountability translated into reporting back to the local authority, which in many respects is the major funder of those organisations?

**Alan Puckrin:** For Inverclyde Leisure, the key accountability is for the fact that Inverclyde Council is providing funding of £1.8 million a year, so we have a responsibility in terms of following the public pound. The reporting back comes from the board members and the officers who support them. Obviously, as an independent body Inverclyde Leisure can make its own decisions, but we want to ensure that those decisions do not expose the council and its funding.

For River Clyde Homes, the council does not provide any direct funding, although we have elected members on the board. Again, our interest and support there is to try to ensure that what River Clyde Homes does fits in with the wider community planning objectives for social housing in Inverclyde.

**John Wilson:** Mr McPhee indicated earlier that a condition of the transfer in East Ayrshire will be that any changes to staff terms and conditions must be brought back to the council before they

can take place. Therefore, I want to ask Mr Puckrin directly whether there has been any differential between the terms and conditions of the staff who were transferred and those of the staff who remain in council-run leisure services and—as it might be difficult to talk about housing services staff—other council departments.

**The Convener:** Perhaps Mr Puckrin can highlight both positives and negatives, if such things exist.

**Alan Puckrin:** At the outset, I should stress that separate negotiations with unions take place for Inverclyde Leisure, which is a completely separate body. On the positive side, I am pleased to say that Inverclyde Council adopted the living wage in November last year and Inverclyde Leisure has done so from April this year. That was not a condition—we would have had no sanction over Inverclyde Leisure if it had not made that change—but that shows that changes that have occurred in the council have been passed on to those employees as well.

There are differences with job evaluation, in that the council has adopted single status in its job evaluation, whereas Inverclyde Leisure has not done so as yet. Therefore, there are some differences. A final point to make is that one of the board members of Inverclyde Leisure is the lead trade union representative for the employees.

**John Wilson:** Convener, a number of questions arise from that, but I want to move on to my main questions for the panel—

**The Convener:** Perhaps we can let Mr McPhee respond first.

**Alex McPhee:** On the issue of accountability, the trust will require to have its business plan approved by the council before the year begins as well as a two-year budget to cover that business plan period. There will then be regular reports back to the council on how the trust is performing against those targets before the next budget review takes place. Therefore, there will be a clear link between what the trust is doing and what the council expects it to do. We will be able to see how the trust is performing against those expectations all the way through.

**John Wilson:** Let me move on to my main questions. Does the panel think that the local government settlements that have been awarded over the past couple of years have been fair or unfair in comparison with those for other areas of Government expenditure? Gavin Stevenson made an interesting reference earlier to the local government settlement that was faced by a neighbouring authority south of the border. How do the settlements from the Scottish Government compare with those provided elsewhere?

**The Convener:** Gentlemen, again we are on that fine line.

**Gavin Stevenson:** The model in England, which involved a short sharp cut of 15 per cent in one year, had a visible impact on services, with Carlisle care homes being shut, museums being closed and teachers being made redundant. Governments have an absolute right to implement changes, but I think that the pace and speed at which that cut was brought in meant that there was no alternative to glorified salami slicing—although it was not salami slices but big chunks—which was clearly the model that came through. In Scotland, the spending review gave us certainty about the figures, which was very helpful for planning.

In the submission that SOLACE is preparing for the committee, we will say that we still have a question about the difference between the national health service and local government settlements. We still do not see the full justification for supporting a budget rise for NHS services but not for those services that consequentially end up in local government. As there has been a pay freeze for both the NHS and for local government, we struggle to see where the great inflation that has been mentioned is coming from. We ask for greater clarity on that, so that we do not end up needing to have complex negotiations with two groups of staff because there is a slightly different view about the importance of the NHS. However, that is a political matter. For us as officers, it was difficult to explain to our elected members when setting the budgets why, beyond the general argument that the health service needed more, there was such a fundamental difference in the allocations between the two sectors.

I restate my point that we need consistency in the numbers. Given a three-year planning horizon—whatever the number is—there is enough talent within the local government finance community to plan things properly over that phase. Most significant changes will take at least two years to embed, and the money is moving out. We desperately want to avoid having a big hit in one year, because that would be very difficult to deal with, given the planning times. There needs to be recognition that the longer the planning horizon for any changes that need to come in, the more ability local government and its partners will have to deal with them.

**Alan Puckrin:** It is hard to argue about the fairness of maintaining our share of the pot, whether the pot is increasing or decreasing.

There needs to be some context around the increasing pressures on local government budgets. For the preventative agenda, there is a high expectation that local government will provide the prevention, but that requires funding outwith

the change fund that was mentioned in the earlier session. Over and above the change fund funding, councils are putting money into services such as early years and elderly care to try to address the preventative agenda, which will take the pressure off other public sector budgets. A key challenge will be whether that is adequately recognised in the funding over the medium term.

The significant reduction in ring fencing has been of major assistance. To go back to the point that I made about council tax, the more flexibility local government has in setting its budgets and determining its priorities, the better we can provide solutions.

I fully endorse Gavin Stevenson's point about the need for medium-term certainty. The longer we have to plan, the better it will be budgetary-wise and for dealing with the potential human resources implications. That is better for the workforce and helps us to manage solutions, and that keeps everyone happy.

**Alex McPhee:** We recognise that some sectors fared worse than local government and some fared better. However, local government faces unique pressures, particularly around care of the elderly, which continue to increase at a higher rate than in other areas. If that had been recognised, that would have been helpful.

Some of the strings attached to the local government settlement were not as helpful as they might have been. For example, councils have a commitment to improving educational attainment, but a requirement to maintain teacher numbers is not an outcome-based target that we would always seek to impose.

I will not comment on whether the settlements have been fair or unfair, but we have managed within what we have been allocated. I echo Gavin Stevenson's comments that the longer-term settlement has been helpful in ensuring that we can plan ahead.

**John Wilson:** I have a final question. What impact has welfare reform—particularly the council tax benefit changes and the so-called bedroom tax—had on local authorities? What will the long-term impact be?

**Gavin Stevenson:** That is almost the \$64 million question. The initial impact has been a huge rise in the demand for advisory services. In many cases, the people on whom welfare reform is having an impact are the most vulnerable, many of whom do not have the life skills to access the vast amount of information that is being provided as universal credit is tested. Getting people to fill in a 34-page form online has its challenges.

The immediate challenge for us was to ensure that everyone knew what was about to happen to

them and what was available to support them through that period. Most councils have been working very closely and—as Audit Scotland said—very well in pulling together a range of partners to deal with the immediate wave that hit us. In addition, we have been looking to top up the support for rents that we can provide, where that is within our powers. Colleagues could give the committee more information about that.

As far as the longer-term impact is concerned, we need to avoid welfare reform becoming a rent issue. The real issue with it is the impact that it might have on domestic violence, as a result of money being paid to individuals—men—in families rather than to landlords, and on debt, homelessness and health. It is great to see communities pulling together and providing food parcels, but if we look at what is in those food parcels, we see tins of spaghetti. In 10 years' time, obesity will increase. We need to be able to channel money into preventative work on healthy eating and teaching people who have never cooked how to cook, because if they cannot afford microwaved food, they will go for cheap tins of beans or tins of spaghetti to feed their families.

In addition, children will start to turn up at school hungry, as families make different choices. We saw that happen in the 1980s and the 1990s. We need to move the agenda and the discussion on from the immediate rental issues to the longer-term impact on communities, families and individuals.

We have not worked through the changes to disability benefits. We know from speaking closely to our general practitioners that the disability assessment process has led to an enormous change in workload for them. In a rural area such as Dumfries and Galloway, where most of the elderly have a disability and live miles from a service, there will be an impact on the community's sustainability, so we need to look at that. We need to think about how we can use the budget to focus on the consequences 10 or 15 years from now.

I was a child of the 1970s when the stamp works and the mine in Ayrshire closed at the same time. All my male friends faced unemployment and never became the adults they should have been. I know what the long-term consequence is of unemployment being the first point of destination. We need to move on the agenda. That is why we got the joint health and wellbeing unit to present to our welfare sub-committee on the longer-term impacts on people's health and wellbeing. That has been highly revealing to my members—they realise that they need to think about and invest in projects that deliver a solution five and 10 years from now.

**The Convener:** Before Mr Puckrin and Mr McPhee answer Mr Wilson's question, I have a quick follow-up. Gavin Stevenson mentioned Dumfries and Galloway Council's welfare reform sub-committee. I would like to know whether the other councils have set up similar bodies to deal with such difficulties.

**Alan Puckrin:** No. We monitor the welfare reforms through the policy and resources committee.

I will respond to the points that have been made. Inverclyde Council set aside £1.3 million of its three-year budget to deal with the impacts of welfare reform. That is largely to do with the council's contribution to the council tax reduction scheme.

As a director of finance, I hope that the Government support of £23 million will continue as part of the 2014-15 settlement. That will also be needed to deal with the cost of increased money advice services. There is a huge demand for such support. As we move to universal credit, fewer people will get housing benefit and there will be reductions in the amounts that councils receive in administration grant from the Department for Work and Pensions.

11:15

I echo what Gavin Stevenson said about the longer-term impacts. When we factor in the pressures that will be put on social care budgets for individuals who are not eligible for the personal independence payment and who move off disability living allowance, there will be a concentrated impact on a very vulnerable part of the community.

Along with most other councils, we had a visit from David Mundell, who came round to gather evidence. The information that we pulled together independently was that the impact in Inverclyde in 2013-14 alone, with the culmination of all the welfare reform impacts, would be about £10 million. The council has put in £1 million. That leaves a £9 million impact, and we and other councils cannot pound-swap with the DWP reductions in funding. There will be an impact on households and individuals, with a knock-on impact on local economies and on rent arrears.

To pick up Mr Wilson's point, there will in the longer term be huge pressure on social housing if there is a long-term reduction in rental income. That will impact on investment. However, the bigger impact is likely to be on the social care side, if individuals do not react well to reductions in funding.

**Alex McPhee:** On the local impact of the bedroom tax, about 2,300 individuals in our

council houses have been affected by it. On 1 April, 500 of them had some rent arrears. By 17 May, 1,700 of them had some rent arrears. If that pattern continues over the year, lost rent will increase by £500,000. As Mr Puckrin indicated, that could knock on to a reduction in investment in repairs and new housing of about £9 million a year. That is a fairly big financial impact for the council and for the individuals concerned.

We did as much as we could prior to the changes. We met every one of the 2,300 people and we explained the impact. We encouraged them to maintain their rent, and we pointed them in the direction of where they might get financial help. Nevertheless, substantial difficulty has arisen with people's ability to pay the amounts that they are being asked to pay.

**The Convener:** For the record, that is an impact on the housing revenue account, which could affect housing capital and repair budgets. Is that correct?

**Alex McPhee:** That is right—that relates specifically to the housing revenue account. To address the £500,000 increase in lost rent, we could increase rents by £1 a week for people who are paying or we could reduce capital spending by reducing borrowing.

**The Convener:** It is important for the committee to know the difference between the general revenue budget and the housing revenue budget and to know the effect on both—as well as understanding the housing revenue budget and the housing capital budget in relation to the different bits of welfare reform.

**John Wilson:** How much has Mr McPhee's local authority set aside in relation to the council tax benefit changes?

**Alex McPhee:** We set aside just over £1 million to help people who are struggling over the short term to rebalance their finances. How effective that might be without substantial additional help is questionable. We have enhanced our financial inclusion team to ensure that as many people as possible know what they are entitled to and where they can go. We are working with citizens advice bureaux and we are looking for bigger accommodation for them, as their waiting rooms are now pretty busy. There are additional resources. We have done a range of things across the general fund to mitigate the impact on individuals.

**John Pentland:** It is clear that, through no fault of local authorities, welfare reform and the bedroom tax are having a big impact. Could that impact have been softened if the Scottish Government had funded the whole shortfall?

**The Convener:** Again, gentlemen, you are on that fine line.

**Gavin Stevenson:** The difficulty that everybody had was that we were all still trying to work out what the reform meant right up to the point when it got implemented. One of our frustrations has been that, if the system had been delayed for a year, we might have been able to put in mitigating measures and to work with our clients and communities on how we want to take things forward.

Just to say that the Scottish Government should have stepped in misses the point. We need to work out the consequences and outcomes and to identify where intervention helps best because, if further welfare reform comes down the line, the answer cannot only be that we will substitute for it. We need to do what we can now and then work together with the Scottish Government on what mitigating factors will provide the best and most sustainable answer.

Not every person who is affected by the bedroom tax cannot afford to pay it. We need to get over the hump of the can't pay, won't pay element and see where the situation settles down. Our job is to get us the time to see who the real vulnerable people are—we all know them individually—who are struggling, so that we can target our resources. If we had acted earlier as a nation, we might well have encouraged the very behaviour that we are trying to avoid.

At this point, councils are working together closely but, in six to nine months, we will need to sit down with the full evidence in front of us and ensure that we plan in advance of universal credit coming in, so that we learn the lessons. I would have asked the Government to give us an extra year to work with individuals and families on how to manage their finances better, rather than the short, sharp shock.

**The Convener:** We have to be aware that the gentlemen on the panel are council officers. I have talked a lot today about the fine line. Some of the questions that we have asked have been quite political. These guys do not have the luxury of being able to answer political questions, as that would require them to give their personal views.

**John Pentland:** I will rewind about 10 or 15 minutes, convener. Mr Puckrin said that the removal of the council tax freeze would not be a panacea. What would be a panacea? The cabinet secretary said earlier that local government has had the best settlement since 2007.

**The Convener:** Again, we are near that fine line. I know that the witnesses will be unable to say, "A huge amount more money from Westminster to Scotland," or something else.

**Alan Puckrin:** I did not come into local government for an easy job, and my wishes are being fulfilled.

The reality is that councils are multimillion-pound organisations, and part of the challenge for any large organisation is to look continually at ways in which it can deliver services better, more efficiently and more effectively. The expectation is that, year on year, we will make efficiency savings and we will not be fully funded all the time for everything that we have to deal with. There is an element of self-funding in that.

Anything that gives us flexibility and longer-term funding certainty is good. Ensuring that we are adequately funded for new burdens is good, and health and social care integration is a case in point. It has the potential to do great things through pooling budgets, having joined-up services and working together but, if it is not adequately funded from the council or health side and if it is viewed almost as cost shunting, in which folk can offload their problem budgets and leave the new body to deal with intractable financial problems, it will not work.

Having accurate and transparent longer-term information is important in helping us all to do our jobs better.

**The Convener:** You stayed on the tightrope very well, Mr Puckrin.

**Alex McPhee:** I tend to agree with Alan Puckrin. We need the long-term picture to be able to plan and make some of the changes that we have to make. A developing area that we need to progress is how we co-operate with other public bodies, including local government, police, fire and health services, to ensure that all the money that we have is used towards our shared priorities. That is the key. We as a country have to be clear about the outcomes that we want and how we focus the resources that we have in the public sector to achieve them.

**Gavin Stevenson:** I will raise the discussion back to the strategic level. We must now start to use the work that we have all done in each council on single outcome agreements and refreshing community planning to articulate the national and local priorities more clearly to the public—to our communities.

We know that, when our communities have full knowledge, they support reasonable decision making. We need to start using that mechanism to explain why we have to do what we are doing, so that we do not end up with a situation in which the first time that people know about the cuts is when they realise that the library is shut.

In our community planning partners and the refresh of the community planning environment

and of the single outcome agreements, we have clear articulation of what is important in each area. We need to be bolder in how we communicate and engage with our communities about why those things are important and about what the consequences of one thing being a priority will be for things that are not priorities. There is a bit of reticence on that at the moment.

I believe that we will all sign single outcome agreements by the end of June, so we will have documents that clearly articulate the outcomes and priorities for each area and which have been agreed by all the community planning partners. We need to get on the front foot by saying that those agreements will underpin some of the tough decisions that we will take and by engaging with our communities. They are not going to like it, but we cannot shy away from the fact that, if we do not go out to explain our priorities and the consequences of holding to them, the public will see only a series of cuts. In fact, we will still spend £19 billion or something a year. We need to get the debate on to how we will spend that money to deliver our priorities, because that is as important as the money that we are about to cut.

**Margaret Mitchell:** Outcomes have been mentioned in all your evidence. What evaluation has been done of the outcomes? An outcome can be achieved, but how good is it?

**Gavin Stevenson:** That depends on the outcome. In Dumfries and Galloway, we were lucky to have coterminous police, fire and health services, so we were able to engage senior officers in slightly different thinking and working with the Scottish Government to get academic input.

Some of the outcomes that we came up with were amazing. When the NHS inherited prison healthcare, we had to think of an outcome for a strategic document that front-line staff would understand as meaning that they were making a difference. What is that outcome indicator? When we finally asked the public health consultant, they just turned around and said, "Teeth." We waited for the numbers, but it emerged that the quality of a prisoner's teeth from when they go into prison to when they come out tells us about the whole health system and what that person is facing. We had not thought of the situation in that way, but we need that type of thinking.

How do we know that something is going wrong? If, at their annual dental check-up, a prisoner's teeth are worse, there is something wrong with the health system in the prison. That cuts out a raft of 40 different indicators.

We are testing a number of indicators, because they have to mean something to front-line practitioners. They indicate that something is

going wrong and that we need to do something, and they are preferable to absolute output and input measures.

What I described was a really good example; it took everyone by surprise that something so simple could measure a system's outcome. We would never have got there by using the old way of getting the chief executives and directors in a room to try to work that out. We would have ended up with input and output indicators and wrapped them up as outcomes.

**Margaret Mitchell:** That is interesting.

**The Convener:** We will have a supplementary from Stewart Stevenson and then go back to Mr Pentland—please be brief. Could we have brief answers as well?

**Stewart Stevenson:** I will latch on to the teeth example. If that is set as an indicator, does it distort what happens? If the system is measured on the state of prisoners' teeth, will they get fewer baths and will the incidence of skin conditions such as eczema and athlete's foot rise? That kind of thing has second-level effects.

**Gavin Stevenson:** We do not say that the full suite of indicators will not exist in each operational partner. However, in community planning, we have ended up with analysis paralysis because there was so much there. If teeth, for example, indicate that something is wrong, under our system, we will call in the director or medical person and say, "This is showing us something's up—what's up?" Proper scrutiny then takes place and what is going wrong in the system is explained. If an indicator shows that something is going wrong, we can find out what is wrong and ask what will be done about it.

The business plans, the performance indicators and all the health improvement, efficiency and governance, access and treatment—HEAT—targets will still sit below that. However, we need something at the top that says that, when something is not on target, something is going wrong, so the directors need to come into the office to explain why that is the case and what that tells us, rather than have the answer lying in an indicator that we have created.

11:30

**John Pentland:** The convener asked the panel how much an additional £1 in band D council tax would raise for local authorities. What would a 1 per cent increase—across all bands—raise for each of your authorities?

**Alan Puckrin:** A 1 per cent increase on council tax would raise a third of a million pounds for Inverclyde Council.

**Gavin Stevenson:** I am trying to scale up from Inverclyde. I will have to get back to you on that.

**The Convener:** I know that it is not easy to provide a figure off the top of your head, so please write in with that information.

**Alex McPhee:** That increase would raise £500,000 a year for East Ayrshire Council.

**John Pentland:** Thank you.

**Margaret Mitchell:** I have a finance question. You will be aware that the cabinet secretary has reviewed the business rates incentivisation scheme on the basis that the targets were set too low. Has that affected your council? If so, to what extent?

**Alan Puckrin:** I am aware of the on-going review. We did not budget for any extra income from the BRIS. If we had got some, it would have been a windfall to us. We are now closing the accounts, but we are not anticipating any extra income.

**Margaret Mitchell:** Does that mean that you were not going to get any extra income or that you did not factor any in?

**Alan Puckrin:** We did not factor in any extra income, and any income would have been on the margins. The challenge with the BRIS is that the year-on-year increase in non-domestic rates that is assumed in the spending review will make it harder for councils to achieve their non-domestic rates targets in future years.

**Gavin Stevenson:** The BRIS has had a marginal effect on us. Our biggest problem as a rural economy is the empty shops that blight our small towns. A number of them are held by big pension companies that are in for the long game—either they do not want to fill them or they are waiting for the market to pick up, so they are happy for the shops to sit empty in the centre of Dumfries. There could be opportunities that arise from the ability to levy non-domestic rates on those companies and for councils to do innovative things that were not previously in our power to do.

**Margaret Mitchell:** I want you to be clear. Would there have been absolutely no benefit to Dumfries and Galloway if you reached your target?

**Gavin Stevenson:** I could get back to you with the detailed figures, but it was certainly not a major part of the discussion that I had with the administration.

**Margaret Mitchell:** I thought that everyone knew how much that they would potentially get if they met their targets. Your evidence is that that was zero, Mr Stevenson. Is that the same for you, Mr Puckrin?



**Gavin Stevenson:** I did not say that.

**The Convener:** I do not think that Gavin Stevenson is saying that, Mrs Mitchell, but it would be useful if he could provide clarification to the committee.

**Gavin Stevenson:** I could clarify that.

**Margaret Mitchell:** Yes—it would be useful to have accurate evidence.

**Alex McPhee:** We did not budget for any increase simply because, although the targets were set, it was pretty difficult to anticipate achieving them. We preferred to wait until we had achieved the targets before we started budgeting for additional income.

**Margaret Mitchell:** How much would you have got?

**Alex McPhee:** I do not have the exact figure to hand, but I can certainly let the committee have it.

**Margaret Mitchell:** That would be helpful.

**Stuart McMillan:** I have a couple of questions. Have the overall budgets that you have received had any positive or negative impacts on local authorities' reserves from 2007 to the present date?

**The Convener:** Witnesses should give an indication on whether any increase in reserves has been a result of future planning.

**Alan Puckrin:** In Audit Scotland's overview report on the 2011-12 or 2012-13 accounts, Inverclyde Council had the highest percentage of reserves in Scotland. However, most of that reserve is earmarked to support, for example, the capital programme, investment support and employability schemes. The non-earmarked amount is 2 per cent, which is about the Scottish average and which, in simple terms, equates to about a week's running costs for a council. We view that as a reasonable level of reserves.

We do not use reserves to balance our on-going revenue budget. In fact, in the past couple of years, we have put money into our reserves as part of the process to prepare financially for the storm ahead, as it were. That has helped us when we have set budgets for future years.

**Gavin Stevenson:** On the difference between the earmarked and the non-earmarked reserve, most councils and Audit Scotland recognise that 2 per cent is the minimum non-earmarked reserve that should be held. For us, that is about £7 million.

Let me give you an example of what can happen. Like Arran, we were affected by the severe winter event, and during that period I was spending £1 million a day just in the west of my

region. Given my reserves of £7 million, if that situation had lasted a week, I would have been out of money. Reserves are important for local authorities.

The committee also discussed the issue of PPP with the cabinet secretary. We have very large reserves for our PPP projects to ensure that future taxpayers do not end up bearing the full brunt of the cost. That approach was advised early on for PPP. Most councils were unable to put that money aside, but in Dumfries and Galloway we put cash aside to try to mitigate and flatten out the impact of the rise in PPP costs.

At some point, we might have to look to reprioritise the money that we use to fund PPP repayments and bring it back into the general reserve to supplement perhaps capital or employability programmes as we move forward, although doing that would mean that future taxpayers pick up the cost of decisions that were taken 10 years ago. However, the use of our reserve is part of our longer-term financial plan.

There is a distinction between earmarked and non-earmarked reserves. If we spend £1 million a day in winter, £7 million can be quickly used up.

**Alex McPhee:** Since 2007, our uncommitted reserves of around £6.7 million have grown to around £12 million. It was a deliberate policy to build up those reserves in anticipation of difficult times ahead. For 2013-14, we are committing about £4.2 million of that money simply to buy us time to make the changes that we need in order to achieve the target of cutting £37 million a year from our running costs by 2017. It has been a deliberate policy to build up our reserves, but we also have a deliberate policy to run them back down over the next five years.

**John Pentland:** What is the panel's view of the Scottish Government's approach to non-domestic rates? Would you like to see anything changed in that? Do you agree with the cabinet secretary's forecast of a large increase in NDR income?

**The Convener:** Very briefly, gentlemen.

**Alan Puckrin:** We have no expertise in the forecast. We know that it has been commented on by the likes of the Centre for Public Policy for Regions. Obviously, the risk sits with the Scottish Government and not with councils, because we will have guaranteed non-domestic rates for the spending review period.

**Gavin Stevenson:** In effect, the councils just act as a post office, moving NDR through, and the amount varies according to the ups and downs of the economy. Most councils just view NDR as part of the general settlement.

**Alex McPhee:** Similarly, we collect the rates and pass them on to the Scottish Government. It

must work out what it believes the income will be, and the risk lies with the Government if it gets the sums wrong.

**John Wilson:** I have a brief question for Mr Stevenson, wearing his SOLACE hat.

You referred earlier to PPP commitments and reserves that councils set aside so as not to impose additional burdens on the local taxpayer. Can you indicate whether other authorities have made the same commitment? The graph that we saw at the committee last week showed that PPP payments will rise substantially. Earlier, the cabinet secretary gave a figure of £510 million for repayments in 2007. My understanding is that PPP financial commitments will rise to almost £1 billion, with a substantial part being for local authorities.

**Gavin Stevenson:** You must remember that the Government supports PPP repayments, although the larger element of the cost lies with councils to pay.

The use of PFI/PPP developed over time. It depended on where councils were in their financial cycle as they entered into it and what cash reserves they had. Perhaps everyone should initially have gone to cash back future costs, but that option was not available to a lot of councils, for which there was only one deal on the table at the time: PPP.

We were fortunate in being able to undertake longer-term financial planning and to take pain elsewhere in the budget at that early time. We are now sitting relatively pretty, and we can say that at least we have some cash to play with.

As I said, our approach was not available to all councils at the time. Those that entered into the late PPP as budgets were starting to be cut would never have been able to explain to the electorate why they were putting aside an amount of money for PPP. We were able to do it when we were getting 6 to 7 per cent growth in the council budget. As the cabinet secretary said, we will need to look at all the funds available as we move forward to mitigate any rise in tax for the local taxpayer.

**The Convener:** I must now be strict with the time for questions. Mr McMillan can ask a brief question.

**Stuart McMillan:** How will the benchmarking framework assist in dealing with the budget challenges that you face?

**Alan Puckrin:** It has been a useful initial year. The benchmarking framework highlights areas on which individual councils can work with colleagues from other councils, when the figures that have been produced look good for those councils, to

find out the way that they work, how they produce their figures and how they deliver their services.

One of the chief executives described the framework as a tin opener, which is what it is. We then build on the information that is in the framework.

**Gavin Stevenson:** The framework is useful if we do not view the indicators as absolutes. That is difficult in the political domain; it is difficult to keep the potholes filled when there are 4,500km of roads. The important thing is work that we do in conjunction with East Ayrshire Council. It is about who we benchmark with in the club, because the real point of benchmarking is to find other people to whom we can talk about how they do things.

The benchmarking framework is a good first stab, but the absolute input and output indicators only get us to the real point, which is to identify councils that we can talk to about how they do things differently. We are following the lead of East Ayrshire Council, which has been taking the approach for a number of years and has been very successful in targeting service improvements by learning from other councils.

**Alex McPhee:** We have been working for some time with seven other councils. We meet regularly and choose an area to look at as we go through a programme. The key is to ensure that we are comparing like with like. Once we are at that stage, we can work out why there are differences. Are those policy differences, performance differences, or level of service differences?

That process has been helpful for councils when they take decisions. They can maintain their position by saying, "We are happy with our policy; we do not want to move to what somebody else is doing." The benefit of the benchmarking framework lies in getting behind what the numbers say, rather than the numbers themselves.

**John Pentland:** It is clear from the evidence that we have received today that local government is facing challenging times because of the budget cuts. Will the cuts have an impact on the wider public services reform agenda?

**Alan Puckrin:** I am not sure about the wider public reform agenda, but it is inevitable that there will be an impact, given the inflationary pressures that have been backing up for some time—I am thinking about pay inflation and what employees in local government have received over the past few years, and about the inflationary uplifts in some of our social care providers, where the costs have been squeezed.

I read some of the evidence that the committee heard on that issue last week. If we continue to get flat-cash settlements or worse, something will have to give when those pressures begin to come

up. There is a limit to how many efficiencies we can generate.

**Gavin Stevenson:** We need to take our staff and our communities with us. My view is that we have a planning horizon and we know what is going to happen, and public services are at their best in times of adversity.

That is why the integration of health and social care is so important. If we make that radical change to how we govern and deliver services, all the staff groups in our communities will be able to be confident that there are ways to deliver different models of service. That is the secret. If we get that wrong, the rest will be difficult to put through.

**Alex McPhee:** The position that we are in gives us an impetus towards reform and closer work with our partners and our communities, with more preventative measures and efforts to improve our efficiency and performance. We regard the position as a positive driver. It is the position that we are in, and we must get on with things and make the best of it.

**The Convener:** This discussion could go on all day, but this is my final question. I think that Mr Stevenson said that there is enough talent in the finance community to deal with what is ahead. Is there enough talent among elected members to enable them to deal with what is ahead? Could we do with more training for folks who deal with council finances?

11:45

**Alan Puckrin:** That is part of an on-going programme of training for members. At the most recent election there was quite a high turnover and a lot of new members came into my council. It is important that members are trained.

The quality of information that is produced is also important. Audit Scotland highlighted that issue. We continually look at the information that we provide. There are thorny issues, such as how we budget for outcomes and how we measure the quality of services. Those are not easy issues, but members want to understand them before they make decisions.

**Gavin Stevenson:** I will speak personally here. There is a difference between the leadership skills that politicians have and the leadership that the reform agenda needs. Something like collective leadership training, to help people to understand the scale of change and how to lead people through a significant change programme, would be useful.

My officers have spent their entire career in times of growth, so we are asking them to do things that they have not been trained to do. The same can be said for elected members.

**Alex McPhee:** We have quite an extensive training programme for members. There is training that is tailored to the individual's needs and there is corporate training through seminars, which are sometimes bi-monthly and which ensure that people are up to date with what is happening and their role in the process. I am confident that we are providing members with the input that they need.

**The Convener:** Thank you, gentlemen.

Given that COSLA was unavailable to give evidence today, do committee members think that it would be helpful to write to COSLA with our questions?

**Members indicated agreement.**

**The Convener:** Thank you.

11:46

*Meeting continued in private until 12:43.*



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