



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# LOCAL GOVERNMENT AND REGENERATION COMMITTEE

Wednesday 30 October 2013



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**LOCAL GOVERNMENT AND REGENERATION COMMITTEE**

**27<sup>th</sup> Meeting 2013, Session 4**

**CONVENER**

\*Kevin Stewart (Aberdeen Central) (SNP)

**DEPUTY CONVENER**

\*John Wilson (Central Scotland) (SNP)

**COMMITTEE MEMBERS**

\*Richard Baker (North East Scotland) (Lab)

\*Cameron Buchanan (Lothian) (Con)

\*Stuart McMillan (West Scotland) (SNP)

\*Anne McTaggart (Glasgow) (Lab)

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

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Ian Lorimer (Chartered Institute of Public Finance and Accountancy Directors of Finance Section and Angus Council)

Elma Murray (Society of Local Authority Chief Executives and Senior Managers Scotland and North Ayrshire Council)

Graham Owenson (Scottish Government)

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

**CLERK TO THE COMMITTEE**

David Cullum

**LOCATION**

Committee Room 5



## Scottish Parliament

### Local Government and Regeneration Committee

*Wednesday 30 October 2013*

[The Convener opened the meeting at 10:00]

### Decision on Taking Business in Private

**The Convener (Kevin Stewart):** Good morning and welcome to the 27th meeting in 2013 of the Local Government and Regeneration Committee. I ask everyone to ensure that they have switched off mobile phones and other electronic equipment.

Our first item of business is to decide whether to take in private item 5, which is our discussion on the Convention of Scottish Local Authorities commission on strengthening local democracy in Scotland. Are members agreed?

**Members indicated agreement.**

## Draft Budget Scrutiny 2014-15

10:00

**The Convener:** Item 2 is evidence from two panels of witnesses as part of our scrutiny of the Scottish Government's 2014-15 draft budget. I welcome our first panel, who are Ian Lorimer, Angus Council's head of corporate improvement and finance and chair of the Chartered Institute of Public Finance and Accountancy's directors of finance section, and Elma Murray, the chair of the Society of Local Authority Chief Executives and Senior Managers Scotland and chief executive of North Ayrshire Council. Does either of you wish to make an opening statement?

**Elma Murray (Society of Local Authority Chief Executives and Senior Managers Scotland and North Ayrshire Council):** I would quite like to make some opening comments, convener.

**The Convener:** Certainly. Please go ahead.

**Elma Murray:** I just want to highlight some of the general points that have been raised in SOLACE's submission to the committee on the budget, not least the significant amount of savings that local authorities have made over the past few years while experiencing increasing demand, undertaking key improvements such as improving levels of attainment, implementing curriculum for excellence and dealing with increases in the number of older people and adults with significant care needs. All of that has been done while we have been dealing with the on-going council tax freeze, a reduced or flat cash settlement and local difficulties in increasing income levels, principally as a result of the economic circumstances that we have been working with over the past few years.

As a result, councils and our community planning partners have been required to show a degree of ingenuity and creativity over that period and all our staff have shown a significantly high level of commitment in order to make those things happen at a time when we have been reducing the staff numbers available to undertake those tasks for us. I felt it important for the committee to understand the environment in which we have been working and I hope that in this session I get the opportunity to provide you with some important examples of the work that we have been doing over the past few years.

**The Convener:** Thank you. Do you wish to say anything, Mr Lorimer?

**Ian Lorimer (Chartered Institute of Public Finance and Accountancy Directors of Finance Section and Angus Council):** I have nothing really to add, convener, except to say that I hope

that our discussion on the issues that the committee wants to debate will bring out the key points.

**The Convener:** Ms Murray, you mentioned ingenuity and creativity. In that respect, I note that a small number of local authorities have embarked on priority-based budgeting exercises. Can you comment on that and perhaps indicate why others have not followed their lead? Have such exercises helped local authorities with their budgetary situations and should that kind of creativity and ingenuity be exported to the 32 councils?

**Elma Murray:** Of course, priority-based budgeting is only one approach that can be taken, and there are a number of other approaches that councils and their community planning partners can choose to adopt in their areas. It might be a matter of timing. For example, although a particular area might have adopted a particular approach to looking at its budget, assessing the resources that are available and making decisions on that basis, the process might take two or three years. Some authorities and community planning partners could be considering priority-based budgeting now, while others might decide that there are other more important issues to address and that they will pick it up later on. That might give you a sense of where different people are in their thinking.

**The Convener:** Can you tell us about those other issues that might be important?

**Elma Murray:** Absolutely. This year, my authority has started work on outcome-based budgeting, which although not dissimilar to priority-based budgeting obviously sounds very different. It is all about looking at where we are spending our money and trying to assess the outcome of that expenditure objectively so that we can make rational decisions about where the money that is spent in the local area might have the greatest impact.

Another approach that my community planning partnership and others are considering is area-based budgeting, in which one looks at the needs in a particular geographical part of a community planning partnership area and thinks about whether they should be serviced in a particular way. That approach is very localised. Of course, such decisions are for local community planning partners, depending on the circumstances that they are dealing with at any one time.

I do not know whether Ian Lorimer has anything to add.

**Ian Lorimer:** Priority-based budgeting is now very much on the agenda. Some councils are further on with that work than others, but information is certainly being shared. For example, I know that a number of colleagues have visited

Aberdeen City Council, which is, I think, a bit further on than many councils, to find out what it is doing and how that might be applied in their areas. Indeed, at a directors of finance section meeting about a year ago, we had a presentation from an Aberdeen City colleague on how the council had developed its system.

I echo Elma Murray's comments about outcome-based budgeting, which I think is very much the answer to some of the problems that we face, given the reductions in our resources. If we can focus on outcomes when we set our budgets and we are clear about what sort of outcomes a certain level of investment in a certain service will deliver, we will have a better chance of focusing our resources on the areas that really matter.

**The Convener:** Another issue that the committee has been examining and on which SOLACE has taken a key lead is benchmarking. Are councils looking much more closely at what their counterparts are doing to get value for money and ensuring that they deliver high-quality services but at a lower cost?

**Elma Murray:** The benchmarking project that SOLACE embarked on in conjunction with the Improvement Service and with support from COSLA and elected members has been hugely important in giving councils the ability to look at who is doing what, to measure the same things in the same way and to make comparisons with each other in a much more effective way than might have been possible in the past. We view benchmarking as an opportunity to ask really deep and meaningful questions of one another and to come to a more effective understanding of why some things work in some areas but might not work in others because of local circumstances—and, even if they do not work, how certain elements of good practice might be brought to bear in different areas in Scotland.

A key area in which benchmarking is being advanced this year is the organisation of local authorities into what we have called family groupings, in which seven or eight local authorities that might be similar in geography, socioeconomic outcomes, the management of their resources and so on come together to look at how they manage a small number of issues and see what improvements might be made. The areas that we hope to look at in more detail this year include our roads services—particularly road improvements and how they have been carried out—and positive destinations for young people coming out of school. I am sure that the committee will be aware that, in the past four or five years, there has been a huge improvement in positive destinations for young people, but we believe that we need to make further improvements and we want to focus on that area.

**Ian Lorimer:** I see the benchmarking framework as a tool that we can use to examine costs and understand whether there are reasons for variations in service quality, level and cost. The framework can point us to areas that we might want to look at in service redesign. We can learn from one another.

It is fair to say that the framework is still developing and is not yet all the way there. We have started a process of data gathering, review, challenge and discussion that is helpful and gives us something to build on, given the challenges that are ahead.

**The Convener:** That work should help to export best practice. Do the 32 local authorities communicate enough about best practice? The committee often hears of good work in some areas that others seem not to have heard about or which they have decided not to implement for whatever reason.

**Elma Murray:** There could be much more communication. Geographically, Scotland could be considered small in a global context, but an awful lot of work is going on locally, so the challenges of sharing that and of ensuring that everybody understands what everyone else is doing and how that could be used in their areas are not small.

The issue that you raise was addressed effectively in the quality assurance work that was undertaken across all community planning partnerships in June, when all the single outcome agreements were looked at and improvement plans were agreed with each partnership. I had the privilege of chairing a quality assurance panel, so I looked at four other community planning partnerships. I found evidence that each was doing really good things that North Ayrshire community planning partnership had not yet looked at, so I got a number of suggestions. We can consider whether they could be transported to North Ayrshire and if not, why not. The opportunities for sharing could be greater, but the time for sharing is limited, given the time that is needed to get on with the job in hand.

I have given a long answer to your question; the short answer is that more can be done.

**The Convener:** You highlight the fact that, if you had not chaired the quality assurance panel, it might have been a long while before North Ayrshire picked up on those examples, if it did so at all. Apart from quality assurance panels, is there a simple way for us to get the communication right, so that people know about the good work that is going on? Let us be honest—such things need to be exported to everyone when that is possible, particularly in these tough times.

**Elma Murray:** It would be easy to say that there is a simple way, but the impact of what is going on

in an area is best explained through speaking to people and hearing straight from them. That cannot necessarily be done quickly in all cases, because of the volume of work that is going on in different areas across Scotland. One outcome of the quality assurance work that we will develop in the next few months is the hosting of an event that will allow all the good work to be shared.

I will give another example of really good sharing work across Scotland. I do not know whether committee members have experience of the early years collaborative's work. This week, we had our third set of two-day workshops, which bring together all the early years collaboratives from the 32 community planning partnerships and allow them to share experiences.

10:15

For me, one of the most compelling elements of the early years collaborative process has been the storyboards that community planning partnerships have produced for their early years work. Walking round a room with 32 storyboards that show what every community planning partnership has done to enhance and improve early years work in each area is quite phenomenal. We then get a grasp of the magnitude, scope and breadth of the work that people have done. Some of that work might be done by just a single early years centre. Given the number of early years centres across Scotland, sharing all the different bits of work and the small changes that they make is not an insignificant task.

**Stewart Stevenson (Banffshire and Buchan Coast) (SNP):** We are 15 minutes and 49 seconds into the session. I have an eight-page paper in front of me, which has, leaving aside the paragraph numbering, five numbers in it. Page 2 mentions 32 local authorities, 16 national outcomes and five years; page 4 mentions five years; and page 6 mentions 67 new secondary and primary schools. In the evidence so far, the first number appeared at nine and a half minutes, when the period of four to five years in relation to positive destinations was talked about. At 10 minutes and 43 seconds, the convener referred to the 32 local authorities; at 14 minutes and 41 seconds, three workshops and the 32 community planning partnerships were mentioned; and at 15 minutes and 37 seconds, Elma Murray said "number". Do you know what is missing from all that? There has not been a single financial number, although this is a session about the budget. I therefore want to go to the questions in SOLACE's submission and solicit some numbers because, without numbers, it is all waffle.

On resources over the 2011 spending review period, will you give us the real numbers that should be driving decision making, because I am

deeply dissatisfied with where we have got to thus far in this session?

**Elma Murray:** I am afraid that I would like a wee bit more clarity about what numbers Mr Stevenson would like me to articulate.

**The Convener:** I thought that you might say that.

**Stewart Stevenson:** That is precisely the point. As finance people, you should be living and breathing numbers and have the key ones at your fingertips. This is your opportunity to tell the committee and, through it, Parliament the key numbers that you confront every day and which drive your decisions. In particular, I would like to hear the numbers that drive decisions that you do not feel provide support. By the way, I am left uncertain as to whether there is outcome-based budgeting, priority-based budgeting or zero-based budgeting. Whichever one you have decided to use—I think that it is outcome-based budgeting—what numbers will influence that, help you to make decisions and help us to understand the decisions that you have made? I cannot choose the numbers for you and ask the question; you have to tell us the most important numbers for you that drive your decisions.

**The Convener:** It has to be said that that is not the easiest question in the world. I saw Mr Lorimer going through some stuff.

**Ian Lorimer:** Yes. Numbers are difficult in the national picture, but the key numbers or the key parts of what influences our budget decisions include the flat cash in the Government grant settlement. In a local government funding context, 81 per cent of the money that we need for general fund services comes from Government grant. The Government grant figure is the dominant figure in that. The other figure is the council tax figure. I think that we are now into the sixth year of the council tax freeze. The council tax makes up about 19 per cent of the councils' budget position. Over the past three or four years, both of those figures have been static or reducing, certainly in real terms. Those are the big influences on the councils' budget.

Alongside that, we have pay. One thing that was to our advantage in the previous spending review was that pay inflation was not a factor, but that will not be the case as we move into the next spending review period, for 2014-15 and 2015-16. Pay inflation, albeit at a modest level of about 1 per cent, is coming back. If we found it difficult to balance our budgets when pay inflation was not a significant factor, it will be that much harder to balance budgets in a situation in which pay inflation comes back in. The figures will vary from council to council, which makes it difficult to talk on any kind of national basis.

**Stewart Stevenson:** You said that 81 per cent comes from Government grant and 19 per cent is from council tax. My arithmetic suggests that that comes to 100 per cent. Are you therefore saying that no revenue streams from the public constitute income for councils?

**Ian Lorimer:** To clarify, the 81 per cent includes core Government grant and non-domestic rate income, but it is all guaranteed. The 81 per cent to 19 per cent split is based on our net expenditure as councils. In reaching that net expenditure, we have fees and charges that we levy for the use of things such as leisure centres. For example, in Angus, fees and charges are about 10 per cent of our net expenditure. The figures of 81 per cent and 19 per cent that I gave are based on net expenditure after fees and charges have been taken into account.

**Stewart Stevenson:** Is net income different from net expenditure?

**Ian Lorimer:** I am sorry; I do not understand the question.

**Stewart Stevenson:** One is on the left of the balance sheet and the other is on the right. In accounting terms, one is near the window and the other is not.

**Ian Lorimer:** What it comes down to is that we look at our budget on a net basis, but we could also look at the figures on a gross basis. Gross expenditure includes everything. Income on a gross basis would include fees and charges, council tax, Government grant, non-domestic rates, Department for Work and Pensions grant for benefits and the like.

**Stewart Stevenson:** So to express the position simply as what comes from the Scottish Government and what comes from council tax is to omit important contributors to funding for services that you provide.

**Ian Lorimer:** I was quoting the net position. All councils work out their budgets on that basis. Fees and charges are part of the equation in getting there, and they have been the only part of councils' income streams over which we have had any control in recent times. As Elma Murray flagged up, that has had its own difficulties because of the economic circumstances.

**Stewart Stevenson:** What percentage of your overall income does that constitute, in round figures? If you require time to provide that figure, so be it.

**Ian Lorimer:** In Angus Council, about 10 per cent of our net expenditure is fees and charges.

**Stewart Stevenson:** The figure of 81 per cent plus 19 per cent therefore omits a significant part of your income stream.



**Ian Lorimer:** We would need to look at the income position on a gross basis and, as I said, other things go into that, such as DWP grants.

**Stewart Stevenson:** I will let colleagues progress this one, convener.

**Anne McTaggart (Glasgow) (Lab):** I am not sure that I will progress it, convener.

I will ask about discretionary or non-statutory services. Have some of those services been reduced or stopped altogether? If so, which ones? How has that been managed?

**Elma Murray:** My council has done quite a lot of work to consider statutory and non-statutory services. However, that ended up giving us more questions about than help with the decisions that we were trying to make, because the issues are not all straightforward or necessarily black and white.

I will give you one of the local examples that we considered. We have a statutory requirement to provide schools. However, the statute does not say what we need to do once we get the kids into the schools, so it can become quite difficult to cut through, if you know what I mean. We also have a statutory requirement to provide an appropriate local library service, but the word “appropriate” can be interpreted in a range of ways that depend on the area.

To go back to one of the early questions that the convener asked, that is why councils are doing a lot more on priority-based, outcome-based and place-based budgeting. It is important to consider the impact of the money that we spend in an area and to ensure that we do the maximum with it.

I take Mr Stevenson’s point about numbers, but we cannot be absolutely focused on numbers to the exclusion of people. The services that councils offer are, by and large, people linked. They run from services that are directly for people, such as care or education services, down to emptying bins and cleaning streets. They are people-based services.

**Ian Lorimer:** One of the questions that the committee posed in the request for evidence concerned statutory duties and the delivery of joint priorities. Our statutory duties have been delivered over the spending review period because they take priority over all else—we must deliver them. Likewise, joint priorities have been delivered, but that has all been possible only because of the savings that councils have made.

The savings fall into a couple of categories. Some have come from efficiency reviews, transformation programmes and service redesign. We can categorise them as having a small or nil negative effect on service delivery—we would try to deliver that. However, other savings will have

had a negative effect and will have lessened the scope or quality of the service that is provided.

Although a negative effect is not desirable, the deployment of resources in that way reflects priorities. Priorities must mean that some areas are given less money and less attention than others.

The statutory duties and joint priorities have been delivered, but the savings fall into a couple of camps. Some have hurt more than others, and some have been delivered through the efficiency and transformation work that councils have done.

I come back to my earlier point about consequences for local government staff. Local government staff numbers have reduced and, as I mentioned, the pay freeze has helped us to get there.

**Richard Baker (North East Scotland) (Lab):** Mr Stevenson challenged us to find numbers, and the number that interests me is the cut of nearly 5 per cent—of 4.8 per cent—in the resource budget for local authorities in the draft budget. To return to the answers to Anne McTaggart’s questions, does that mean that further reductions in services and increases in charges are inevitable?

**Elma Murray:** Thank you for that question. Ian Lorimer made a point in a previous answer about the other resources that we have, which are predominantly staff and people-based resources.

It is probably fair to say that, on average throughout Scotland, we have reduced our staff resources by about 10 per cent. We have achieved a lot of that through early retirements and voluntary early release schemes. That has allowed our staffing budgets to be pretty stable over the past four or five years while we have had an overall reduction in the finance that we have to spend on other areas. It has allowed us to achieve that balancing act.

In local authorities and across community planning partnerships, we have tried to redesign services so that we do not stop doing something but try to do it differently, although that can be hard for people as well, particularly when we are talking about people-based services. A lot of people to whom those services are provided are vulnerable; they might be old or have a number of physical needs. We do a lot to help people to get through such change, but it can be hugely difficult for them to cope with.

10:30

**Richard Baker:** I take that point. The convener also raised important points about innovation. Because of the level of cuts in the resource budget, I do not think that you can pretend that

you can maintain service provision at the current level or maintain current charging levels locally.

**Elma Murray:** Yes.

**The Convener:** Do you have any examples of service redesign that has led to a saving and better outcomes for people? Those are the important things that we need to get to grips with. Can you give us such an example?

**Elma Murray:** I can talk about what we have been doing across the country for the reablement of older people and older people's services. The committee will be aware that there has been a strong drive to help older people to live in their communities and in their own homes for longer. One of the challenges is that, when an older person who was admitted to hospital for treatment comes back out into their own home, they might suffer a loss of confidence and need to be made to feel a wee bit more comfortable about what they are doing, so that they can be happy in their home again. Many of us have therefore put a lot of money into reablement.

That reduces the amount of intensive support that we have to give people, and it has significantly reduced the amount of residential care that we have to give older people. It has also allowed us to move people out of hospital a lot more quickly, so there has been an improvement for hospitals in bed release and an improvement for local authorities in the money that we spend on residential care. I can give you a number for that for my council. In the past year, that has allowed us to save just over £1 million, which is not insignificant in our budget for the area. Changes and reductions in expenditure can be made through the redesign of services, with much more effective outcomes.

**The Convener:** Richard Baker is desperate to come back in, but before I let him do so, I have a question. You said that North Ayrshire Council has saved £1 million. Has the local health board also made savings? If so, do you have any idea how much they were?

**Elma Murray:** I cannot estimate that, because our local health board—NHS Ayrshire and Arran—has had increasing numbers of emergency admissions for a host of reasons. I suspect that the outcome for the board is that the savings have allowed it to manage increasing demand from elsewhere.

**Richard Baker:** It is impressive to hear about the service redesign. Will redesigning services make up for the loss of income to the resource budget?

**Elma Murray:** I sense that that is becoming increasingly difficult. We are doing a lot more redesign and we are a lot more creative, as I have

said, but we will have to stop doing some things or reduce them to a limited level.

**Anne McTaggart:** What services will be affected? Will you give us an example?

**Elma Murray:** One example involves a bit of redesign but is also about us stopping doing some things. Local authorities have provided a lot of support in communities for community halls and centres, but maintaining that support will become increasingly difficult for us. We are actively encouraging communities to take on the operation and running of community centres as well as the associated on-going costs.

Authorities take different approaches to that. There might be up-front money to help communities, and there is also a lot of people support to help communities to get the right skills to run community centres. To go back to Ms McTaggart's earlier question, that is not a statutory duty for us, but a number of us are looking carefully at it.

**John Wilson (Central Scotland) (SNP):** I am disappointed that COSLA representatives are not giving evidence today. I welcome Mr Lorimer and Ms Murray but, given COSLA's key role in negotiating the local government settlement with the Scottish Government, it would have been useful to hear some voices from it. We hear a number of things coming out of COSLA, and local authorities through COSLA, about the settlement. It would have been useful to have COSLA here to address issues that it has raised publicly, so that the committee could hear that evidence and examine those issues.

Having said that, I welcome the paper from SOLACE, and I ask Ms Murray and Mr Lorimer to comment on it. We have heard much about the council tax freeze. A number of local authorities and council leaders have complained that there is a set rate for the amount that is added every year to the local government budget. However, page 2 of the SOLACE submission says that some local authorities have reduced their council tax levels. If there is such a squeeze because of the council tax settlement and the freeze, how come some local authorities have found the resources to reduce the council tax in their areas?

**Elma Murray:** I understand that not a lot of local authorities have done that, and I am not clear that they have done it in consecutive years. It might have been an issue that they dealt with in one year alone. It might have been something that they felt that they could do in a particular year.

**The Convener:** However, just to clarify that, if they did it in one year, that would follow through to the next year and so on. It is not a case of cutting and then increasing again. The cut is permanent.

**Elma Murray:** That is my understanding. When a cut has happened, the level has not gone back up again the following year, so there is a recurring implication.

However, the majority of local authorities have kept their council tax at a fixed level since the council tax freeze started. It is fair to say that most local authorities wish to achieve more flexibility and would like to feel that they had more opportunities to increase the council tax, if that was appropriate to their area.

**Ian Lorimer:** I echo what Ms Murray said. The number of councils that have reduced their council tax is small. The only example that comes to mind is Stirling Council, a number of years ago. A reduction takes income out of the base budget that cannot be replaced because, cut or not, councils are not allowed to increase the council tax thereafter. The vast majority of councils have frozen rather than reduced their council tax.

**John Wilson:** I understand that when the council tax freeze was introduced in 2008, it was agreed that a set level of funding would be made available from the Scottish Government to local authorities. Is the formula that is used to distribute the council tax freeze moneys sufficient or should it be reviewed? Local authorities such as Stirling Council have been able to reduce the council tax, whereas other local authorities such as Renfrewshire Council have said that they would like more resources to be targeted to areas of deprivation. Should that be considered in the negotiations with COSLA?

**Elma Murray:** Distribution of local government finances is always a contentious issue, not least within COSLA, where it is clearly a matter to which local politicians regularly give a great deal of thought. From my perspective, I work with whatever is provided to the council to ensure that it is spent as wisely and as well as possible, and it is probably fair to say that the same is true of the other 31 chief executives of local authorities in Scotland.

**Ian Lorimer:** Distribution is a difficult and emotive issue, and councils take different views on whether distribution reflects their particular circumstances. I suspect that every council could find an indicator in the distribution system that they think does not serve them as well as it should.

From my perspective, I would be cautious about getting into a whole debate about distribution, because it would be a fight over a diminishing cake. I think in local government we should focus our energies on dealing with the financial challenges, however difficult that might be, rather than being deflected from that by looking at distribution. However, I know that my colleague

directors of finance will not all agree with that; it is simply a personal view.

**The Convener:** Are you talking as the Angus Council finance director or as the chair of local government directors of finance?

**Ian Lorimer:** On that point, I am certainly not talking as chair of local government directors of finance. As I said, councils are in different places on the issue. However, we have had relative stability in distribution for the past five to seven years. The grant floor mechanism has been in place and that has been helpful, but some councils—Renfrewshire Council and Aberdeen City Council, for example—feel that they do not do well out of the grant distribution system. It is a difficult call whether opening up distribution is a good use of our time and energy.

**John Wilson:** You referred previously, in other evidence sessions, to the 30,000 jobs that have been lost in the public sector. Does that bear any resemblance to your understanding of what is happening in your local authorities? If 30,000 jobs have been lost—and the implication is that most have come out of local government—with an average £30,000 salary and additional costs, that would indicate almost £1 billion of savings from staff losses; if you calculated it at £20,000 per salary and additional costs, the saving across local authorities would be £600 million. Is that reflected anywhere in local authority budgets?

**Elma Murray:** Yes, it is. My authority, North Ayrshire Council, has reduced its staffing levels by just over 10 per cent over the past three to three and a half years, and it will increase a wee bit more than that this year, because we will make further staffing efficiencies and reductions. With that and the pay freeze of the past couple of years, our salary budget—what it was in 2009-10 and where it is now—has remained almost constant, at a finite sum; it has not actually gone up and has stayed exactly the same. That is because we have reduced the number of staff, so there have been no increases from that, and because we have had the pay freeze, so there has not been an annual set of increases. That has given us a bit of room to manoeuvre with our other resources. I can recognise the 30,000 job losses that you mention.

**John Wilson:** Just so that I am clear, is the implication of what you are saying that, despite losing a large number of staff, salary costs have not changed but have remained constant?

**Elma Murray:** That is right.

**John Wilson:** So losing 10 per cent of staff numbers has not meant a corresponding reduction in salary costs?

**Elma Murray:** I suppose that it has in that, back in 2009-10, I would have expected salary costs to have had an upward projection, not least because of pay increases and incremental change. Because there has been a reduction in the number of staff, aligned with a pay freeze, salary costs have not had an upward trajectory but have remained absolutely flat.

10:45

**John Wilson:** So the pressure on salaries has been to do with incremental payments.

**Elma Murray:** It has been to do with incremental payments, but the fact that we have managed to reduce the number of staff has helped to compensate for any changes that we would have expected to have seen in our staff costs. I get the feeling that I am not explaining this well enough to you, Mr Wilson.

**John Wilson:** I am trying to home in on the issue. I gave a figure of almost £1 billion of savings. That was based on the fact that 30,000 local authority jobs have been lost since 2008, at an average cost of almost £30,000 per head, with salary costs and additional employers' costs. On paper, those savings should have been made. You are saying that North Ayrshire Council has lost 10 per cent of its staff, but it has not seen a corresponding downturn in the expenditure on salary costs for the remaining 90 per cent of the staff.

**The Convener:** We are talking about a huge amount in incremental rises for that number of staff. It might be an idea for you to explain the system, because many members of the committee and many of the folk who are watching at home will have no idea about how the incremental system works.

**Elma Murray:** Okay. There are two methods for incremental changes in salary costs. The first would be an annual cost-of-living rise. In the past—prior to the recession—that would often have been around the level of inflation. The second would involve someone who is employed in a grading system in which there might be three or four points progressing to the top point of their grade as they get better at their job and gain more experience. The combination of reducing the number of staff that we have and the fact that we have had a pay freeze for the past three years has allowed us to keep our staffing costs absolutely stable over that period.

There may be some authorities that have seen their staffing costs go down, but the absolute evidence that I look at for my authority shows that the staffing costs for North Ayrshire are the same now as they were four years ago.

**The Convener:** Mr Lorimer, is there a similar situation in Angus and other places that you may know of?

**Ian Lorimer:** We are certainly affected by the issue of incremental progression, in relation to both local government employees and teachers, depending on where they are on the pay grade. For example, our incremental progressions for the current financial year amounted to about £1 million, which is an increase of about 0.8 per cent on our budget. That has to be dealt with.

There are other pay pressures that come in—national insurance has changed and, for some councils, employers' costs on pensions will have changed, depending on the performance of their superannuation fund over the period. A number of things will have gone into the mix. It is fair to say that although staffing numbers have been reduced in some areas, there have been new initiatives and projects that have meant that additional staff have been provided in a number of areas. On the back of the Children and Young People (Scotland) Bill, it is likely that more staff will be required to deliver the services for which it provides.

A particular concern for our members is the end of contracting out, which I think will happen in 2016. At the moment, as employers, local authorities get a rebate on their national insurance contributions because of the pension arrangements that we have. In our case, the introduction of the single state pension and the ending of that rebate will add around 2 per cent to our pay bill. We do not yet know whether that will be funded in some way, but if it is not, 2 per cent on the pay bill—having done nothing else—would be a significant issue.

With regard to staffing reductions, our budgeted staff numbers over the five-year period 2009-10 to 2013-14 have reduced by about 400, which is a reduction of roughly 8 per cent. This is probably a statement of the obvious, but the issue comes down to the fact that we need to take the money out from where we spend it. As most of our budgets are spent on staff, to balance our budgets in response to the reductions in funding, staffing has had to be part of the equation.

**John Wilson:** Those are all the questions that I have for the moment, convener.

**The Convener:** Mr Lorimer mentioned that more staff are needed for new areas of responsibility, such as those under the Children and Young People (Scotland) Bill. However, a number of those duties are fully funded. Is that not the case?

**Ian Lorimer:** Yes, most of those new burdens or policies have come with additional funding. There is an argument about whether all those have been funded to the extent that local

government might have wanted, but the funding has been subject to negotiation between the Government and COSLA.

**Cameron Buchanan (Lothian) (Con):** I have one question. You have talked about innovative service delivery and service prioritisation, but how do you maintain adequate levels of service in all areas so that the cuts do not undermine your ability to enforce statutory duties? You keep talking about cuts and innovative services, but sometimes those hurt a lot of people—we hear an awful lot about cuts to bin collections and so on. Are you conscious of that?

**Elma Murray:** I am not sure whether the committee has received evidence from the Improvement Service, but I had cause to look at some work that the Improvement Service has done on behalf of local authorities on roads maintenance, which the committee might find helpful to hear about. Clearly, the extent to which local authorities undertake roads maintenance is discretionary to some degree, so it is not purely a statutory service as it involves degrees of interpretation.

Over the past five years, we have reduced the amount that we have spent on roads, but the use of new and different products for resurfacing or repairing roads has meant that there has been a fairly standard level of maintenance. Across Scotland overall, the number of local roads that require maintenance after a five-year period is around 30 per cent, which is what it was at the beginning of the five-year period despite the significant reduction in funding for roads maintenance. There have been more innovative and joined-up contracting practices, whereby councils work together to secure a better deal when they go out to contract, but councils have also looked at the materials and methods that they use to undertake their roads maintenance.

**The Convener:** In that regard, has there been a shift from revenue maintenance to capital investment, such as for bigger resurfacing works? That is always a possibility, too. Does the evidence from the Improvement Service discount that aspect of the issue?

**Elma Murray:** The Improvement Service did not look at that distinction. As far as I can see, the service looked at all expenditure on roads, whether capital or revenue, that goes into the mix.

**The Convener:** That is interesting.

**Cameron Buchanan:** Is all that work outsourced?

**Elma Murray:** That will vary from one part of Scotland to another. In Ayrshire, we undertake a lot of joint contracting across the three local authorities and a significant amount of the work is

outsourced, but our own operatives also do some local work.

**John Wilson:** The Arbuthnott review and similar reviews involving other local authorities recommended the joint procurement of services such as roads maintenance. You are right that it has been reported that better materials are being used to fill potholes, whereas previously a squad would just come along, put some tar down and then drive off again, which would mean that the pothole would reappear within a fortnight. The issue is whether enough is being done.

I welcome Ms Murray's comment about reviewing and renegotiating the contracts, but surely local authorities should have been doing that as a matter of course. Any work that is outsourced, or even internal work, should be under constant review to ensure that the local authority gets best value for the public pound.

**Elma Murray:** We are on a journey of improvement at all times, Mr Wilson. Local authorities will have been doing what they understood to be best value and best practice a number of years ago, and we are still doing best value and best practice. In five years' time, if we look back at where we are today we might have a different view about it because we keep learning from our experiences.

**Stuart McMillan (West Scotland) (SNP):** I want to follow up on Stewart Stevenson's questions. The figures of 81 per cent and 19 per cent, and the 10 per cent for fees and charges, were used earlier. What other forms of income do local authorities have? We have not heard anything about European Union funding streams. DWP payments were touched upon, but it would be interesting to know what percentage of funding that would be. There is also additional funding from the Scottish Government for specific projects. We heard about education a short time ago, but there are also environmental and regeneration projects. Non-domestic rates were touched upon earlier, and those are forecast to increase over the next couple of years.

**The Convener:** Mr Lorimer, you could explain to committee members the formulation of the initial base budget, and then the other income streams above that.

**Ian Lorimer:** I will first deal with our revenue budget for what we call general fund services. That covers all council services apart from housing services.

We look at the costs and the income. The income will largely come from fees and charges but may be specific grants from other parts of government and, as I have mentioned, DWP money for benefits. When we work all of that through and get to a net number, that is what is

funded by Government grant in non-domestic rate income and the council tax. That pulls that together.

On other income sources, there is often one-off money for specific initiatives. For example there is the most recent allocation of money in relation to discretionary housing payments—£20 million is coming this year and is likely to come again next year. That is to help councils with the consequences of welfare reform and the impact on housing income—in other words, income from rents. If we go over each financial year, we see a number of examples of funding streams that will come to local government. Sometimes those are added to the base Government grant for future years and sometimes they are a one-off.

On the other side of the equation—

**Stuart McMillan:** Sorry to interrupt, but you said that sometimes they are added and sometimes they are not. Would it be beneficial to have a consistent approach to that?

**Ian Lorimer:** It depends on what the money was for. If the money was to deal with a one-off issue, one-off funding would be fine. If it is for something that will be an on-going cost to local government, the preference would obviously be to have that baselined.

On the capital budget, EU funding can often give a real boost to the level of capital spending that councils can achieve; not only that, but there is income from capital receipts. As councils seek to shrink their overall buildings and footprint to save on running costs, in some cases buildings can be sold to generate capital receipts, which can help to fund further investment in the capital programme. Most councils are pretty good at seeking EU funding and funding from other partners, for example the Scottish Futures Trust in relation to schools. There are a number of different funding streams that we can access to balance our budgets and make the core money that we have got go that bit further.

**Stuart McMillan:** That is helpful. Throughout the discussions, there has been no mention of the EU in relation to funding; obviously the EU can contribute a tremendous amount of money.

I have another point regarding the written submission. Paragraph 1 on page 1 includes the phrase:

“The real term reduction in resources made available to local authorities has required ingenuity and creativity in service delivery”.

Surely that should be happening anyway, as a matter of course.

11:00

**Elma Murray:** I agree and it is happening in a lot of cases. What is creative and genius today might not be seen in the same way in a few years' time. The issue is to constantly improve and challenge ourselves to look with new eyes at things that perhaps we have looked at in the past. That is what those two terms in our submission are meant to reflect.

**Ian Lorimer:** The issue of budgets being difficult to balance is not new. It is not something that happened because of the 2011 spending review; it has existed since 1996. There is always more demand and cost pressure than can be delivered upon, which has meant that in all my years in local government, budget savings have always been part of the equation. That has meant that there has been a need to look at different ways of providing services. That ingenuity and creativity has always been there. The difference now is that the financial context in which we live is far different from where we were five or 10 years ago. That increases the pressure to deliver.

It is also fair to say that there are things that now could be on the table for my politicians that would not have been there five or six years ago. That is simply because of the reality of our situation.

**Stuart McMillan:** I have a final question on the back of that. In the SOLACE submission, the answer to question 2 says:

“Imaginative approaches have been developed to streamline services and make best use of assets such as buildings and vehicles.”

This committee has undertaken a number of inquiries and community-facing events. The strong message that has come from communities is about the difficulty of getting access to and of taking over the running of buildings, et cetera. When I read that sentence in your submission, it took me back to a meeting that we had and I thought that what you said did not tie in with what we have heard from the grass roots in Scotland.

I am keen to get more information and any examples that you may have, particularly on the building side of things.

**The Convener:** Can we have brief examples, please, folks?

**Ian Lorimer:** Local examples include our use of schools, particularly new-build schools. There is significant community consultation so that they become community hubs and can be used by community groups at times when they are not required by the schools. We have also recently adopted a policy on community asset transfer, building on, I think, Aberdeenshire Council's model. The proposed community empowerment

and renewal bill will help in that regard. There are numerous examples of trying to work with communities to provide facilities that they can use.

**Elma Murray:** I will add to what Mr Lorimer said. Examples include community centres, asset transfer policies and using schools and public civic buildings more effectively, although the situation will not be the same everywhere in Scotland and will depend on the communities that you go to. Although I recognise what Stuart McMillan said, I also recognise that in another place in Scotland you might get completely different feedback about what is going on in the local area.

**Stewart Stevenson:** Given that front-line staff are the people who most clearly understand the minutiae of service delivery, what steps have been taken to ensure that they are the significant contributor of more ingenious and creative solutions?

**Elma Murray:** Obviously there will be different examples in different areas. North Ayrshire Council encourages its local staff to deal with everything at the point of service delivery. We try to allow our staff the authority and the room to take their own local decisions to best fit people.

The Scottish Public Sector Ombudsman's work with local authorities over the past year or two is also quite interesting. We have now all adopted a single common complaints-handling procedure, which means that before a complaint goes anywhere else, the first point of complaint resolution is with the local staff member. That has been a change in our focus, which supports staff's authority to do things at the coalface.

**The Convener:** Thank you very much for your evidence. I suspend the meeting for a change of witnesses.

11:05

*Meeting suspended.*

11:08

*On resuming—*

**The Convener:** We move to the second panel of witnesses. I welcome John Swinney, the Cabinet Secretary for Finance, Employment and Sustainable Growth and, from the Scottish Government, Graham Owenson, the head of revenue and capital, and Stephen Gallagher, head of the local government division. Mr Swinney, would you like to make some opening remarks?

**The Cabinet Secretary for Finance, Employment and Sustainable Growth (John Swinney):** Thank you, convener. I welcome this opportunity to discuss the local government finance settlements as part of the committee's

scrutiny of the Scottish Government's draft budget for 2014-15.

The recent local government finance settlements have been set against a backdrop of the significant financial constraint that has been imposed on Scotland by the United Kingdom Government. We have striven to agree the settlement with local government as part of our partnership with local authorities in Scotland. We have honoured our commitment to maintain local government's share of the overall capital resources within the Scottish budget and we have delivered a settlement that is designed to address the challenging financial circumstances that we face.

The recent settlements build on the strong financial outcomes agreed with local government during challenging financial times. Between 2007-08 and 2012-13, the resources within the Scottish Government's control increased by 6.4 per cent and over the same period local government's budget increased by 8.9 per cent, demonstrating the strong financial settlements agreed with local government in this context.

In return for agreeing a settlement with local government that is fair within the context of the pressures that we face, the Scottish Government has asked for a number of commitments to be delivered by local government. Those include freezing the council tax, maintaining teacher numbers in line with pupil numbers, securing places for all probationers under the teacher induction scheme, and working with its national health service partners towards full integration of the reform of health and social care.

The UK Government's welfare reform programme has added further pressures on local government's budgets, but I believe that the Scottish Government, working together with COSLA, has taken decisive action to neutralise the worst of the reforms. We have passed on the full sums of money transferred from the DWP for the council tax reduction scheme. We have worked with COSLA to jointly supplement that transfer by an extra £40 million per annum to deal with the reductions of 10 per cent applied by the UK Government. We have set up the Scottish welfare fund and we have also announced an extra £20 million in both 2013-14 and 2014-15 to help local authorities deal with the worst financial pressures caused by the bedroom tax.

Local government provides a wide range of services and plays a major role in local partnerships that are essential to the delivery of the outcomes that matter to the people of Scotland. Our partnership with local government remains a cornerstone of our approach to government in Scotland. The latest budget is focused on the delivery of our joint priorities of

growing the Scottish economy, protecting front-line services and supporting the most vulnerable people in our society. Local government is a vital part of delivering those services and the outcomes that are directly generated by the work of local government and by the work of community planning partnerships.

The local government financial settlements are not just about money. The reform and transformation of our public services are at the heart of the Scottish Government's agenda. I believe that reform would have been required without the financial constraints that we are all facing, but under the current circumstances it is an absolute necessity and remains a central part of the Government's agenda.

The recent local government settlements have provided—and will continue to provide—the best outcome that can be achieved given the financial constraints that we have to work within. We will continue to face the challenge to provide a platform to sustain the success that has been achieved to date through our partnership with local authorities and to achieve the best possible outcomes for Scotland and the people of our country.

I am happy to discuss those and other issues.

**The Convener:** Thank you, cabinet secretary. You said that the Scottish Government's cash has gone up by 6.4 per cent and that, over the same period, local government's budget has increased by 8.9 per cent; you talked about the share of the Scottish Government budget that goes to local government. Could you give us the figures on that and what they were previously?

**John Swinney:** Before we came into office, the share of public expenditure that was going to local government was on a downward trajectory. In the first financial settlement that I put in place in 2008-09, we essentially reversed that decline, and the share of Scottish Government expenditure that is going to local government in 2014-15 will be higher than the share of expenditure that we inherited when we came into office.

**The Convener:** Thank you. You talked of reform and transformation. Obviously, in the course of this inquiry—and other inquiries—we have heard about quite a lot of good practice that is going on in local authorities in that regard. We have heard about priority-based budgeting exercises in some places as well as outcome-based budgeting exercises, yet such exercises do not seem to be happening across the board and there does not seem to be a sharing of good practice across the board. How can the Scottish Government help to improve that situation?

**John Swinney:** There are two distinct parts to that question. The first is in relation to the question

whether a programme of reform is happening and whether it is happening across the board—across the country. I am increasingly confident that that is the case. For example, on Monday, I spent the day with the convention of the Highlands and Islands, which brings together health board chairs, local authority leaders and a variety of public sector leaders from relevant bodies in the area. We discussed community planning and public service reforms. It was crystal clear that, in every community planning partnership area in the Highlands and Islands, sustained programmes of reform were being undertaken. Were they identical? No, they were different. They related to local circumstances and responded to the design of services that had been developed in each community planning partnership area.

11:15

In a sense, the individual characteristics of those programmes are not of concern to me; rather, I am concerned about whether sufficient reform is happening to integrate local services in line with the Christie commission's recommendations. I am confident that a programme of such activity is happening in all localities of Scotland. A significant distance is still to be travelled—the process is not complete, and it will be on-going for a considerable time—but I am confident that that is happening in the shape that we require.

The second perspective I deploy is on whether there is sufficient sharing of good practice from one part of the country to the other. We are not in as strong a position as we could be in that regard. An element of our response to the Christie commission that relates to this issue is the focus on improving performance in public services. That focus has been undermined by a resistance to the debate because of the use of techniques such as league tables, which are quite corrosive to debate between different public sector organisations. I am therefore trying to encourage a climate of continuous improvement in how we deliver public services. The Improvement Service has a significant role to play in how that experience is shared from one area to another. We are taking steps to encourage greater awareness of the reform measures that have been taken in one part of the country and how that can be shared, and the Government's wider agenda helps to support that role.

One of the very good examples that I have seen recently of how we share good practice is the early years collaborative, which has been taken forward largely under the direction of Aileen Campbell, the Minister for Children and Young People. That initiative has successfully brought together all interested players in various public sector



organisations to focus on how we improve the delivery of services to meet the needs of our youngest citizens.

In May, I attended the early years collaborative learning event at the Scottish exhibition and conference centre in Glasgow. Apart from the fact that that was a vibrant experience, there were 32 storyboards from each of the community planning partnerships setting out the practical reform measures that each locality was undertaking. I found that to be perhaps one of the most scientific exercises on proving to myself that a reform process is under way. The people at the early years collaborative were not just workers from local authority child support but staff from the health service, the third sector and the police. The proposals and projects represented the combined efforts of those individual organisations. Initiatives such as the early years collaborative help to raise the profile of the agenda and the intensity of the need for reform.

**The Convener:** Elma Murray, who was in our earlier panel, gave a similar answer about the early years collaborative. She also talked about the fact that, in the course of her work as chair of a quality assurance panel, she found four areas that she took and replicated in the North Ayrshire community planning partnership. I asked her how she would have found out about that had she not been the chair of that quality assurance panel and she said—I paraphrase her response—that it would have taken longer or, in some cases, she might not have found out at all.

We want those messages to be spread, as I am sure you do. Can some kind of conduit be put in place to make that much easier? You mentioned the Improvement Service, but are there other ways and means by which we can get all the good practice exported across the 32 local authorities?

**John Swinney:** It is not only about it being exported across all 32 local authorities; crucially, it is about it being spread across all 32 community planning partnerships, because ensuring integrated and cohesive solutions to public service challenges involving the participation of a range of different bodies is fundamental to the process.

The Improvement Service is one channel. The early years collaborative is another. At its next meeting, the convention of the Highlands and Islands will consider the comparative experience of individual community planning partnerships in advancing the agenda.

The exercise in which Elma Murray was involved was a precursor to the work that the Accounts Commission will do at my request to assess and highlight areas of good practice. Its responsibility will be wider than that: it will be to challenge bodies as to whether the Government's

agenda is being fulfilled at community planning partnership level and to identify practice that can be shared and replicated throughout the country.

One of the interesting products of the early years collaborative was a heavy emphasis on social media interaction. There are social media techniques that can enable the much wider sharing of experience. We will use all the techniques that we have to support that.

**Stewart Stevenson:** It is encouraging to hear that the cabinet secretary thinks that reform is happening. Our experience is not at odds with that. However, the one thing that has remained unchanged among all the change in the financial, legislative and structural environment is the distribution formula, which is, in essence, COSLA's responsibility. Has the cabinet secretary received any representations from individual councils or COSLA collectively on that topic? Is it time that it be revisited in the light of all the changes that are happening?

**John Swinney:** The distribution formula is not the exclusive property of COSLA. It is agreed between ministers and local government and we are advised on it by a group. I ask Graham Owenson to give me its Sunday name.

**Graham Owenson (Scottish Government):** It is the settlement and distribution group.

**John Swinney:** I was just going to get "distribution group", but I knew that there was more to it than that.

The settlement and distribution group advises ministers and local government about relevant issues as part of the process of updating indicators. It is a joint distribution arrangement.

The representation that I have had from COSLA is a letter from the convention's president to indicate to me that COSLA leaders have proposed—by a narrow margin, I must say—that, in 2015-16, the distribution formula should not be applied and that the settlement that is delivered in 2014-15 should be rolled forward for another financial year. There would be no updating of the indicators to take into account the principal driver of the distribution formula, which is population change.

I have not responded to that proposal from COSLA and am considering the issues that it raises. Undoubtedly, the consideration that I have to give to it will make it difficult for me to set out the indicative allocations to local authorities for 2015-16 when I would ordinarily do that as part of the local government circular announcement in early December.

**Stewart Stevenson:** That is helpful, but given that there is significant uplift in Scotland's population, which is localised in particular areas,

will that cause difficulties for councils that are affected by population uplift, albeit that that is associated with socioeconomic activity moving ahead as well and that there is a kind of tension?

**John Swinney:** There will undoubtedly be issues for local authorities that have population uplift if the settlement for 2014-15 is simply to be replicated in 2015-16. I agree that there will be implications for local authorities as a consequence.

**Richard Baker:** You rightly indicated the financial constraints that the Scottish Government is under, but figures from the Scottish Parliament information centre show that your resource budget has been cut by 1.3 per cent but that the draft budget outlines a resource budget cut for local government of 4.8 per cent, so it is clearly taking a big share of the cuts. Does that not make it inevitable that most of the cuts in the budget will fall at a local authority level?

**John Swinney:** I simply turn to the point that I have made to the committee before in response to that question, which is that the Government has provided local authorities with a financial settlement that has grown at a faster rate than the Scottish Government's budget has grown since 2007-08. That is indicative of the Government's commitment to ensure that local authority services are fully funded.

We have also put in place a range of different mechanisms to assist local authorities in undertaking the transformation that is required to be undertaken as part of the public service reform agenda, particularly around initiatives such as the change fund, which is designed to assist in the adaptation of services to meet wider needs in relation to the focus on preventative expenditure and to ensure that the demand for local authority and other public services is managed as effectively as possible by changing the way in which we deploy those public services.

Our approach is therefore designed to ensure that our support for local government is structured in a fashion that makes services as sustainable as possible in the context of the financial constraints within which we operate.

**Richard Baker:** Of course we all agree that the reform agenda is tremendously important, but we have evidence from Unison that states that the budget settlement is resulting in reductions in services, loss of staff and increases in charges, which are undermining the very worthy goals of the Christie commission that you outlined in terms of preventative spend. What dialogue have you had with local government colleagues to understand what impact the budget settlement will have in terms of increased charges and reductions in services?

**John Swinney:** I do not speak for COSLA, but its reaction to the announcement of the budget in September was that the budget represented no surprise to it, that everyone knows the state of the public finances and that we are living in times of austerity. COSLA has said previously that our settlement has represented a fair approach in the context of the financial challenges that we face.

Local government is immersed in the discussion with me about how we meet the challenges. I see local government frequently to discuss budget issues. The formulation of the budget proposition for 2014-15 did not happen without any dialogue with COSLA. I met COSLA's presidential team several times over the summer; in fact, I probably met that team more often than I met anyone else other than the Cabinet to discuss the budget during the summer. That is perhaps evidenced in the reaction that local government has given.

Although the decisions are all mine—I do not try to suggest that they are anything other than mine—I consulted fully and discussed them with local government. COSLA is immersed in the national community planning group, which Pat Watters chairs and which is designed to drive the agenda of public service reform and to bring partners closer together.

We also have separate channels of discussion with local government. For example, the Deputy First Minister and I recently met local government representatives to discuss the very real issues that it is facing with regard to the implications of welfare reform. We have many channels of discussion with local government to ensure that we are properly and fully sighted on all the issues that it is wrestling with.

11:30

**Richard Baker:** You will be aware from those discussions that one of the ways in which councils are having to deal with the budget settlement is by cutting services and increasing charges. Councils have indicated that they might be able to deal with the situation if they could retain more of their business rates income and indeed you have outlined the potential for a business rates incentivisation scheme. However, that scheme has been delayed. Are you likely to be able to announce that scheme any time soon so that councils can keep more of their business rates income?

**John Swinney:** I would be delighted to announce that scheme tomorrow, if I could, but I have to agree targets with local government that are credible and representative of the current business rates position and local authority leaders have indicated that they do not wish to do that until the final audited position on business rates for

2012-13 is clear, which will not be until February 2014.

The need to revise the targets for the business rates incentivisation scheme has come about because of the delay in the application of various implications of appeals as a result of significant court cases that have been won by the Government—or, I should say, the assessors. As a result, there has been a material change in the business rates that have emerged in a given part of the economic cycle, but those rates will be reduced later in the cycle once the implications of the appeals are applied. There is therefore a potential for a windfall benefit that has got nothing to do with the factors surrounding the business rates incentivisation scheme, which is supposed to be about steps that local authorities can take to improve economic performance. As any analysis of the data will show, that is not what has happened in this case; the process has been delayed simply because of the implications of appeals.

I am keen to reach agreement on the targets, but I cannot agree a set of targets if there is no willingness to do so at this stage. Once we get to February 2014, we will turn our minds to agreeing the targets with local government.

**John Wilson:** Good morning, cabinet secretary. We constantly see in the press leaders of local authorities throughout Scotland saying how much better it would be if they were unshackled from the constraints of the council tax freeze. Have you received many representations from either COSLA or individual council leaders about the freeze and about allowing local authorities to set their own council tax rates?

**John Swinney:** The issue is occasionally raised with me, but I would not say that it is raised with me with the determination that it has to be changed. To be fair, I think that local government respects the fact that I have made it absolutely crystal clear to it that the Government's priority is to maintain the council tax freeze for the duration of this parliamentary session. I suspect that there might be an element of local government leaders deciding to raise with me issues on which they might make progress, in the knowledge that they will not make much progress with me on abandoning the council tax freeze.

**John Wilson:** Thank you for that response. The issue certainly seems to rear its head with certain council leaders. I assume that the COSLA leadership is still happy with the agreed formula for the council tax freeze and the subsequent distribution of resources.

About a month ago, when some members visited Ferguslie Park, the leader of Renfrewshire Council expressed concern about the distribution

of resources to areas of deprivation. Have representations been made by COSLA or individual council leaders regarding the distribution formula in relation to identified areas of deprivation? As the cabinet secretary will be aware, Ferguslie Park has been a priority area for almost 40 years. One solution that the leader of Renfrewshire Council suggested is that all we need is more resources. What discussions take place with COSLA about ensuring that adequate resources are put into identified areas of deprivation?

**John Swinney:** The distribution formula is predominantly driven by population change, but deprivation factors are part of it, so those factors are considered and applied as part of the distribution arrangements. Of course, a process of review could look at the deprivation indicators and provide more or less priority to deprivation. However, we have an agreed approach to the application of the distribution formula and, as I said in answer to Mr Stevenson, it has been used to undertake the task for some time.

Until now, COSLA's formal position has been that it has had no desire to reopen discussions on the distribution formula, with the exception of the decision that has been made in connection with the rolling forward of the settlement from 2014-15 into 2015-16. No specific proposition has been put to me in relation to deprivation funding.

**John Wilson:** I am sure that there will be ongoing discussions in COSLA on that. No doubt we will hear in future about your decision on the letter that you received from the COSLA leadership. Thank you for your responses, cabinet secretary.

**Stuart McMillan:** My question follows on from John Wilson's questioning. Stewart Stevenson asked about areas where there has been an uplift in population, but is there an argument that the distribution formula should be looked at again so that local authorities whose areas have had a decrease in population can turn that round and get more people into the area?

**John Swinney:** There are two ways of tackling that issue in the current arrangements. The first is by the application of the floor in the local authority settlement. We apply the distribution formula but if, because of population decline, a local authority would receive a decisively worse settlement, it is protected from that by the application of the floor in the settlement. Local authorities are guaranteed a certain level of expenditure as a consequence of the arrangements. Because of the existence of the floor, the true, full and proper implications of population decline are not felt by authorities that are experiencing those circumstances.

The second issue relates to other channels of Government expenditure, which are frequently

held by my colleagues in the housing and communities areas. With some of the regeneration activity, we actively support the response in some areas to the challenges that are thrown up by population change and specifically population decline.

Those two factors will have an effect on the availability of resources in any individual locality to deal with that.

**Stuart McMillan:** I have a final question on that issue. Bearing in mind what you have just said, how much is the huge industrial decline in areas over the years factored into the distribution formula and the floor that you mentioned? It is not just about population; it is also about industrial decline.

**John Swinney:** A variety of indicators—around 100—are applied and updated as part of the distribution formula arrangements. As I have said, some of them relate to deprivation that is a consequence of industrial decline. All those factors are worked through in the distribution formula. Of course, we make other interventions through the enterprise networks to try to improve economic prospects and opportunities in particular localities, so it is not simply what is channelled through local government expenditure that makes a difference; it is also the wider scope of particular elements of expenditure that are applied in that way.

**Cameron Buchanan:** Some of the submissions that we received mention the flexibility that local authorities are given to address local priorities. Are you confident that the Scottish Government is giving local authorities the freedom that they require to deal with local priorities?

**John Swinney:** I think that that is the case. If my memory serves me right, there was £2.7 billion of ring-fenced resources when we came into office, which the Government essentially stipulated had to be spent in particular ways. Some elements of that were with the agreement of local government. For example, local authorities were content for police funding to be a ring-fenced grant within that £2.7 billion, and that amounted to the best part of £1 billion.

When we came into office, we substantially reduced the level of ring fencing of funds to local government essentially to enable local authorities to be more flexible in exercising their responsibilities. With the creation of the single police and fire services, we have reduced the amount of ring fencing of local authority budgets from £2.7 billion to £0.2 billion. That represents an enormous reduction in ring fencing and a significant increase in the flexibility that is at local authorities' disposal.

**Cameron Buchanan:** Are you confident that the single police authority has reduced costs to a minimum or saved money?

**John Swinney:** It is in a process of transition, but in the financial memorandum that related to the establishment of the single police and fire services, the Government made certain commitments on reducing costs as a consequence of the integration of the services. I assure the committee that the assumptions that were made in the financial memorandum will drive the allocation of resources to the police service in the years to come. Therefore, the savings that were envisaged at the time of the legislation will have to be made.

**Anne McTaggart:** Good morning, cabinet secretary. I asked the previous panel about the services that local government provides and the non-statutory duties that it currently undertakes. How do you see that changing? Some authorities are going back to just dealing with their statutory duties.

11:45

**John Swinney:** We have to be very thorough in how we go about managing the financial challenges that we face, and I know that local authorities undertake that exercise comprehensively. I see that happening in my locality, and it happens around the country. We have to be open about how we deliver services. Just because we have delivered a statutory service—if I may use that terminology—in one fashion up until now, that does not mean that it must always be delivered in the same fashion in the years to come. That is what the public service reform agenda is all about.

One of my main reflections about my term in office is that no service that is deployed to a member of the public is ever neatly delivered in one little compartment. There are always various players from different parts of the public service involved in delivering the service. Increasingly, we have to recognise that in the way in which we design services as we take forward an agenda to which I am very committed. Making those services more person centred is at the heart of the Government's agenda. That means that we must join up the organisations that are delivering services, rather than expecting members of the public to join up those services. That is the approach that I think is necessary to deal with the challenge that Anne McTaggart raises.

That was reinforced through what I announced in the budget in September regarding the agreement on joint working, which is about ensuring that all community planning partnerships discuss and consider their spending priorities before they set a budget in a collective fashion.

That is crucial if we are to ensure that public services can be sustained at a local level. Agreements between the health service and local government, or between the health service, local government and the police, about how particular services are developed allow for a much greater likelihood that we will realise the full effect and potential of the services that are deployed.

**Anne McTaggart:** This is just a small observation. As a former front-line local authority worker, I know that it is difficult for people to change and for services to amalgamate and so on. My question for directors was always: if we were going to do one thing, what would we not do any more? We have not yet got to the stage of being up front about that. We are pretty nervous about saying, "No, we can't do that any more." I am not sure how we resolve that.

**John Swinney:** I have a different philosophical view on that. The Government is not going into the process of public service reform with the objective of telling people that we intend to do less. It is a matter of saying to people, "We want to deliver the public services that you rely on. We may have to deliver them differently, with different providers, but we want to deliver them for you." At the same time, we have to improve outcomes. A lot of that goes back to how we involve the third sector.

Anne McTaggart makes a fair point. It is often difficult for public bodies to say that they will no longer deliver a service in the same fashion and that they will get a third sector organisation to provide it in a slightly different way. Members of the public might notice no difference, or they might even see the service being enhanced as a consequence of what happens. We have to be open to that debate. I accept that that willingness to do things differently and to explore how a different organisation could take particular steps is not as prevalent as I would like it to be. We have not reached that point yet. However, I am keen to ensure that we do so.

**Anne McTaggart:** Thank you.

**The Convener:** While taking evidence on the budget, we have heard a lot about the impact of welfare reform on local government, and we have also heard about the mitigation from the Scottish Government. Today, we heard about another impact from the UK Government involving pension changes. Ian Lorimer of Angus Council said earlier this morning that the changes that will be brought in in 2016 will add 2 per cent to its pay bill. Are there any other UK Government policies in the wings that could have a major impact on local government here in Scotland?

**John Swinney:** We are as yet unclear about the specific and significant impact—it will be significant—that there will be when universal credit

comes in. That is the next major landmark on that agenda.

In partnership with local authority colleagues, the Scottish Government has sustained the council tax benefit arrangements that were in place prior to its abolition by the United Kingdom Government. The council tax benefit resources were devolved with a 10 per cent cut attached to them. There was no particular justification for that. It was a cash saving by the UK Government. We, together with local government, have managed to mitigate that, and the committee will be familiar with the other steps that we have taken in relation to the bedroom tax. I suspect that the implications of universal credit will apply further pressures on local authority expenditure.

**The Convener:** Thank you very much for your evidence today.

11:51

*Meeting continued in private until 12:20.*



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