



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

LOCAL GOVERNMENT AND REGENERATION COMMITTEE

Wednesday 26 November 2014

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LOCAL GOVERNMENT AND REGENERATION COMMITTEE

31st Meeting 2014, Session 4

CONVENER

*Kevin Stewart (Aberdeen Central) (SNP)

DEPUTY CONVENER

*John Wilson (Central Scotland) (Ind)

COMMITTEE MEMBERS

*Cameron Buchanan (Lothian) (Con)

*Mark McDonald (Aberdeen Donside) (SNP)

*Stuart McMillan (West Scotland) (SNP)

*Anne McTaggart (Glasgow) (Lab)

*Alex Rowley (Cowdenbeath) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Vicki Bibby (Convention of Scottish Local Authorities)

Roddy Burns (Moray Council)

Hugh Dunn (City of Edinburgh Council)

Lindsay Freeland (South Lanarkshire Council)

Councillor Kevin Keenan (Convention of Scottish Local Authorities)

John Swinney (Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy)

CLERK TO THE COMMITTEE

David Cullum

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Local Government and Regeneration Committee

Wednesday 26 November 2014

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Kevin Stewart): Good morning and welcome to the 31st meeting in 2014 of the Local Government and Regeneration Committee. I ask everyone to switch off mobile phones and other electronic equipment because they affect the broadcasting system. Some committee members will use tablets during the meeting because we provide papers in digital format.

Agenda item 1 is a decision on whether to take item 3 in private. Do members agree to take that item in private?

Members *indicated agreement.*

Draft Budget Scrutiny 2015-16

09:30

The Convener: Agenda item 2 is oral evidence on the Scottish Government's 2015-16 draft budget. We will take evidence from two panels this morning. We have received apologies from Sue Bruce, who is the chief executive of the City of Edinburgh Council; she cannot attend. I am sure that members will want to join me in sending Sue Bruce our best wishes.

Our first panel consists of Councillor Kevin Keenan, who is the finance spokesperson with the Convention of Scottish Local Authorities; Vicki Bibby, who is the team leader for finance with COSLA; Hugh Dunn, who is the head of finance with the City of Edinburgh Council; Roddy Burns, who is the chief executive of Moray Council; and Lindsay Freeland, who is the chief executive of South Lanarkshire Council. Welcome to you all, and good morning. Would any of you like to make a brief opening statement?

Councillor Kevin Keenan (Convention of Scottish Local Authorities): We are prepared just to go for it.

The Convener: That is what we want to hear.

Hugh Dunn (City of Edinburgh Council): I would just like to convey Sue Bruce's apologies to the committee. She welcomed the invitation to give evidence and was very much looking forward to it, but she had an accident last night and has been detained in hospital overnight.

The Convener: We wish her a speedy recovery. I hope that you will pass that on to her, Mr Dunn. We certainly understand the circumstances.

I will ask the opening question. To what extent are the current funding formula and method of distribution to local authorities fit for purpose?

Councillor Keenan: It is hard to put in a few words whether they are fit for purpose. As a councillor, it is difficult to go into the issues about distribution, but I would say that the settlement is tight and that individual councils will find it more and more difficult to meet the aspirations of the public in their areas. That is the reason why the distribution has caused some issues at COSLA. If anything, problems are magnified as money gets tight. Obviously, people will always like the maximum amount of money, but because there is a lack of money at the moment, they do not appear to be getting that.

The Convener: Last year, a number of councils threatened to leave COSLA over the settlement

and distribution. Have those matters been resolved?

Councillor Keenan: A number of councils have given notice to leave COSLA. Obviously, COSLA is doing what it can to bring those members back on board. It is a members' organisation and we would obviously like to best represent all local authorities. However, it is up to each individual council to decide how it would be best placed. The councils probably differ in their feelings about COSLA and the distribution issues.

Hugh Dunn: From the local authority point of view, the distribution method is well understood and works fairly effectively. Sometimes, more robust information and more recent data would be helpful in the distribution method, but generally the method is well understood. It is a needs assessment that is based on certain indicators. From an Edinburgh point of view, and as Councillor Keenan said, the main issue just now is the quantum of funding rather than its distribution.

The Convener: The City of Edinburgh Council does not do particularly well out of the current funding formula, but it now has the advantage of the 85 per cent floor. Has that been beneficial?

Hugh Dunn: The 85 per cent floor has been beneficial. From memory, when it first came in it gave us about £21 million or £22 million. With the recent settlement for next year, that has been reduced to about £10 million or £11 million. However, it is extra funding that brings us up to the 85 per cent rule, so it is helpful. The council gets less money than other authorities because of the distribution method and the client base, but that is understood.

The Convener: Can Roddy Burns give Moray Council's point of view?

Roddy Burns (Moray Council): Our view is that, given what the distribution formula has to do in distributing funds to meet both urban and rural needs, and to address all the other factors that have to be taken into account, it is, on balance, fit for purpose. However, it is a question of the quantum, as has been mentioned by my colleague.

Lindsay Freeland (South Lanarkshire Council): I echo that the issue is the quantum of cash. It is necessary to find a way to distribute it across 32 local authorities. The problem with moving from a flat-cash-based system to a needs-based system is that a number of local authorities lost out in the first year. In addition, the comparative data that are being used for part of the calculation come from 2001, although I know that work is under way to change that.

In addition, there is continuous growth in demand in the system. Even if the population in

South Lanarkshire goes up, it might not go up relative to the populations in other local authority areas, so although we would have a higher population, the amount of cash that we would receive through the distribution method might go down because our population had not gone up by as much as the populations of other authorities. We are dealing with more but getting less because of our comparative data.

The Convener: I see that Mark McDonald has a question. Is it on the funding formula?

Mark McDonald (Aberdeen Donside) (SNP): Yes.

The Convener: Okay. You can come in shortly.

Mention has been made of pressures, including demographic pressures, which might be helped by the integration of health and social care. We have also had the welfare reform process. How are those issues affecting local authorities' budgeting? Perhaps the COSLA witnesses would like to go first.

Councillor Keenan: Dundee City Council—I can speak only for Dundee—has tried to do whatever it can to mitigate the worst effects of the changes that are being implemented. It has been difficult to get people to sign up for discretionary housing payments—some people have still not come forward—and officers have spent a lot of time trying to ensure that people do whatever they can to help themselves. That is just one area in which we have done what we can to mitigate the worst effects of welfare reform.

People who are in poverty present in different ways. As other councils do, Dundee City Council provides some money to prop up food banks and the like. Addressing deprivation is a real issue.

The Convener: Ms Bibby, do you have any information to offer from COSLA members as a whole?

Vicki Bibby (Convention of Scottish Local Authorities): The pressures on health and social care budgets are significant—councils will probably speak for themselves on that.

You rightly mentioned the health and social care agenda. It is key that we look at health in the widest sense and that we do not focus only on the national health service. The pressures on health, particularly on the social care side of things, will put significant pressure on local government and the partnerships.

The Convener: What about welfare reform?

Vicki Bibby: Welfare reform is a significant pressure for local government.

Lindsay Freeland: A lot has been done to try to mitigate the effects of welfare reform. We have

had money from the Department for Work and Pensions and from the Scottish Government to help us to do that. A lot of cash has been put into advice rather than being given directly to claimants.

In addition, when the universal credit comes in—I am aware that it is being implemented in nine pilot authorities next year—that will have an impact on councils' budgets through non-payment, because the UC will go directly to claimants. That has not been factored into the system yet, and it might increase bad debt. That is, if you like, an unknown unknown. In general, local authorities across Scotland have worked very well to mitigate the impact of welfare reform, but the cost of doing that has been high.

Vicki Bibby's point on health and social care integration is sound. The pressure on the system in terms of health budgets will continue. We talk about local authorities funding community health through social work, and the bed-blocking issue. Getting people out of beds is not all about care homes and care at home; it relates to other issues in the health service that need to be resolved.

The local authority social work budget is finite, but demand is constant. If, every time somebody needs to come out of hospital, something else comes off at the other end, that is fine—there is a balancing act. If we set a five-day target to unblock a bed, in some cases that is a continuing cost to the local authority. Over the past two years we have propped up the budget by millions of pounds, but in some cases we are still not meeting the bed-blocking target. That situation will continue until more money is released from the system.

The principle of trying to free up efficiencies through integrated working is sound, but it will take a bit of time to bed that in before we start to release efficiencies in the system.

The Convener: You talked about demand increasing. Have your services moved to more needs-led budgeting, rather than demand-led budgeting?

Lindsay Freeland: Yes. There is universal service provision, but elements of it are needs based. In home care, we are trying to introduce a grading, or assessment, system. We try to provide home care on demand, but the criteria or threshold for that might have to change as we go forward, because of budget constraints.

Roddy Burns: I echo what Mr Freeland said. I say, speaking from the perspective of a smaller authority, that there is real intensity about the work to mitigate welfare reform issues. It is about working closely with colleagues in housing and other services to get to people at a very early stage and ensure that they understand what welfare reform might mean for them. That has

required intense work—it is not just about the amount of the workload.

There are other, in some senses indirect, pressures on elements that are vital to delivering health and social care services; for example, I do not think that Moray is unique in having problems with recruitment and retention of carers. It can take only the supermarkets starting their pre-Christmas recruitment drive for people suddenly to move across to that sector and out of the care sector. Moray has a low-wage economy; one of its features is that people move for what seem to be relatively small sums of money, but which are significant to the individuals involved. Even when we have the money to provide services and interventions, we often do not have sufficient numbers of people to deliver them.

I echo what Mr Freeland said about having to grade some levels of care, albeit that it is a universal service.

Hugh Dunn: In Edinburgh there are two main demographic pressures on what is a flat settlement. One is increases in the number of primary school pupils, and the other is the number of people who need health and social care. We are trying to increase the amount of care at home by 1 per cent per month, so over the year we are trying to increase the hours of service in care at home packages by 12 per cent, which is 5,000 hours a week. That is the demand that we are facing. We have tried to recognise that in our budget by providing an extra £9 million, based on the need that we see. That forms part of the reductions that we need in the overall budget of £22 million next year to try to fund the growing demand that we know is out there.

We have increased the rate of pay to outside providers of care from £14.10 to £15.50 per hour to get the supply, because there is a tight labour market in Edinburgh. We need to get care in the community and take people out of hospital beds, because hospital is more expensive. We have tried to recognise that in our budget by putting that extra £9 million per annum incrementally into the budget for the next three years. However, that creates pressures elsewhere: where will we find that money in a flat settlement?

The Convener: Do you think that changes to community planning partnerships as laid out in the Community Empowerment (Scotland) Bill will help to share resources and lead to better integration in health and social care?

Hugh Dunn: It is early days on that. There are possibilities, and it is probably an area that we need to look at as the bill comes through. The bill gives us some possible solutions to look at. Community capacity is a big issue. How do we increase community capacity to help us with the

pressures on services that we know are coming? It is a tool in the toolbox, which we will look at.

09:45

Roddy Burns: I, too, think that it is early days. Certainly in Moray, it is a question of beginning to understand what the available resources and assets are across the wider partnership, and then trying to understand whether they are meeting the priorities. Could we be doing something else? Also, and probably more important, what should we be doing less of in terms of the available budgets?

I know that some reports commented on community capacity, but the third sector will be going through its own transition in terms of the third sector interface. There will be a lot of amalgamation and transformation of services. It is also early days there, in some cases.

The Convener: I realise that it is early days in some regards—the bill has not been passed yet—but have there been any discussions with other partners in Moray about the pooling of budgets?

Roddy Burns: That is the next phase for us. We have had a series of meetings in the past six weeks or so to finalise the 10-year plan—the 10-year outcome agreement. The next logical consequence of that is to start sharing resources in order to deliver the plan.

The partnership has given every priority, and the targets behind every priority, a confidence rating on a scale from 1 to 4. Clearly, getting some priorities further up the scale will require shifting of resources in the partnership, so the next phase will be about looking at what is on the table in the partnership and at what can be shifted and reprioritised.

The Convener: I may be being a little naive, but I would have thought that if you are setting priorities for the next 10 years you would be dealing with the budgetary aspects in tandem with that. Your 10-year plan will have things dropping off it very quickly if there is no money to deal with the priorities in it.

Roddy Burns: It is reassuring that the confidence-rating exercise has already picked up such issues. Clearly—I think that this is what you are alluding to—there is no point in having a plan that is a plan to fail. It has to be a plan to deliver the national and local priorities; that is exactly what the confidence ratings set out to do.

Lindsay Freeland: Everybody agrees with the principles of prioritisation and joint working in community planning. The difficulty comes when we start trying to articulate the actions that are required to meet those priorities and we come up against competing interests from the organisations

that are involved. There are also financial barriers and financial difficulties that some organisations have in relation to meeting existing priorities.

In South Lanarkshire, we are starting to try to articulate those actions in budgetary terms to make sure that we can join up the budgets. Also, as Roddy Burns mentioned, there are things that have been going on for years that are proving to be not as effective as they should be, therefore—this is the difficult bit—there is an element of trying to dismantle them and move towards a new world. There is a lot of commitment to doing that within the local authority world and in the public sector; it is just not happening as fast as people would like.

Councillor Keenan: Again, I can talk only about Dundee and not about every other area that COSLA represents. Dundee has a fairly strong partnership and I believe that it will do whatever it can to try to share budgets and work effectively together.

Dundee City Council recently received the director of social work's report, which spells out in great detail where she sees cross-pressure in the next few years. That report is done on a pro forma from the Government. The 25-year projection that is built into that report spells out some of the financial pressures that local government is under in this area; it would be useful if that was shared with the Government and with the partnership. It would be useful to know the figures that spell out the demographic pressures.

The Convener: It would be very interesting for the committee to see that. If it is possible to get that document for us, I would be immensely grateful.

Councillor Keenan: I will have the document, as it exists at the moment, sent to the committee. I believe that it goes to the Scottish Government, but I will make sure that it is forwarded to the committee as well.

The Convener: The Government does not necessarily share everything with the committee, so if you could send the document to the clerks, that would be fantastic.

Councillor Keenan: That is what happens to me when I am an opposition councillor.

Vicki Bibby: Everybody is signed up to the principle of community planning and we are at a stage where we can take it forward. At issue is not the principle, but the practicalities. COSLA is very supportive of community planning.

Mark McDonald: The issue around the quantum of funding—the amount of money that is being made available—has been raised several times. Every time that we do a budget round, irrespective of which committee I am sitting on—I have sat on a couple of different committees doing

budget rounds—I find that the organisations affected by the budget come and talk about there not being enough funding available.

There is a fixed budget in Scotland and very little wriggle room. In order for there to be investment in one area, there must be disinvestment in another area. I am sure that local authorities are more than familiar with that scenario. If local government requires more funding, is there a view on where that funding should be taken from? Does COSLA have a position on that? It is fine to say that more money is required, but without identifying where that money comes from, we do not advance any further.

Vicki Bibby: I will hand over to Councillor Keenan to answer that one.

Councillor Keenan: That is typical, but I will come out kicking.

There are real cost pressures on local government, which need to be addressed. Even if there were a great settlement and the money was doubled tomorrow, somebody would be looking for more. We are working in the real world, and in the real world there are cost pressures. We try to reshape budgets and do the best we can.

COSLA is starting to form the opinion that the council tax freeze cannot exist forever and we need to find some mechanism of local government receiving that bit of extra money. We have looked at physical empowerment and we would ask that the Government take that seriously as we develop it, so that we can develop it together. There may be a way forward for local government to be in a better place financially. We are prepared to take some of the risks relating to how those funds would be raised, but we need to have that conversation.

Lindsay Freeland: Council tax has been frozen for a number of years, so one possibility would be to allow councils to set their own rates of council tax again. There is also an issue with non-domestic rates. The business rates incentive scheme was an incentive for local authorities that was about to be implemented and then—I think it was defined as a significant event—the rules changed. In South Lanarkshire Council, there was the potential for us to gather about £8.5 million-worth of additional income, if that scheme had gone ahead.

A change in position on local taxation—council tax and non-domestic rates—would be helpful to local authorities.

Roddy Burns: If you are asking what the economy can afford, that leads us into the world of political choices, some of which relate to taxation, as has been mentioned, while others relate to

universal service provision, as distinct from universal benefits. Some of the later questions around budget reduction address some of those issues, particularly universal services, almost by default. They also raise the spectre of the taxation issues.

Hugh Dunn: The situation pushes us to consider alternative ways of delivering services. In Edinburgh, the national housing trust initiative has been very successful in providing houses in a cost-efficient way, in comparison with previous funding methods. Edinburgh is using the growth accelerator model to allow the development of the St James quarter. We are considering the business rate incentive scheme, so that there is some reward in growth in the economy, coming back to local authorities.

We can do things slightly differently from what we have done in the past. We accept that the quantum funding situation is difficult. We need to work better together, either among ourselves or with partners such as the health board, so as to work efficiently and effectively to deliver the outcome. It is the outcome that people care about, no matter who delivers it.

Mark McDonald: If the BBC is to be believed there might be an announcement later today on local taxation.

Capital expenditure has had an impact on revenue expenditure in connection with the repayment of capital borrowing. One way of dealing with that, which has been suggested in the past, is for local government pension funds to adopt a more creative approach, in particular through the delivery of social housing, which has a guaranteed lifetime return and can therefore be viewed by pension funds as a sound investment. Some local authority pension funds have taken that approach; others have been cautious, to use a polite term, or risk averse, in their approach. What view do the local authorities take around that potential approach, which would allow for capital funding without the revenue impact that would follow?

The Convener: I realise that some of your authorities will be in joint pension arrangements with other authorities and public bodies.

Hugh Dunn: The pension funds are considering that possibility. There is indeed an income stream with housing, which matches the liability stream that pensions need to pay out. There seems to be a connection there. As with all such things, it is up to the pension fund to make the best decisions for the employees who will get a pension from that. There is a fiduciary duty to those pensioners. In considering the possibility, pension funds will act in the light of the investment decisions that they

want to make. We have had discussions on the matter.

Roddy Burns: I cannot speak on behalf of the Grampian fund, but I certainly welcome a connection being made between the capital and revenue implications. There is sometimes a presumption that, because of the prudential code, borrowing is unlimited—but clearly it is limited, ultimately, to the revenue available.

There is a weakness here. The prudential code is to be welcomed—some will remember the good old, bad old days of section 94 of the Local Government (Scotland) Act 1973—and anything that can release capital into infrastructure, which may include housing, so as to create the productive, efficient economy that we all desire, must be welcomed.

Lindsay Freeland: Anything that can unlock capital is to be welcomed. I do not know whether I am qualified to comment on pension funds. Anything involving local authority house building would be considered in terms of risk. One of the risks would concern the ability to generate income through rents, because of social rents. That might not be of much interest, and it might not generate enough return.

There are other ways of doing it. We will be beneficiaries of the city deal, which was announced recently. We will get approximately £170 million of investment in South Lanarkshire, which is being achieved by unlocking the taxation system and providing us with incentives, effectively, to spend some council cash. That is mainly funded by the Scottish Government and the Westminster Government.

Councillor Keenan: I am on the pension investment fund in Dundee—the Tayside pensions fund. We have a fiduciary duty to return the best capital that we can for the fund to ensure that the pensioners and deferred pensioners are looked after.

We have had the conversation with investment fund managers, and their view would be that such measures are possible. Some level of Government incentive would be needed to make it happen. Alex Neil may well have had such a conversation; we have certainly had it at COSLA. Mr Neil would probably wish for that to happen.

The question is what the incentive would be and how quickly it would be possible to get the cash back out. It might not be desirable to invest in a property for the long term. That was the view of the pension fund managers. From a fiduciary duty point of view, it would be our wish to disinvest with tobacco, but it delivers a lot of money. We are finding it very difficult to do that.

10:00

Mark McDonald: The convener asked about the funding formula. A vote had to be taken recently at COSLA on alterations to the funding formula when a number of authorities realised that they would be beneficiaries. The difficulty has always been that any real change has been unlikely, because in essence it would be like turkeys voting for Christmas—some authorities would lose out.

When Hugh Dunn was asked whether the funding formula was fit for purpose, he was very equivocal when he said that it was “well understood”—that is not necessarily the same thing. Is the way in which COSLA allocates funding appropriate and sustainable, particularly in times when funding is tight and local authorities will point fingers at who will be winners and losers?

Councillor Keenan: It is a bit difficult for me to say because I do not have a vote in that. I am not a leader of the council and leaders of the council took the decision. As I said earlier, money is tight so there is a real issue. No matter what the distribution is, nobody thinks that they are getting enough anymore, because there are so many things that local government wants to do, which bring cost pressures.

The flat cash settlement rings out that it will be the same as you got last year. That might have had some influence on the vote being taken and then changed, because it was not the same as last year. However, you would need to talk to some of the leaders about how they made that decision.

The Convener: It is difficult for the chief executives to answer questions on the political aspects of the leadership vote. Does anyone have any comments? Mr Dunn, you were mentioned by Mark McDonald.

Hugh Dunn: My memory is that the distribution method was known about and understood; the question was just whether the indicators would be updated with the latest information. That is why the movement among local authorities came about.

Lindsay Freeland: The issue is how the data is used. If distribution models are based on need, the issue is how that need is defined. For example, through the schools programme in South Lanarkshire we invested heavily in schools at our own cost so that our schools would not show as being in need. However, we would lose out on any funding distribution for schools. Our school estate is very good and improving all the time, but that is because we made the decision to invest in it with our own resources.

Mark McDonald: Is there an inherent flaw in the funding formula? Does it reward lack of investment or lack of progress?

Lindsay Freeland: In the example of schools funding, in which we lost the opportunity to bid for additional funding because we had decided to improve our school estate, the answer is yes.

John Wilson (Central Scotland) (Ind): Good morning, panel. My question is on the distribution formula. I draw the witnesses' attention to Moray Council's submission. Under the heading

"The main issues of concern with the present distribution formula",

I found the following comment very intriguing:

"The main issue isn't with any aspect of the distribution formula, rather the time and energy that is spent by local authorities, COSLA and the government squabbling over the distribution."

How do councillors from other authorities, particularly Councillor Keenan, view Moray Council's comments on the distribution formula? In effect, Moray Council's submission says that the formula is fine, but that the time, effort and energy that are spent arguing over how funding is distributed are wasted and could be better spent.

Councillor Keenan: It is difficult for me to answer that. There are areas in Dundee in which we would like to see a bit more money coming in, because we have a demographic problem that we must resolve. It is very difficult for me, as a COSLA spokesperson, to give you a definitive answer on how much time is spent squabbling.

I am not part of the distribution—usually, it is officers who spend their time on that. Recently there was a dispute over whether we should give more weighting to rural as opposed to urban. The matter was resolved; I do not suppose that it involved a great amount of cash. However, when things are tight people start to argue their corner a wee bit more to see whether there is a benefit in it for them.

The Convener: Does Mr Burns want to elaborate on the views that were expressed in Moray Council's submission?

Roddy Burns: In a way, our view echoes the comments on the future of local government financing in paragraph 122 of the committee's "Report on Draft Budget 2014-15", which reflect the personal view of the chair of the Chartered Institute of Public Finance and Accountancy directors of finance.

I return to a point that Mr Freeland made. I do not know whether it is deliberate or not, but we almost represent two sides of the same coin—Moray Council was one of the gainers from the vote that was retaken and, when it comes to

schools, Moray Council is also at the other end of the spectrum. We have not spent as much as we ought to have done on schools, because over the past 10 years our major investment has been on flood prevention schemes. Having invested in that, we are turning to a schools programme. That is not to say that Moray Council has not been progressive in a number of areas, but simply that it had to be progressive according to different priorities. The situation probably reflects that.

Our submission reflects on a concept that various finance ministers have commented on from time to time, particularly in the community planning partnership arena, which is the idea of one payment being made. I think that I can recall one finance minister saying that the measure of success of community planning would be if a single cheque could be given to a single body for it to distribute according to the needs within the area. Those issues are being teased out in Moray Council's submission.

John Wilson: Mr Freeland said that South Lanarkshire Council is potentially being punished as a result of the investment that it made in the schools estate in the past. Can you explain the budgetary pressures that were caused by that investment in the school estate? How much of that pressure at local authority level may be due to the funding schemes that were devised for the building of new schools in South Lanarkshire? I refer to the private finance initiative/public-private partnership projects that a number of local authorities in Scotland have undertaken since—I believe—2003. Does meeting the cost of servicing the debts accrued cause additional budgetary pressure for local authorities?

Lindsay Freeland: I do not think I said that we were punished. We were disadvantaged, in that had we waited to do our schools programme, we would probably have had additional funding opportunities; we did not have those opportunities because we decided to improve our schools earlier than other local authorities.

We did our secondary schools through PFI, and I think that the cost of funding our PFI schools is about £20 million per annum. We did our primary school estate through prudential borrowing, so we did not use PFI. To fund our schools we have put in an additional £3 million of borrowing over the past two or three years, out of a total of about £39 million to £40 million of additional revenue costs per annum. We get some funding back from that from the Scottish Government, because that is the gross figure.

John Wilson: What percentage of the council's overall education budget is the £20 million that you referred to for servicing the debt for high schools?

Lindsay Freeland: The total budget for education is £750 million—I would need to get the exact figure, but I can get it for you.

John Wilson: That is great—I would appreciate that.

I will move on, convener. I am sorry for taking a scattergun approach, but I am trying to deal with some of the issues.

The Convener: That is fine.

John Wilson: I would welcome comments from other local authorities or from Councillor Keenan on budgetary pressures on local authorities that participated in PFI/PPP projects. I am aware that such costs—in South Lanarkshire's case the servicing costs are £20 million—could apply to other local authorities throughout Scotland.

The Convener: This was a major issue when I was on COSLA's resources and capacity group. Is that still the case?

Councillor Keenan: In Dundee, our chief executive, who was the director of finance when the PPP schools were going through, says that Dundee got a particularly good deal by funding through a bond, so it might have done something different from others. Like other areas, Dundee has continued to build on and improve its school estate. It opened up an endless educational facility; most of the schools offer a much more flexible space for the delivery of education. We are doing what we can. No doubt we, like every other local authority, would like to see more funds being made available to build more schools.

John Wilson: Mr Dunn referred to increasing the hourly rate to external providers of services for the City of Edinburgh Council, and mentioned figures of £14.50 to £15.50, or something like that. Why does the City of Edinburgh Council need to use external delivery agents rather than delivering services itself? Has a cost benefit analysis been done on savings to the council?

Hugh Dunn: We have an internal and external supply of staff. We have a mixed market in our residential homes and in things like home care. I can get further details for you on the testing that we have done on the right mix between the internal and external market. When we use internal staff, there are costs such as superannuation. We have done papers on that in the past and I would be happy to pass that information to the committee for consideration. The home care and residential care market in Edinburgh is a mixed market.

The Convener: We would be grateful for those documents.

John Wilson: One of the main concerns that comes from the unions, particularly Unison, is the

amount of outsourcing that local authorities are engaged in, or the amount of transferring of directly employed staff from local authorities to arm's-length companies. We get a global figure for how many employees are employed by local authorities in Scotland, and the last time that we saw the figure for staff lost, it was roughly 3,000 to 5,000. However, some of those people have been transferred to arm's-length organisations. What are the benefits of that and what cost savings have been made?

The Convener: Who wants to have a crack at that?

Lindsay Freeland: The only arm's-length company that we have is a leisure trust. We get rates relief from it, which helps to fund the service. It is purely a taxation issue.

John Wilson: A number of years ago, South Lanarkshire Council was named and shamed on its home care service delivery through an external agent. Has that issue been resolved? Did the savings that were made justify the care that was provided to housebound and elderly people?

Lindsay Freeland: They were not actually savings; they were part of the cost of providing part of a service in-house and contracting out part of a service. There was not a deliberate decision to move from an in-house service to a contracted-out service. We have always used a blend of in-house and contracted-out services. The market dictates a lot of how we employ and how flexible the private sector can be by allowing us to discharge some of our responsibilities.

It has got better. We are much more aware of the contractors who are working for us. They all have good care commission grades, which is one of the criteria that we use when assessing suitable contractors. We have moved on since that time.

We still have a proportion of in-house services, as compared with contracted services, and as the financial squeeze continues, one option for us to make savings is to change that proportion. If we changed in-house services to contracted services—that does not involve forming arm's-length companies; it is about contracting services out—we would save money. So far, however, the council has resisted doing that.

10:15

The Convener: Councillor Keenan wants to comment on arm's-length companies.

Councillor Keenan: A number of people have left the business because we have made redundancy packages available, and we have downsized based on that. We have a leisure trust as well, which is also based on rates and taxation. We have also moved some people to Tayside

Contracts because there has been a cost benefit in doing that. Tayside Contracts is a joint venture company between Dundee City Council, Perth and Kinross Council and Angus Council, and any cost benefits and profit that are made are distributed back to those councils according to the proportion of business that they put in the company's direction.

John Wilson: When we get the global figures on staff reductions in local government, we will be able to start trying to marry them up with other initiatives that are taking place, be they arm's-length organisations or, in Councillor Keenan's case, Tayside Contracts. Staff who have been transferred to such organisations are no longer accounted for in the staffing levels of the local authorities concerned.

Councillor Keenan: I am unsure about the global figures. I know that, politically, people like to quote them, but I have never looked into them, so I am not able to quote them.

The Convener: Do any of the officers have anything to say on that front?

Roddy Burns: Moray Council has one leisure trust. That was more to do with capital consents, and it was the way to construct a leisure centre at the time. However, there are also taxation benefits.

Stuart McMillan (West Scotland) (SNP): Do you agree with the comments in paragraph 4(i) of the City of Edinburgh Council's submission, which highlights the reduction in ring fencing?

The Convener: Mr Dunn, do you want to comment first, because the question is about your submission?

Hugh Dunn: The submission sets out that the level of ring fencing that used to be apparent in the local government settlement has reduced. Local government welcomes the fact that the money now comes to us and we can make decisions locally about where to spend it, rather than it being directed to particular areas. We welcome that initiative of the past few years.

Roddy Burns: Moray Council's position is the same. Reduced ring fencing allows greater flexibility, especially if we have to integrate services and find different ways of working, as many authorities have had to do.

Lindsay Freeland: Absolutely. Local authorities welcome the flexibility and would seek more. One of the major issues for us at present is the lack of flexibility around teacher numbers.

Councillor Keenan: I think that that is also the way that COSLA sees it. The removal of global ring fencing allowed an element of flexibility. Many of the things that were included were things that

people wished to deliver anyway. However, the other aspect is that being told, "Here is your finance, here are your constraints and here are the numbers that you need to produce" causes difficulty as well. We would probably like to move to more outcomes.

Stuart McMillan: Thank you for that. Paragraph 15 of the City of Edinburgh Council's submission highlights the overestimation of population growth based on the census figures, as a consequence of which there will be a reduction in funding to the council. Is that right? You will probably say that you would rather keep the money than give it back, but in terms of the funding mechanism, is that fair?

Hugh Dunn: I go back to the fact that Edinburgh now gets a minimum of 85 per cent of the average per capita funding in Scotland. We have gained from that.

However, the census information showed that the rate of growth in Edinburgh's population was not as fast as we expected, although it is increasing. We received less funding because of that, which is within the rules. That is why we lost money when the flat cap was revisited, but we understand the reasons for that.

Stuart McMillan: I imagine that other local authorities might have experienced the converse situation because their population figures might have been underestimated, which would mean that they could have lost out on money.

Hugh Dunn: Yes—there would be winners and losers. However, the 85 per cent rule has hit us more because it comes in at the very end of the settlement calculation and there are no balances, and there is ceiling on how much you lose. Basically, the 85 per cent rule benefits Aberdeen or Edinburgh, so the way that it worked at the end of the settlement was quite sharp. We probably lost more in percentage terms than anybody else.

Stuart McMillan: Okay. Thank you. I did not see anything of that nature in the submissions from the other panellists.

The Convener: Maybe the question that should be asked is this: should funding follow people? It is a simple one, I would say. I see everyone nodding their head to answer yes to the question.

Stuart McMillan: My final question is on the suggestion in the Moray Council submission that the wait of six months for non-domestic rates recovery could be improved on. Can you elaborate on that?

Roddy Burns: That is about consistency between two ways of collecting tax. The general presumption is that the longer it takes to collect a tax, the less easy it is to collect. If there were an earlier point of intervention for non-domestic rates

recovery, that would, we hope, be as successful as it is for other forms of local taxation.

Stuart McMillan: Mr Dunn was nodding his head in approval at that.

Hugh Dunn: My understanding is that companies can pay the whole instalment for non-domestic rates at the halfway point of the year. I think that what Moray Council is alluding to is that there might be no tax collection in the first five months but by the halfway point of the year circumstances might have changed, which would make it more difficult to get rates into the organisation.

Stuart McMillan: Okay. Mr Freeland, do you have any comments to add?

Lindsay Freeland: I share that view; circumstances can change over a six-month period, which could be post any decision. If we were allowed to be proactive during the first five or six months, we might collect more cash.

Stuart McMillan: Have any of the local authorities made representations to the Scottish Government on that point? The panellists are indicating that they have not. Okay. Do you have a comment, Mr Keenan?

Councillor Keenan: I do not have anything to add to that. It is these guys' day job; it is not mine. *[Laughter.]*

Alex Rowley (Cowdenbeath) (Lab): I go back to John Wilson's question on health and social care and the balance or mix between in-house provision and provision by the third and private sectors. If COSLA has that information for all 32 local authorities, it would be useful if it could be passed to the committee. I know that there is a mixed bag out there on that issue and a number of others.

I want to pick up on the fact that a condition of funding is that council leaders must sign up to the pupil to teacher ratio. What is COSLA's position on the pupil to teacher ratio? Where do local authorities hope they will be with that in the current financial settlement?

Councillor Keenan: We are looking to negotiate with the Government on that to see whether we can bring about a change whereby funding is based more on outcomes than on teacher numbers. We have an on-going conversation with the Government on that. I suppose that it is the Government's position that having accepted the settlement, we have agreed to the pupil to teacher ratio. However, there is a clear wish to move to a different model that would allow more flexibility.

Regarding the information that Mr Rowley asked for, we will attempt to give the committee whatever COSLA has available.

The Convener: We would be grateful for that.

Alex Rowley: It would be useful for the committee to know more about what local government is saying about the pupil to teacher ratio. In Parliament, people often play politics with teacher numbers, but out there in local authorities there seems to be concern that maintaining the current pupil to teacher ratio is not necessarily the best way forward, given the dire financial straits that you are in.

Councillor Keenan: As we collect data, information will become available. At the moment there is a feeling among councils that it will be difficult to maintain teacher numbers. Some people will be looking at flexibility through school closures and mergers in order to reduce the overall number of teachers, and I think that work is going on to reach some sort of agreement with Government about whether outcomes would be better, because really we are looking at whether educational attainment is about what happens as pupils go through school or what they come out with at the other end. That, rather than hard-and-fast teacher numbers, is the issue for COSLA.

Alex Rowley: Do the chief executives want to add to that? What are your local authorities' views on the pupil to teacher ratio?

Lindsay Freeland: Again, I make a plea for flexibility. Budgets are tight and the pupil to teacher ratio is an area in which we could make changes without impacting on pupil outcomes. Just now we are restricted, so our financial planning assumes no change, but if there is to be a change it would be helpful to have some direction on that. Flexibility could have a positive impact on our financial position without having a negative impact on outcomes for children.

The Convener: If Mr Burns and Mr Dunn do not want to add anything, I will bring in John Wilson.

John Wilson: There have been recent headlines from local authorities about reducing school hours. Is a reduction in contact time with pupils, as a cost saving exercise, being considered widely in COSLA?

Councillor Keenan: That has certainly not been discussed at COSLA. As each local authority goes through its budget process it has to think about how to match demand with the figures. I suppose that that is why the likes of that idea are being floated. It is not a COSLA position.

Alex Rowley: Authorities are arguing that the pupil to teacher ratio condition should be removed. I assume that it could lead to a reduction in teachers—that is where the political game and the

headlines come from. Discussions about the issue need to be transparent.

Councillor Keenan: In some areas it is difficult to get supply teachers, so that is an issue.

I think that the outcome that COSLA is looking for is delivery of the best educational attainment. It is reasonably early doors in our conversation with the Government about releasing more flexibility. I understand that there is political will to do with teacher numbers being the way to deliver the outcome; we are looking at different ways of delivering the outcome.

Alex Rowley: The Christie Commission on the Future Delivery of Public Services, and the report that it produced to guide public services, emphasised preventative measures and joined-up thinking. When local authority budgets are being set, how much discussion is there with community planning partners? What input do community planning partners have to the budget? How far down the road are we in terms of Christie—or are we not far down the road at all?

Councillor Keenan: I am a councillor in opposition. Members who have been in that situation will know that administrations do not really share their budgets with us. Our administration tells me that it will put its budget out earlier than a council leader has ever put out a budget, because its budget is going out for a period of consultation in a way that—according to the administration—ours never did.

The conversation about the Christie commission is on the radar, and it needs to happen. Given the demographics—the population will grow and people will be older and will need more care—we have to look at ways to introduce at an early stage a mechanism that prevents people from falling into ill health. Through the local community planning partnership, I would like to see more social prescribing, whereby doctors use our sports facilities and coaches in local government to ensure that people take a bit of light exercise in order to reduce high blood pressure, heart disease and the like. That is me as an overweight guy telling you that. That approach has a lot of benefits, and I would like it to happen. I am sure that it would bring benefits. Those are the sort of barriers that I hope we can overcome by working in partnership.

10:30

Lindsay Freeland: Most community planning partners set their own budgets—statutorily, they have to do that. However, people are working towards establishing what parts of the budget we can join up better and where we can pool resources. It is more about pooling budgets than about integrating budgets. Health and social care

integration will change that aspect of the business, but with other parts of community planning the issue is more about relationship management and working with partners to establish outcomes. At times, that involves sharing budgets rather than setting a specific budget jointly for a specific function.

The Convener: Do you want to comment, Mr Burns?

Roddy Burns: I have nothing to add to what Mr Freeland said.

The Convener: Mr Dunn, do you have anything to add?

Hugh Dunn: No.

Anne McTaggart (Glasgow) (Lab): My colleague Alex Rowley asked about consultation with CPPs. I want to take that a bit further and ask what consultation there has been with local people and service users about the reductions in budgets and services.

Councillor Keenan: We need to have that level of conversation and dialogue, but it is not happening in Dundee. When I was here in Edinburgh a few weeks ago, I noticed signs up saying that people should contact the council and tell it what they think. That is good practice. Nobody ever wants to lose a service that they already receive, but people know that money is tight and there would be reasonable suggestions that could be taken forward.

Lindsay Freeland: We have a consultation process that involves the director of finance and his team going out to do road shows to try to engage with people about the potential savings. We have a citizens panel, and we ask people about services, at advice points. We are trying to consult as widely as we can on the savings before they go to committee.

Roddy Burns: Our approach is exactly the same as the one that Mr Freeland outlined, with the addition that we have produced a game for younger people that involves moving budgets around depending on what they think is a priority. We took all the information from the various age groups at the road shows and tried to make some sense of it.

Hugh Dunn: As has been alluded to, this year Edinburgh is trying what is called the budget planner. So far, 1,300 people have submitted ideas on how they would balance the budget. The challenge is to balance the budget over the next three years, so we are asking people to think how they would take £67 million out of the council's budget over that period. We are happy that 1,300 people have responded. Liverpool, which is a similar size, did the same thing last year and got 1,400 responses. We are not competitive—

although I hope that we will get about 1,500 responses. [*Laughter.*] That is a new way of engaging.

As has been said, we also have lamp-post wraps, which we move round the city at intervals, to try to engage people. The information that we have on the gender balance is that more males are responding, so we are proactively trying to encourage more females to provide feedback. We also have information on age distribution, and we are trying to ensure that we get the balance right among age groups.

All that information will feed into the budget. As well as using the budget planner, we are getting other helpful comments on the budget. All that will go to our finance and resources committee in January so that members have all the relevant information before they make their decision on the budget in February.

Anne McTaggart: That sounds like an excellent best-practice model. I was going to ask about statutory and non-statutory services, but my question has been answered.

The Convener: Stuart McMillan has a supplementary.

Stuart McMillan: Mr Dunn, have you noticed a variation in the demographics that are getting involved in the consultation?

Hugh Dunn: We are beginning to see information on that, and we have had some reports about it. There is a change from the previous situation in which older people came to the budget meetings. We are now getting a younger demographic at those meetings, but we want to ensure that we get a broad range across the age groups, and a balance between males and females.

Stuart McMillan: What about people in more deprived areas? Is there still a challenge there?

Hugh Dunn: We have postcode information, and we are taking steps to ensure that we get a balance by consulting people from across Edinburgh and not just certain neighbourhoods.

The Convener: The COSLA president said at the most recent COSLA conference that local government in Scotland is getting a much better deal than local authorities south of the border. Do you agree with that statement? Do you think that COSLA has done well in negotiating a budget settlement for local government?

Councillor Keenan: That is a good question; I am wondering whether David O'Neill had his arm twisted up his back when he said that.

These are difficult times, and COSLA accepts that. Although the majority of our members probably consider that we got a reasonable deal,

there is an element of doubt about that. If that leaves me sitting on the fence, I prefer to stick to that approach.

The Convener: I did not realise that you were a Liberal Democrat, Councillor Keenan.

Councillor Keenan: I am Labour through and through.

The Convener: That was a bad joke.

Lindsay Freeland: I do not know about the comparison with England, but I can tell you what it feels like in South Lanarkshire. It feels hard, and it is getting harder.

Roddy Burns: I would not disagree with Mr Freeland.

The Convener: Mr Dunn?

Hugh Dunn: The situation has been summed up.

The Convener: Okay. I thank you all for your evidence. You have promised us various bits of information in writing. I do not want to be bad here, but we have a very short timescale for our report, so I ask you to provide that information before the end of this week.

10:37

Meeting suspended.

10:44

On resuming—

The Convener: We move on to our second panel of witnesses. I welcome the Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy, John Swinney MSP—congratulations on your new role, DFM. I also welcome, from the Scottish Government, Robin Haynes from the local government division and Bill Stitt from the local government finance division.

Would you like to make an opening statement, Deputy First Minister?

The Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy (John Swinney): Thank you, convener. I warmly appreciate your good wishes.

It is a pleasure to be before the committee to look at the 2015-16 draft budget. The committee has indicated that its scrutiny will focus on the draft local government finance circular. The circular in question, which is dated 7 July, provides a representation of a snapshot in time. On 11 December, the Government will publish the 2015-16 draft local government settlement, which will

mark the start of the statutory consultation on the new circular that will apply to local government.

The committee will know that the Scottish Government has worked hard with COSLA to provide fair settlements to Scottish local authorities, given the reductions that we have faced in our budget as a consequence of the United Kingdom Government's austerity programme.

The Scottish budget is divided roughly into three parts, with health and local government sharing about two thirds of the total budget. Given that the health budget has received a real-terms increase in each and every year, as set out in our manifesto, some very difficult decisions have had to be taken to maintain local government funding. Because of the difficult decisions that we have taken, local government has been treated fairly under this Government. The local government finance settlement has been maintained across the period 2012 to 2016 on a like-with-like basis, with extra money being applied for new duties that have been allocated to and agreed with local government. That has resulted in a total settlement of more than £10.6 billion in 2014-15, which is set to increase to almost £10.8 billion in 2015-16. I believe that that settlement has enabled local authorities to deliver front-line services effectively.

The distribution of that considerable sum of money is vital for individual local authorities, which is why the distribution formula is kept under constant review at official and political levels with COSLA. Following the most recent review in 2009, the consensus was that the indicators that were then used in the formula were reasonable and that, generally, they offered a fair reflection of need among local authorities. The Government's preference, which we share with COSLA, is to have a fair and equitable settlement across all local authorities.

On non-domestic rates, we now allow councils to retain the income that is generated within their boundaries. Although the Scottish Government still guarantees each council's formula share of the funding by making up any shortfall in business rates income, we now incentivise local authorities by allowing them to share any additional income that is generated through increased buoyancy or other factors. The original business rates incentivisation scheme was too blunt, so we have worked with our local government partners to better focus the scheme on promoting and rewarding growth. I hope to announce further details to Parliament on 11 December.

Local government and the Scottish Government work collectively to meet the financial and social challenges that the people of Scotland face. One of the Scottish Government's priorities has been to

maintain a freeze in the council tax. The freezing of the council tax for the eighth successive year will provide continued respite to all taxpayers the length and breadth of Scotland at a time of financial constraint.

I am happy to answer any questions from the committee.

The Convener: In our discussion with the first panel, there was some debate about the distribution formula. What difference has the 85 per cent floor made in dealing with those local authorities that felt that the distribution formula was not quite as good for them as it was for others?

John Swinney: One of the priorities that we had in mind when we considered an 85 per cent floor—which, as you will know, was a suggestion that was advanced vigorously by our late colleague Brian Adam, particularly in relation to the circumstances in Aberdeen—was that, as the distribution formula was applied, there was a significant gap in the funding of a couple of outlier authorities, which was not growing as strongly as the general trend among local authorities in Scotland. We were persuaded that that gap had to be addressed, so in the spending review in 2011 the Government put in place the 85 per cent floor to rectify it. In the course of the spending review, the beneficiaries of that have been Aberdeen City Council and the City of Edinburgh Council, which have received greater resources than they would have anticipated receiving through the application of the distribution formula.

The Convener: Earlier, we also touched on the fact that some authorities were worried about last year's settlement because of population changes and so on. The previous panel stated that finance should follow people. Is that something with which you agree?

John Swinney: I do. Population indicators in various areas underpin the composition of the distribution formula. In some indicators, the number of people, residents or council tax payers is the principal driver. In other indicators, the driver is the number of school pupils or older people, for example. That complex picture of indicators is applied to the global sum of what in 2015-16 will be £10.8 billion to determine the appropriate allocation for each local authority.

The individual characteristics of the population indicators are material to the process. To alight on the example of school pupils in particular, the number of school pupils can have an impact on requirements for teachers, the school estate and various other factors. Some authorities are wrestling with falling school pupil numbers while others are wrestling with sharply rising school pupil numbers. It is a pretty fair indicator to deploy,

given that authorities will be experiencing different circumstances in relation to the composition of their population and the different demands for public services that follow as a consequence of such patterns.

The Convener: We also touched on some of the pressures—health and social care integration, Westminster's welfare reform agenda and the impact that it is having on local authorities—and on the sharing of budgets. Do you think that the Community Empowerment (Scotland) Bill as it applies to community planning partnerships will help in that sharing of budgets and lead to a much better direction of resources to deal with some of those cost pressures?

John Swinney: The approach to health and social care integration is critical to how we proceed to ensure that individuals—generally some of the most fragile and vulnerable individuals in our society—obtain and receive the support that they require and to establish sustainability in our public finances and services. I do not in any way understate the significance of health and social care integration. It is the key reform to ensure that vulnerable individuals obtain the support to which they are properly entitled and that public finances and services are made sustainable as a consequence.

In my experience, vulnerable members of the public, and perhaps their families, cannot understand—and have no interest in understanding—the debate that goes on between public authorities about who is paying for who. If there is a vulnerable individual in our society, they require support and the perspective of that individual and their family is simply that the person should obtain that support. I agree wholeheartedly with that point.

The situation becomes frustrating when there is a debate between public authorities. I am sure that members will have experienced this in dealing with their own case loads, as I have. Such debates consume valuable resources in themselves, and it is frustrating when resources that could be deployed on caring for vulnerable individuals are being spent on a game of ping-pong to decide who is going to pay for the care, even though it is obvious that the individual needs that support.

Adult health and social care integration must lance that, and do so ferociously. People in Scotland require support that must be given to them through public services. They are not interested in whether it comes from organisation A or organisation B; they are interested in whether they get that support and get it in a timely fashion.

This is relevant to your wider point about the role of community planning partnerships, which will be established in statute by the Community

Empowerment (Scotland) Bill. We look to community planning partnerships to break down the barriers, boundaries or silos—call them whatever you wish to call them, convener—to make sure that we have a much more integrated and focused approach to the delivery of public services. That is crucial to ensuring that we guarantee that the resources that we have at our disposal have the maximum impact and that individuals are able to secure the support that they require.

Community planning partnerships also have a crucial role in delivering the wider public service reform agenda, one of the principal pillars of which is prevention. If we can line up our public services in a preventative mode, the necessity for some of the very fraught discussions about who is providing the support and care for an individual in a moment of crisis can be averted, because we manage and act in a fashion that means that we prevent as much of the crisis as we can.

I would be the first to accept that the United Kingdom Government's welfare reform proposals are increasing local authorities' case load and the demand that they face. Local authorities are partnering the Scottish Government in a number of different ways to address that, whether through the work on discretionary housing payments in relation to the bedroom tax or through the council tax reduction scheme, to make sure that we are not in any way eroding the support that is available to people who will be financially challenged at this time.

Alex Rowley: Good morning, cabinet secretary, and congratulations.

John Swinney: Thank you.

Alex Rowley: I asked the previous panel about the teacher pupil ratio. Local authorities have been asking you to look again at that for some time. They have been asking for it not to be a condition of the financial settlement. What are your views on that?

John Swinney: As Mr Rowley is aware, the agreement that we have reached with local government since 2011 has been to maintain the pupil teacher ratio in local authority schools at the 2011 level, which is about 13.5. It has broadly been consistently at that level over that period.

In relation to this settlement, we agreed with local government to explore whether there is a more appropriate way of trying to manage our educational resources to take into account the necessity, which we all accept, to improve educational outcomes. That work has been commissioned through the agreement that was reached with local government over the summer in advance of the announcement of the budget. It has a pretty tight timescale. If my recollection is

correct, it is due to complete before the end of this financial year, so we should have it to hand before the start of the next financial year.

Alex Rowley: On the council tax freeze, the committee said in its report on local government that there needed to be a sustainable long-term solution to financing local government. I heard on the radio this morning that proposals on that might come forward later today from the First Minister, so I would not want to pre-empt that.

John Swinney: Neither would I, Mr Rowley.

Alex Rowley: We said in our report that, given the politics around the council tax and local income tax, or whatever, it would be desirable from local government's point of view if we could get cross-party agreement and work on the alternatives for local government finance. That is really the question that I want to ask you. Are you committed to parties across the Parliament working together to try to find a solution? Local authorities are desperate for a solution without all the politics that are likely to go with it.

11:00

John Swinney: The committee will appreciate that I am restricted in what I can say. When you are the Deputy First Minister, you have to watch what you say in connection with the First Minister's words in Parliament. Let me just say that the Government has a manifesto commitment to consult others on how we might reform local taxation. I gave a commitment in Parliament just last week, or perhaps the week before, that we would be embarking on that consultation shortly.

There will be material in the programme for government on that question. We have listened carefully to the proposition that this committee put forward, which is a welcome and thoughtful contribution to the debate. I hope that the committee will be cheered by what the Government has to say this afternoon.

Alex Rowley: I will pick up on what you said about health and social care integration and the Christie commission and the importance of prevention. I asked the chief executives who were in earlier where the community partnership comes into budget setting and how partners are consulting each other. The answers did not convince me that there is a lot of detailed consultation. How do we move forward, given the massive pressures on services that are coming, regardless of the current economic situation? How are you trying to measure to see whether we are getting better integration and whether community planning is working?

John Swinney: The Government has done a number of things to try to bring about that change

in focus so that we have a much more joined-up approach to the deployment of individual budgets at local level.

As Mr Rowley well knows, local authorities are independent entities. They cannot be directed by ministers. I might have liked to tell the former leader of Fife Council how to spend his budget, but he would have vigorously resisted my direction in that respect.

We have tried to encourage a climate of open discussion about the setting of budgets at local level between major public authorities. Back in 2011, or perhaps 2012, along with the president of COSLA and the health secretary, I authored a letter to all local authority leaders and chief executives, all health board chief executives, all chief constables and other leading public authorities to encourage them, in the context of community planning, to have an open discussion with community planning partnerships about shared budget priorities. That did not erode anybody's independence of operation, but it recognised that how a local authority makes its decisions about public expenditure will have an effect on how the health service deploys its resources and vice versa.

While recognising and respecting the independent, democratic character of local government, we have tried to bring as much cohesion and synergy as possible to the setting of shared priorities at local level. That is the process that we have used to encourage that approach. We reinforced it by inviting the Accounts Commission to undertake reviews of the effectiveness of CPPs. The commission has carried out a number of reviews to assess whether, frankly, the rhetoric of the Government is translating into good operational practice at local level. It would be fair to say that there was some encouragement in among all that, but there were some challenges around what had to be achieved into the bargain.

The national community planning group brings together ministers, leading local authority figures, leading health board figures, Police Scotland, the Scottish Fire and Rescue Service, the enterprise companies, skills networks and a number of other public bodies to monitor and maximise the progress that we are making, so that we can see much greater evidence on the ground of budget sharing and complementarity between the budgets of different public bodies.

That is the model that we utilise. Is it perfect? I would not for a moment try to suggest that it is, but I believe that more good integrated working is happening now than was the case before.

Alex Rowley: I was previously one of the few council leaders who was of the view that bringing

together integrated health and social care would be better achieved with a direct resource, rather than having two separate authorities pull together. I am still of that view.

You were saying that, after health, the Government has protected local government next. It is difficult to see how much is going into acute services, how much is going into community services, to what extent resource is following demand and what the relationship is with local government.

John Swinney: Mr Rowley makes an entirely valid argument about the possible channels of resources going into health and social care partnerships.

As I think Mr Rowley appreciates, the Government has generally taken an approach that has been designed to build co-operation and consent with local government, which has its own democratic mandate. The Government has tried to avoid dictating and directing. We have tried to establish co-operation and collaboration with local government. Generally, we have had a pretty receptive hearing from local government.

There will be issues in which local government does not agree with us, although we try to avoid that. There are certain circumstances in which we have to press ahead with our priorities, but we try to avoid that, too—we try to do everything by consent. If we do not have local authority leaders with us in the same fashion as Mr Rowley may have been with us, we generally respect that and deal with it.

The questions that Mr Rowley raises about the balance between acute care, primary care and social care are the meat and drink of the sustainability of public services. We all know that it costs disproportionately more to support an individual in an acute hospital than it does to support somebody in their own home. It is probably about 10 times the amount. As finance minister, I can see the merits of an option that costs a 10th of the money. I think that, if the person gets the care that they require in their own home and it costs us a 10th of what it would cost to keep them in an acute hospital, that is desirable.

The only way that we will get to that point is if we have really effective joined-up decision making about health and social care activity. Some people need to go into acute hospitals, of course, but many people do not. The data speaks for itself. The more we can ensure that the mechanisms are in place to support individuals in their own homes, the better.

Mark McDonald: The application of the funding formula is obviously a responsibility of COSLA, although that is a point often lost on certain

finance conveners, who tend to lay their woes squarely at the door of the Scottish Government when it comes to their own individual settlements.

This point was made earlier in the meeting by Lindsay Freeland of South Lanarkshire Council. He felt that, essentially, the funding formula disadvantages progress with respect to certain indicators because of the knock-on effect on the funding that is received. Do you share that concern as regards how the funding formula applies, in that it essentially rewards councils that do not make progress on some of the key indicators, including that of deprivation?

John Swinney: There can be consequences of that type in the application of the funding formula. The allocations are driven by a range of indicators. There could be a scenario in which different conclusions could be arrived at to try to avoid a negative outcome through indicators—we hear that argument put forward about some issues in relation to the school estate. We have to be very mindful of that.

That is counterbalanced by the fact that, as I explained in response to Alex Rowley, the Government and local government have a shared focus on making progress on a number of key factors and indicators, which will comprise the national performance framework. I would struggle to see the justification for any local authority leader focusing more on the preservation of budget indicators than on the delivery of some of the improvements that our society requires, driven by our shared focus on the national performance framework.

Mark McDonald: The formula is driven by COSLA, but should the way that funding is distributed have more of a focus on delivery of outcomes, given that we are trying to drive that narrative at the national level?

John Swinney: That would be the logical extension of the national performance framework, and I would certainly be able to explore driving funding much more through the achievement of greater performance and success. However, we would have to ensure that that was properly structured to take due account of the fact that there is a range of areas in which we are keen to make progress. The national performance framework is a balanced approach across a range of policy indicators, so we would have to have a range of priorities in mind if we undertook such an assessment.

Mark McDonald: Another point that South Lanarkshire raised in the earlier session was that it had identified that it paid out £20 million per annum to service PFI debt on education buildings. What cumulative figure does the Scottish Government hold on the PFI payments that local

authorities have to make annually? What bearing do those payments have on some of the cost pressures that are faced in the current financial climate?

John Swinney: I do not have in front of me a cumulative figure for local authority PFI payments, but it is important to recall that PFI payments will be one of the first calls on a local authority budget, because of their contractual nature. Before a local authority thinks about doing anything else, it has to pay its PFI payments. If there are—as we know there are—these substantial factors in local authority budgets, that will intensify cost pressures for local authorities.

Local authorities have to make judgments on those things based on a prudential approach to the management of their finances. They should enter into such commitments only if they are confident that they can support them.

The Convener: Could we get that number before the end of the week, Deputy First Minister?

John Swinney: We will endeavour to get it to you.

Mark McDonald: I questioned the first panel about the consequential impact on revenue budgets of capital expenditure and the possibility of looking at innovative means of financing. The Scottish Government is driving through the non-profit-distributing model, but capital projects—I am thinking particularly of social housing—could be delivered by the utilisation of pension fund investment. Have you had a conversation with local authority pension funds and other pension funds about whether they could look at reallocating some of their investment to drive some capital projects, which would see a return to the pension funds?

John Swinney: It has been one of my frustrations that local authority pension funds have been less involved in committing to support public sector infrastructure than I believe should be the case.

One particular example that is etched in my memory concerns the M80 upgrade between Stepps and Haggs. We inherited a PFI contract from our predecessors, and as the project was at an advanced stage I decided to continue it in that format. If we had not done so, the project would have been significantly delayed.

11:15

In October 2008, I went to the markets to obtain approximately £320 million of investment. It was not the greatest of times to do so, given all that was going on in the world. We eventually pulled off the deal, but I would have thought such a project would have been ripe for support from local

authority pension funds. It involved a main arterial route in Scotland, so there was no way that the Government could have said, “Oh well, we’ll just put a few cones across this road and not use it for a little while so we won’t need to make the payments.” The road is a fundamental part of Scotland’s infrastructure, and the Government would have to make repayments for it over the years. It was therefore a totally secure, safe and robust long-term investment, and yet no pension fund supported it.

It has frustrated me that local authority pension funds have not seen a role for themselves to invest their resources in some of the long-term infrastructure projects. That position is improving now, but it has been a frustration over the years.

Anne McTaggart: Good morning, Deputy First Minister. I want to recap and ask about the allocation to local government in comparison with the allocations to other portfolios over the previous spending review.

John Swinney: In the period since 2011-12, the Government has progressed, in the face of a declining overall Scottish Government budget, what I would call a stable approach to local authority funding.

If we acknowledge that the health budget has had a particular degree of Government protection and we remove it from the equation, we see that the local authority share of the remaining resources in the Government’s budget has gone up from 55.7 per cent in 2007-08 to 57.2 per cent in 2015-16. In general, taking the health resources out of the equation, the local authority position has acquired a greater share of the remaining Scottish Government budget than was the case when we came to office.

Anne McTaggart: I will move on to the funding method itself. Renfrewshire Council told us in evidence that the formula does not sufficiently take into account issues of deprivation.

John Swinney: These are matters for debate and consideration. I am sure there is a view in Renfrewshire Council that deprivation is not sufficiently taken into account in the formula, just as I am sure that the island communities would take the view that the challenges of operating on islands are not sufficiently taken into account.

As I have explained in some of my earlier answers, we have tried to come to an agreement with local government about the best way to approach the settlement. In 2009 I asked local government about its appetite for wider review, which would have allowed us to embark on addressing some of the issues that Ms McTaggart fairly raises with regard to Renfrewshire Council’s perspective.

The general view that I got back from local government, with the exception—I think—of your good self, convener, as a representative of Aberdeen City Council—

The Convener: Yes, it was me.

John Swinney: You were perhaps the lone voice in that debate. The general view was that local government was generally satisfied and felt that where we were with the distribution formula was the fairest place to be.

Following through the logic of what I have said to the committee about our attitude towards local government and how we relate to it, we are obviously keen to ensure that we work in consort and in collaboration with local authorities in addressing the issues. If local government told us that it wanted to re-explore the distribution formula, the Government would be perfectly happy to consider that.

The Convener: Just because you are in a minority of one does not mean that you are wrong.

Cameron Buchanan (Lothian) (Con): Congratulations on your appointment, Deputy First Minister.

What do you intend to do in relation to non-domestic rates—business rates?

John Swinney: As I said in my opening statement, we now allocate the non-domestic rates income that is raised in each local authority area directly to that local authority. The local authorities therefore obtain the full benefit of the non-domestic rates income in their areas.

We have taken a number of decisions on the level of and approach to business rates, particularly with the introduction in 2008-09 of the small business bonus scheme, which was implemented over a two-year period. Our plan is to sustain and continue the small business bonus scheme. We have of course taken other decisions about non-domestic rates, some of which have been controversial. The public health supplement was applied. I said that I would apply it for a three-year period, and that period will come to a conclusion at the end of this financial year. That will be the end of the public health supplement, as I said would be the case.

We have fulfilled our manifesto commitment to maintain the business rates poundage in Scotland in parity with that in England. That has required us at certain stages to apply changes to respond to decisions of the United Kingdom Government, such as its decision last year to cap business rate increases at 2 per cent. We have followed through on such indicators.

The business rates incentivisation scheme was a Government commitment that we took forward.

The way in which it was constructed did not take account of some of the volatility that we were experiencing in the settlement and resolution of appeals under the valuation process, so we had to revisit that. We have now done that with the agreement of local authorities, and we should be in a position to announce the conclusions of that along with the local government circular in December.

Stuart McMillan: Good morning, Deputy First Minister, and congratulations on your appointment.

In our previous evidence session, I asked the representative of Moray Council about non-domestic rates recovery, as the council's submission suggested that the delay of six months before it can attempt to recover outstanding moneys is too long. I went on to ask all three council officials whether they had contacted the Scottish Government on that point, and it turned out that they had not. However, is the Government considering doing something about the six-month delay to assist local authorities?

John Swinney: We explored that to an extent in the 2013 consultation on business rates. COSLA raised the recovery timetable with us, and the Government response was that we were prepared to consider certain issues. I am certainly open to exploring some of those issues. We are clear that it is important that local authorities receive timeously the resources to which they are entitled through proper charging of bills. If there are ways in which we can assist local authorities to recover those sums, we would certainly be happy to do that.

My one caveat on business rates would be that businesses obviously have to take care from time to time with their payments and other issues that can affect their sustainability. Providing that there was enough discretion in the system to apply sensible judgments to businesses that might be facing a bit of a delay in cash-flow terms, I would be prepared to consider the suggestion on business rates.

Stuart McMillan: Thank you. I posed a question in the earlier evidence session on census figures. The City of Edinburgh Council indicated in its submission that as a consequence of its overestimating Edinburgh's population, it received more money in the funding allocation but that after the 2011 census figures showed that there was not as much population growth as expected, there was a reduction in its funding money. The flipside of that is that there might be local authorities whose population growth has been underestimated and who have a shortfall in moneys as a consequence. What actions would the Scottish Government take to assist any local authorities in that position?

John Swinney: That is quite a difficult issue because we know full well that population estimates are not always accurate. For example, the population of Scotland was predicted to be heading well below 5 million but is now sitting at 5.3 million, so that estimate was way off. When we drill down to the situation in individual local authorities, the room for error—getting things wrong—is very significant.

For any individual settlement, we use the most up-to-date information that we have available. Obviously, if new information comes to hand, the settlement is revised over the course of time. The financial management of the consequences is really a matter for individual local authorities. That is one of the factors in local authorities being able to hold reserves: it means that they can take due account of changes in circumstances or volatilities that might emerge and which they need to address as part of their activities.

Therefore, we use the best information that we can get, but there might be a necessity to revise that at different stages.

Stuart McMillan: I have a brief supplementary. You mentioned local authority reserves. A number of local authorities are running quite substantial reserves at present. Does the Scottish Government take a view on the deployment of those reserves and their levels, particularly given that, as we enter austerity phase 2, many local authorities probably should be looking to draw down some of those reserves to prepare their services for the worst that could come from Westminster austerity?

John Swinney: There is a prudential judgment to be made by individual local authorities on the appropriate level of reserves. The Accounts Commission or Audit Scotland will have established guidance on the appropriate level of reserves that should be held. Obviously, in some circumstances local authorities will hold reserves in excess of that for a specific purpose. They might also hold reserves in housing revenue accounts that have particular purposes and constraints applied to them.

There will be a variety of reasons why a local authority might hold reserves that are greater than the Accounts Commission's recommended level. Ultimately, that is a judgment for individual local authorities. Of course, some authorities will have used reserves to support some of their service transformation programmes to ensure greater sustainability in the long term, which is a very sensible utilisation of reserves for local authorities to take forward.

11:30

John Wilson: Good morning, Deputy First Minister. I, too, congratulate you on your new role. As a member of the committee, I look forward to working with you in future as we scrutinise the budgets of local authorities.

I want to follow up on the previous question, which was about the cash reserves that local authorities hold. In the past, you have offered local authorities the facility of additional borrowing consents in relation to their meeting their equal pay and single status commitments. Will you update us on how the equal pay and single status settlements are going and whether there are any discussions about the further additional borrowing that local authorities might require to meet the latest round of commitments in that area?

John Swinney: I am not in receipt of any requests from local authorities for further borrowing facilities. Under the current arrangements, I am able to make borrowing facilities available only with the consent of Her Majesty's Treasury. If my memory serves me correctly, on any occasion when I have gone to the Treasury to ask for such facilities, I have been given them. That has mainly been at the same time as the Treasury has made such facilities available to local authorities in England.

Not all requests have been approved by me, because of the tests that I apply to determine the wisdom and the merits of the applications and whether they constitute appropriate examples for borrowing purposes. However, if local authorities have any issues in relation to the question, I will be happy to consider them and, if I am satisfied by the terms, make representations to Her Majesty's Treasury.

John Wilson: Thank you for that response.

Another issue that comes up is the council tax freeze. Each year, a number of local authorities condemn it and others welcome it. An additional £70 million is set aside for it in 2015-16, and the figure increases each year. Is that sustainable in the longer term? Is there any light at the end of the tunnel in relation to the continued use of the council tax freeze? Will additional resources be freed up to allow local authorities to meet what they argue are increasing demands on services, which are not being directly met by the moneys that are made available through the council tax freeze settlements?

John Swinney: As Mr Wilson will be aware, the Government has a manifesto commitment to continue the council tax freeze during the current session of Parliament. We have put in place measures for 2015-16 to enable us to fulfil that commitment, and I obviously encourage local authorities to take the decision to freeze the

council tax. It is, of course, their decision and not one that I can impose on local authorities, but we compensate local authorities for the revenue forgone, and we have done that in all circumstances.

There will be debates about the effectiveness of the approach, but we have to take into account the fact that it has provided tangible support to householders after a period in which the council tax had increased very significantly. The key part of the agreement that we reached with local government was that the Scottish Government would compensate local authorities for the loss of revenue as a consequence of the council tax freeze.

John Wilson: One issue that has been raised with us is the flat cash settlement, as local authorities have described it. The Scottish Government hoped that the flat cash settlement would be offset by an increase in non-domestic rates income, but the most recent figures show that less NDR revenue was collected than was expected. Does the budget take account of the failure by local authorities to collect the predicted rates? Can local authorities be compensated if the calculations are wrong?

John Swinney: On the description of the local government settlement as a “flat cash settlement”, I have heard that shorthand, but the local authority budget is £10.6 billion in 2014-15 and will be £10.8 billion in 2015-16. There is nothing flat about that; the budget is going up by £200 million.

John Wilson: Do not blame me; I am simply representing the views that have been expressed.

John Swinney: I have no intention of shooting the messenger. I am merely pointing out that I hear the phrase being bandied around, but the budget is actually going up.

As I think I said, the Government guarantees local authorities their non-domestic rates income, so if there is a shortfall, it is a shortfall that I must make good. Over the years in which I have been estimating non-domestic rates income—please bear with me for a second while I find the reference in my statement to the Parliament on the budget. I said:

“Between 2008 and 2014, the difference between the total amount of non-domestic rates income received and the Scottish Government’s estimated budget was three tenths of 1 per cent—£40 million out of a total of £13.1 billion”.—[*Official Report*, 9 October 2014; c 41.]

I underestimated the income; we got a surplus, which is always nice to have.

We put a lot of effort into trying to forecast non-domestic rates income, in co-operation with local authorities, and we provide a guarantee to local government into the bargain.

John Wilson: Thank you.

The Convener: I asked the previous panel about the president of COSLA’s comment that—I paraphrase—local government here is getting a fair deal compared with councils south of the border. Will you comment on that, Deputy First Minister?

John Swinney: It is nice to hear, although Councillor O’Neill does not always say that when he is in the room with me. [*Laughter.*] I will look carefully at his press cuttings.

To be fair, in my discussions with local authority leaders in Scotland I have always found that they put forward a considered case on the financial situation of local authorities, accept that the Government wrestles with difficult financial challenges, just as local authorities do, and are prepared to come to agreements on the issue.

It is a source of great personal satisfaction that since 2007 we have been able to agree with local government a settlement on financial support. In my time as an opposition member in the Parliament, I never witnessed an agreed local authority settlement between the Scottish Executive and local government, so achieving agreement has been a priority for me and I am glad that we have been able to do so.

The Convener: I am sure that COSLA members will be glad to hear that Mr O’Neill is a good negotiator to have in the room.

Thank you very much for appearing before the committee. I know that you had a clash of commitments, given your Smith commission obligations, and we are very grateful to you for managing to come.

11:39

Meeting continued in private until 11:54.

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