



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

LOCAL GOVERNMENT AND REGENERATION COMMITTEE

Wednesday 2 November 2011

Session 4

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LOCAL GOVERNMENT AND REGENERATION COMMITTEE
9th Meeting 2011, Session 4

CONVENER

*Joe FitzPatrick (Dundee City West) (SNP)

DEPUTY CONVENER

*Kevin Stewart (Aberdeen Central) (SNP)

COMMITTEE MEMBERS

*Ruth Davidson (Glasgow) (Con)

*Kezia Dugdale (Lothian) (Lab)

*Mark Griffin (Central Scotland) (Lab)

*David Torrance (Kirkcaldy) (SNP)

*Bill Walker (Dunfermline) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Lynn Brown (Chartered Institute of Public Finance and Accountancy)

Brenda Campbell (Convention of Scottish Local Authorities)

David Dorward (Society of Local Authority Chief Executives and Senior Managers Scotland)

Councillor Kevin Keenan (Convention of Scottish Local Authorities)

Marjory Stewart (Chartered Institute of Public Finance and Accountancy)

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

CLERK TO THE COMMITTEE

Eugene Windsor

LOCATION

Committee Room 4

Scottish Parliament

Local Government and Regeneration Committee

Wednesday 2 November 2011

[The Convener opened the meeting at 10:00]

Subordinate Legislation

Planning etc (Scotland) Act 2006 (Saving and Transitional Provisions) Amendment Order 2011 (SSI 2011/348)

Local Government Pension Scheme (Miscellaneous Amendments) (Scotland) Regulations 2011 (SSI 2011/349)

The Convener (Joe FitzPatrick): I welcome everyone to the ninth meeting of the Local Government and Regeneration Committee in 2011. As usual, I ask everyone to check that they have switched off their mobile phones. We have no apologies and everyone is present, so thanks for that.

Agenda item 1 is two pieces of subordinate legislation that are subject to the negative procedure.

I declare an interest, as my partner is a member of the local government pension scheme and I would be a beneficiary.

Kevin Stewart (Aberdeen Central) (SNP): I declare an interest that is relevant throughout the meeting, as I am a member of Aberdeen City Council. That appears in my entry in the register of members' interests.

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

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

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

The Convener: I thank members for their declarations.

Members have a note from the clerks setting out the purposes of the instruments and drawing the committee's attention to the Subordinate Legislation Committee's report on one of them. As members have no comments and there has been no motion to annul, does the committee agree that it has no recommendations to make on the instruments?

Members indicated agreement.

10:02

Meeting suspended.

10:03

On resuming—

Draft Budget 2012-13 and Spending Review 2011

The Convener: Item 2 is scrutiny of the Scottish Government's draft budget for 2012-13 and the spending review. I am pleased to welcome to the committee David Dorward, who is honorary treasurer of the Society of Local Authority Chief Executives and Senior Managers Scotland; Lynn Brown, who is from the directors of finance section of the Chartered Institute of Public Finance and Accountancy and is executive director of financial services at Glasgow City Council; and Marjory Stewart, who is from the CIPFA directors of finance section and is director of finance at Dundee City Council. I thank you all for coming.

I invite the witnesses to outline briefly the main issues that they consider arise from the draft budget in connection with local government.

David Dorward (Society of Local Authority Chief Executives and Senior Managers Scotland): The main issue for local government is the fact that it is a flat cash settlement, so we have to look at what impact that will have on each individual authority. At this point in time, it is difficult for authorities to identify the impact, given that there is still the issue of the distribution of the grant among the individual authorities, but we are planning on the basis of flat cash.

A key issue for us is that we are still to find out the details of the change funds and how they will operate. I am pleased by the introduction of the change funds, which provide an opportunity to make a long-term difference in the delivery of some services.

Increasing demand, particularly for children's services and adult services but also in other areas, as well as a reduction in income due to the recession, will be preying heavily on local authorities' minds at the moment as they proceed to settle the budget. Obviously, it is our objective to freeze council tax, but the increasing demands year on year will make that difficult, albeit probably achievable.

Lynn Brown (Chartered Institute of Public Finance and Accountancy): I know that the committee is interested in some of the key things that Mr Dorward mentioned—the council tax freeze; increasing dependence on non-domestic rates; the reprofiling of capital spend; workforce issues, particularly pay and pensions; and

preventative spend. One area that I would like to add—I do not know whether you have looked at it—is the impact in Scotland of the welfare reform that is happening in the United Kingdom. For example, the localisation of council tax benefit will lead to a 10 per cent reduction in the money coming to Scotland. About £345 million comes up every year in council tax benefit—Glasgow, for example, gets £75 million of that—so the 10 per cent reduction is an issue. How will that work? How will the introduction of universal credit work? How will we deal with that in terms of staff? There is a whole range of issues, and I do not know whether they have been explored sufficiently yet.

Marjory Stewart (Chartered Institute of Public Finance and Accountancy): The others have covered most of the issues that I was going to mention. I would also mention the areas that we are having to deliver as part of the council tax freeze—maintaining teacher numbers, passing across the flat cash settlement to police to maintain police numbers, and coping with the additional inflationary pressures, because there are significant items of expenditure that are linked to the retail prices index. The RPI for September is 5.6 per cent and, if we assume that that will be our non-domestic rates increase for next year, that will have a significant impact on local authorities, too. Public-private partnerships, unitary charges and the like all add to those inflationary increases and, at present, local government is not being awarded any additional funds to help to deliver the council tax freeze. I am aware that there are Barnett consequential changes coming to the Scottish Government for that and, clearly, that will assist local authorities in achieving the council tax freeze.

The Convener: More than one of you talked about the shift to non-domestic rates. As council tax is frozen, the proportion of local government revenue coming from council tax rather than non-domestic rates will shift. Are there any concerns about accountability in that regard?

Marjory Stewart: It is my understanding that local government is guaranteed a grant envelope that includes non-domestic rate income, so, in theory, we are protected. The Scottish Government has made these assumptions in delivering its budget and the risk lies with it but, clearly, there is a significant assumed uplift in non-domestic rates income over the next three years from inflation, the other measures that are being introduced and increased buoyancy. There is a significant pressure on the Scottish Government's budget if that does not come to pass. If there is a shortfall there, the worry is that it will impact on other budgets that are delivered to local authorities.

David Dorward: One wonders about accountability in relation to non-domestic rates because, in general, the non-domestic rates population—businesses and so on—appreciate that non-domestic rates are set nationally and that we are simply a collection agent. Council tax now accounts for approximately 16 per cent of our income, and there has been a long-held view, going back 30 or 40 years, that we cannot really have genuine accountability to the local electorate at that level. As a chief executive, I have no strong views on that, because we have been in this position for 20 years. The council tax is a significant income source for councils in financial terms, but a 1 per cent increase in the tax would bring in £500,000 for Dundee City Council, which is not significant for the financial issues that we are trying to address in the overall budget.

The Convener: Marjory Stewart mentioned that money for the council tax freeze has not been allocated. I understood that such money was rolled into the baseline budget in previous years. Is that correct?

Marjory Stewart: Yes. I am talking purely about the additional council tax freeze in 2012-13 and future years. I agree that an additional £70 million was provided to local government in previous years, but that is not transparently the case for 2012-13.

The Convener: When we speak to the Cabinet Secretary for Finance, Employment and Sustainable Growth later, we can ask him about that.

David Torrance: I would like to know the witnesses' views on the policies to which preventative spending has been allocated. Do you have examples of preventative spending out there and of how we monitor the outcomes? As a councillor, I know that no information has come back about the results from the cash that we have given to groups.

Lynn Brown: We support preventative spend and think that it can produce gains. In its budget, the Scottish Government has identified the early years, reoffending and social care for preventative spend. That is in line with what we as a council are doing in our one Glasgow approach, so we support those choices.

I will give an example of where preventative spend has worked in our education service—in nurture classes, which were the subject of a television documentary. Nurture classes were set up in some schools with the purpose of keeping young vulnerable people in mainstream education. Those classes have been successful. If members have the chance to watch the documentary, they will see how that has worked. We are extending that provision to some of our nursery facilities. The classes involve young children who find dealing

with the social aspect of school difficult. That was preventative spend and early intervention—they are the same thing.

The difficulty is that no one has defined preventative spend. We view it as early intervention. Nurture classes are one way in which we feel that we have succeeded. Years ago, the provision of nursery education for children from three years old—I think that the City of Edinburgh Council started that—was preventative spend or early intervention that was deemed to be successful.

David Dorward: I agree with Lynn Brown. It is undeniable from the research that early spend—particularly on young children—can produce significant savings and can change their lives, to be frank. We follow the same line in Dundee.

I emphasise that such spend must be made in partnership. In the new beginnings project, the health board, the local authority and the voluntary sector identify mums-to-be who are drug users or heavy alcohol users. We work with them through the birth of their child and thereafter. That has produced positive outcomes for whole families. We treat preventative spend very much as early intervention with children and young people and with adults and the elderly.

The change fund will inevitably help with that, but I would like to think that we will not see that as the only help with preventative spend. As local authorities, we must look at our pattern of spend and identify whether we can target more of our existing resources on early intervention and prevention. We have set up a pathfinder project for zero to five-year-olds in Lochee, which is a fairly deprived area in Dundee. That is an all-agency partnership in which we will share budgets and work out whether we are providing the best possible service for early intervention in the lives of those children. That will be wraparound care, so we will look at the families. It is important that we focus not simply on the child but on their family and the community that surrounds them in their day-to-day life. Sometimes, support for the parent can produce benefits for the child.

That is the kind of work that we are doing. I do not place all the importance on the change fund, although it is important because, as we are trying to introduce preventative spend, we must continue the universal crisis expenditure. It would be remiss of us to divert from that. We must continue to provide those services as efficiently and as timeously as possible to meet individuals' needs, while trying to build up our expenditure on prevention.

10:15

Marjory Stewart: It is no coincidence that, in talking about preventative spend and early

intervention, we are considering the same areas of spend as we are when we talk about overspends and budget pressures in councils. There is significant pressure on our budgets for children's services and the early years and a significant growth in demand. There is also significant pressure on adult social care budgets and a requirement to add additional funds to deal with demographic pressures. Anything that we can do to begin to address those issues is helpful.

As David Dorward said, the crisis intervention, and just the day-to-day support that we give people in our communities, must continue. We cannot take away that spend. We must find new approaches that can be introduced gradually over time. The benefits will be gained over time, because early intervention and preventative spending will not give instant results. We must be careful and realise that the spending will not deliver immediately—it will take years. Examples have been highlighted to us of interventions that started 10 or 15 years ago and are now giving major results.

The Convener: We can fairly easily see where preventative spend has a social impact, but how can we track whether it has a financial impact? It is often called spending to save, so there is a financial aspect, although the social aspect is probably more important. How do we track the savings?

Marjory Stewart: One difficulty is that the frameworks for the approach are fairly immature. For example, with the change fund on the reshaping of care for older people, much of the investment so far has been on collecting data and budgets and setting the framework to allow measurement of the impact of early intervention. To be honest, at this point we are not in a position to be able to report a positive financial and accountable impact, although David Dorward might disagree.

In moving down the preventative spending route, we must be careful not to spend too much time collecting and considering data. We must be smart about the indicators so that we measure the financial and delivery outcomes as early as possible, rather than having a massive framework. One issue is the different accounting methods and accountability measures in the health service and local government. Sometimes, it is difficult to work a way through that. If we can, we must find a simple way through that.

Lynn Brown: If the committee will indulge me, I will give an example of where we have measured some financial gains. It involves a project that operates in Glasgow and elsewhere in the country, and it picks up on Mr Dorward's point about working in partnership. For us, preventative spend, early intervention and collaboration are the three

issues that we need to look at. The long-term conditions financial inclusion partnership was set up a year and a half ago with Macmillan Cancer Support, Glasgow Housing Association, Greater Glasgow and Clyde NHS Board and charities such as Chest, Heart and Stroke Scotland. In a year and a half, it has brought about £12.5 million of cash benefits, through the benefits system, to people who have the four big killer diseases in Glasgow, which are cancer, heart disease, stroke and respiratory disease.

We have been able to measure the impact of that. A lot of people who get seriously ill can become homeless. We have worked out that, for every £1 that has been invested in that project, there has been a gain of £50. We are keen to measure impacts. That is important with collaborative working, because everyone who has come to the table has put money in and wants to see a return. It is possible to measure financial gains, but it is early days for other areas.

David Dorward: There is a preoccupation with trying to measure everything. In some cases, it is not possible to measure the benefit; it can only be felt and sensed. When we intervene in a child's life at birth—we sometimes do it pre-birth—by giving additional support, we change that child's life. How can we measure the effect of that? We could have measured it only if we had allowed the child to continue as was, which, frankly, would have been unacceptable. We would have failed in our duty.

We need to work with communities because they will be the first to tell us whether something is having an effect. We do that a lot with pilots. We should involve communities in determining the early interventions that they would like to see. They are the people who live on the front line, so they have a better feel for the kinds of intervention that will have an effect. They will be able to tell us whether an intervention is working but, I am sorry, what they tell us will not be in numbers. Such relationships with the local community are vital if we are to make a difference.

Equally, it is important that the pilots that are brought in are followed through. If they work, they should be rolled out. Far too often, we do pilots and they simply come to an end. We might learn a lot of lessons, but we do not use those lessons by rolling the pilot out to the wider community.

Bill Walker: Hello, panel.

I have two questions. Preventative spend is an extremely difficult thing to measure, as you have all indicated. As a former salesman, I am concerned that it is possible to dress almost anything up as preventative spend. Could you give us your ideas on some simple criteria for what is preventative spend and what is not? Your input on that would be useful.

My other question is on business rates. As a councillor and an MSP, I get howls of protest from people who are just above the small business threshold, for whom business rates kick in with a vengeance. They seem to have a pretty hard time, and that may well continue. Do you have any clever ideas about how we could develop more of a sliding scale for businesses at the low end, as business rates will undoubtedly go up by some degree?

Marjory Stewart: Any criteria for preventative spend must revolve around partnership working. You are absolutely right. A lot of what we do in our day-to-day work—for example, educating children, looking after children, looking after older people and looking after disabled adults—is about preventative spend. The issue is how we can work more smartly with other organisations and our partners to deliver a seamless service and get beyond the structural boundaries and structural budgets so that the person who receives the service does not know whether the provider works for the national health service, the police or the local authority. That does not matter. What matters is that the service is person focused. David Dorward might want to say more about preventative spend criteria before we move on to non-domestic rates.

David Dorward: I will certainly not be answering the non-domestic rates question.

I would like to think that preventative spend is spending that reduces future demand while improving the quality of service to the people in need who receive the service. It may also include a criterion that there should, in the long term, be a reduction in the overall spend if we are able to reduce demand. The reduction in demand should flow through to reduced spend, not the other way round because that is wrong, to be frank. If we can reduce demand—to be frank, that means improving the quality of life for the service users—we should be able to reduce spend over the longer term.

Lynn Brown: I agree that preventative spend is all about collaboration. The change funds that have been identified in the Scottish Government's budget recognise that. They are intended to deal with issues that go across a number of public sector organisations and the voluntary sector, with which we should definitely work more closely. Without collaboration, spending is not really preventative in the terms that have been envisaged.

The point is well made that there is a bit of a cliff edge with non-domestic rates. That is difficult for businesses, which are asking to buy time on the debt that is due on their rates. Payment arrangements are quite inflexible, so I have sympathy with the traders on that point. We should

consider how we can be more flexible. The system is highly regulated through the appeals procedure and the Lands Tribunal for Scotland. The traders feel that there is a cliff edge, and I completely understand that.

The Convener: David Dorward said that he would not answer that question, so I invite Marjory Stewart to comment.

Marjory Stewart: I do not have an answer, because I have not looked at the detail. However, directors of finance are as flexible as they can be with the business community. We will never refuse to discuss payment arrangements. We would rather agree payment arrangements with businesses than see them go over the edge completely. Such discussions happen daily, and we do not have an issue with them. However, they are not a solution to the problem of the cliff edge whereby, if a business is not eligible for the small business bonus relief, it pays rates at the higher level. That would be worth examining.

David Dorward: Rates are one issue, but local authorities should be seen as a partner with local businesses. We should make arrangements to help them to get over cash-flow problems, ensure that procurement processes make it as easy as possible for them to get local contracts and work with them on training.

It should not be seen as a them-and-us environment. The local economy requires those businesses to succeed and the local authority should support them and everything that they do to succeed.

10:30

Kevin Stewart: Ms Brown said that no one had explained what preventative spend is. My first question is simple and is whether there should be a definition of preventative spend. It might run to a fair number of pages, but the lack of a definition has led to some confusion. A huge amount of the evidence that the committee has heard has focused on the early years. Much preventative spend needs to be in that area, and—apart from today, possibly—there has been no focus on preventative spend in later years.

The second point, which has come up time and again, is on the allocation of change funds. At last week's meeting, one of the witnesses seemed to say that he had evidence that only 19 per cent of one of the change funds had actually gone into change, if you like, and preventative spend; the other 81 per cent had gone into continuing to prop up the same old services. It has been suggested that the cabinet secretary should perhaps sign off any bids for change funds. Do the witnesses have any comments on that?

Lynn Brown: I would be concerned if we got bogged down in defining or writing out a detailed description of preventative spend, although it is worth while to debate what it might look like. Over the years, one of the benefits in local government in Scotland has been the lack of prescription from the centre and local authorities' ability to be flexible and define preventative spend in their own terms. I welcome the debate that has started about what preventative spend means, but not if it is about putting down in 10 pages of writing what it should be. Every community in Scotland is different and will have its own priorities to deal with.

On the change fund, I thought that the process that was in place for the first one last year and the potential outcomes for the one for Glasgow that I saw were extremely detailed. Our share was £7 million and that was all reviewed and signed off by the Scottish Government. Whether or not that is done by the cabinet secretary is not the issue; the point is that there was a lot of debate with Government officers. My understanding is that we, the health board and the Government were happy with the outcome of the process, which is why I would support going forward with the change funds. I was not aware of the percentages to which Kevin Stewart referred.

For me, the change funds are a way of looking at preventative spend, early intervention and collaboration. An example of preventative spend that is not on early years is work with armed forces' veterans. Over the next few years, there will be a huge increase in the number of veterans as the Ministry of Defence downsizes. We have a high proportion of armed forces' personnel in our community in Glasgow, quite a lot of whom will find it hard to come back into society—a lot end up homeless. We knew that we had at least 40 on our homeless book, so we set up early intervention in collaboration with the Soldiers, Sailors, Airmen and Families Association—SSAFA—which is the armed forces' family organisation, the British Legion, Glasgow Housing Association, the Department for Work and Pensions and so on. The project is small scale, but it has been very successful. All those veterans have been housed and they have a one-stop shop that they can come into. They often have skills that are needed in the community. Some suffer from disabilities, so some of them now work for Royal Strathclyde Blindcraft Industries.

Preventative spend is not just about young children; it is about all vulnerable citizens in our communities. For me, it is about collaboration and working outside the boundary of local government with health, the voluntary sector and various charities.

Marjory Stewart: I agree with Lynn Brown on defining preventative spend. I do not see a great advantage in having a hard-core definition of it. It is about what works within the local area. The existing change fund partnership between NHS Tayside and Dundee City Council, which is for preventative spend on older people, was signed off at Scottish Government level. Our spend on it is about £2.2 million per annum. Each of the partners needs the partnership to work to deliver their own outcomes. I do not think that one partner would agree to it if it did not deliver for the other partners.

I am not aware that real investment does not come through the change fund. Every penny that came to Dundee to assist went through the change fund. I am not aware that that has not happened in the past and I would certainly look for us to invest positively in the future in early intervention measures.

Someone mentioned that examples of early intervention relate mainly to children, but the bulk of our work and investment so far has been for older people and adults. That is an important part of this.

Difficult issues arise to do with early intervention and trying to shift the balance of care. People have gone into residential care, but the aim is also to set up a system for looking after people in the community—so we get back to crisis intervention versus early intervention. People in long-term care still need to be funded while we set up the base to deal with an increasing demographic burden of older people and adults with learning and physical disabilities who are remaining in the community much longer. Those tensions are difficult to resolve financially.

Kevin Stewart: There are always tensions. I can remember being a young, green councillor—which seems many moons ago now—and being told by an accountant who dealt with social care that every penny of the council budget could be spent on social work and that we had to move from being demand led to being needs led. I agree with that.

Ms Stewart, in her opening statement, said that spend could not be taken away. We all have that attitude, but in certain areas we probably need to take spend away in order to redirect it towards other things that are much more important and that will lead to much better outcomes.

As well as preventative spend, another key issue is priority-based budgeting. What is being done in each of your local authority areas in that regard? Have you had to take money away from certain areas in order to redirect it?

Marjory Stewart: We have never taken a completely priority-based budget approach in

Dundee. However, we try to protect the areas that are under the most pressure. Those areas are also our biggest priorities—older people, adults and young people in schools. We try to protect the front-line delivery of education and social work as much as possible. That makes it hard to find savings in other services. I admit that the spend is not all protected, but education and social work together take up around 60 per cent of our budget. That does not leave us many other places to go. We are trying to find savings and efficiencies by considering our structures and the delivery models for our services, and by trying to find efficiencies in how we support the front-line delivery of services.

I think that Mr Stewart said earlier that money would have to be taken from certain areas to stop the spending. I was talking more about demand-led areas where there are pressures, for example on children, older people and adult services. Until we find a new delivery model, we cannot simply stop delivering those services. However, we have to remember that areas that might be regarded as being of lower priority, such as community services, support the very front-line services that, as David Dorward was saying, help to change people's lives. It may seem easy to take money away from sport, leisure centres or green spaces, but those are the very things that we want our young people in particular to enjoy. We therefore concentrate on the infrastructure surrounding the delivery of the services, and try to make savings so as not to impact on front-line services.

Kevin Stewart: I am not necessarily talking about taking spend away from certain other areas in order to redirect it towards the areas that we are discussing. We still tend to deal with demand and some individuals have immensely high-cost care packages. The best example—the highest cost—that I know about was £500,000 to deal with the demands, rather than needs, of one individual. When we look at such situations closely, we often find that we can deliver a much better outcome and give an individual more independence while spending less. The money that is then saved can be redirected into other areas. If something like £250,000 can be saved from a package, sometimes that could help dozens of other people with their needs, rather than demands.

Across the public sector, we must get much cleverer about that. A key part of that is benchmarking. Some local authorities have immensely high-cost packages that are reviewed rarely, whereas others review packages all the time and take into account changes in need. Need sometimes increases, but in a lot of cases it reduces.

Lynn Brown: In 2008, a motion on the budget in Glasgow put in place what is termed zero-base budgeting, although we called it a budgetary

framework. Every department and division looked at what it spent its money on and whether it could do things differently, which formed the future budget. I will give a few examples from that.

The premise behind all that work was to sweat the assets and to look in the first instance at how we could deliver services more efficiently outwith education and social work, so that we did not have to go to the education and social work budgets for big savings. I will also talk about what social work services did on care packages.

The framework has been in place since 2008, and I will give some examples. Our environmental services had expensive lorries that cost more than £180,000 to purchase and which sat idle for several days because of our shift patterns. A large project was undertaken and we moved all the cleansing workforce to a four on, four off pattern of shift working. That meant that we used our assets every day and did not pay the same overtime amounts. Putting the arrangement in place was difficult and industrial relations issues arose, but the view now is that that is the way forward and the workforce is happy with that. That change came from the budget review.

Glasgow City Council owns a lot of commercial properties that it rents out, which are worth about £15 million a year in rental income. We set up a company with the right to that income and it got a loan of about £120 million from Barclays, which helped us to pay for our early retirals and meant that we did not have to go to other key departments for resources.

We also looked at care packages and found that people came out of hospital with an intensive package, because they needed that then, but it was never reviewed. Since we put in place a review within a few weeks of a package being provided, nearly all packages are being scaled back, because the person does not require what was being provided. That was a simple measure that just had not been taken.

Those are just a few examples. The premise was to help education and social work, but they were not untouched—we looked at what we could do better in those services.

The Convener: Does David Dorward want to talk about benchmarking?

David Dorward: I will not talk about benchmarking, but I make a pitch for SOLACE, which has just completed a considerable amount of work on benchmarking that we are sharing with Audit Scotland and the Scottish Government. I encourage the committee to look at that extensive piece of work.

Kevin Stewart: It has been a long time in the making.

David Dorward: Sometimes the best things are worth waiting for.

Kevin Stewart: I hope so.

10:45

David Dorward: I hope so, too.

I will respond on several issues. I accept that early intervention focuses primarily on young people, but much of the care in the community work that started back in the 1980s, for example, was intended to prevent people from ending up in residential homes at a relatively early age. That provided more preventative spend in the community so that people could live their lives in the community and it has continued. The community health partnerships' focus has been predominantly on elderly people and adults, almost to the exclusion of children. Through the early intervention approach and the change fund, we are working with our community health partnerships on children's services, which is important. For example, in child protection, we are working with family nurse practitioners. There is much more wraparound care for the very young.

Preventative spend started with elderly spend. We have reached a positive situation with delayed discharges in Tayside, but only through partnership working and by ensuring that we have services in the community that we are comfortable with so that people can leave hospital and feel safe and secure. In our change fund for the elderly, we have considered the review process. We review care regularly—we do not simply carry out an assessment and then leave a person with a service for two or three years. The situation will change, so we must be aware of the changes and modify the service to suit.

We heard an interesting definition of the difference between demand and need. Our front-line social work staff do not consider demand; they consider every case and say what the need is. In the past two or three years, we have had an unprecedented increase in the number of looked-after children. In part, that is because the level of risk that social workers are willing to accept has reduced, but we also have earlier identification of children who might be at risk. The large overspend on children's services in Dundee has been caused by our identifying children earlier and addressing the need earlier and much better. This is one of the few times when I have said that I am content to have an overspend, as it is based on need that might not have been identified in the past.

Mark Griffin: I return to Mr Stewart's point about a reduction in spending. What is the position of our witnesses' respective authorities on the proportions of spending reduction and income

generation—specifically, charging—that they will use to balance the budget?

Marjory Stewart: I have not worked out the proportions, but income generation is a small amount. In putting together our budget annually, we assume that we will increase our income by about 5 per cent per annum. That is our target, but that is high at a time of wage freezes and is difficult for people who pay for services. In our annual review of charges, it will be difficult to deliver that increase. At present, we are having to rebase that and not put through the increases, which is having a significant impact on our ability to increase our income. Mr Dorward talked about the pressures on some areas of income, such as planning applications and building warrants, because of the recession. In our authority, we run our car parks and receive a sizeable income from them, but car park income is down dramatically on previous years. We cannot increase our income base much. Probably 95 per cent of the budget gap is being addressed through a reduction in spending, rather than income generation.

Lynn Brown: We have considered income, too. When we set out budget options to elected members, before they go anywhere near reductions, they want to know what we have done on income. As several other councils have done, we have considered something called RIO, which is revenue income optimisation. The issue is that many charges are in areas, such as social care or nursery education, in which there is reluctance to increase charges. However, we have built in an increase of about 3 per cent in income as a base going forward.

As I said, there are big areas—I mentioned property and car parking—that can be looked at. We sold our car parks and set up a company to run them. The view was that the income from them could be better managed by having a separate company, which could also invest in them. We can look at big, strategic things rather than just looking at small areas that increase year on year, although that is more difficult to do following the economic downturn, as the banks are not as willing to come to the table with that sort of big deal.

Local authorities raise a lot of income—nearly as much as council tax does in certain areas—but there are constraints on how much we can do. That is where benchmarking is useful and that is what revenue optimisation was about; we looked at what other people were doing and were charging. We also looked at what happens elsewhere. Local authorities operate on a different basis down south, so they might be able to charge for things that we do not charge for.

Income is one of the first things that directors of finance look at, because they know that they will be asked what they have done about it and what

they are looking at. I expect that most directors of finance do that year on year in their budget process.

The Convener: Before David Dorward comes in, Ruth Davidson has a question.

Ruth Davidson (Glasgow) (Con): Lynn Brown referred to the early retirement settlement in Glasgow City Council coming from rental income and being leveraged against the input from Barclays. Can you give us more detail on that? Did the council have to sacrifice its rental income for a period of time to get the one-off block of money to pay for the early retirement settlement?

Lynn Brown: We would not use the word “sacrifice”; we leveraged it and maximised it. The money is now sitting in the base budget of a wholly-owned council company.

Ruth Davidson: Is that in perpetuity or is it for a certain number of years?

Lynn Brown: It is for 20 years and then all the assets will come back to us. The company has the properties on a special lease, so we will still own them in 20 years’ time.

David Dorward: Five years ago, we went through a very intensive exercise that considered not only existing charges but the possibility of introducing new charges. We then introduced new charges in many social work services, but now when we review charges we carry out what is called an impact assessment. Let us be clear what we are talking about: we are talking about school meal charges, charges for home helps and leisure charges. When you are considering the health of the community, do you really want to put a levy on leisure facilities such that only those who can afford to go swimming can go? In our review of charges, we have to carry out an impact assessment of each of our proposals to see not only the financial impact but the impact on a person’s or the community’s lifestyle. It would be almost hypocritical to say that we are trying to reduce health inequality and improve people’s health at the same time as making it more difficult for people to avail themselves of sport and leisure facilities that may achieve those aims. Charging is an emotive subject but, as a proportion of our income and in respect of our ability to close the gap and come up with a council tax freeze, the effect is quite marginal. In the council, by carrying out a full impact assessment of what charges will mean for the community and for people who use the services, whenever we take proposals to members, they know the implications.

I agree with Marjory Stewart that 95:5 is probably a good ratio.

Mark Griffin: Does the impact assessment take into account whether the charges should be

applied universally or should vary in who they apply to?

David Dorward: There are definitely variations, wherever we can put them in. We do not have a monopoly on services such as leisure, for example, so we have to take on board what the private sector charges for comparable services. Leisure and sports come into that category.

Kezia Dugdale (Lothian) (Lab): I have a small question on the change fund and then I will ask about welfare reform.

About 20 minutes ago, Marjory Stewart made a comment about health and local government having different accountability structures and how that might inhibit future joint working. How might that be resolved?

Does the budget adequately account for the impact of welfare reform?

Marjory Stewart: On the different accountability mechanisms in health and local government, health is a department of the Scottish Government, so it is accountable to the Scottish ministers for its spend. Local government consists of devolved bodies, which are accountable to their local members for their spend. One of the issues is that local government receives its settlement before the start of the financial year but, in the past, the NHS has not received the announcement letter for its working budget until virtually into the financial year. That makes planning difficult.

Another issue is the different VAT arrangements for local government and health. Those can put structural barriers in place that, to the ordinary man in the street, seem unnecessary but are nonetheless factual.

We talked about measuring performance. The health service has a number of performance indicators against which it must achieve. If we are trying to put in place new initiatives in partnership, the health service still has to work to those core indicators on which it must deliver. Delayed discharge is one example. We all believe that people, particularly older people, should not remain in hospital any longer than they have to but, sometimes, we try to shift the balance of care and strive to provide community care facilities where the exit from hospital may initially be into a care setting.

We are working around that issue but, when we try to do joint projects, they are always much more complex than one would think they would be on the face of it because of the different accountability and financial arrangements.

Lynn Brown: The difficulty with welfare reform is that it is still evolving. Discussions are still taking place about exactly what it will mean.

We know that there will be a 10 per cent reduction, which is about £35 million, but I am unsure whether that is fully accounted for in the settlement. It will happen in future years—2012-13 onwards—for which we have only indicative figures anyway. There is more work to be done on what that will mean. Will local government be asked to pick that up and will the Scottish Government want to fund it?

What the universal credit means for the citizen and how it will work are also still to be worked out. Discussions are taking place between the Scottish Government and the Convention of Scottish Local Authorities on what welfare reform means for local government.

Kezia Dugdale: Are you worried about that?

Lynn Brown: I am worried about it because Glasgow City Council receives £75 million every year, so I already know that £7.5 million of that is going. That is equivalent to the cost of the council tax freeze—the figure for Glasgow is the same—so it is a significant amount of money and little detail is available at present.

11:00

David Dorward: On governance, Dundee City Council has excellent working relationships with the health authority at ground level and governance levels. Those could be strengthened through the community planning partnerships. At present, the responsibility for the community planning partnerships rests primarily with the local authority. There is a view that Audit Scotland needs to carry out an audit of community planning partnerships, but the single outcome agreement that comes out of the partnership could be strengthened if the responsibilities of community planning partnerships were also placed as a duty on all the partners.

In some places in Scotland the partnerships are weaker because some of the partners do not play their full part. That sounds a bit provocative, but it is certainly not the case in Dundee. I have always found that partnership with all our partners improves when we focus on the end user, put aside the Government's issues and structures and have an open mind about how to provide the best service for that individual. Usually it comes down to individuals. When we have a child with mental health problems, we have to work together—health, ourselves and the voluntary sector. The voluntary sector is key in many of these decisions. Frankly, I think that this area could be improved by strengthening community planning partnerships.

I, like Ms Brown, am concerned about welfare reform. We have not yet bottomed out what the likely implications of it will be once it is fully implemented but, intuitively, the feeling is that

there will be an increase in homelessness and that it will not assist with youth unemployment, which is a big concern for us in Dundee. Those are issues that will make greater demands on our services from people who are not in need at present, but who will be in need in the future. I do not think that we have factored that into future budgets. It may not have a great effect in 2012-13—we do not know that yet—but it will almost inevitably start to bite deeper and deeper as we move into 2013-14 and onwards.

Ruth Davidson: I will come back to a workforce issue, but broaden it out slightly. I know that there have been a number of workforce assessments at different councils across Scotland as they have been dealing with the constraints of recent settlements. Is there likely to be more work done in your council areas, whether on outsourcing, redundancies, compulsory redundancies or service reorganisation?

Lynn Brown: Our council has stated clearly that it does not support compulsory redundancies, although we do look at voluntary severance. There are no plans for outsourcing in Glasgow. Service reorganisation is something that has been on the agenda for a number of years and will continue to be, for all councils, but my council has specifically come out against compulsory redundancies and outsourcing. We will be asked to look at how we can work better and that is why preventative spend, early intervention and, more important, collaboration are so important in order to get better outcomes.

Marjory Stewart: Dundee is in exactly the same position. We have a policy of no compulsory redundancies and have had, as the convener will know, for many years. That is not likely to change. We had a short-life voluntary scheme in place after Glasgow that resulted in about £7 million of savings. We amended our structures to cope with that and in 2011-12, the current financial year, it delivered half our target budget savings, so it was an essential feature and is something we may have to look to in the future. As for workforce planning, again, we are looking at structural issues and how we can deal with it in the round. We have absolutely no intention of outsourcing anything. We are looking at potential models, but there are no plans on the table to outsource any services. It is about making our own service provision leaner and we are looking at the very things that Lynn Brown mentioned to see how we can deliver our services more effectively.

One of our organisational changes was to set up a new environmental services department, which means that we have grounds maintenance people who also look after waste collection and disposal. We can therefore use the workforce more flexibly and look at shift patterns. Although it might seem

so, that is not easy to look at—changing employees' conditions of service is a difficult area.

Local government also spends a massive amount of money on fleet management. As Lynn Brown said, we need to sweat our assets a bit better. We are looking at the two big areas that I described and we hope that we will be able to deliver savings in 2012-13 and future years through more efficient delivery in those areas.

David Dorward: Marjory Stewart has given you most of the meat on that. We are certainly reorganising within the public sector in Dundee, which is what it should be about. When we look at assets—property and estate—we should not look at those of only one council department, which is where we were two years ago, but throughout the city. For example, the health department and ourselves are now sitting down and asking how we can reduce our estate so that it is as lean as it can be and ensure that every asset and every building we have is open for the maximum time it can be if services are required.

It is exactly the same with our fleet. We had departments that had their own fleet, but now we have one fleet for the council. We need to ensure that we use that fleet as much as we can. We should not be hiring fleet or have fleet lying unutilised. It is a case of ensuring that we use every asset in the city. We are also working with the universities to maximise the use of assets. In that way, we will all save money, because we will reduce the total asset base that we require.

The voluntary early retirement scheme has been a great success. It worked for us, but we must be very careful because there is a level of service that we need to continue to provide. We were fortunate in the way that we went about that because we did not have large balances, so we had to be prudent about how many added years we gave people. We do not allow people to go if their post has to be replaced. It is therefore about being prudent with the financial resources that we control.

Mark Griffin: What will be the impact on your authorities' capital programmes of the reprofiling of moneys? What ability do authorities have to fund the borrowing through their revenue budgets?

Marjory Stewart: As you have no doubt heard already, the reprofiling figures are £120 million in 2012-13 and £100 million in 2013-14, with the money being fed back in in the following two years. I estimate that Dundee City Council's budget could be reduced by about £3.5 million in 2012-13 and another £3 million the following year from what we would have got had the reprofiling not taken place.

We looked at our projected capital plan and took a deliberate decision last year to set a one-year capital plan for 2012-13 because we had a one-

year settlement, and await the outcome of the longer-term planning for capital investment. We have a significant capital programme that is already under way. In our original planning assumptions, we used the Westminster projections, which were a 50 per cent cut in capital grant over the next five years. We assumed a 10 per cent per annum reduction. Last year, the transfer of resources from supported borrowing to capital grant actually assisted all local authorities, so it gave us £3 million more than we expected, because I was still planning on the basis of the downward trend. So, fortuitously, although the reprofiling is taking money away, we are getting more in the settlement than I planned for in my planning framework.

We have an ambitious capital plan and we have already delivered a number of new schools. Under the current programme, two new primary schools are being built and one new secondary school is planned through funding from the Scottish Futures Trust. That is built in. Also in Dundee, we have a phenomenal waterfront investment programme, with the new Victoria and Albert museum building being the jewel in the crown. Because we have saved up our cities growth fund capital grant moneys over the years and we have had investment from Scottish Enterprise, we still have a fairly full programme of spend. It will be about £50 million in 2012-13, which is way above the amount that we were spending a few years ago. The figure will probably come down to about £30 million or £35 million in future years.

The reprofiling does not mean that we can increase our capital borrowing through prudential borrowing. We cannot do that. The most critical aspect of that is our revenue budget and the council tax freeze. We cannot afford to borrow any more money, so we have our current borrowing capacity, our capital grant and asset sales. Asset sales are at an all-time low. Virtually no asset sales are allowed for, because it is difficult to sell assets at an economic value. However, I am pleased to say that we still have an ambitious capital plan that I believe is deliverable over the period, although if the reprofiling had not happened, it would have been nice to have had the extra funds.

Lynn Brown: To support what Marjory Stewart said, the capital reductions were always going to be significant. Way back in 2010 there was an announcement on what was coming to Scotland in relation to capital. We did not really understand how that would work its way through the Scottish Government budget, but a good indication was given last year that there would be reductions. As Marjory Stewart and I did, most directors of finance will have taken a cautious approach to new capital expenditure that was not already in the plans—it will have been dampened down. That

has probably been helpful, given the reduction that has come through.

There is a mix of issues. There are the capital receipts, which have been mentioned, the capital fund and the borrowing. In Glasgow, most of our funding comes from borrowing. My concern about the next couple of years relates to housing. In Glasgow, we have the Glasgow Housing Association and we do not own houses. We pass money over to registered social landlords. We cannot borrow for that, because we do not own the assets. If we do not own an asset, we cannot borrow. So there will be a real reduction—we will not have money to hand over to the RSLs. There has also been a big reduction in housing. The most visible result of the reduction in capital will probably be in the housing spend.

David Dorward: I cannot add much to what Marjory Stewart said, but I want to return to asset management planning. We are trying to reduce our asset estate. For example, we are taking three schools and putting them into one campus. That creates revenue savings that will help our revenue budget. We use some of those revenue savings for the prudential borrowing that is being used for the new school. We need to be smart about how we use the estate and what we require. The capital plan now is almost double that of 10 years ago. The good news is that, when we go out to the market to get the new schools, the current situation in the market means that we get a good bang for our buck. We are getting good assets at good prices.

An important point for Dundee City Council is that we have kept the construction industry and its employees going in the city during this time of recession. In all the contracts, we have put in community benefit clauses to ensure that the contractors take on unemployed people. That is being smart about how we use our spending power and our asset base.

The Convener: As there are no other questions, I thank our panel for their time and evidence, which will be helpful to us in pulling together our report.

11:15

Meeting suspended.

11:22

On resuming—

The Convener: I am pleased to welcome our second panel of witnesses. Both witnesses are from COSLA: Councillor Kevin Keenan is spokesperson for resources and capacity, and Brenda Campbell is finance director. I invite

Councillor Keenan to make some opening remarks.

Councillor Kevin Keenan (Convention of Scottish Local Authorities): I thank the committee for inviting COSLA to provide evidence on the spending review and the budget process for 2012-13. Brenda and I will do whatever we can to answer the questions asked of us. If we are unable to answer a question today, we will try to provide an answer later. As you are aware, COSLA has submitted some written evidence. However, a number of outstanding issues still require to be clarified with the Government. We are in constant dialogue with the Government in an attempt to settle those issues.

The settlement for local government is challenging in both capital and revenue. Although we have flat cash in revenue, that is still a real-terms reduction. Members will be aware of the modelling work that predicts that, over this spending period and the next, local government will find itself with a shortfall of around £4 billion. It is therefore important that we continue dialogue with Government as we try to reduce the demand on services and the need for people to be using services.

A shift towards preventative spend is very important, and we welcome the extension of the change fund, which we regard as a step in the direction that we need to take together. We will obviously continue dialogue with the Government to ensure that the change fund moves people from the need for acute services towards more preventative measures.

Although in our written evidence we do not comment specifically on the council tax freeze, or its long-term implications, this year we will not receive the additional £70 million within the settlement. That is a big challenge for councils. As you will be aware, the UK Government has made additional resources available. The figure for Scotland would be somewhere in the region of £67.5 million. We will continue to talk to the Government as, clearly, we would like that money to come to local government to assist with our budgets.

Capital represents a challenge for local government infrastructure. As expected, it took a big hit in the spending review; however, in addition, the grant itself has been reprofiled over four years, which might make it difficult for certain local authorities to maintain projects that they had hoped to deliver.

Finally, another big challenge facing local government is welfare reform—and, indeed, the unknowns associated with it. Such reform will have a significant impact on local government and

we will continue our dialogue with the Government on resolving the issue.

Every council faces a difficult challenge. That said, we accept the settlement in principle and seek to move forward in that manner. Brenda Campbell and I will try to do whatever we can to answer members' questions.

The Convener: Thank you, Councillor Keenan. I will kick off the questioning. How did the consultation process on the budget go this year compared with previous years?

Councillor Keenan: It is a bit difficult for me to give you a lot of evidence on that, because this is the first year in which I have been involved in the budget process. All the same, I found that, in our meetings, ministers tried to be extremely honest with us. We had hoped to get more information on pension matters but, unfortunately, ministers said that they were unable to give us any before they made a statement to the Parliament. The process seemed a bit slow to me, but Brenda Campbell might be able to say more about whether the process this year was any different to that in other years.

Brenda Campbell (Convention of Scottish Local Authorities): When the Scottish National Party came into Government in 2007, the traditional approach to spending reviews changed. Up until then, COSLA would prepare a submission for the Government and, although there would be one or two meetings, there would be no what might be described as serious engagement over the piece.

As you know, the concordat was agreed in 2007 and we have continued to build on that and have a dialogue with the Scottish Government. This year's process was a little bit different. Last year, we began our dialogue with the Government in expectation of a four-year spending review, given that that is what the Scottish Government received from the UK Government. However, we were given a one-year settlement instead. Of course, the Scottish Parliament elections were also held. We had been looking to pick up the debate fairly early on in the new session, but discussions with the Government did not really start until August, which curtailed the period somewhat. Nevertheless, in that time, several meetings were held between COSLA's group leaders, Councillor Keenan as spokesman and the Scottish Government cabinet secretary.

Kevin Stewart: Is it fair to say that co-operation in the talks and local government involvement in the budget-setting process have been different to what they were prior to 2007?

Brenda Campbell: Yes, I think that that is a fair comment.

Kevin Stewart: What is your view, Councillor Keenan?

Councillor Keenan: From advice that I have taken from others who have been involved, I agree with Brenda Campbell that that seems to be the feeling.

Kevin Stewart: At the tail-end of the talks, COSLA issued a press release that kind of insinuated that the talks had not been very co-operative. However, local government leaders of all political parties and none across the country said that they had been. Do you wish to comment on that?

Brenda Campbell: I do not think that the press release intended to suggest that the talks had been unco-operative. All that had happened at that stage was that talks had taken place and, although local government accepted the settlement in principle, a number of outstanding issues needed to be discussed with Government and clarified. All we were trying to say in the press release was that there was no firm agreement with local government and that dialogue was continuing. If the release came across in the way that you have suggested, that was certainly not the intention.

11:30

Kevin Stewart: That is certainly how the media portrayed it.

I go back to some of the main issues that have come up time and again during our evidence taking on the budget. Given that it will be difficult for all areas, I am quite pleased about how local government has come out of the process. We have heard from past witnesses that people were expecting much worse. Although it is a flat cash settlement, that is much better than many had feared.

I want to concentrate on the move to priority-based budgeting. How many of the councils that are members of COSLA are moving in that direction? Beyond that, there has been a lot of discussion of benchmarking. We await SOLACE's work, which, as I said earlier, has been long in the making. Benchmarking is key to ensuring that all local authorities aspire to be the best that they can be and to learn from other local authorities. I invite comments on priority-based budgeting and benchmarking.

Councillor Keenan: Every council will continue to look to the priorities of its local area. Given the democratic role of local government, that is what everyone would wish for. Priority setting is about setting priorities that meet the needs of the local area. Different areas will have different priorities.

We aim to continue to set priorities and to allocate budgets on the basis of where there is most need.

Kevin Stewart: Priority-based budgeting goes back to zero-base budgeting. It is about looking at everything that a local authority does and finding out how taking money away from one area would impact on another area. That has rarely been done in Scottish local government.

Earlier, I declared an interest as a member of Aberdeen City Council. We have just gone through a major exercise on priority-based budgeting for the five-year budget plan that started in the last financial year. From my perspective, such an exercise gives councillors the opportunity to look, on a wider scale than ever before, at what we do, what we should be doing, what we need to invest more money in and what we need to spend less money on. That has not happened across the board, and it should be encouraged.

Councillor Keenan: Councils will always look at how other councils have approached things. Dundee City Council has set up a changing for the futures board—I know that the committee is getting a lot of evidence that is based on Dundee today—which has had the drains up on everything across the council. That may well reflect the zero-base budgeting approach that you mentioned.

A few years ago, when Aberdeen City Council issued its budget statement, as the leader of Dundee City Council, I got a copy of that and went through it doing exactly what you said—looking at the cuts that it needed to make and reflecting that in the budgets that we were putting together. The drains-up approach is being adopted because budgets are getting tight, demand is going up in certain areas and we must find ways of meeting that demand.

Kevin Stewart: What about benchmarking?

Councillor Keenan: Benchmarking goes on. It is vital that we benchmark performance and that we look for best practice. We must look to other councils that have been innovative to see whether we can adopt their methods of delivering service so that we can meet needs in our own areas.

Brenda Campbell: On the back of that, I can confirm that COSLA's leadership board will consider the SOLACE report on benchmarking on Friday. After that, a political position on it will be adopted. People are highly supportive of benchmarking, as Councillor Keenan has outlined, but there is always the danger that it will result in league tables. There is a risk that that is how it will be portrayed. Rather than being used in that way, it should be used in a positive way to make improvements in service delivery.

The Convener: How long will COSLA take to reach a view on SOLACE's report?

Brenda Campbell: The leadership board will discuss the report on Friday. The decision for the board is about how it wants to progress it: whether it is sufficient for the board to take a view post Friday or whether the report needs to go to leaders. If the report needed to go to leaders, they would consider it on 18 November. We are therefore talking about a short timescale.

The Convener: The committee would appreciate being kept up to date with COSLA's views on the report. We have taken an interest in benchmarking from day one.

Brenda Campbell: That is no problem.

Ruth Davidson: In the previous evidence session, a question was asked about councils' abilities to borrow prudentially. Has COSLA done work on that? Does it have a sense from its members that there is an element of apartheid between the councils that can raise significant funds and the councils that cannot?

Councillor Keenan: COSLA has never been asked whether such a view exists, but I know that some leaders feel that their councils could not borrow. There has not been enough of a conversation for me to be able to say that the ability to borrow is clear across Scotland.

Ruth Davidson: So no work has been done to show comparative levels.

Brenda Campbell: That work has not been done yet, simply because councils do not have their budgets. We have said that, once they have worked through the budget process, we want to know about borrowing. I was asked roughly the same question when I met the SFT yesterday. I explained to the SFT—as I explain to the committee—that we have not done that work, because we felt that it would be slightly ahead of time to do so.

As Councillor Keenan said, reprofiling was raised with us in the dialogue with the Scottish Government, and we had to respond to that. At that time, councils' strong feeling was that they did not want to be forced to borrow to fill the gap that reprofiling will create, because some councils do not feel that they have the capacity to do that. We do not have a definitive position, but the sense was that there is a difference among councils. Some councils told us that they could not borrow, whereas others said that they might be able to borrow.

The work is on our radar, but we have not done it yet. Perhaps that gives you a sense of the general commentary and of where we will head.

Ruth Davidson: I do not want to heap too many demands on COSLA, but it would be good if you kept us informed of that work, as well as your response to the benchmarking report.

Councillor Keenan: I will give you some information. COSLA looked at whether bonds provided a mechanism to borrow money. The UK Government reduced the Public Works Loan Board's interest rate, and we have written to ask the cabinet secretary whether that avenue could be pursued for lower-cost borrowing, as it might well assist us. As Brenda Campbell says, that work is on the radar and we will keep the issue under review.

Mark Griffin: I know that COSLA has approached the cabinet secretary about the revenue cost of capital borrowing. Has he said whether he will fund that cost?

Brenda Campbell: The Government has said no in principle. The issue was raised and the Government said that it will not fund the revenue implications, but we will have further, on-going dialogue with it.

Part of the problem, which goes back to a previous question, is that we do not know the local implications. If the Government is to be asked to provide funding, that must be put in context. We could return to the Government with the question once we have the full context for what it means.

Kevin Stewart: Has COSLA asked the chancellor and the Westminster Government whether they will revisit their decision on the interest rates that the Public Works Loan Board charges?

Councillor Keenan: At this stage, we have highlighted the issue only to the cabinet secretary, so that he would know about it if he was in a conversation on the subject. I do not think that we have pursued the matter with Westminster.

Brenda Campbell: We meet the Secretary of State for Scotland regularly, and the issue was in the briefing for last week's meeting. I was not at that meeting, but I expect that it was raised. I do not have a formal position on that—I would need to check that out.

Kevin Stewart: I have an additional burden for the witnesses, convener: could we be told about that? COSLA has to go the person who has the power and who made the change initially, and that is the chancellor. It would be useful if we could be kept informed of the response from that meeting.

The Convener: We have had lots of requests for more information, but that is okay.

Bill Walker: I was very impressed when Councillor Keenan referred earlier to designing services based on need rather than demand—I think that I am paraphrasing him correctly. That will be very important in priority-based budgeting, which, as Kevin Stewart said, is really zero-based budgeting. We must start with what people need, not with what they would like.

With the previous panellists, we talked for what seemed like forever about defining preventative spending. Are you content in COSLA that you have a good definition? You can dress almost anything up as preventative spending, so do you have a feel for what a simple definition might be?

The Convener: Is there an official COSLA definition?

Councillor Keenan: I think that the guidance might offer an official COSLA line. Preventative spending is on the tip of everyone's tongue, and I suppose the simple definition is to look for the early spend that means that we will not continue to throw money at a problem.

In Dundee, we have a problem with the number of looked-after children. When we think about preventative spend, we clearly need to consider the educational attainment of those children so that they are not disadvantaged, which can lead to their becoming a greater burden as they move through life. That is my answer as a local councillor, and I think that a lot of other local councillors would give a similar answer.

Brenda Campbell: The creation of the change funds has put that question at the forefront, and discussions are on-going with the Government about the fact that local government will now contribute to the change funds for early years and, in part, for adult and social care. How that contribution is defined is key, so we must define preventative spend. I suppose the concern for local government is the fact that councils feel that they already spend money on preventative spend and they do not want to have to stop that just to create cash to contribute to something else.

That brings me back to the question of the precise definition. Dialogue on that is on-going at the moment between COSLA, on behalf of local government, and the Scottish Government, and we are trying to come up with some guidance and principles. The guidance that we create between us might not provide an absolute and simple definition of preventative spend, but I hope that it will offer some usable definitions. What matters is the principle behind how it is defined, because that defines where the contribution comes from.

Bill Walker: May I take that further? I learned from the previous panel that preventative spend could be tied in with partnership working, joint ventures and so on. Every council should obviously be trying its best to do its own internal preventative spending but, using the change funds, the way to address the question of preventative spend could be to include partnership working or joint ventures as a dimension of a project. Do you have any comments on that? It might be a suitable criterion to incorporate.

Councillor Keenan: I think that you heard from the previous panel that we have good partnership arrangements across Scotland—I was sitting in the public gallery when they said it. There are some partnership arrangements that are not particularly good, but the willingness we have in COSLA to make every partnership arrangement excellent is vital.

I will go back to childcare and looked-after children: if we are to improve a child's educational attainment in future so that the child is a well-balanced individual as they go on through their life, we need partnership working. For example, we must take account of whether a child has mental health issues so that our health partners can work towards resolving them. The problems must be looked at holistically and other agencies must be brought in to try to deliver a solution.

11:45

The Convener: One area that the committee has been looking at is tackling low pay. Councils throughout Scotland have faced a challenge in implementing equal pay, following the legislation on that. Do you have any idea how councils are progressing with that?

Brenda Campbell: I would need to come back to you with the definitive position, as I do not know.

The Convener: In effect, spending on equal pay is preventative spending, especially in the case of people at the lower end. Kezia Dugdale has been particularly vocal in pressing bodies to move to a living wage, which could also be regarded as preventative spending. Does COSLA have a view on that?

Councillor Keenan: I do not think that COSLA has set a view on that, although some councils have moved towards a living wage. I suppose that, as we are seeing wage restraint, it is something that needs to be on the radar.

Kevin Stewart: I will change the topic and ask about the non-domestic rates income. Your submission seems to suggest that it is a threat rather than an opportunity, but there is no risk to councils because, if non-domestic rates go down, the revenue support grant will compensate.

Does COSLA have a position on the business rates incentive scheme? That has been talked about for a long time, including in my time on COSLA's resources and capacity executive group. Does COSLA see the scheme as an opportunity to help with sustainable economic growth while raising income for councils?

Brenda Campbell: We now have an agreed business rate incentivisation scheme. It was

approved by leaders at the end of September, and it is fully supported by the Scottish Government.

Our agreement was that the scheme would be backdated to the start of the current financial year—although it would not come into play until halfway through the year, it would be operated retrospectively. I heard this week that that might not be possible and that the Government might introduce it next year instead. We will need to go back to the leaders to take a view on that. However, that is the only change from when we discussed the matter with the leaders in September.

It has been agreed that, under the scheme, targets will be agreed locally between the Scottish Government and individual councils and the overall risk will be shared between the Scottish Government and local government. The timing is unfortunate, in that the current climate might not provide all the opportunities that councils would like. We would have preferred the scheme to have been introduced several years ago. However, we see it as a good opportunity.

Our only concern is about the bigger picture of economic development. How will the business rates incentivisation scheme link with initiatives such as the proposed new enterprise areas, the tax increment financing areas and the pilots? We need to ensure that none of those things knocks out the others. There are concerns about that. We have regular dialogue with the SFT, and in our discussion yesterday we expressed concern about how the individual initiatives to address economic development will sit collectively. However, that is a general concern for the economic development measures. In principle, we believe that the scheme is a good opportunity and we welcome it.

The Convener: As we have no further questions, I thank the panel for their evidence.

11:48

Meeting continued in private.

12:31

Meeting continued in public.

The Convener: Continuing with our scrutiny of the draft budget and spending review, I am pleased to welcome to the meeting the Cabinet Secretary for Finance, Employment and Sustainable Growth, John Swinney; and, from the Scottish Government, Ian Davidson, head of local government, and William Stitt, assistant team leader, local government division. I invite the cabinet secretary to make an opening statement.

The Cabinet Secretary for Finance, Employment and Sustainable Growth (John

Swinney): I welcome this opportunity to discuss the local government finance settlement as set out in the Government's draft budget for 2012-13. This latest settlement remains firmly set in the context of the on-going relationship between the Scottish Government and local authorities and our commitment to working together on joint priorities to deliver better outcomes that are critical for people in communities across Scotland. Local government makes a considerable contribution to delivering those outcomes by directly providing a wide range of public services and, in the case of those outcomes that require an integrated approach by key local partners, through its lead role in community planning.

It is important to recognise that the settlement has been made against the background of the tightest financial constraints for a generation. As I explained to Parliament when I set out the rationale behind our choices in the spending review, we have had to make some very difficult decisions and I do not underestimate the difficulty of the decisions that local government, in turn, will have to make. However, I firmly believe that this settlement can be described as tough but fair and represents the best that can be achieved in the circumstances.

On 21 September, I put before Parliament a balanced budget for 2012-13 that prioritises and protects a number of areas of public expenditure. We set out the Government's protection for the health service as promised in our manifesto and proposed an approach to the local government settlement that would maintain revenue funding inclusive of resources to maintain the council tax freeze. In addition, revenue funding to maintain teacher employment remains in line with that provided in 2011-12.

We will also honour our commitment to introducing a new floor by providing additional funding to ensure that all local authorities receive at least 85 per cent of the Scottish revenue funding average and we have also delivered on our commitment to maintain local government's share of capital funding at 28 per cent of the capital resource in the Scottish budget. That will be profiled over four years to 2015-16.

Although the Government recognises that, as with the rest of the public sector's capital budgets, there is significant pressure on local authorities, I very much hope that, through our partnership, we can work together to find out the extent to which local government can sensibly utilise its borrowing powers to maximise capital expenditure and inject the stimulus into local economies that will be critical to overall economic recovery. The Government has not placed any borrowing targets on local authorities—indeed, it would not be appropriate for Government to do so—and

decisions on whether to borrow to fund capital programmes and the extent to which it would be prudent for them to do so are clearly matters for individual local authorities.

From 2008 to 2011, we increased local government's share of the Scottish budget and, in 2011-12, we maintained that share at the 2010-11 Scottish total level. In 2012-13, local government revenue funding will be maintained and, in each year of the spending review, local government will receive a larger share of the funds controlled by the Scottish Government, including business rates, than it did in the position that we inherited when we first came to office in 2007-08.

Local government will play a key role in supporting the Government's programme as set out in "Renewing Scotland: The Government's Programme for Scotland 2011-12". In particular, local government and its community planning partners will play a key role in taking forward the preventative spending approach that is a major feature of the spending review. Local government strongly supports the approach and we are working closely with it on establishing the change funds that will ensure that we can support preventative expenditure effectively.

The Government has agreed with the COSLA leadership an approach to delivering joint priorities between national and local government. That approach was described in my letter of 21 September to the president of COSLA, which set out the terms of the local government settlement for 2012 to 2015. I am pleased that COSLA has confirmed that local authority leaders support the settlement in principle.

As part of the settlement, local authorities will deliver certain specific commitments that will be very important to households throughout the country, including freezing the council tax, passing on funding to police boards as a contribution to allow them to maintain the number of police officers on our streets, maintaining teacher numbers in line with pupil numbers, securing places for all probationers under the teacher induction scheme and meeting the needs of our most vulnerable and elderly through the NHS and councils working together to improve adult social care.

In summary, the local government settlement for 2012 to 2015 provides the best outcome that can be achieved in challenging financial circumstances. Notwithstanding the challenges that it brings, it also provides a robust platform for building on the success that has been achieved to date through our partnership, which is working to deliver on the outcomes that matter to the people of Scotland.

I am delighted to answer the committee's questions.

The Convener: Thank you for those opening remarks, cabinet secretary.

You referred to local government's share of the budget, which, although slightly higher than that provided in 2007-08, is still slightly lower than last year's share. Of course, that is largely down to the fact that health has been protected, an approach that has been supported across the chamber. When that factor is removed, how does local government's share of the remaining budget compare with its share last year?

John Swinney: When we came to office, local government's share of the Scottish Government departmental expenditure limit and non-domestic rates income was 37.1 per cent; at the conclusion of the spending review, the share will be 37.2 per cent, which is higher. When health is removed from the equation, local government's share of Scottish Government DEL and NDRI rises from the 64.3 per cent it was when we came to office in 2007-08 to 68.9 per cent in 2012-13. It rises again to 69.7 per cent and settles at 69.5 per cent in 2014-15. Those figures illustrate that, as well as passing on the Barnett consequential to the health service in Scotland, we are strongly supporting local government in the remainder of the budget.

The Convener: Can you comment on the suggestion in COSLA's submission that the spending review settlement does not include additional resources for freezing council tax?

John Swinney: In this year's local government settlement, I decided to continue the trend that I have been working to with local government over the years and essentially provide individual local authorities with a defined set of resources while maximising their flexibility to deploy them in the most appropriate and suitable way. Of course, there are some caveats to that approach, one of which is that the settlement is conditional on support for the council tax freeze. That policy has certainly featured in the Government's agenda over the years and I think that local government has accepted the Government's approach in that respect. In continuing that trend, I incorporated in the overall settlement resources to maintain the council tax freeze. Making it an implicit part of the resources for local government will enable it to see clearly the resources that it will have over three years to support its activities.

The Convener: Just before I bring in Kezia Dugdale, I will stick with the council tax. As we continue to freeze the council tax—and nobody has come to the committee to oppose that in principle—there is a shift in the balance of the funding that councils generate themselves and

there is a question of accountability. Is the time right to use the next five years, during which the council tax is frozen, to look at the whole basket of taxes that are available to local government?

John Swinney: The Government said in its manifesto that, although we believe in a local income tax based on ability to pay, we do not think that this is the period to embark on that change. Rather, this is the period to embark on a process of dialogue to get us to a position of wider consensus. Both of us will recollect that Parliament in the previous session was firmly divided on the question of local authority taxation. At that stage, we did not know the outcome of the elections, but the view of the Government in its manifesto, which the Government will stick to, is that this is an opportunity to build agreement about how to progress on local taxation. The arguments about the council tax in principle have not gone away. We have taken the edge off many of the questions around the council tax and its level by freezing it since 2008-09 but, clearly, there is a debate to be had, which the Government will pursue in this session of Parliament.

Kezia Dugdale: I have a question about non-domestic rates, which I will come to, but I want first to pick up on what the convener said about accountability. Given that the amount of money that councils are raising themselves is falling, due, in part, to the council tax freeze, do you think that local government accountability is as strong as it used to be, or are we talking more about local administration than about local government?

John Swinney: We are firmly talking about local government. I understand the premise of Kezia Dugdale's question, but the Government has strengthened the relationship between local government and its communities by removing in excess of £1 billion of ring fencing and constraints on the way that local government spends the resources that are allocated to it. That gives local government more flexibility over its resources than it had when they were ring fenced, but it equally strengthens the requirement for local government to be in touch with and responsive to the aspirations within communities. In revenue budgets, local government is presiding over about £10.6 billion of resources and the Government has substantially relaxed the constraints that our predecessors applied specifying how local government should spend those resources. We have enabled local government to deploy much greater flexibility and I think that that is an entirely appropriate step to take. As a consequence of that, local government is in a position in which it has to be more responsive to the aspirations within the local community.

Kezia Dugdale: That is really helpful. Might that accountability be greater if we lived in more

plentiful times, because there would be more scope to spend revenue on things that are not purely statutory provision? Some of the problems just now are that councils are finding it difficult to be more flexible in how they spend their money, because they are spending most of their revenue satisfying things that they have to do, rather than things that they want to do.

John Swinney: I acknowledged in the settlement, and would not make any attempt to say otherwise to the committee or to Parliament, that we are clearly operating in much more constrained financial times. However, we are still spending an awful lot of money and the budget that I preside over still totals in excess of £28 billion. What has been interesting about my dialogue with local authorities is that, while they appreciate the constraints that they are operating under, they are actively involved in a debate with their communities not only about the 2 or 3 per cent of financial strain but about what they should be spending the other 97 or 98 per cent on in order to maximise its impact.

12:45

That debate opens up some interesting opportunities to put local government at the centre of community planning partnerships—that is what all the Government's reforms to strengthen those partnerships have been about—and ensure that, when local government makes decisions within its communities, it does so in a partnership arrangement involving other public sector players. By that device, we can generate services and support that meet people's expectations in their locality by looking not just at what a local authority does, but at what all public bodies are doing in the locality.

If, in my advancing years, I am becoming more intolerant of anything, it is of compartmentalisation and the attitude of, "This is my budget—it's got nothing to do with you." We must move beyond that. All the thinking about community planning partnerships, the alignment of spend between different public bodies, local government's reform agenda and our response to the public service reform issues, which we will discuss this afternoon in due course, is about encouraging a process of collaboration, alignment and integration. To go back to Kezia Dugdale's question, that allows local authorities to concentrate on the totality of what they are doing rather than on what statute says they must do. That opens up some interesting debates.

Kezia Dugdale: I do not think that there is anybody at this table who is not as committed as you are to breaking down those silos. We are all on the one page about that.

Let us move on to NDR. COSLA's written submission raises questions about the increased reliance on NDR. I notice that, in your projections, you are looking at a public health levy and changes to the empty property relief regime. Have you undertaken an impact assessment of how much those measures will generate? If not, do you intend to?

John Swinney: I have not undertaken an impact assessment of those two specific measures—the public health levy and empty property relief—and I do not plan to. I consider that carrying out an impact assessment would be disproportionate to the size of the revenues that are being raised. However, as the budget makes clear, I am involved in consultation on the contents of the budget, and many points are being made to me about both the public health levy and empty property relief.

You mention the degree of dependence on those resources. In the 2012-13 budget, the public health levy will contribute £30 million out of an NDRI pot of in excess of £2 billion. I do not accept the argument about increased dependence. In year 2 of the spending review, for example, the public health levy accounts for £40 million and empty property relief accounts for about £18 million. I acknowledge that those are large sums of public money, but I do not think that they increase dependence on the totality of non-domestic rates income in any significant way.

Kezia Dugdale: It is not about dependence; it is about reliance—there is a slight difference. A lot depends on the amount of money that councils will receive through NDR and the issue is whether your projections are reliable or whether what NDR brings in will fall short of them.

John Swinney: That is a slightly different question that is predicated on some of the wider issues, which I accept are material in this respect. The forward projections for non-domestic rates income are informed by the assessments of inflation at September 2011, 2012 and 2013 as well as by assessments of economic growth and losses from appeals. The assessments that have been made are robust—I considered them carefully before including them in the budget document—and I have confidence in the underlying data.

When I set the local government settlement, I guarantee those numbers; those numbers are provided for by the Scottish Government. I have to make certain that we can deliver those resources for local government. There should not be any issue of vulnerability from the local authority perspective.

Mark Griffin: Are you guaranteeing those figures over and above the potential increase in

non-domestic rates income that is generated through TIF projects?

John Swinney: I guarantee the level of business rates income that is in the settlement. The TIF projects may give rise to additional business rates income, but that would be part of the project, so it is essentially off my radar screen. It is a matter for the local authority, because it may use the resources from the TIF scheme to borrow for further investment.

Kevin Stewart: I am pleased that, in his opening statement, the cabinet secretary once again said that no local authority would receive less than 85 per cent of the average. That is very welcome in my neck of the woods.

Earlier, we heard from witnesses from COSLA, who said that they have now agreed the business rates incentivisation scheme and that that should come into play in the next financial year. Will the cabinet secretary confirm that? How will the BRIS contribute to sustainable growth in Scotland?

John Swinney: I confirm that position. I proposed to local government that we should introduce the business rates incentivisation scheme from 2012-13, and we have agreed the methodology for doing that. The scheme is a significant measure because it more emphatically involves local government in local economic growth. I have been working my way to doing that over the past few years.

After the establishment of Scottish Enterprise in the early 1990s, a mood was allowed to percolate that economic development was for Scottish Enterprise, and local government should have nothing to do with it. I utterly reject that view. I cannot understand the view that local government has nothing to do with local economic development; it has everything to do with it. Therefore, with the business rates incentivisation scheme, we have tried to give local authorities financial encouragement to develop propositions that may have a beneficial effect on economic growth.

As Mr Stewart knows, that may depend on other interventions that local authorities make that have a bearing on economic growth. For example, planning timescales and processes make a significant contribution to local economic growth. To varying degrees, local authorities are considered to be good places to undertake development and to have good planning processes. Some handle that fantastically and others have some room for improvement.

Local authorities' interventions on, for example, planning and transport infrastructure or the approach that they take to planning the educational estate can have a bearing on local economic growth. The incentivisation scheme is

designed to make local authorities even more encouraging agents of growth.

Ruth Davidson: I will ask about raising revenue and borrowing, and I will start with non-domestic rates. Local authorities expressed a concern that there is inflexibility in the collection of non-domestic rates and said that traders wanted to buy time—understandably, as times are difficult. Has the Government given any consideration to that?

John Swinney: The Government relaxed some of the collection arrangements for business rates to provide a bit more time at the acute period of financial difficulties in—Ms Davidson will forgive me while I try to get the year into my head. I suspect that it was 2009-10. I will check the date and, if I need to correct it, I will. That measure was taken in the context of the wider support that the Government makes available for the business community, particularly the small business bonus scheme. I do not have any plans at this stage to change the payment arrangements for non-domestic rates. We have set out our assessments of what we expect to collect. Clearly, the collection mechanisms will be in place to enable that to happen.

Ruth Davidson: Has any assessment been made of the ability of different councils to borrow prudentially? The ability will vary greatly across the country.

John Swinney: That is the case. There will be variation in the ability of local authorities to borrow, according to their existing commitments. I have not undertaken an assessment of the prudential borrowing capability of individual authorities, mainly because it is not for me to ask that question. Ultimately, the prudential borrowing approach requires officials in the local authority to determine that and to advise elected members appropriately. My coming to a view about it would be nice, but it is not critical to the process of prudential borrowing.

What the Government and I have done—this gets us into the space around the shape of the capital allocation to local government—is to commit to provide local authorities with 28 per cent of the capital DEL allocation made to the Scottish Government by the UK Government over the period until 2016-17. On top of that, resources will be provided to support the school estate programme into the bargain. Given that assurance from the Government, I decided to reshape the capital allocation so that it is lower than 28 per cent in years 1 and 2 of the spending review but higher than 28 per cent in year 3 and in 2015-16. However, in total over that four-year period, local government will get 28 per cent of the capital DEL allocation to the Government. I decided to profile the allocations in that way because, in 2012-13 and 2013-14, we face very substantial reductions

in capital expenditure as a result of the UK spending review and I want to maximise the ability to spend to support capital investment in Scotland. As Ruth Davidson will know, the Government does not have the ability to borrow—or not yet, I should say—but local authorities do. My judgment was that, with the assurance that the capital budget over the four-year period is secure, local authorities will have the opportunity to exercise flexibility. I have not assessed local authorities' ability to undertake prudential borrowing, nor have I tried to oblige them to undertake any of that borrowing, but I have encouraged them to do so.

Ruth Davidson: One of the submissions that we received said that that is an option that local authorities do not want. In a subsequent submission, COSLA stated that other areas of funding should perhaps be looked at—for example, a return to something like local government bonds. It surprised me greatly to see that put back on the table by a body such as COSLA. Do you have a view on that?

John Swinney: I definitely want to maximise capital investment in the Scottish economy. The Government is taking forward a range of innovative interventions to do that. The national housing trust, for example, is perhaps the most innovative approach that we have in the housing sector. I would encourage local authorities to look at ways in which they can maximise the resources that they have available for capital investment, particularly given the challenges that we face at this time in terms of the growth of the economy.

Kevin Stewart: Obviously, the chancellor's decision to increase interest rates for the Public Works Loan Board has an effect on councils' ability to borrow. Has the cabinet secretary had discussions with the chancellor to encourage him to review that decision?

Many councils have large common good funds and, for public bodies, quite large pension funds. Could there be flexibility and innovative use of those funds? At the moment, they are not getting a huge return from the financial markets.

13:00

John Swinney: The Government has expressed its concern over interest rates for the Public Works Loan Board, and in following up this exchange I will certainly make further representations to the UK Government.

If Mr Stewart will forgive me, I will discuss pension funds rather than common good funds, because the common good element can be a tad more sensitive than the pension fund element.

There is an opportunity for pension funds to be better utilised in supporting long-term capital

investment in Scotland. Mr Neil has been involved in a number of discussions with the National Association of Pension Funds on that point, and in due course I will be involved in some of those discussions, too.

Let us consider a piece of public infrastructure—it could even be one of the housing projects that Mr Neil has been taking forward. Clearly, there will be revenue support from the building of a road that is funded through private resources or from the rental income related to some social housing in the public sector. That strikes me as the kind of dependable and reliable income stream that would provide pension funds with the return that they want. There is a great opportunity to use significant resources to a better purpose in supporting the development of Scotland's capital estate. I assure the committee that ministers are considering that approach.

Mark Griffin: I agree with your intention of maximising capital spending in the Scottish economy. Will you consider assisting local authorities with the revenue cost of additional borrowing to facilitate that?

John Swinney: That takes us into slightly trickier territory. I have to watch the Government's relationship with borrowing by local authorities. If I were to support any such borrowing in the fashion described, it would almost certainly be judged to be supported borrowing in Treasury terms, which would then count against my overall capital ability to spend.

I have a capital DEL threshold that I must live within. If I were to support local authority borrowing in that fashion, it would count against that—I do not think that there is any doubt about that. Providing such support would therefore be counterproductive to my objective of expanding the capital envelope that I am trying to secure.

I have tried to construct an arrangement that assures local government that, over a four-year period, it can rely on a certain amount of capital investment. With that assurance, local government can then form a view on how much, independently, it can borrow as part of the prudential code. That will allow local authorities to make sustainable decisions within their own areas. The Government will also be able to distinguish between what is supported borrowing and what is not.

Bill Walker: From what he said earlier, I am pleased that the cabinet secretary is not forgetting about local income tax—which is a far more equitable way of raising money in the community.

We have been bashing around ideas on what is preventative spend with all sorts of people. What are your views? You can imagine that all sorts of projects could be dressed up to look as if they

represent preventative spend, whether they do or not. Of course, local authorities should be considering their own internal preventative spend. What do you regard as preventative spend? Might you issue some formal guidelines on the subject?

John Swinney: I will probably resist the temptation to publish guidance. I do not think that it would take us further forward, because the minute such guidance is published it tends to restrict creativity and drive a process in public bodies that is about configuring their work to that guidance. There might be ideas out there that are better than the ones that central Government can come up with.

As regards Mr Walker's core question, the Finance Committee held a comprehensive inquiry on preventative spending in the previous session of Parliament. The parliamentary debate that followed the publication of the inquiry report was one of the more encouraging debates that we have had. It gave an indication of the Parliament's enthusiasm for preventative spending and how much light it believed had been shed on the subject by the Finance Committee's work.

We are in a good position because we have a strong consensus among all public bodies on the importance of the preventative spend approach. It is not necessary for us to have an argument about whether preventative spend is a good thing or a bad thing.

Preventative spending will take different forms. For example, it will take the form of ensuring that we minimise the amount of time that older people spend in acute settings and maximise the amount of time that they spend in community settings. It will involve our taking some difficult and, indeed, agonising decisions about how best to support the youngest in our society and improve the circumstances into which they are born. In addition, a variety of health interventions will be made to encourage the population to be healthier and to take more interest in their wellbeing with a view to preventing any acute conditions from developing.

I use those examples to illustrate the Government's direction of travel, but I do not think that it would help if I were to specify our thinking in guidance.

Bill Walker: One of the tests might be that other parties should be involved and that there should be a substantial element of joint working and partnership. Each council should be doing its best anyway, but do you think that there should be a requirement for partnerships involving the health service, councils and the third sector when it comes to preventative spending?

John Swinney: When I set out some of the details on preventative spending to Parliament, I

indicated that, for example, bids for the adult social care change fund would be acceptable only if they involved joint working. That fundamental point takes us back to one of the major themes of the Government's public service reform agenda. Collaboration and service integration are very strong themes in the argument that the Government wishes to advance in that debate. Suggestions such as the one that Mr Walker makes are important in guaranteeing greater co-operation in the formulation of proposals that will truly change the way in which we deliver public services.

Kezia Dugdale: I have a great deal of sympathy with the position that it would limit creativity if you were to put in place rules and guidance, but there is a problem with everyone trying to redefine what they are already doing as preventative spend in order to justify it. We need to find a balance. I could make a convincing argument that the provision of a living wage is preventative spend, but you might not view it in the same way. How do we avoid everyone redefining what they are already doing as preventative spend?

John Swinney: I think that I am persuaded on the living wage argument—I have done my level best on it so far, but I am sure that Kezia Dugdale will continue to encourage me in the months to come if I look as if I am not moving quickly enough.

We are probably in the same place on the issue. If I were to put any rules in place, I would probably put in place the rule that Bill Walker suggested, which is that there has to be some degree of joint working. Part of my view and the Government's view about how we address some of the long-term demographic challenges that we face involves ensuring that we have a seamless integration of the way in which we deploy public expenditure at a local level. That must be the correct way to proceed. That is equally valid with regard to the preventative spending agenda.

I recently spoke to the local authority chief executives, the health board chief executive and the fire and police chiefs in the Tayside area, which I represent. They made a powerful point about the fact that many of the issues that they wrestle with can often be clearly identified in particular communities and, in some cases, particular families. None of the problems is neatly compartmentalised on one person's desk, but the manner of their collaboration is fundamental to how those issues can be resolved. That is the type of climate that we are trying to create.

David Torrance: What measures has the Government put in place to ensure that preventative spending is spent on preventative approaches? Councils could say, "We are already

doing that," and the money could disappear into the general pot.

John Swinney: We are having constructive discussions with all partners on those questions. With regard to what we have put in place in this financial year on adult social care, there is a joint improvement team that considers all the propositions that come forward. It tests whether the measures are truly collaborative and will contribute to the preventative approach. That is an external test that is applied to ensure that the projects are fulfilling those criteria. We will be looking to develop similar approaches that will give us that level of assurance.

Kezia Dugdale: Last week, a gentleman from Age Scotland talked to us about the change fund for health and social care. He said that, of the money that he had seen spent, 19 per cent had been spent on prevention and the rest had gone into other pots. Are you willing or able to comment on that?

John Swinney: I would not want to put a number on it today, because I would simply be making up a number and in my experience that is not a good thing to do in front of a parliamentary committee. However, 19 per cent does not feel like the right judgment to me. I will explore that evidence and write to the committee about it.

The Convener: Some of the witnesses who have come before us have expressed concern about the implications of welfare reform for service provision in the years to come. What was the approach to welfare reform in the spending review?

John Swinney: At the outset, I should register my concern, which I know that I share with COSLA because it has raised it with me, about the fact that it is likely—indeed, almost certain—that the United Kingdom Government's welfare reform programme will increase the financial pressure on the devolved Administration and local authorities. For example, council tax benefit is to be abolished on 1 April 2013. I think that a sum of money will be transferred to Scotland to replace that, and I think that it will come to 90 per cent of what is currently paid in council tax benefit. However, that is the limit of my knowledge of where we are, even though the benefit will be abolished on 1 April 2013 and today it is 2 November 2011.

In the interest of being frank and transparent with the committee, I register my unease about where we are on those points, which I have made clear to the UK Government ministers for some considerable time. We will have to take great care in responding to the welfare reform. There are also implications for housing benefit, which will have a direct impact on local authorities into the bargain.

It is entirely reasonable for there to be unease on the matter.

13:15

We have established a group with COSLA to make some progress on the council tax benefit issue, but whether we make progress is heavily dependent on our dialogue and interaction with the UK Government. Although I am happy to deal with COSLA, it is respectful of the fact that there are some questions that I cannot yet answer.

Let me turn to some of the wider issues to which your question relates. In the spending review, we have tried to make decisions while being mindful of the duties that we have taken on ourselves, which are reflected in the Government's national performance framework.

Although the Government's purpose is to increase sustainable economic growth and to create opportunities for all to flourish, we must be mindful of certain considerations in approaching that challenge. There are questions of equity within the population, questions of regional considerations and questions of the solidarity purpose target and how the spending review affects the different groupings in our society. We are also mindful of our equality duties, which were the subject of my separate evidence to the Equal Opportunities Committee last week. All those factors have a bearing on the Government's decisions in the spending review, but we will have to continue to consider the further implications of welfare reform as the spending review takes its course.

Mark Griffin: The Government has stated its commitment to what has been called the social wage, one strand of which is a freezing of the council tax. What will be the impact on the social wage of local authorities increasing or introducing charges for certain services in order to bridge any funding gap?

John Swinney: Local authorities will make their own decisions about fees and charges. They are on a broad spectrum in doing so: some authorities have extensive charging arrangements, while others have a minimal level of charging. It is entirely appropriate for local authorities to make their own judgments in relation to their circumstances.

Local authorities must also be mindful of their equality duties, just as I must be mindful of mine as a minister in the Scottish Government. As I made clear to the Equal Opportunities Committee and as all my colleagues have made clear in their submissions to the equalities impact assessment of the budget, at different stages in the process we all considered the implications of the measures that we are taking to ensure that they are

consistent with our commitments to equalities. That applies just as strongly to local government.

The Convener: Thank you. I suspend the meeting to allow the officials to change.

13:18

Meeting suspended.

13:19

On resuming—

Public Services Reform

The Convener: Agenda item 5 is public services reform. We are again joined by the Cabinet Secretary for Finance, Employment and Sustainable Growth, John Swinney, who is supported by Alan Johnston, deputy director of public bodies policy in the Scottish Government, and Ian Davidson.

Before Mr Swinney makes his opening statement, I am sure that all members would like to join me in recording our sadness at the death last week of Campbell Christie, who chaired the commission on the future delivery of public services.

John Swinney: Convener, may I perhaps start there? On behalf of the Government, I want to express, as the First Minister did on Friday, our very real sadness at the death of Campbell Christie. He agreed to take on the convenership of the Christie commission at a time in his life when that was a great challenge to him, because of his health. It is a measure of his outstanding commitment to public service in Scotland that, despite the health challenges that he faced, he led the Christie commission with such distinction. The commission's report for us—I will comment later on the substance of it—was a product of Campbell's ability to build agreement and consensus within Scotland and it has been of enormous assistance to the Government.

On behalf of the Government, I express our condolences to Campbell's family and assure them of the deep respect and affection with which Campbell was held, in so many different ways, in the public sector, public services and civic life in Scotland. I refer particularly to the way in which that report has informed our deliberations.

The Government's response to the Christie commission report sets a clear and challenging direction of travel for public service reform. Our reform programme challenges all public services to reshape, to integrate and to deliver improved outcomes for people. A quicker pace of change is vital if we are to live within our means during this parliamentary session and ensure that our public services remain sustainable in the medium term. However, I am clear, too, that reforms must be anchored in Scottish thinking. Perhaps the strongest testament to the work of the Christie commission is that it has produced some thinking that is in keeping with the grain of Scottish society.

The Christie commission and the preceding independent budget review have both done

valuable work. The Christie commission endorsed the Government's direction of travel on public services, including the major shift of emphasis towards outcomes and the centrality of community planning. However, the commission also delivered a pointed message that urges us to build on recent progress by clearly accelerating the pace of change. We are building our reform agenda around the four pillars of integration, improved performance, workforce development and prevention.

First, on integration, public service organisations must go further on collaboration and move well beyond the limited agenda of shared services. Building on achievements in the past four years, we will sharpen the focus of public services on place as a magnet for partnership and enhanced public participation in the design of local services. We have also made clear our intention to integrate more closely health and social care services. The Cabinet Secretary for Health, Wellbeing and Cities Strategy will make a further statement on that issue shortly.

Secondly, we believe that there should be greater investment in the people who deliver services through enhanced workforce development. Their expertise, energy and creativity can help to shape our evolving programme of renewal and improvement. We have done our utmost to safeguard front-line posts by pursuing responsible pay restraint. That approach has given many public sector workers stability and job security at a time of great uncertainty.

The third pillar of our reform programme is that we are committed to creating an open, transparent and rigorous performance culture in Scottish public services. I am keen to ensure that external scrutiny, such as audits and inspections, support public service reform. I have therefore asked the Accounts Commission to work with others to explore how best scrutiny activity can promote effective practice in community planning partnerships.

The fourth and final element of our public service reform agenda is prevention. In developing our budget plans, it would have been easy to apply spending reductions across the board, but amid all the competing priorities we took steps to deliver a decisive shift towards preventative spending. The spending review identified significant funding to incentivise the required transition towards prevention across public services. Our focus will be on supporting adult social care, early years and tackling reoffending, with specific funding that will be available only for joint working across institutional boundaries and sectors.

Over the next three years, through the joint priorities work of local and national Government, preventative spending initiatives will be significantly enhanced and will deliver a preventative agenda that will address the increasing demand for public services. The Government will work co-operatively with other public bodies to ensure that the measures that we develop reflect that agenda. We will also provide strong leadership and a clear direction that support our agenda of improving outcomes for people and communities across Scotland.

Kezia Dugdale: The Christie commission report contains so much that it is hard to know where to start. I associate myself with your comments about Campbell Christie. The commission's document is readable—it is in plain English and is nice to read. Who knew that public service reform could be so interesting? I understand from James Mitchell's evidence to the committee that Campbell Christie insisted on that approach from the start. That is a tribute to his public service ethos, which you mentioned.

The report talks about communities of place and communities of interest, which are fascinating. I worry a little about the people who are furthest removed from the system and who are the most vulnerable in our society. When we have the Christie report and we are considering how to change the cultural ethos of how our public services work, how do we protect the most vulnerable if they cannot speak up for themselves?

John Swinney: Kezia Dugdale puts her finger on the Christie commission report's value. When I read the report, I felt greatly encouraged that the commission's approach was broadly consistent with the Government's agenda. I would not quite say that I felt vindicated, but I was certainly encouraged. However, the sharp message in the report was, "Get on with it." I was seized of the point—it was made elegantly but was unmistakable—that we must make progress on the agenda.

It is helpful that the report gives us an agenda that does not suggest a shift that would be undeliverable because the political consensus does not exist in Scotland. The political consensus in Scotland is in the same place as the Christie report is. The Government must provide sufficient leadership to ensure that the pace is delivered and I willingly accept responsibility for that.

Kezia Dugdale mentioned the most vulnerable and those who are furthest from the labour market, from public services or from having a connection with our communities, who remain one of our greatest challenges. A tremendous amount of unfulfilled potential and underused resource is among those individuals—let us define them as

hard to reach, as a catch-all for the different categories. The Christie commission says that we must focus not only on place but on people, and on people as part of place. It exhorts us to encourage the participation of all bodies that can contribute to that agenda.

Principal on my agenda will be the third sector. I spend a lot of my time on looking at projects around the country in which the third sector has deployed innovation and at projects in which a connection has been made with people who were in a difficult space in their lives—often, but not invariably, through drug and alcohol abuse—and a journey has commenced. Such a process is time consuming, expensive and painful, but the rewards at the end for individuals and for the public purse are enormous, because the individuals involved have much better outcomes.

The third sector's role is crucial to the agenda. It is important for us to focus on encouraging a creative agenda to find solutions that address how every individual has a part in each place.

Kezia Dugdale: I welcome your comments about the voluntary sector, which would say that it plays a huge role in service delivery that relates to a lot of aspects of the Christie report but that it perhaps does not have the same level of involvement in the allocation of resources. Should the voluntary sector have a bigger role and be more closely involved in that decision-making process?

Finally, you make a very important point about leadership being critical to Christie as a longstanding document. Do you find it difficult to look at Christie beyond the budget and to ensure that we are looking at transitional and cultural change over decades, rather than just during the spending cycle? How does the Government translate the ethos of Christie across all Government departments and in the wider ambition that it has for our country?

13:30

John Swinney: I might take a few hours to deal with that question, convener. It gets to the nub of a lot of questions that have me pacing the floor at night. I will come back to that.

On the point about third sector funding, one of the reforms that the Government has undertaken is to establish the interfaces at local level—there are 32 interfaces, one in each local authority area. When I was exhorting the public sector to have more to do with the third sector, I was being asked in return, "Who do we talk to?" We went down the route of marshalling the interfaces at local level so that the public sector had no excuse to say, "We don't know who we should talk to, because there is such a plethora of organisations."

On Monday afternoon, I addressed the conference of Voluntary Action Scotland, which is the umbrella body for the interfaces. I invited them—I reiterate the invitation to the committee today—to advise me if those arrangements are not working. I have put the arrangements in place and, in my view, the third sector should be represented at the community planning partnership table by the interface. The interface should be able to look at all the resources together to see how it can play a part in making that money realise some of the ambitions that Kezia Dugdale talked about; in reaching the hard-to-reach in our society; in ensuring that there is greater integration of service provision; and in making more of an impact in improving outcomes. All of that has been equipped by the Government's arrangements.

I want to know if people think that the arrangements are not working, because my aspirations, which are completely in line with those that Kezia Dugdale set out, are dependent on whether the mechanism works. I get a lot of good feedback; I am sure that there is difficult feedback out there as well, but I assure the committee of my interest in ensuring that we take the issue forward.

You asked how Christie and the budget fit together in the short and the long term, and about the Government's leadership role. In 2007, we made the shift towards outcomes—the Christie commission report is helpful to us in that regard, because it invigorates the direction of travel that we set out; we encouraged the formulation of single outcome agreements at local authority level; we sharpened the pace of that process; and we involved more community planning partners in it. We started the process of recognising that none of the solutions that we all seek is neatly the responsibility of any one organisation; they are spread across the public and third sectors. We have tried to create a longstanding framework that resolves many of those questions at local level, through community planning partnerships and the willing participation of different bodies locally; which brings the third sector to the table; and which focuses not on inputs, but on outcomes and on long-term transformation.

That is very much the thinking behind the Government's national performance framework; when we designed the framework, we hoped that it would be a long-standing structure. We are looking at that framework just now. We will not make much of a reform to it, because we think that it is important that we establish the architecture, stick with it, deliver against it and be tested against it. That is the type of framework that I have in my mind. It gives us the bridge between the short-termism of an annual budget, which we have just talked about in relation to local government, the medium-termism of the Christie commission, and the long-termism of the national performance

framework. I think that that all fits together in a way that disciplines the Government to work in that fashion.

The challenge is to ensure that every bit of Government is pointing in the same direction. The frustrating days come when you suddenly discover something and wonder how anyone could have thought that it was consistent with all that I have just said about short-termism, medium-termism, and long-termism. We still find pockets of—well, you know. *[Laughter.]*

Let us just say that it has taken a while for the news to reach certain corners. Equally, there are some shining examples. I was very struck by some of the dialogue that I had with people in the Scottish Prison Service who told me about the contribution that their rehabilitation programmes make to supporting the Government's purpose. That is absolutely what it should be about. By reducing reoffending and reducing the prison population, those individuals have made a positive contribution. We continue to exhort that message.

Ruth Davidson: I welcome the cabinet secretary's continued movement away from inputs towards outputs and, most important, outcomes. When he talks about the framework, what are his thoughts about the provision for benchmarking or on benchmarking as a tool?

John Swinney: I referred earlier to the performance culture. In a sense, that is the approach that I would take on the question. Benchmarking is a tricky term. It can lead us to a conclusion in which we tabulate different public services rather than improve them.

Yesterday I addressed the all-staff gathering of Audit Scotland. That gave me an opportunity to explain that I am looking for the audit community to ensure that public money is being spent wisely and judiciously—that is its duty. I am also looking for it to take out the Government's message on improving the performance culture to identify which areas have not quite got the message—Kezia Dugdale mentioned that—and what we can do to improve performance at the local level. I am interested in the concept of performance improvement, but I do not want it to be viewed as a tabulation process. There is a potential danger of opening ourselves up to that if we go down the benchmarking route and do nothing else.

Ruth Davidson: I associate myself with your comments about getting away from any sort of tabulation or the league-table culture that we might have had in the past. However, when wholesale change is being made, it is important to measure the impact of that change. When changes in different areas mean that different ways of working need to be assessed, it is important to have instruments that are sophisticated enough to do

comparisons that are fair to individual local authorities and health boards, for example, when health and social care are combined. The impacts still have to be assessed. Is there any Government direction on how that might be achieved, or are there any ideas on where such direction might come from?

John Swinney: Some work that has been initiated by SOLACE through the Improvement Service is looking at those areas of benchmarking. Some of the research that has been produced demonstrates that, for example, an authority can spend a lot on a particular service area but deliver poor outcomes, while a low-spending authority is delivering great outcomes. That gives rise to a few questions. An element of comparison on cost and efficiency is now being done to challenge some of the ways in which public money is being used and how it can be better used. Of course, if some of those project initiatives succeed, resources will be freed up to invest in some of the greater and deeper challenges that exist within our public services.

Kevin Stewart: I concur with the views about Campbell Christie. Probably the greatest tribute that we could give to him would be to get on with it, as the cabinet secretary said.

We heard about the SOLACE benchmarking project from COSLA. I believe that COSLA will be discussing it on Friday, and that the Government has a copy of the decisions—[*Laughter.*] Obviously, that is a surprise to the cabinet secretary. It would be interesting for the committee to get those decisions sooner rather than later.

If benchmarking is done wisely with a good leader in place, and if it enables someone to see that something is not quite right on their patch, it leads to greater aspiration. People can ask why they have not done so well. We should concentrate on looking at best practice in all places and analysing the difficulties. We should not be hung up on league tables, but we should create the required aspirations. Will the cabinet secretary comment on that?

John Swinney: My aspiration in all this activity is to improve performance. It is not about making an example of people; that is completely pointless. We should not pillory an area just because its service is not the best designed; we should set a direction for it that improves performance. I agree with Mr Stewart's point about that.

I have yet to see the SOLACE report and from the blank looks I see on the faces of my officials, I think that none of us has seen it. It might have come in somewhere in the Government, but it has not got anywhere near this end of the table yet. We will be happy to give the committee our observations on it in due course.

Bill Walker: I, too, associate myself with all the positive comments that have been made about Campbell Christie and his report, especially on its readability.

The foreword to the Government's response refers to the

"greater integration of public services".

That is an important and wonderful statement, in my opinion. Does it extend to such revolutionary things as merging different chunks of delivery services? I am thinking of social care in local government and the health service, because that is where there is tremendous scope for joint management and perhaps even merger-type activity at management level. The message needs to get through about working together. You mentioned that earlier, cabinet secretary; I think that you referred to the silo mentality and people saying things such as, "This is my budget, not yours." Are you thinking along those lines?

John Swinney: The Government's approach to public service reform does not involve the type of wholesale structural reorganisation that we are doing in the police and fire services. We are interested in pursuing collaboration and integration, as was set out in the first pillar of our response to the Christie commission. There are many examples around the country of good collaboration and the integration of different aspects of public service. For example, Midlothian Council and East Lothian Council have voluntarily merged their education and social work services. They have not merged local authorities, just the services. They are two comparable, smaller local authorities and they can clearly see benefits in that way of working. At the other end of the country, NHS Highland and Highland Council have agreed that Highland Council will take leadership of delivering services for early years and NHS Highland will take leadership of delivering services for adult social care.

Different models are possible. I used those examples of local authority collaboration and health and local authority collaboration to illustrate the point that if I were to design a one-size-fits-all approach, I guarantee that it would not keep anyone happy. The approach that we have chosen, in essence, requires that collaboration and co-operation, and a financial framework that enables it to happen. We then pursue it on that basis.

The Cabinet Secretary for Health, Wellbeing and Cities Strategy will, in due course, make a statement on the specific point about health and social care services. That will set out the Government's aspirations for the further integration of those services.

The Convener: As there are no further questions, I thank the cabinet secretary for his double evidence session. I am not sure what he did wrong, but it came after he gave evidence at the Economy, Energy and Tourism Committee—he must have been very naughty at some time to get a triple.

Meeting closed at 13:45.

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