The Committee will meet at 11.00 am in the Conference Room, Moray College, Elgin, to consider the following agenda items:

1. **Budget Process 2006-07**: The Committee will consider the outcome of the workshop sessions involving local organisations held before the start of the meeting.

2. **Efficient Government**: The Committee will note a paper from the budget adviser.

*Not before 1.35 pm*

3. **Budget Process 2006-07**: The Committee will take evidence from—

   Tom McCabe MSP, Minister for Finance and Public Service Reform;

   David Stewart, Head of Finance Expenditure Policy Division; and John Nicholson, Finance Co-ordination, Scottish Executive Finance and Central Services Department.

4. **Item in Private**: The Committee will decide whether to consider its draft submission to the Scottish Executive’s Budget Review Group in private at its next meeting.

Susan Duffy
Clerk to the Committee
Room T3.60
Extn 85215
The papers for this meeting are:

**Agenda Item 2**

Paper from the Budget Adviser

**Agenda Item 3**

*Draft Budget 2006-07* (previously circulated to members in hard copy only; electronic versions available via Scottish Executive website)

PRIVATE PAPER
Finance Committee

24th Meeting 2005, Monday 7 November 2005

Efficient Government: Summary of Council Responses

1. In June, the Committee agreed to seek further written information from local authorities regarding their approach to managing Efficient Government targets, following the site visits to Glasgow and Stirling councils. The Committee has already expressed its concerns over the disproportionate share of cash releasing efficiency savings allocated to local government, and these study visits revealed that in both cases the authorities were making savings from a much broader range of areas than the five Gershon-type workstreams contained in the Executive’s Efficient Government Plan. Members are concerned at the potentially adverse consequences of the exercise for levels of services, staffing, and council tax, and decided to write for further information from all councils.

2. We have received written submissions from ten authorities. This information is very helpful to the Committee. In the meantime, COSLA have contacted the convener to say that they want to provide a collective submission. The Convener responded that the Committee’s desire to hear from individual councils stemmed from the fact that individual local authorities would be responsible for determining how they would achieve their share of efficiency savings. The Convener also agreed to meet with COSLA on the understanding that the issue needed to be resolved by early November. There has been no further response from COSLA.

3. However, as the ten responses provide a valuable sample of the approaches being adopted by local government and information of considerable relevance to the Committee’s consideration of the budget implications of the EGI, I have drawn out the main issues for your information.

4. The EGI was presented as an attack on “waste, duplication and bureaucracy” (forward to EG Plan) which identified five workstreams for delivering the required savings – procurement; absence management; asset management; shared support services; and streamlining bureaucracy – from which savings would be released for investment in frontline services. Whilst four of our sample authorities highlighted these themes, and set up reviews of these workstreams in 2005 with a view to confirming and identifying potential savings from them, or basing bids to the Efficient Government Fund on them, six councils treated the resulting reductions in block grant as part of their normal budget process and set savings targets for departments on the basis of their financial strategies for spending and council tax levels.
5. In the case of Highland Council, savings packages of £15m in 2006-7 and £14m for 2007-8 have been agreed, but in each year, the element reflecting EGI workstreams is only 1.8% - £2.7m and £2.6m in each year. Similarly, in Glasgow, only £5.8m of a £19.8m savings package came from efficiency savings as defined in the Efficient Government Plan.

6. In other councils, directors are given targets to make savings which are consistent with council’s policies and priorities, for example, East Lothian were hopeful of meeting their target of a 2.2% reduction over 3 years, without “job losses or significant reduction in service to the public”, whilst Aberdeenshire Council reported that its target of £15m was “hardly likely to be attainable from back office services alone which are budgeted to cost not much more than the projected saving of £15m.” Most authorities are engaged in budget savings exercises to meet their own spending and council tax objectives. To quote from Highland Council again, “Given the level of budget gap that is forecast, it is highly unlikely that efficiency savings alone will be sufficient to close the gap. Other measures to limit and reduce expenditure will be necessary.”

7. All the councils in our sample were engaged in budget reducing exercises, despite the growth in planned spending in the local government settlement. In Stirling Council, delivery of savings targets has been devolved to directors, whilst reviewing the prospects for greater savings through procurement, service restructuring and targeted severances. In Argyll and Bute Council, the emphasis is on conventional budgetary savings such as the trimming of training, internal transport and running costs budgets. In South Ayrshire Council, there is to be a fundamental review of spending to save 3% of the revenue budget by asking directors to identify “opportunities for budget reductions”. In Aberdeen Council a series of Best Value Reviews have been identified in order to deliver the desired savings ie, increased revenue of fleet services, ground maintenance, council house sales, roads maintenance and construction, building services, street cleaning, sports management, other catering, central services and building cleaning, with a target of £4.25m p.a. or 1.1% of the revenue budget.

8. In short, councils are having to engage in a more broad ranging approach in the search for savings than ‘efficiency improvements’. For example, whilst teaching staffing costs budgets were exempted from the Efficient Government Initiative, Glasgow is planning to reduce these costs by over £1m to reflect school roll decline. Clearly this is a budget saving, not an efficiency gain.

9. Falkirk Council has estimated it will require to save £13m in 2007-08 in order to meet the Executive’s 2.5% target for council tax increases. However, its share of the efficiency savings is only £3.2m. It is examining the workstreams identified in the Efficient Government plan,
but will require to bridge a much bigger budget gap to meet the target for council tax, given numerous cost pressures on pay and other costs. A £13m saving is around 5% of the revenue budget. Aberdeen Council has treated the efficiency targets as part of their wider strategy of continuous improvement, not as a parallel agenda. It is pursuing joint working with other public sector agencies as a means of identifying further efficiency gains.

10. Finally, little mention is made in council reports of output measurement, which is crucial for demonstrating efficiency gains. Glasgow acknowledges the need for “a service profile for the baseline year” in order to allow performance to be measured, whilst Highland stressed the need for outputs as “baseline efficiency criteria” which can be used as benchmarks. Councils which have been subject to Best Value Audits will be ahead of the game, and what is needed are national “service profile baselines” to monitor overall progress by the Executive.

11. In conclusion, the general impact of the tight settlement for local government is to put severe pressures on service levels and council tax levels. The Committee may wish to consider the adequacy of the funding provision for local government for its Stage 2 Budget Report.

Professor Arthur Midwinter
Budget Adviser.

Submissions were received from the following councils:

Aberdeen
Aberdeenshire
Argyll and Bute
East Lothian
Falkirk
Glasgow
Highland
Moray
Stirling
South Ayrshire