The Committee will meet at 2.00 pm in Committee Room 4.

1. **Decision on taking business in private:** The Committee will decide whether to take item 5 in private. The Committee will also decide whether to consider the evidence heard on its inquiry into local government finance at future meetings in private.

2. **Local Government Finance inquiry:** The Committee will take evidence in a roundtable discussion from—

   Professor Alan Alexander;

   Jo Armstrong, Independent Consultant;

   Professor Stephen Bailey, Professor of Public Sector Economics, Glasgow Caledonian University;

   Professor Richard Kerley, Professor of Management and Vice Principal, Queen Margaret University;

   Rt Hon Henry McLeish;

   Angela Scott, Head of the Chartered Institute of Public Finance and Accountancy in Scotland.

3. **Work programme:** The Committee will confirm decisions relating to its work programme.

4. **Subordinate legislation:** The Committee will consider the following negative instrument—

   the *Environmental Impact Assessment (Scotland) Amendment Regulations 2009 (SSI 2009/221).*
5. **Local Government Finance inquiry:** The Committee will consider the main themes arising from oral evidence heard.

Susan Duffy  
Clerk to the Local Government and Communities Committee  
Room T3.40  
The Scottish Parliament  
Edinburgh  
Tel: 0131 348 5217  
Email: susan.duffy@scottish.parliament.uk
The papers for this meeting are as follows—

**Agenda item 2**

PRIVATE PAPER LGC/S3/09/20/1 (P)
Local Government Finance inquiry - Written Submissions LGC/S3/09/20/2

PRIVATE PAPER LGC/S3/09/20/3 (P)

**Agenda item 3**

Work Programme LGC/S3/09/20/4

**Agenda item 4**

Cover note on SSI 2009/221 LGC/S3/09/20/5
Local Government and Communities Committee
20th Meeting, 2009 (Session 3), Tuesday, 1 September 2009

Local Government Finance Inquiry – Submissions

Introduction

1. The Committee agreed to hold evidence sessions as part of its inquiry into Local Government Finance. At this meeting the Committee will be holding a roundtable discussion.

2. The Committee has received several written submissions in response to its call for evidence. The following submissions are attached:

   - Aberdeen City Council
   - Aberlour Childcare Trust
   - Accenture Scotland
   - CBI Scotland
   - CIPFA
   - The City of Edinburgh Council
   - Community Care Providers Scotland
   - Scottish Association for Mental Health
   - Scottish Property Federation

Susan Duffy
Clerk to the Committee
SUBMISSION FROM ABERDEEN CITY COUNCIL

I enclose, by way of background, a paper submitted on 17 April 2009 in response to a request on the effects of the recession and the pressures and strategic choices for public spending in the Scottish Government's 2010/11 Budget. The budget pressures identified in that paper are still very relevant at the present time.

In addition, you sought responses on some specific questions. I would respond as follows:

What has been, and is likely to be the main impact of the current recession on local authority finances.
- The attached papers dated 17 April 2009 identifies the likely impact across a range of services and budgets.

What will be the current recession mean for the provision of local authority services and for local communities more generally.
- Rising energy costs will have an impact on the level of services we can provide.
- Increased chance of competition from alternative service providers, not only in the UK but globally.
- There may be a significant increase in public health issues directly or indirectly associated with a depressed economy which would require to be resolved, e.g. increased public health problems associated with poorer diet / stress / poorer hygienic practices / increase in anti-social behaviour, etc.
- In times of recession, workers who are made redundant may be tempted to start up businesses with little thought to safety, trading standards, etc. There may also be businesses who exploit people who are desperate to work by not complying with health and safety at work practices.
- The demand for Health and Care and Leisure Services is likely to increase.
- The fall in property values means that it is not so attractive to dispose of property and rationalise the Council's estates portfolio, thereby property savings will be difficult to achieve.

What do you consider are the main mechanisms available to local authorities to alleviate the impact of the recession on the local communities they serve.
- A higher level of community engagement is necessary to provide services / facilities which the Council cannot provide from its own resources alone.
- The Shared Service Agenda has to be pursued wherever possible, with Government incentives to pursue this agenda.
- Greater demand for training in new skills which creates a more mobile workforce and facilitates skills transfer. Increase in demand for community
learning programmes. This could all have an adverse effect in directing scarce service provision away from the elderly, vulnerable and the needy.

What actions do you think the Scottish Government could take to assist local authorities during the current period to attempt to ameliorate the effects of the current recession.
- Introduce a power of public sector wellbeing, or something equivalent, which facilitates shared services / joint working across public sector partners, and removes some of the audit barriers.

- Provide additional funding to support key services. Extend support to Voluntary Sector schemes.

- Increased funding for Spend to Save schemes.

What are likely to be the longer term demands and cost pressures on local authority services.
- Local authorities are already planning the downsizing of their workforce and reducing non core activities. This will have an effect both on the local job market and on the range of local authority services which can be provided. It is anticipated that there will have to be further reductions in some services (and workforce) in order to fund increased demand for other services.

I trust you find these comments helpful.

Gordon Edwards
Strategic scrutiny of the Scottish Government’s 2010-11 budget - call for evidence

I write in response to your request of 5th March 2009 seeking views on issues to be addressed in the Scottish Government’s enquiry on the effects of recession and the pressures and strategic choices for public spending in the Scottish Government’s 2010-11 budget. Please see below the detail we have been able to gather.

Current indications are that Aberdeen City’s Economy is less affected to date than other parts of the country, and this is mirrored in the impact on Council services, incomes and costs to date. However, if the Oil price remains low and the global economy does not start to recover, the experience of other Local Authorities suggests that there will be a significant impact on the Council’s finances. Our focus therefore is on ensuring this impact is minimised (through our economic resilience strategy) and our response is effective (through a robust medium term financial plan).

1. What direct effects of the recession are already being seen through such aspects as increased demand for services, reduced income streams and higher costs?

1.1 Planning & Building Standards Fees
One of the main areas of budget pressure for the Council is planning and building standards fees which represent a significant income stream. The income trend from previous years has been an upward one, with income receipts exceeding budget estimates. The 2008/09 figures show a reduction in fees which can be linked to a downward trend in development activity as a result of the current financial climate. It also reflects the inclusion in the budget of an anticipated increase in fees to cover the cost of neighbour notification for planning applications which was not implemented. Income from planning applications to March 2009 was 70% of that budgeted for. Income for building standards for the same period was 91% of the budget. Overall, we had a shortfall across both services of £500k (16%) against budget for 2008/09. There is, however, additional building standards income of £100,000 which relates to an application within the 2008/09 financial year which would mean that building standards income was 96% of the budget and that the overall shortfall for both services is 13%.

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ABIGAIL TIERNEY
CORPORATE DIRECTOR
1.2 Benefits Claimants
In terms of Housing Benefit Caseload, we have seen an increase of 2.7% in 2008/09, which we would expect to be maintained throughout 2009/10, possibly rising by 3% overall between the 2 years. The position will be closely monitored and we will seek to use the additional funding from the Department of Work and Pensions of £136k to manage this increase.

1.3 Fuel Costs
Our fuel budget for 2009/10 was set when fuel costs were at their peak. However, the reduction in oil prices towards the end of 2008 led to a significant fall in fuel costs which are now lower than they were in April 2008. In 2008/09 we budgeted for fuel costs to be £1.73 million and now forecast the out-turn to be £1.77 million. At present we have assumed £1.76 million in 2009/10, an approximate increase of 2%. As long as fuel prices do not rise significantly in 2009, we do not anticipate that this will be an area of budget pressure for the Council.

1.4 Parking income
Our income from parking has not changed in real terms in the last 6 months. However, we raised the price of parking last year, and there are therefore fewer transactions (or lower value transactions) to equate to the same income. It is difficult to disentangle the impact of the price rises from the impact of the economic downturn, as the two factors coincided.

1.5 Recyclates
As a result of our contract with SITA, we are still receiving the same price for our recyclates. As it is known that the price got for recyclates has fallen we anticipate we may have to renegotiate our contract with SITA in the future which may then have budget implications. We are not under the same pressure as other Council’s due to our contract, as not only are we still receiving the same price, and paying the same fees, but also we do not have to pay to store our recyclates.

1.6 Catering
We have seen cost increases on catering across schools, residential care homes, day care centres and staff and civic catering. Packaging costs to our manufacturers and suppliers have seen increases in the region of 45%, driven by price of crude oil. In regard to fresh meat products we have approved a 10% increase on beef and pork prices with an implementation date w/c 20 April 2009. This is the first increase in 15 months and entirely justified. Our bakery supplier has intimated that he will be submitting increased pricing for review by the end of the month, driven by increases in raw materials. We have seen increases in dairy averaging 10% across the product range. Fruit and vegetable prices show an increase of 15% on average from last year, partly driven by increased fuel and labour costs. Frozen food prices have see an average increase of 12% although haddock and whiting fillets have risen by 70% and potato products by 22%.

1.7 Cleaning Costs
There has also been an increase in cleaning product costs of nearly 10% of the overall budget (> £10,000).

1.8 Leisure Fee Income
On 1st April 2008, we increased leisure fees by 10%. We have also reduced our opening hours on many facilities. There has been very little change in the money we are taking, despite of the rise in prices and reduction in opening hours. Some people are reporting that their facilities are busier, but this looks like it is due to shorter opening hours with the same number of customers in the shorter period.

1.9 Asset Management & Property
Market activity in Aberdeen City is very low at the moment, with few properties or sites being brought to the market for sale or redevelopment. The Council’s external property contractor,
Ryden, has indicated that in the current market it would be difficult to prove that best value would be achieved for any significant property being marketed. This means it is difficult to quantify any perceived loss to the City Council, as properties are not being marketed. We are therefore not budgeting for any capital receipts in 2009/10, (although we had previously assumed £5 million), in comparison to a budgeted £5m in 2008/09 (with an expected out-turn of £9.076 million). This also has a “knock on” affect of fewer large developments in the pipeline for contractors to bid for, with the possible difficult consequences for the construction trades.

The City Council is the largest commercial landlord in the City. Our non-operational portfolio is substantially fully occupied and occupational demand remains strong. There has been no affect on income to date, although we are anticipating that market rents will increase more slowly than originally projected (or as market trends would originally have suggested). The majority of our larger commercial leases have five year review patterns and accordingly it is difficult for the tenant to argue that there has been no rental growth over say the last five years.

The projected income for last financial year from property (excluding Common Good) is £5,878,000 against an original projection of £6412,000.

The Council’s assets are valued on a five year rolling programme, with the investment portfolio valued annually. These Asset Valuations are currently being undertaken by Ryden. Whilst this year’s Valuations are not due to be completed until the end of May, there has already been a warning that the Asset Value of the Council’s portfolios may be significantly reduced from last year. This is due, not to “falling” rents (as discussed above) but to the increase in property yields and the affect that this has on capital values.

In summary, the main consequences to the Council’s property portfolio from the current economic downturn are due to the collapse of the development market and significantly higher property yields (which will also dampen the development sector).

1.10 Demand for Social Care
There has been no discernable increase as yet in the demand for social care due to family breakup or elderly citizens no longer being able to afford private nursing care. However, the view of the service is that if the economic climate continues to deteriorate, there will be an increase in the near future.

1.11 Housing
The number of applications on our housing waiting list shows an overall reduction of approx. 700 applications between April 2008 and March 2009. However, the figure dipped sharply between April 2008 and August 2008 (from 6754 to 5618) mainly due to a review of the list at that time. Since Sept 2008 this figure has increased month on month and now stands at 6059 as at 31st March 2009. Homeless presentations (unaudited figures) indicate an increase of about 12 % (i.e 2500 in 2007/8 increasing to 2800 in 2008/9). We estimate a 10% increase for 2010 (based on past trends) which would bring the number of presentations up to approximately 3000.

The growth in the applications for social housing and homeless presentations is also influenced by the slow down in the development of social housing by 37% over the past year and the availability of family housing in the City. There were 1,470 completions on new housing units in the Aberdeen housing market area in 2007, down from almost 2,000 in 2004.

1.12 Council Tax
Our in-year Council Tax performance increased from 93.8% in 2007/08 to 94.5% in 2008/09. Our target for 2009/10 is 95% but we accept that this is a challenging target in the current climate. Eventually we aim to collect 97.6% but this will take significant time and effort.
Although we have seen an increase in the number of personal sequestrations it is too early to know if this will affect our bad debt provision of 2.4%.

The slowdown in the housing market will also have an impact on the level of Council Tax that is collectable. In normal or certainly more stable economic conditions it would be prudent to expect an increase in the Council Tax base of approximately 600 new properties annually. Whilst making every effort to mitigate this situation, we are also aware that there may be an increase in the non-collection rate from a stable 2.4%. We have therefore not budgeted for an increase in the collection rate or Council Tax base in the 2009/10 budget.

1.13 Energy Costs
The Council secured a new electric contract in 2008 which showed a significant increase in costs resulting in an increase in budget for 2009/10 of £500,000 to give a total budget of £5.1 million. Gas costs are expected to increase by a further £100,000 in 2009/10 giving a total budget of £2.7 million. There is also a corporate provision for potentially increased energy costs of approximately £600,000.

1.14 Schools Programme
The consortium contracted to build, own and operate the schools under the NPDO Project (the 3R’s Project) obtained its loan finance from Landsbanki, one of the banks adversely affected by the global financial crisis. The Icelandic authorities have advised that they would not be able to meet its long term financing commitments to the Project. The Council has agreed two short term loans to the Project amounting to £9.5 million in order to allow the consortium time to finalise a refinancing package. In addition, the Council has incurred substantial short term costs amounting to £500,000 approximately, in external financial and legal fees. It is hoped to recoup these costs over a period of time as part of the long term refinancing.

The Council asked the Scottish Government as to whether it would provide short term funding support during the period of refinancing. The Scottish Government declined this request and suggested that the Council meet these short term costs from its reserves. This has put extra pressure on these funds and reserves.

2. How will these effects develop, and what impacts are they expected to have on different public bodies and on the services they provide?

Much depends on the length and severity of the economic downturn. Below are some of the areas where we expect to see impacts on services:

- Rising unemployment will increase the demand for benefits, and financial and other advice
- Home repossessions will increase the need for social housing
- There are likely to be more family breakdowns leading to more children being looked after
- More older people are also likely to need council-funded care
- There could be an increased demand for state school places, due to children transferring from the private sector
- Renegotiating agreements with developers
- Contract negotiation and renewal

3. To what extent are public bodies able to take action to mitigate the effects, manage the risks and threats and prepare contingency plans for different scenarios?

Much of our income is fixed through grant settlements and the level of council tax raised locally is also fixed through the budget setting processes. We have made budget savings of £60m in the last two budgets. This means we have already implemented a number of the measures that other Local Authorities are now considering in response to the financial
climate. For example, we are aware that other Local Authorities are considering making up shortfalls by using reserves. This is not an option for Aberdeen City Council, given we have already used up a significant amount of our reserves in the past few years, and our focus must now be on restoring them. Given our historical financial situation it is even more difficult for us to make up any shortfall in income or increase in expenditure through efficiencies, and further budget pressures would potentially lead to more targeted services and increases in income and taxes.

Having highlighted the difficulties we face, we are pro-actively managing our finances to deal with the pressures that may arise. All the above information will be assessed as part of our Medium Term Financial Plan which will be considered by Council in May. This includes an analysis of a number of different scenarios.

We are trying to mitigate the impact of the Economic Downturn by developing rapid solutions. This includes looking at better ways to stream line business processes and minimise waste from service delivery (e.g. Diagnostic Pathway and ‘Work Styles’), as well as maximising income generation opportunities. We will continue to reduce fuel and energy use to create efficiencies. We already have a tight control on recruitment where Service Directors have to approve every post, which then go forward to a vacancy panel for consideration. We have also recently undertaken a voluntary severance and early retirement exercise, which will be reducing our workforce by 478 FTE.

Aberdeen City is a critical engine for economic growth in Scotland and the UK, and is making a powerful contribution in terms of competitiveness and sustainability. We are therefore considering not only how to balance our own books, but also identifying how the people and businesses in Aberdeen will be affected and whether we can take action to help during the economic downturn. Examples of specific initiatives include:

- Supporting debt counselling services
- Creation and support of credit unions
- Efforts to address fuel poverty
- Helping local businesses to bid for council services
- Paying small businesses quickly to help with cash flow
- Working with partners to develop training and employment opportunities

4. How can the Scottish Government’s budget best be used to combat the effects of recession?

The Scottish Government’s budget can help to combat the effects of the recession by being fairer and more transparent. We have worked hard in the past two years to deliver efficiencies and to continue to develop more effective services. This work will continue but there is a real danger that at the point when the public become more reliant than ever on our services the economic situation will require further services to be reduced. We therefore support the review of the funding formula currently underway, and ask for the outcome to be a more transparent formula with a higher flaw so that Aberdeen City Council, which provides services to one of the key engines for economic growth in the UK and Scottish Economy, receives a fair and realistic share.²

As part of the funding formula review, the Scottish Government have accepted a recommendation arising from the first annual report of the Council of Economic Advisers to incentivise local authorities to promote economic development. We are supportive of the possible incentivisation of business rate income (through tax increment financing or something similar), and would argue it is more urgent than ever given that traditional options,

² For further information please see:
http://www.aberdeencity.gov.uk/web/files/financedistribution/ACC_Fairer_Funding_Briefing_Note.pdf
such as developer contributions, are now unlikely to be viable due to the collapse in private development financing.

It would greatly assist the Treasury Management function of local authorities if the long awaited Investment Regulations could be introduced to help mitigate against the current very low return that authorities are able to secure in the money markets.

The planning fee income estimate for 2008/9 was reached by building in an assumption that there was to be an increase in the fees set by the Government in accordance with draft notification which had been received and that there would be an increase in fees to offset the additional costs to planning authorities of carrying out neighbour notification. It would be helpful to know if and when the increase in fees will be introduced so that we can allow for the outcome within our financial planning.

If you have any questions or require any further information please do not hesitate to get in touch.

Yours sincerely

Dr Abigail Tierney
Corporate Director for Strategic Leadership
1. **What do you consider are the main mechanisms available to local authorities to alleviate the impact of the recession on the local communities they serve?**

2. If the national outcomes defined in the concordat are now to represent the driver for much of the expenditure of public funds at local authority level then Single Outcome Agreements should be used to direct money and priorities towards alleviating the impact of the recession in the communities they serve. However, the roll out of the Concordat and Single Outcome Agreements (SOAs) has arguably failed, so far, to achieve the vision that was originally laid out by both COSLA and the Scottish Government:

**Implementation of the Concordat and the role out of single outcome agreements**

3. In collaboration with other organisations in the children and young peoples sector, Aberlour undertook an analysis of the thirty two single outcome agreements published in the summer of 2008 and then subsequently on the publication of the 09-10 round of outcomes. We looked at each Local Authorities SOA against a range of issues connected to the work and interests of our organisations and our service users. Understandably the first round of SOAs was characterised by a significant amount of inconsistency and a considerable lack of clarity as to the strategic importance or pre-eminence of these documents. It was hoped that with the introduction of sixteen Strategic directors from the Scottish Government and through the publication of guidance from the improvement service, to guide Community Planning Partnerships (CPPs) and local authorities through the drafting process of the second round that things would be considerably better this time around.

4. We have just concluded our qualitative analysis of second round of the 32 local authority SOAs and whilst there is marked improvement on the year previous. A considerable amount of inconsistency remains and the process by which voluntary sector organisations can actively influence the process of framing the Single Outcome Agreements of each local authority remains inconsistent, vague and in many cases non-existent.

**Consistency**

5. Those unfamiliar with the Concordat would be forgiven for looking at the first round of 32 Single outcome agreements and fail to see any consistency and in some cases would not recognise that these documents were created to serve the same purpose- this significantly improved with the drafting of the second round thanks in part to 16 government directors and the improvement service guidance. However even now, inconsistency remains.

6. **Timescales:** Different local authorities continue to attach different life spans to their SOA: some are set to last until 2012 (Fife) whilst others (Glasgow) only cover the next 12 months. Indeed since the signing of
concordat there has been uncertainty as to whether the SOA should be refreshed every year or whether, once in place the SOA should cover the term of the local authority administration. This is important to clarify as these will affect the way in which organisations can contribute to the drafting of future plans and will affect how the authority can adapt to changing circumstances. This is critically linked furthermore to the pre-eminence of the Single Outcome Agreement in relation to other plans and strategies laid out by the local authority.

7. ‘Above’ or ‘below the waterline’: In conferences and seminars that accompanied the publication of the first round of SOAs, there was much use by Government and COSLA representatives alike of the term ‘Above the waterline’. The use of this term suggested that the SOA should represent a strategic overview for the local authority and that it should lay out broad brush aims whilst pointing to lower level documents which in turn lay out the detail of local targets and goals. The Concordat states:

   The SOA will cover all local government services in each local authority area as well as a significant range of the responsibilities of Community Planning Partnerships where local authorities have a significant part to play.

8. This definition is arguably the cause of the ensuing confusion notable in the tremendous differences in the first round, in the SOAs of differing local authorities. Dundee city council’s 08/09 SOA was short and written in very broad brush terms and made reference to a range of local strategies and plans whereas Scottish Borders Council was tremendously detailed and laid out in minutiae all of its local targets and indicators for that year. Whilst a greater consistency has now been fostered, there is still a lack of clarity as to where some local authorities hold their Single outcome Agreement in terms of importance as a driver for policy and expenditure. In reality, the SOA in most cases sits both ‘above the waterline’ in terms of the defined local outcomes and ‘below the waterline’ in terms of the local indicators.

Accountability in the concordat:

9. It has never been clear to what standard or level of accountability the Local authorities will be held in the execution of their SOAs. As the Concordat has defined an entirely new mechanism for the expenditure of public funds and the deployment of services it would seem odd that there was no mechanism to ensure monitoring, evaluation, quality control or accountability for progress towards those ends. There are few examples of local authorities examining the commitments they made in 2008/09 but Glasgow is a good example of one that has made such an analysis. From Glasgow’s 2009/10 single outcome agreement:

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1 Concordat between COSLA and the Scottish Government 2007
“the target to increase the number [of people with disabilities] in work by 200 during 2008/09 has not been met with an increase of only 12 achieved.”

10. Whilst it is laudable that Glasgow should be willing to publish this missed target, and should be seen as an example for others to follow, it serves to pose the question- ‘so what?’ Ultimately without any clear line of accountability threat of sanction- or adequate self monitoring mechanisms the process of setting praiseworthy local indicators as targets in SOAs in the first place comes into danger of being rendered meaningless. Whilst the above shortfall is likely to be a direct result of the recession and covers an area of expenditure which (apart from More Choices More Chances money) was not otherwise ring-fenced, similar targets for previously ring fenced expenditure may very well likely fall short of aspiration in the future.

11. If a local authority is shown to persistently under-perform in achieving the targets indicators and outcomes it has set itself in pursuit of its commitment to the 15 national outcomes (the agreement which ultimately underpins the concordat), there must come a point at which the government withholds sign off on its single outcome agreement as being unrealistic or too ambitious- yet such a process is not clearly defined.

12. The premium attached to Single Outcome Agreements will be further devalued, particularly if it can be shown that neither the single outcome agreement nor the process by which it was arrived has led to any actual or meaningful change in the direction of funds spent by the local authority. If such a devaluation were to occur then it is likely that Single Outcome Agreements would very quickly become irrelevant to local authorities in terms intent or expenditure and would in turn become obsolete. Greater clarity is therefore needed to demonstrate the link between the setting of targets and indicators and the movement of funds. SOA’s need to reflect the 15 National Outcomes and associated Indicators, which arguably should also comprehensively reflect overarching policy and practice drivers. In Social Care and Education these are programmes such as GIRFEC, Better Health, Better Care and The Early Years Framework. It appears challenging to make that link at local level within SOA’s, particularly when e.g. health boards, police etc have different boundaries, which can lead to duplication and lack of clarity re resourcing and delivering public services. Similarly cross cutting developments such as “parenting strategies” get lost through fragmentation, and individual local authority interest can overshadow better return on national investment (the Flood prevention example)

Involvement of the voluntary sector in the SOA drafting process

13. Since the launch of the Concordat in 2007, government representatives up to cabinet level have attested to the role they expect the third sector to play in the framing of local authority Single Outcome Agreements. They cite

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2 Glasgow city council Single Outcome Agreement (09-10)
community planning partnerships as the route through which voluntary organisations can help shape SOAs. The reality is far different. In the first round of SOAs only 15 local authorities in anyway sought to involve CPPs in the drafting process. A survey conducted by Community Care Providers Scotland after the publication of the first round of SOAs in 2008 identified that 90% of voluntary sector Community Care providers had not been approached or involved in any aspect of the SOA drafting process- this is especially troubling given that the provision of care is a statutory requirement on local authorities. It would seem logical that care providers be at least consulted in the framing of any aspect of the SOA governing the provision of care or related support.

14. Ostensibly the route, prescribed by the Scottish Government and COSLA by which the third sector should hope to influence the drafting of single outcome agreements is through representation on Community Planning Partnerships. This pre-supposes that CPP’s are well established and regarded as the vehicle for planning of all local authority service direction. There is great variety within this ambition, while some CPP’s are indeed as described, others remain in early stages of partnership development in house. Some have had to reconstitute groupings as a result of financial constraints. As has been mentioned above, the first round of SOAs saw less than half of local authorities meaningfully engage their CPP boards. Coupled with the fact that in most cases voluntary sector representation on CPPs is confined to a representative from the local Council of Voluntary Service, who tend in the main to represent small community organisations rather than a cross section of the sector, and even then not always at board level- this represents a considerable bottle neck for individual third sector organisations to have a meaningful engagement with the drafting process. This problem is compounded when cost cutting means that voluntary organisations do not have the capacity to engage in planning and networking.

15. We therefore would like to see more opportunities for the voluntary sector to engage meaningfully in the process of drafting SOAs. Some local authorities demonstrated some good practice in the run up to the most recent round of SOAs which could be replicated by others in subsequent years: Aberdeen City Council conducted an open conference where representatives from all sectors with an interest in the SOA could have a meaningful involvement in the drafting process.

16. What will the current recession mean for the provision of local authority services and for local communities more generally?

17. One of the ways in which local authorities seek to balance their books and obtain efficiency savings, particularly during time of economic crisis is through tendering and procurement.

**Tendering and procurement**

18. Aberlour would question whether tendering is the best way for service purchasers to ensure that they achieve Best Value. While we can understand and accept the need to ensure that services are procured in an objective and effective manner, we question whether tendering is the most effective means of achieving this. The points below highlight whether this resource-intensive process is the right way of procuring social care services and the information given below demonstrates that the way that the process is applied by some purchasers exacerbates the inherent inefficiencies.

19. Different purchasers have different thresholds for procurement requiring a tendering process. There are examples of purchasers using exactly the same process and requiring the same information for tenders of widely varying values. We believe that procurement processes should always be proportionate to the value and strategic importance of service being purchased.

20. Tendering remains a very inconsistent and at times frustrating task with organisations like our own regularly encountering a range of problems and barriers. European Procurement Regulations require. The “application of objective criteria in tendering and award procedures”\(^4\). In many cases, local authorities will prefer to provide services in house where possible and will accept tender bids from internal departments that do not accurately reflect the fact that management costs are carried by the centre - thereby making it possible for them to undercut other providers without accurately reflecting the true cost of their provision to the authority.

21. Commissioning teams frequently take major decisions pertaining to services and tender design. This often appears to be without any consultation with operational staff. In many cases, tendering is seen as a means of saving money rather than achieving Best Value with cost appearing to be the paramount factor and continuity or quality of service coming well behind. Aberlour provides services for some of Scotland’s’ most vulnerable children and their families. For them, the prospect of a new provider coming in and taking over the services they have relied upon for many years purely on the basis of cost can be hugely destabilising.

22. We have had issues with the tender for an individualised service we currently provide for a local authority in the North East of Scotland. The Council asked our staff to help them with the new service design and then told us during a Core Group Meeting that they would not be inviting Aberlour to tender. During another such meeting, the identity of the four organisations who have expressed an interest before the closing date of was disclosed.

23. We have also recently been told that two other services are being rolled into one service and that this will be put out to tender within the next month. Whilst the Council have admitted that they have no issues with the quality of

\(^4\) Guide to the Community Rules on Public Procurement of Services - Directive 92/50/EEC
the services (and have in fact been making additional referrals over the summer), they have stated that if “Aberlour was to tender for any service they would stand no chance as they are too expensive”.

24. Tendering problems are experienced in every local authority in the country. We recently signed a contract with another north east council to continue to provide playschemes and out-of-school care. This is part of a wider, integrated service for young people with disabilities. However, just before the playscheme was about to start for the summer, the Council advised that it had taken a unilateral decision to provide the service in-house, citing cost savings as the reason. The rationale was that management of the service could be added to the workload of an existing Council officer, thus saving the Council money. This decision was greeted with dismay and disbelief by the parents of the service users who believe they have received a good quality service from Aberlour as current provider. Aberlour is committed to working in partnership with its local authority partners. This is an example of the limited commitment to, or understanding of, the nature of partnership working when cost savings are involved.

25. As Aberlour had just signed the contract for this service to the end of March 2010, the Council involved needs our agreement to withdraw from the contract so that they can proceed with their plans. As a footnote, the Council is not geared up to provide the service at this point in time, despite them taking the decision in a closed Council Meeting some months ago. Voluntary organizations such as Aberlour are encouraged to form partnerships or even consortiums when bidding for targeted funds with other voluntary organizations. Tendering processes directly encourage marketplace competition. It is not unlikely that organizations may be considering a pooling of resources to deliver in one service area, whilst working in direct competition to that same partner for another piece of work.

26. **Tendering Timescales:** Another concern held by our organisation concerns the lack of advance notice of Invitations to Tender that are being planned and the short timescales allowed to complete and return tender applications, even during holiday periods. Typically, this will be between two and four weeks. Six weeks would be an exception. Such little time is afforded in the tender process that very little can be done by potential bidders to properly consider service design or to explore partnership opportunities with other service providers. The advantage of this would be that the skills and experience of various organisations could be brought together to the benefit of service users. It is our strong view that these very short timescales militate against the provision of Best Value services by failing to allow the necessary time to adequately assure or demonstrate value for money.

27. At the other end of the process, once the tenders are submitted there are often significant delays before purchasers proceed with the selection process. There is a feeling that purchasers do not apply the same timescales to their parts of the process that they require of potential providers.
28. **Information required by purchasers:** Most tender applications require bidders to provide a huge range of background information about their organisation. In most cases, the purchaser already has this information from the purchaser, in the form of other tenders or information supplied to achieve Approved Provider status or for Contract Monitoring purposes. Often, the Care Commission will also have this information. The repeated provision of the same information is wasteful of scarce resources.

29. We believe that it would be sensible that providers had only to provide this information once and that there should be a central point of contact in Scotland responsible for approving the provider. All agencies could be assured that this had been done to the appropriate standards (and was being regularly reviewed). This would result in a significant saving of resources for all parties.

30. **What has been, and is likely to be, the main impact of the current recession on local authority finances?**

31. The advent of the global financial crisis and knock on effects for local authority resources has compounded the pre-existing problem of late payment of debts: This serves to exacerbate cash flow problems for organisations already struggling to contend with the realities of the financial crisis.

**Late payment of debts**

32. Most councils make regular monthly payments, however this payment almost invariably leaves some of the current invoices unpaid. The average payment term is 60 days, for some invoices it can take considerably longer, especially if there has been any change such as an agreed rate change. These delays are due to a slowness in invoices being authorised. We get the impression that unless the invoice is unchanged from the previous one, then it sits for a considerable time awaiting authorisation. In some instances this means we have waited up to 12 months for payment.

33. We have certain councils who always ask for copies of invoices due to the loss originals. We suspect this is a mechanism to delay payment. Others are a model of efficiency and pay on time fully every month. Generally we have found the larger the council, the slower the payment.

34. By way of example, last August the outstanding invoices owed to Aberlour by a single Local Authority came to over £500,000. Since that time we have been holding monthly finance meetings with the authority which have gone someway to improve the situation. Our Director of Finance is still trying to recover the local authority payment for the Families First Service for F07 and F08.

35. The problem is compounded due to the sensitivities of our relationships with the local authorities in question. We have not invoked either debt collection procedures nor interest on late payment due to a fear of upsetting the relationship with the councils.
36. Of more concern than payment has been the LA’s reluctance to enter into proper contracts. Service Level Agreements although desirable are not a replacement for duly constituted contracts. Payment terms contained within a contract would be a useful starting point for getting invoices paid.
Key questions

1. What do you consider are the main mechanisms available to local authorities to alleviate the impact of the recession on the local communities they serve?

2. As local authorities struggle to balance budgets, local communities face the risk of reduced services. Accenture believes that the introduction of shared service centres is a significant mechanism which will help local authorities make efficiency savings without reducing the quality of services.

3. Shared service centres are dedicated to providing particular services to very tight service level agreements. The services have typically included back office functions (such as finance and accounting, HR and payroll, and facilities and estates management). Increasingly they also include customer facing services, such as contact centres and some aspects of social services.

4. Through focused management, motivated staff and economies of scale, shared service centres have been shown to improve service levels and generate significant savings.

5. Many private sector organisations already harness shared service centres and have benefitted not only from substantial cost savings, but also an expert and professional system of working. Accenture operates one such centre in Aberdeen providing finance and accountancy services to the oil and gas industry.

6. Shared service centres can be implemented as joint ventures with local councils. Council employees can be seconded to the joint venture, bringing their experience and local knowledge to bear – without disrupting their employment terms and conditions. Private sector expertise can also be seconded into the joint venture. And where several councils are involved in sharing particular services, modern technologies can be used to facilitate “virtual” shared services which preserve the local emphasis of councils and sustain local employment – albeit with some loss of economies of scale.

7. By combining the strengths of the public and private sectors, a shared service centre can achieve a three way win – better services for citizens, better jobs for employees and lower costs for the Council.

8. What actions do you think the Scottish Government could take to assist local authorities during the current period to attempt to ameliorate the effects of the current recession?

9. The funding of pathfinder projects has led to groups of local authorities working together and to the identification of potential shared services (e.g. the proposed shared revenue and benefits service for the northern councils). However, a significant stumbling block remains.

10. Most shared service centre projects require an initial investment (typically to
standardise IT systems and harmonise business processes across the sharing organizations) and only show a break even point after three or four years – but continue thereafter to reduce significantly the ongoing cost base. Local authorities will generally have great difficulty in finding such investment and will tend to go for more harmful short-term savings measures. Accenture believe that a strong case that can be made that the Scottish Government should provide essential pump-priming funding for key shared service centre projects in order to enable local authorities to move forward rapidly in a sustainable way.
INTRODUCTION

1. CBI Scotland is an independent organisation funded by its members in industry and commerce and representing firms of all sizes and from all sectors. We welcome the opportunity to respond to the Committee’s timely inquiry on local government finance.

2. Business has a crucial interest in the finances of local government, as contributors to the funding of local government – e.g. through non-domestic rates, national taxes on business, planning-related levies and other charges for regulatory and locally provided services - but also as beneficiaries of many of the spending decisions taken. We published our business manifesto\(^5\) ahead of the 2007 Holyrood elections, which for the first time set out our members’ recommendations and aspirations for how local authorities and the wider devolved public sector should prioritise their spending, become more efficient, and reform the way they deliver services. CBI Scotland has since established a Public Services Group, involving both larger and SME members, to develop our policy agenda on this issue and to highlight the case for and benefits of greater public service reform.

3. Given the bleak state of the public finances, we recognise that all tiers of government and the wider public sector will have to operate within a tighter financial climate, just like businesses are having to do, and as such will have to cut their cloth accordingly. Nonetheless, their significant remit and budget, and the freedom they have over how that expenditure is deployed, means local government has a valuable and pro-active role to play in helping the economy not least through the current economic slowdown.

4. We believe that the following principles should underpin any inquiry into local government finances, namely an examination of:

   - the role and responsibilities of local authorities, i.e. the crucial or statutory duties that must be undertaken and those other services which are less so, and that this ought to be the starting point before any consideration of the income which is required to be generated through taxation;
   - local authorities’ priorities and the quality of services provided;
   - the scope for councils to deploy their current resources more efficiently, as greater efficiencies could help reduce the pressure for increases in Council Tax or other charges and increase confidence that councils are delivering value for money.

EXECUTIVE SUMMARY

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5. The UK’s public finances are in a poor state, and restoring them to health is likely to take much of the next decade⁶, let alone paying down the public sector net debt which is expected to double by 2013. As a result, the ‘golden period’ of ever rising devolved public spending has ended. This new period of austerity means local government must become accustomed to living within a restrained financial regime involving little or no growth in budgets and possibly reductions. As such, they must plan ahead accordingly, and put in place contingency plans for worst case scenarios.

6. The difficulties associated with an era of spending restraint and lower revenues could be considerably reduced through a robust but flexible approach to restrain costs including public sector pay and pensions, the alteration of spending priorities, and a radical reform of public services.

7. Higher taxes and fees/charges would be the wrong approach and should be avoided. CBI Scotland has previously⁷ welcomed the Scottish Government’s decision to freeze Council Tax. Council tax has increased significantly over the past decade, with Band D up from £708 in 1996/97 to £1,129 in 2006/07⁸, a rise of 59.5 per cent. This compares unfavourably with the rise in average earnings of 49.5%, and the rise in RPI of 30.3%, over the same period⁹. This increase in the level of the tax has been a significant cause of public dissatisfaction with the Council Tax, particularly among those sections of the population on fixed incomes and incomes subject to RPI annual increases, e.g. pensioners. A continued freeze in the level of the Council Tax could see that public anxiety lessen and the need for changes to the system consequently diminish, and should continue until such time as Council Tax returns to more affordable levels.

8. Paring existing budgets at the edges will not on its own suffice. What is needed is a marked shift in approach, to one which not only fundamentally reviews which services should be provided, but which recognises and encourages the use of alternative service providers, including the private and not-for-profit sectors, in the delivery of local services as a means of improving affordability but also service innovation and quality. A focus on outcomes rather than inputs should see local authorities evolve to become more of a commissioner of services - working in partnership with businesses and other providers - rather than necessarily seeking always to deliver services themselves. Local government has an opportunity to lead on this agenda, as well as developing new opportunities for the growth-oriented businesses Scotland needs.

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⁶ The UK Government’s current budget will only be brought into balance in 2017/18, CBI Budget 2009 Analysis
⁹ ONS quarterly index data
9. Further measures, often at modest or little cost to the public purse, can and ought to be taken by local government to aid firms and the economy through the current economic downturn and better prepare business to take advantage of the upturn when it comes, e.g. through swifter decision-making especially in areas such as planning, and by helping firms' cash flow or assisting them to win new business and grow. Many local authorities have already taken action but more needs to be done.

RESPONSES TO KEY QUESTIONS

What has been, and is likely to be, the main impact of the current recession on local authority finances?

10. Local authorities' income may well be affected by a number of different factors, including: a brake on the recent increases in grant funding from the Scottish Government, especially for service areas which central government does not regard as political priorities; increased numbers of residents defaulting on their council tax payments; the downturn in development means fewer houses are being built and thus less council tax revenues; if central government receives less revenue from non-domestic rates as fewer commercial developments come to fruition then this may mean less for councils; fewer commercial developments also means less in receipts from Section 75 agreements and thus less money to support other capital expenditure; less revenue from fees charged to businesses for regulatory services, e.g. planning fees or charges for commercial waste; less income from asset disposals; increased demand for welfare support; increased pension fund liabilities.

11. Conversely, the economic downturn may mean savings due to less demand for certain local authority services, e.g. business grants10.

What will the current recession mean for the provision of local authority services and for local communities more generally?

12. The tougher financial climate and leaner times ahead ought to provide a good opportunity to review service delivery, to see whether services could be delivered in a different or more efficient or innovative way, by a different provider, or indeed whether they are needed to the same extent or at all.

13. Indeed, the role and responsibilities of local government ought to be the starting point for any review in response to the economic downturn. Services could be deployed using different providers either from the private or third sectors, or involving collaboration between and across different authorities and the private sector, possibly providing cost-efficiencies and thus easing the pressure on local authority budgets.

10 Finance Committee Report on Strategic Budget Scrutiny, paragraph 60 – June 2009
Good examples do exist (e.g. ‘Access’ – the ICT and property services joint venture between Glasgow City Council and Serco plc) but this needs to become much more widespread. CBI Scotland believes this ‘contestability’ in service provision requires an evolving policy framework from Scottish Government to ensure competitive neutrality between commercial or not-for-profit and existing public sector providers, so that alternative bidders are not discriminated against simply because of their ownership model. If users are to get responsive and excellent services and if public money is to be spent efficiently, then a level playing field for providers bidding for contracts is crucial, not least on comparable pension costs etc.\(^\text{11}\)

14. We are encouraged that eight local authorities in west central Scotland have commissioned Sir John Arbuthnott to review the opportunities arising from shared services. Hopefully Sir John’s report will prove a catalyst for change right across Scotland, and an early demonstration of change by the local authorities concerned will be crucial to maintaining momentum. CBI members have voiced concern that the overall pace of reform on shared services remains slow, hampered in part due to a lack of sufficient capability in terms of available skills, as well as public sector terms and conditions which restrict the ability to bring in talent from outside. We have made clear to Sir John that the private sector can be a part of the solution. For example, several different companies in the oil and gas sector contract-out their back office finance function to Accenture’s dedicated shared service centre based in Aberdeen. Local authorities should consider now whether they too could contract out their payroll and other back-office work to specialist firms who benefit from economies of scale and a wealth of experience in providing such services.

15. A failure to adapt to and plan ahead for leaner times could lead to a reduction in standards and levels of services, or a degeneration in local infrastructure. As such local authorities may wish to review whether services ‘free at the point of delivery’ is a sustainable financial model, and whether further savings could be made by developing a deeper understanding of the users of council services thus allowing for more informed decisions around policy and resource allocation.

**What do you consider are the main mechanisms available to local authorities to alleviate the impact on the local communities they serve?**

16. A series of policy options are available to local authorities, including: a full blown commitment to sharing services with other local or public authorities or private sector providers – the Scottish Futures Trust’s\(^\text{12}\) schools estates agenda is a useful start in trying to aggregate common infrastructure procurement; encouraging the use of the private sector to deliver services e.g. local roads management and maintenance; ensuring staffing levels and pension arrangements are affordable on a

\(^{11}\) A question of balance: Reforming pension practice in public services contracting, CBI, June 2009

\(^{12}\) CBI Scotland’s position paper on Scottish Futures Trust was published in February 2009
sustainable basis; reductions in the number or cost of councillors and their support; transparency over the additional cost of maintaining Single Outcome Agreements and the Concordat; and rigorously requiring welfare initiatives to be value for money by producing improved outcomes.

17. Local authorities can themselves aid firms and employers to cope with the downturn better, by:

- reviewing their policies, spending and regulatory decisions in the context of whether it will aid the economic recovery
- protecting and accelerating capital expenditure
- contracting out service delivery and facilities management or ‘back office’ functions to the private sector
- settling supplier invoices within the nationally agreed 10 day period (preliminary feedback from CBI Scotland members suggests the performance of councils so far is mixed)\(^\text{13}\)
- advertising their tendering opportunities on the Public Contracts Scotland portal
- pursuing a swifter and more favourable approach towards developments in planning system

**What actions do you think the Scottish Government could take to assist local authorities during the current period to attempt to ameliorate the effects of the current recession?**

18. CBI Scotland has previously argued\(^\text{14}\) that the Scottish Government should, in conjunction with local government, examine the case for introducing Tax Increment Financing and the Local Authority Business Growth Incentive Scheme. The downturn in the house-building sector means that house-builders are less able to contribute financially to the funding of local infrastructure, e.g. school extensions, local roads, play parks etc. TIF is one of a range of possible solutions and we welcome the commitment that has been made to look at this further, though we recognise the likelihood that under such initiatives government may well have to underwrite the forecast increases in tax revenues. LABGIS could help better incentivise local authorities to support economic development.

19. The Scottish Government should ensure that it does not make it more difficult for local authorities to obtain value from commissioning new providers for public services, and the CBI has published advice on how this can be done better\(^\text{15}\). CBI Scotland has voiced\(^\text{16}\) strong reservations in the recent past over Ministerial proposals that new Freedom of Information obligations be placed on those firms which supply services on behalf of local and other public authorities, not least

\(^{13}\text{Appendix 3, CBI Scotland’s submission to the Finance Committee on its strategic budget scrutiny, April 2009}\)
\(^{14}\text{CBI Scotland’s submission to the Scottish Government on its Draft Budget 2009/10, October 2008}\)
\(^{15}\text{Commissioning strategically for better public services across local government, CBI and LGA, July 2009}\)
\(^{16}\text{See CBI Scotland’s January 2009 submission to the Scottish Government on its Discussion Paper on extending the coverage of the FoI Act}\)
as the public authorities who let the contracts are themselves already subject to and accountable to FoI rules.

20. A more fundamental review of the structure of local government should be debated, particularly the vexed question of whether or not we still require 32 different local authorities and all the costs that involves, or whether a different model – e.g. involving metropolitan areas covering the principal cities – ought to be put in place.

What are likely to be the longer term demands and cost pressures on local authority services?

21. The longer terms demands and cost pressures remain and often pre-date the current economic downturn, and include: the cost of supporting an ageing population; increases in the number of the socially and economically disengaged; maintaining and improving infrastructure, e.g. roads and local authority maintained buildings; increased salary and associated pension costs; scarcer resources due to the rising public sector debt burden; ever rising demands for better quality services.

CBI Scotland Public Services Group
August 2009
1. EXECUTIVE SUMMARY

Scotland’s public services have benefitted from significant financial growth in the last ten years. However the next ten years are more likely to be characterised by the need for financial austerity. These will be challenging times and will demand the highest level of leadership from finance professionals, as well as strong financial management across organisations. Elected politicians (both local and national) have a key role to play in scrutinising existing service provision as well as new developments, including proposed legislation, to ensure that proposed budgets are affordable and deliver value for money.

The Chief Financial Officer (CFO) occupies a critical position in the organisation by holding the financial reins and ensuring that resources are used wisely to secure positive results. The economic downturn has served to make the tasks facing the CFO appear even more challenging and also underlines the fundamental importance of the role.

CIPFA has recently expressed the role of the CFO in an overarching principles based framework which brings clarity to this complex role in the good governance of all organisations. Our aim is that the statement becomes the benchmark for organisational arrangements and that these arrangements should be reported upon. The Committee may wish to seek evidence that organisations are using the CIPFA statement to benchmark their existing financial governance arrangements.

Specific Points from our submission which we would highlight:

- Acceleration of the pace of improvement in procurement practices both strategic and local is essential. Evidence of efficiencies gained to date and future efficiencies anticipated both strategically and locally will be a key area as will the progress of the Scottish Futures Trust; (paras 2.3, & 3.1)

- Robust analysis must underpin the case for shared services (back room and front line) and where the case for efficiencies (both financial and non financial) is clear, a focused and managed approach to implementation is essential. (para 2.4 & 2.6)

- In Scotland, both local and devolved government have taxation powers and these powers should now be considered to ensure that their use is both sustainable and appropriate to the current
economic downturn and potential future growth scenarios. (para 3.2)

- long term service pressures and demands are known; while a consistent and continuing focus on efficiency remains important, discussion needs to move to more radical and innovative approaches to delivery in order to meet the significant financial challenges ahead.; (para 4.1)

2. MECHANISMS AVAILABLE TO LOCAL AUTHORITIES

2.1 As a result of the UK’s economic circumstances, the emerging financial challenge facing local government is becoming clearer. The scale of the challenge will involve taking decisions to ensure that core services continue to be delivered and consideration given to the affordability of discretionary services. There is no single answer to the challenge but this submission focuses upon achieving greater efficiency combined with innovative approaches to service provision. We will examine strategic procurement, operational redesign and asset management as the tools for achieving greater efficiency. Local government also needs to explore all funding options and this submission will examine council’s use of reserves and the council tax freeze. There are actions that the local authority can undertake to alleviate the consequences of the economic recession on both the citizen and business and these are also considered in this submission.

IMPROVED EFFICIENCY

Strategic Procurement

2.2 The Review of Public Procurement by McLelland identified three categories of commodities. Category B forms the focus for Scotland Excel for which we understand a first year review has just been completed. It may interest the Committee to hear directly from Scotland Excel on the findings of its review.

2.3 It is difficult to establish a national position of the progress being made by councils on collaborative procurement arrangements for commodities C and we would encourage the Committee to seek evidence that appropriate progress is being made.

Operational Redesign

2.4 The back-office support functions in local government were not subjected to the compulsory competitive tendering legislation in the 1980s. One of the consequences is that unit cost and performance measurement information for these costs are limited. A feasibility study of the scope of shared services to release efficiencies would require an
analysis of costs and performance against anticipated costs and performance under a shared service model.

2.5 Whilst there is clearly a financial imperative and financial management consequences associated with exploring shared services it is essential that robust feasibility studies are undertaken to verify the scope for efficiencies (both financial and non financial). A staged and managed approach to implementation is essential. It might assist the Committee to seek an overview of national progress. This would then allow best practice in the area to be highlighted and to be spread more widely.

**Asset Management**

2.6 While asset management is not a new concept attention was drawn to it when the last government included it as a work-stream within its efficient government programme. Given the scale of assets owned by local government, it is clear that any improvement in the strategic and operational management of capital assets could have a real impact on the financial resources available to a local authority. We would encourage the committee to research progress in this area with councils.

**FUNDING**

**Use of Reserves**

2.7 Local authorities will generally maintain reserves as a working balance against uneven cash flows, as a contingency or to build up funds. The level of reserves maintained is a matter for each individual council based on decisions made locally. It must be recognised that reserves are there to be used and many councils will be using or planning to use the reserves in these difficult times. The extent to which reserves are being used on a planned and sustainable basis is an area worth researching with individual councils. There will be a limit to the impact that unallocated reserves will be able to make towards funding the recurring nature of the financial difficulties anticipated by councils.

**The Council Tax Freeze**

2.8 Since the introduction of the Concordat in 2008, Scotland’s local authorities have elected to ‘freeze’ the level of council tax at 2007/8 levels. The present council tax freeze, in our view, needs to be evaluated to establish whether the policy is having the anticipated impact and whether that impact outweighs the cost of any income which is being foregone. Council tax is the second largest source of local authority income (after Scottish Government funding) and it will in future have to be set at a level affordable to local taxpayers but
commensurate with the local authority funding needs within an economic downturn.

Fees and charges

2.9 The time is also right to address arrangements for the setting and collection of fees and charges. This may range from enhancing current income collection procedures to a more innovative use of fees and charges by local authorities.

HELPING THE CITIZEN AND BUSINESS

Local Taxation and Fees and Charges

2.10 As the collector of local taxation, the local authority can explore options for helping citizens who may be facing financial difficulties because of the recession. This can in part be addressed by ensuring that individuals are afforded the benefits which they are entitled to as well as schemes for managing payments. As the setter of the local tax rates, councils will need to levy affordable levels of taxation going forward.

2.11 As the collector of the non domestic rate tax, there are similar options which can be introduced to temporarily defer payment of the business rate and some local authorities have already introduced such measures.

Home Loan Finance

2.12 The current circumstances have resulted in reduced lending by the markets. One council is actively exploring opportunities to provide finance to tenants to enable them to buy their house.

2.13 In Scotland some local authorities have supported the development of local credit unions. Typically, credit unions are operated as not for profit cooperative organisations and can be useful vehicles to provide local finance based on income generated locally within the community. Although both measures are not without some risk, they are representative of the types of innovation required in identifying different solutions. We would recommend that further trials of the local schemes are undertaken to consider what wider use is feasible.

3 MECHANISMS AVAILABLE TO THE SCOTTISH GOVERNMENT

IMPROVED EFFICIENCY

Strategic Procurement
3.1 The Scottish Government, through the creation of the Scottish Futures Trust, has taken a role in strategic capital procurement across the whole of the public sector. The Trust stated in its 2009/10 Business Plan that it will “…develop its role as the centre of expertise.” Clearly, it is in the interest of all parties that progress with the Scottish Futures Trust is accelerated to enable the anticipated benefits and efficiencies of the SFT to be realised as quickly as possible.

3.2 Procurement Scotland is the body responsible for the delivery of the strategy related to Commodities A and we would encourage the committee to seek evidence on the impact of this Commodity stream on local government.

FUNDING

Taxation

3.3 Scotland has tax raising and tax varying powers. Within the power of Scottish ministers and locally elected politicians is the ability to influence the levels of Council tax, Non-domestic rates and the Scottish Variable Rate. Clearly, varying the level of taxation is an option available to the Scottish Government. The sustainability of any tax variation will however have to be carefully considered. Any short term variation will have to be assessed against long term sustainability.

Assessment of Need

3.4 Within the reduced devolved financial envelope there will be a need for greater prioritisation. In the same vein as local government, central government will need to assess priority between core and discretionary services. Government will need to target the reduced resources to areas and communities with the greatest assessed relative need. Any redistribution of resource to areas with less need would however require a form of transitional arrangement to ensure that any short to medium term hardship as a result of redistribution is avoided and that service stability is maintained. Assessment of need has been well covered in the recent House of Lords inquiry into the Barnett formula and may be of interest to the Committee in its deliberations.

4 LONGER TERM DEMANDS AND COST PRESSURES ON LOCAL AUTHORITY SERVICES

4.1 The specific future demands and costs pressures are areas where it is more appropriate for local authorities themselves to provide evidence. Many of these pressures and demands are well known and documented and in our view, debate now needs to move on to finding solutions.
CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at www.cipfa.org.uk and at www.cipfascotland.org.uk
SUBMISSION FROM THE CITY OF EDINBURGH COUNCIL

1. The City of Edinburgh Council welcomes the opportunity to submit comments to the Local Government and Communities Committee concerning both the effects of current economic conditions and more general resource pressures facing local authorities in Scotland. The current economic conditions, it is suggested, only serve to emphasise the more fundamental need to review the existing overall level of available funding given the service demands, and corresponding calls on resources, already facing all Scotland’s councils.

2. This response highlights a number of factors specific to Edinburgh’s role as Scotland’s business, cultural, tourism and research capital. The case for a Capital City Supplement was predicated in significant part upon Edinburgh’s role as the driver of Scotland’s economy. This role is arguably now more important than ever in ensuring that the adverse effects of the recession are minimised and, more importantly, the city and Scotland as a whole are able to take advantage of the recovery that will inevitably follow.

What has been, and is likely to be, the main impact of the recession on local authority finances?

3. The effects upon local authority finances are complex, combining short- and longer-term impacts, as well as being influenced by internal drivers to which service provision needs to be aligned and external drivers to which they must respond. The potential impact of public sector funding restraint will likely be the major external driver in the next few years; comments in this area are included in the response to Question 5. This part of the response, however, is focused upon the effects of current conditions on non-grant income sources and, while in some cases harder to isolate, cost pressures resulting from increased demand.

4. It is worth emphasising that the effects upon local authorities are almost unique within the context of the wider economy. Whereas in most cases organisations would expect to witness a reduction in demand during a time of economic downturn, in the case of councils the opposite phenomenon occurs. As a result, increased demand is apparent in such areas as debt advice, housing, economic development and social care services. To compound this position, the reduction in economic activity reduces the level of developers’ contributions available to finance accompanying infrastructural investment, as well as reducing levels of fees and charges income. It is this need both to manage the generally unfavourable effects of the downturn on the organisation and yet simultaneously invest in the wider community to bolster resilience and, in due course, take advantage of recovery that is a key dilemma for councils, putting them in a particularly demanding position.

Income pressures

5. One of the most visible aspects of the recession has been the reduction in the volume of development activity which, as Scotland’s economic driver,
has had a large impact upon Edinburgh. Based upon the Council’s provisional outturn position for 2008/09, the following income shortfalls, all of which were either directly or indirectly related to the downturn, were apparent:-

- **Loss of building warrant** and **property enquiry certificate income** (totalling £900k);
- **Reduction in sponsorship income** for festivals and other national events, which, given Edinburgh’s role on the national and international stage, has had a correspondingly larger impact than in most other authorities. Edinburgh’s Capital Christmas (which includes the Hogmanay Street Party), for instance, incurred a deficit of £590k in 2008, in large part due to a cumulative reduction in commercial sponsorship;
- **Substantial downward pressure on Section 75 developers’ contributions** with a knock-on, compounding impact on the ability to initiate infrastructural investment. As an example, the business case for the Leith Docks project, currently put on hold due to economic conditions, includes total developers’ contributions of over £100 million;
- **Reduced economic regeneration** (in Craigmillar and at the Waterfront) and **level of return from the Council’s arm’s length development and other companies**, themselves affected by reduced economic activity and property values;
- With effect from the latter half of 2008/09, a **substantial reduction in interest accruing on cash deposits**;
- An overall income shortfall against budget within the capital account of £25 million, mainly due to a **much-reduced level of property and land sales**.

6. The longer the recession continues, there are possible additional pressures resulting from higher levels of unpaid Council Tax and other sums due to the Council. Proactive actions have, however, been taken in this area to mitigate the impact.

7. These income shortfalls not only affect the Council’s short-term financial position; they have longer-lasting impacts in reducing the level of resources available to invest in infrastructure that will ultimately enhance the ability to drive forward recovery in Edinburgh and throughout Scotland. The reduction in capital receipts and developers’ contributions, for example, has constrained the ability to invest in the Council’s overall property estate, including schools, community centres and cultural venues, as well as upgrading the city’s infrastructure. Reductions in residential development have a particularly severe impact on the supply of new affordable housing and other infrastructure at a time when it is most required.

8. This reduction in income has been, and continues to be, compounded by a number of expenditure-driven pressures such as the following:-
• **Above-inflationary increases in food and, particularly, energy costs** (the Council’s electricity contract effective from August 2008, for example, witnessed a 70% cost increase relative to the out-going one);

• Increased demand for **benefits processing, debt advice and economic development-related services**. The Council’s Advice Shop experienced a 20% overall increase in demand for its services in 2008/09. In the first four months of financial year 2009/10, it has furthermore seen a 65% increase in the number of new customers relative to the equivalent period last year;

• Increasing numbers of **vulnerable children and adults at risk**;

• Higher levels of unemployment and lack of new development due to the downturn, increasing the incidence of **homelessness** and requirement for **temporary accommodation** and **social and other rented housing**;

• Potential increase in **benefit fraud**, with an implication for service staffing and a possible impact on **associated subsidy**;

• **Upward pressure on the level of employer’s superannuation contributions** stemming both from a decrease in pension fund valuations and increased longevity.

9. These factors are also affected by other pressures attributable to changing demography and increasing complexity of service demand (within, for example, adult social care); these pressures are already placing significant calls upon Council services.

**What will the current recession mean for the provision of local authority services and for local communities more generally?**

10. The precise effects on each local authority will depend in part upon the effectiveness of community planning. Through recent changes to community planning arrangements, in conjunction with partners the Council is re-prioritising existing services and, where resources permit, providing new services tailored to current circumstances; further details of some of the current activity are provided in the following section of this submission.

11. In the short term the Council is managing through contingency planning to preserve existing service levels. This balancing act will, however, become more and more difficult as increasingly-tight financial settlements are implemented. There may therefore be a requirement to reconsider the specific commitments within the Concordat and undertake a more general service prioritisation exercise in recognition of the profound changes in the financial environment since its signature in November 2007. In addition, continuing uncertainty concerning funding availability makes service planning more difficult.

**What do you consider are the main mechanisms available to local authorities to alleviate the impact of the recession on the local communities they serve?**
12. The effectiveness of local government responses to the recession will depend in part upon appropriate exercising of their community leadership and power of well-being roles. The Concordat envisages Councils reacting appropriately to local service demands and this characteristic will become increasingly important as potentially difficult decisions about service priorities are taken. The multiple roles of providing services (and in the process being the largest single employer within the City and a major purchaser of goods and services), promoting economic development and exercising appropriately the power of well-being demonstrate that the influence of the Council is pivotal. There is, however, an over-riding need to acknowledge that the most effective response to the current difficulties is through co-ordinated joint working with partners such as NHS Lothian, local housing associations and the Chamber of Commerce.

13. In summary, the Council is therefore required to:-

- manage the negative aspects of the recession;
- adjust services in line with financial resources;
- re-invigorate service provision with partners;
- seek opportunities that the current climate may bring.

14. The power of well-being role is currently being examined with regard to the Council’s potentially offering local authority mortgages. The Council has, in addition, formulated and implemented an Economic Resilience Plan. The initial plan comprised a complementary range of practical measures, including training for both individuals and businesses and targeted support for specific sectors within the economy. At the same time the plan sought to secure infrastructure (such as affordable housing) subject to affordability considerations to support future development at a cost lower than that achievable under more buoyant conditions. These measures have been supplemented by a focused and successful programme to expedite supplier payment to support small- and medium-sized local businesses.

15. The above actions have since been supplemented by a number of the Council’s partners, such as the setting-up of a “skills bank” established by the Chamber of Commerce where small- and medium-sized enterprises may access particular skills by being put in touch with those not currently in work. This builds upon the earlier establishment of a “Business Exchange” where services may be provided to scheme participants without the need for physical payment. In recognition of the need for differing parties’ actions to be co-ordinated, however, the Economic Action Resilience Network (EARN) has recently been introduced. This Council-operated initiative signposts information more clearly and concentrates not solely upon “coping” strategies but, more importantly, those that will also be of applicability once the economy recovers.

16. Recent data across a range of indicators suggest that the Council and partners’ actions in these areas are yielding dividends. Relative trends in house prices, city centre footfall, airport passenger numbers and business incorporations are all more positive than those of comparator cities. The
Council's Business Gateway and efforts to maintain a stream of inward investment through the work of the Investor Support Team and Destination Edinburgh Marketing Alliance have similarly cushioned the impact of the downturn thus far. It is only right that the local authority within the nation’s capital city should undertake this role; in the short-term, however, this work puts additional strain on already-stretched staffing and other budgets.

**What actions do you think the Scottish Government could take to assist local authorities during the current period to attempt to ameliorate the effects of the current recession?**

17. It is acknowledged that the Scottish Government is working within a financial framework largely governed by UK-wide spending decisions, with the effect that the range of options available and/or practicable is similarly restricted. From the financial perspective, however, there are some specific areas where clarification and/or further action would assist Councils in planning decisions:-

- **Further detail is required on the precise role of the Scottish Futures Trust in taking forward much-needed infrastructural investment.** Councils need to know specifically whether its role is primarily one of procurement vehicle and, if this is the case, how the projects it takes forward will be funded as it is clear that this cannot be done through procurement efficiencies alone;

- **Confirmation as soon as practicable of the distribution of additional savings requirements amongst the Scottish public sector** to allow Councils to reflect these changes within their planning decisions and thus allow any savings requirements to be framed and implemented in as considered a manner as possible;

- **In view of the changed public sector financial environment since the signing of the Concordat, the appropriateness of an on-going Council Tax freeze requires to be reviewed to allow Councils at least the opportunity to consider this option to secure the level of resourcing required to deliver essential services;**

- **Consideration needs to be given to the extent to which the commitments envisaged at the time of signing the Concordat are still deliverable** and, depending upon the results of this consideration, how any service prioritisation might be undertaken. This exercise should be transparent so that its implementation is uniform across Scotland.

- **The Council supports any moves towards establishing a Public Sector Pay Strategy to provide greater consistency, certainty and fairness in this area.**

18. Recent dialogue with the Scottish Government concerning a range of innovative means to foster large and smaller-scale infrastructural investment
which command wide support within local government, such as Tax Increment Financing (TIF) and Non-Domestic Rates incentivisation, has been constructive. The benefit of TIF in particular is its ability to kick-start growth and create genuine “additionality” within the economy. Adoption of a collaborative approach such as this has the potential to provide similarly-magnified benefits in a number of other areas.

19. Acceleration of capital grant monies, while also welcome, does not address the underlying issue of the adequacy of current funding to meet the demands placed upon all local authorities. With this in mind, the Council supports the view that a fundamental review of local government funding is required.

**What are likely to be the longer term demands and cost pressures on local authority services?**

20. The existing grant distribution system takes as its underlying principle different authorities’ need to spend and the Council would therefore expect to receive additional funding where its relative need (i.e. when compared against other Councils) increases. In more general terms, however, there is a profound concern as to the overall quantum of funding given the increased expectations and demands facing local authorities.

21. While by no means exhaustive, these pressures include:-

- **Demographic and associated societal changes**, including growth in both absolute numbers and the relative age profile of older people, with this general ageing of the population and ethos of more personalised care seeing exponential growth in spending requirements. There is a related requirement for accessible housing and care and support services for frail older people besides the need to re-provision all of the city’s care homes. In addition to growth in the elderly population, pressures exist in respect of increasing numbers of vulnerable children (likely to be exacerbated by current economic circumstances) and substantial increases in expenditure required to support those with severe mental and physical disabilities due to better survival rates at all ages;

- After an acknowledged sustained period of under-investment, there is a need to invest substantially within infrastructure, a requirement that is only heightened within the current economic climate as a necessary spur to sustainable economic growth. At present, however, the ability to take this forward is constrained by overall funding availability and, in the short- to medium-term at least, the position is not likely to improve. The role of the Scottish Futures Trust in this respect requires to be clarified as a matter of urgency;

- **Growth in the number of single person households**, exacerbating the existing shortage of affordable and other housing whilst at the
same time placing additional demands upon services such as refuse collection;

- Potential pressures in a number of demand-led areas such as homelessness and the provision of affordable housing. The Lothian Housing Needs Assessment was updated in October 2008, with the previous estimate of 12,000 affordable homes needed over ten years now increased to 15,800. Despite some recent revisions to allocation formulae, there remains a substantial mismatch between funding allocations and relative need, constraining the city and surrounding city region’s ability to invest sufficiently in this area. Work currently being undertaken with COSLA on the Strategic Housing Investment Framework should be prioritised and a commitment made to ensure that more funding is directed to areas experiencing severe supply pressures;

- Implementation and on-going costs associated with the Council’s Modernising Pay project, with an estimated initial annual cost of £10.5 million, together with the costs of addressing equal pay claims and pay protection;

- A number of further areas, the precise effect of which is not yet known, including potential landfill penalties and likely upwards pressures in employer’s superannuation contributions for the reasons outlined earlier in this submission.

22. Underpinning the whole equation of respective need and funding is the increased cash-releasing efficiencies requirement upon Councils stemming from the Chancellor’s Budget, estimated to amount to £13 million for Edinburgh in 2010/11 and a further £23 million over the following three years. Despite incorporating conservative assumptions concerning the level of pay award over the period in line with Scottish Government guidance, current estimates suggest that some £90 million of efficiencies will be required over the next three years. The Council has generated cashable efficiencies of some £52 million over the past three years and after a period of identifying ongoing savings on this scale, the ability to yield further efficiencies is correspondingly more difficult.

23. In response to these likely requirements, the Council has therefore put in place an “Alternative Service Delivery Models” project charged with re-assessing the relative balance between being a provider and enabler of services. This exercise is being accompanied by one of service prioritisation – a fundamental review of the services currently being provided to determine those that may no longer be financially feasible within the new public sector environment. While this process may not be politically or socially palatable, it is becoming increasingly clear that such fundamental action is required.
SUBMISSION FROM COMMUNITY CARE PROVIDERS SCOTLAND

About CCPS
1. Community Care Providers Scotland (CCPS) is the national association of voluntary organisations providing care and support services under contractual or other formal agreement with the public sector, generally local authorities. Members received a total funding income of approximately £750M from local authorities during 2008/09 in respect of public service provision: this represents approximately one-third of the total spend on care and support services by local authorities. Pressure on local authority finances, from the current economic situation or for other reasons, will inevitably impact on those organisations providing services funded by local authorities.

Impact of financial pressure
2. CCPS conducted a survey of its members’ funding arrangements in 2006/07 and repeated the survey in 2007/08. Both surveys found that 79–80% of care service providers were running one or more of their publicly-funded services at a deficit, and a similar proportion had taken decisions about potential closure of services or withdrawal from service contracts to their governing board.

3. In most cases, members are being advised by funding authorities to prepare for significantly constrained budgets next year and into the foreseeable future, which we would anticipate will lead to more services running at a deficit, and/or more decisions about service closure or contract withdrawal being taken to boards.

4. In some local authority areas, funding cuts in care services are already taking place (although in some instances this may be because of pre-existing budget issues rather than the current recession, eg. in Aberdeen City Council). It is our experience that where local authorities are under financial pressure, cuts can be visited disproportionately on voluntary sector services. One recent example of this is in Glasgow City Council, where directly employed care service staff were awarded a cost-of-living salary uplift of 2.5% for 2009/10, in line with the SJC negotiations; the council-run LLP home care provider (Cordia) received an inflationary uplift of 4% for 2009/10; yet voluntary sector service providers received no inflationary uplift at all, and learning disability voluntary organisations in particular had a cut of 7.5% imposed by the council. These allocations were made by sector, without any reference to service quality, cost or performance, contrary to Best Value policy.

5. The impact of cuts like these on services varies from one organisation to another: regional or service managers may be required to take on a broader remit, which can lead to a reduction in the organisation’s capacity for support and supervision, internal scrutiny, audit and quality monitoring; care and support staff pay and conditions may have to be renegotiated, which can lead to higher turnover, lower morale and increased industrial unrest; or service levels may be reduced. Care providers work hard to manage these measures in such a way as to minimise the effect on individuals and communities,
however it is our view that there will inevitably be an impact, which can be apparent both to the organisation, for example in service user satisfaction feedback, formal or informal, and to funders and regulators (eg. higher number of complaints, lower Care Commission gradings, although these may only emerge over time).

**Service re-tendering**
6. One of the key measures that many local authorities are already taking in response to funding constraints is the re-tendering of service contracts. The Local Government Committee has already taken evidence, from CCPS and others, on the risks and impact of putting good quality care services back on the market in procurement processes dominated by cost considerations.

### A fairer approach to funding
We maintain that local authorities have a responsibility for the quality of all public services in their area, regardless of whether those services are provided directly by the authority, or by an independent organisation under contract. We also maintain that authorities owe an equal duty of care to those citizens who use services provided by a voluntary organisation, as to those who use directly-provided council services. Consequently, we believe that – especially in times of resource constraint – all services, service providers and staff should be treated equitably, and the principles of Best Value applied, rather than the application of across-the-board cuts or awards to a specific sector or type of organisation, regardless of their quality or level of performance.

### Longer term demands
7. The longer term demands and cost pressures on local authorities in respect of care services, particularly but not exclusively in relation to services for older people, are currently the subject of considerable discussion and debate within Scottish Government, with the participation of voluntary sector partners.

CCPS
August 2009
SUBMISSION FROM SCOTTISH ASSOCIATION FOR MENTAL HEALTH

SAMH
1. SAMH is Scotland’s leading mental health charity and is dedicated to mental health and wellbeing for all. SAMH provides an independent voice on all matters of relevance to people with mental health and related problems (including homelessness and addictions) provides advice and guidance to a wide range of national bodies and delivers direct support to over 3400 people through 84 services across Scotland.

2. SAMH lobbies for the development of legislation, policy and practice that is based on the real life experiences of people with mental health and related problems and that respects their human rights. SAMH also provides a range of information, training and consultancy on mental health and mental health problems.

3. SAMH is committed to challenging the stigma and discrimination experienced by people who live with mental health problems. SAMH provides direct line-management to respectme (Scotland’s anti-bullying service) and ‘see me’ (Scotland’s anti-stigma campaign).

COMMENTS
4. Thank you for the opportunity to submit evidence to this Inquiry. SAMH has seen a substantial impact on its local authority-funded services in recent months, and our response focuses on local authority finances from the point of view of a voluntary sector service provider.

• What has been, and is likely to be, the main impact of the current recession on local authority finances?

5. SAMH is aware that many social care budgets are facing cuts. However, we do not think that all of the challenges facing our services are directly caused by the recession: the removal of ring-fencing from mental health and Supporting People budgets has also had an effect. Our experience suggests that some local authorities are implementing necessary cuts in a short-sighted and possibly counterproductive manner.

• What will the current recession mean for the provision of local authority services and for local communities more generally?

6. The voluntary sector is facing unprecedented upheaval, which is affecting its ability to provide services to communities. SAMH is facing budget cuts in several local authority areas and in recent months has seen £2.7 million of apparently arbitrary funding cuts, made without appropriate planning or assessment of needs. These cuts do not simply threaten the organisation: far more importantly, they affect the service users whom we support. The problems also extend to health boards: last year SAMH was forced to close a successful service in Ayrshire after the local NHS Board withdrew funding, with little consultation with service users. We are now closing a service in
Dundee following the withdrawal of funding; which involves £242,000 worth of budget cuts and affects 9 staff and 400 service users.

7. In one area, we are in the process of taking legal action against the local authority, following a tendering procedure. This is not something that SAMH has done lightly, but our experiences were such that we had no choice but to take action, and other voluntary organisations may feel that this is the only method available to them of challenging current procedures.

8. One effect of changing budgets has been a noticeable shift in the attitudes of local authorities towards voluntary sector services. Where once we would have had some opportunity to negotiate, we are now being presented with required cuts in contract values. Increasingly, costs are based on the unrealistic assumption of 100% occupancy. When the local authority does not provide sufficient referrals to achieve 100% occupancy, the service does not receive sufficient funding to meet its costs. Commissioners are now regularly looking for SAMH to make cuts in our staff training and development provision, which will have an obvious effect on the quality of support we are able to provide.

9. Local authority commissioners are also increasingly seeking an intrusive and inappropriate level of involvement in services. In many cases, we cannot cut service costs without the permission of commissioners. Inflexible contracts mean that services are not able to meet the needs of service users. For example, an individual may require five hours of support one week but, due to changing circumstances, twenty hours the next. Most current contracts would not allow the person to receive this. One of our services works with people who have alcohol problems and who specifically need a service in the morning, to help them to avoid drinking that day. It has proved difficult to structure the contract in such a way as to meet these needs.

10. In fact, the current commissioning framework leads to a disincentive for providers to support service users in recovery: current contracts encourage providers to provide as many hours as possible, regardless of whether these are actually required. This contravenes the Scottish Government's stated commitment to recovery-focused mental health services. Similarly, the bureaucratic burden of excessive monitoring of contract compliance acts to divert resources from service delivery. In short, there is too much focus on the hours provided and not enough on the needs of the service user.

• What do you consider are the main mechanisms available to local authorities to alleviate the impact of the recession on the local communities they serve?

11. Local authorities should respond to the very real budget pressures they are facing by working with voluntary sector providers to identify areas where savings can be made, rather than imposing cuts without discussion. There is real benefit to maintaining the role of the voluntary sector in the provision of social care services. As the Committee is aware, recent Care Commission
figures show that voluntary sector services are consistently graded higher on quality of staffing, care and support and quality of management and leadership than those provided by local authorities or other companies. Indeed, one Local Government and Communities Committee Member helpfully summarised the situation thus:

“All the evidence that we have in the Care Commission submission is that the voluntary sector providers are providing a superior service…at, in effect, a lower cost17.”

12. SAMH agreed with Annie Gunner Logan of CCPS, who told the Committee,

“The figures also suggest that the severe cost pressures now being applied by councils to voluntary sector providers are very likely to impact negatively on service quality.”

13. A more flexible approach to commissioning and service redesign which allowed services to be provided on the basis of need rather than a pre-agreed required number of hours would not only provide people with more appropriate services, it would also support the best use of scarce resources.

- What actions do you think the Scottish Government could take to assist local authorities during the current period to attempt to ameliorate the effects of the current recession?

14. SAMH wants to see national guidance on best value and procurement for the purchase of support services which makes clear that:

- Voluntary sector providers must not receive less funding than in-house providers for providing comparable services, thus allowing providers to compete on quality rather than cost
- Full cost recovery must be the norm for the voluntary sector, rather than an expectation that we will subsidise services
- Local authorities should also apply full cost recovery when calculating the costs of in-house services, including costs of overheads and corporate services as well as direct service costs
- Voluntary sector providers must be treated as equal partners and should be able to take part in discussions about service provision
- Local authorities and national government must agree a minimum level for the weighting of quality in social care tendering exercises, to prevent contracts being awarded primarily on cost
- Competitive retendering must not be automatic for social care provision and should only be used where it is likely to result in a clear advantage to the service users, and where service users have been fully involved in the process.

17 Local Government and Communities Committee Official Report 10 June 2009
15. SAMH would also like the Scottish Government to examine the impact of Single Outcome Agreements on social care services across the country.

- What are likely to be the longer term demands and cost pressures on local authority services?

16. SAMH’s own research, which has been widely quoted by organisations including Audit Scotland, found that the social and economic cost of mental health problems in Scotland was £8.6 billion\(^{18}\). More recent SAMH research indicates that the recession will increase demand for mental health services\(^{19}\). We also know that social contact is a key factor in maintaining good mental health\(^{20}\), and that often, support services are the main conduit for people with mental health problems to maintain such contact. Reductions in mental health services are therefore likely to have a direct impact on Scotland’s mental health and wellbeing, reducing the likelihood of the Scottish Government’s mental health HEAT targets being met.

17. SAMH is already remodelling services in response to funding cuts and is working with colleagues across the sector to find strategic and local solutions. However, the sector can only go so far without national support. SAMH is seriously concerned that unless national action is taken to address the needs of the voluntary sector in the provision of social care services, there will be a bleak future for the people who use these services.

**August 2009**

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\(^{18}\) *What's it Worth?*, The Social and Economic Costs of Mental Health Problems in Scotland, SAMH, 2006

\(^{19}\) *Crunch Time for Scotland’s Mental Health*, SAMH, 2009

\(^{20}\) *A World to Belong to*, SAMH, 2006
1. We welcome this opportunity to comment on the committee’s inquiry into local government finance. We are happy for our comments to be made public in due course at the committee’s discretion.

2. The Scottish Property Federation is a representative body for the Scottish commercial property industry and speaks for over 100 corporate members. Included within our membership are commercial property developers, landlords and managers, fund managers, property owners and long term investors in both commercial and residential property. We are an integral part of the UK-wide British Property Federation which represents most of the UK’s largest property investors, developers and professional property industry advisers.

3. According to research published at the end of 2007 the commercial property industry in Scotland was worth some 8.5% of gross value added to the Scottish economy, representing some £7.34bn in 2005.\textsuperscript{21} Since the onset of the credit crunch in late 2007 the economic output of the sector has been significantly impaired leading to a fall of some 40% in the value of new construction orders by the commercial property industry in Scotland from 2007 to 2008\textsuperscript{22}. Commercial property values in Scotland are also estimated to have fallen by some 40% since their peak in mid-2007\textsuperscript{23}.

Consequences of the current recession for local authorities

4. The current recession brings many potential threats to resources for local authorities. These include a withdrawal of private finance investment, reduced local economic activity, greater demand upon local services supporting communities and reduced fee and council tax income. Adding to the pressure on local authority finance is the spectre of reduced support from the national level of government. Our comments are restricted to the impact of the credit crunch on the development sector and how this has a bearing upon local revenues and economic vitality. We make some suggestions for local authorities and the Scottish Government to initiate change in certain taxation, economic development and planning policies that we feel could help the development industry to lay a greater role in economic recovery at the local level, which will ultimately be to the benefit of local authorities and the communities they serve.

Reduced private finance investment

5. Local authorities have a keen interest in the performance of their local economies. Without strong local economies the local authority will face

\textsuperscript{21} GVA Grimley: the role and contribution of commercial property in the Scottish economy, commissioned by the Scottish Property Federation (2007)
\textsuperscript{22} Annual Construction statistics, then UK Department for Business, Enterprise & Regulatory Reform (2009)
\textsuperscript{23} Jones Lang La Salle (December 2008)
demand for support of local businesses and residents and the possibility of community decline as an area loses its attraction as a place to live and work. This will have onward implications for the provision of local services, including education and community health services in particular.

6. Planning and development can be significant contributors to the local economy. This can take the form of revitalising local commercial centres or attracting new employment and business to a town location. Development can sometimes only become effective through proportionate and related planning agreement contributions to infrastructure however. In the present credit crunch environment lenders are however more constrained in their approach to lending to real estate related projects. The fall in commercial property values of some 50% and the drop in land values mean that previous banking covenants are under severe pressure. The development industry is therefore unable to access the private finance that was previously available to fund such projects. This has a major consequence for the provision of local infrastructure.

Revenue implications for local authorities

7. For developers it is increasingly unlikely that they will be able to meet the previous level of planning agreement demands (whether through s75 or other means). It is doubtful in the extreme that ‘up front’ demands for contributions will allow a development to be viable – again leading to pressures upon local services and infrastructure. This implication may be keenly felt in the education sector for example and the Scottish Government may wish to review how the Scottish Futures Trust might quickly enhance its support for schools programmes in the light of shortfalls that were anticipated from development contributions.

8. Local authorities are also under increasing pressure as a result of a loss of planning fee income as applications have dried up. In the wider context of squeezed public finances there is major concern in the development industry about the potential consequences for local authority planning services as a result of reduced private sector planning fee revenue and pressure upon the public finances.

9. In addition to the revenue pressures outlined above the local authority will also face reduced council tax and business rate income through empty properties. While the impact of business rates will be smoothed out by the national pool system, there is likely to be increased demands made of the local authority as the collector of rates to make allowances for hardship relief or void periods. Similarly on the domestic side there is the possibility of reduced council tax income because of increased repossessions and long term empty dwellings.

Ability of local authorities to ameliorate impact of recession

10. Local authorities have a range of measures that could be used to ameliorate the impact of the recession in terms of retaining employment and
investment. Each one carries risks and consequences for either long or short term finances however so would need to be carefully considered. A first initiative would be to revise policy towards developer contributions. Up front demands for developer contributions will deter investment in the current conditions. Local authorities could seek to phase in any appropriate developer contributions which would have the benefit of helping to enable the developer to complete the project and achieve revenue in order to pay their contribution.

11. In our view there is a need to recognise that there must be an effective supply of employment plan for development projects to become viable. Directing development towards lower value sites, without extensive infrastructure support, may simply not manage to attract investors in a current climate where investment will flow towards areas of lower risk and secure return. This may be contentious, but we feel that there must be some prioritisation in an era of limited public and private finance. It would be better to ensure resource is directed where it will be able to repay investment. However, this will be a political decision at local and national levels of government and we do not underestimate the challenges that will be presented to decision-makers seeking to balance community demands with long-term sustainable economic growth goals.

12. There has inevitably been much discussion and speculation of financial models that could help the public sector to deliver infrastructure that would support local economic development. The role of the public sector in bringing forward infrastructure projects designed to improve and enhance communities and economic opportunities as well as replace existing but ageing infrastructure is key. Private investment has lost vast amounts of credit that was previously available to the UK economy and therefore the ability and appetite of investors is much diminished.

13. Prudential borrowing has been one area that commentators have focused upon as a means of funding key projects. However, the ability of local authorities to enter additional prudential borrowing will vary greatly and will ultimately be limited. There is also the issue of risk to consider for local authorities in relation to providing infrastructure to potential development sites and the timing or likelihood of potential return for the public sector investment.

**Scottish Government role**

14. The Scottish Government also has a key role to play to support local authority finances and to promote economic resilience and recovery at the local level. The SPF would like to see the Scottish Parliament ask Ministers about the ability of the government to support local authority initiatives through under-writing or guaranteeing infrastructure or development initiatives. Some authorities have also expressed interest in the notion of tax increment financing which this Federation has strongly supported, albeit recognising that TIFs are not a panacea for all infrastructure funding gaps and will only be of benefit to certain projects and authorities.
Use of local property taxation to bolster local services and economy

15. SPF is aware of the debate over additional council tax receipts from additional housing. Many local authorities might have benefitted from being allowed to retain the benefit of additional taxation without these additional receipts being ‘equalised’ through subsequent negative consequences for their revenue support grant.

16. SPF would welcome any further consideration the committee might be able to give to the subject of retention of additional council tax receipts from new housing as we believe this could have wider economic benefits for the community and would reward local authorities directly for encouraging and facilitating additional house-building in their area. We assume that any final decision on enabling retention of additional council tax in order incentivise local authorities to support the housing industry would require Ministerial and Parliamentary approval.

17. The ability of local authorities to retain the benefit of additional economic activity is a key attraction of the TIF model previously referred to. Although not applicable in many instances, the TIF depends on local property taxation in the designated area being earmarked for repayment of the investment made to attract development in the TIF – thus enabling a local authority to obtain a direct economic return for the additional business (rates) created by the TIF.

18. We would be pleased to explain our thoughts in more detail at the Committee’s convenience.

David Melhuish
Director
Scottish Property Federation
Local Government and Communities Committee

20th Meeting, 2009 (Session 3), Tuesday, 1 September 2009

Work Programme

Background

1. The Committee held a work planning meeting on 25 August 2009. It discussed a number of issues relating to its future work programme, including its consideration of the Draft Budget 2010-11 which is due to be published in September. The Committee is invited to formally agree the decisions that it took on its work programme.

Draft Budget 2010-11

2. The Committee agreed an approach to its consideration of the Draft Budget 2010-11, including a timetable and witnesses.

3. The Committee had already agreed at its meeting on 3 June that its focus would be on the communities part of its remit, and on housing and poverty in particular.

Work programme

4. In addition to the work the Committee has already agreed to undertake and work that will be referred to it, the Committee made decisions regarding the following:

   • It agreed to scrutinise the first full report on progress towards implementing the first phase Single Outcome Agreements once it is published; and to invite the Cabinet Secretary for Finance and Sustainable Growth to give oral evidence.

   • The Committee discussed its handling of Petition PE1158 which was recently referred to it by the Petitions Committee. It agreed to subsume the petition into its inquiry into local government finance and to invite the petitioner to participate in an oral evidence session with others on 9 September.

   • The Committee agreed its forward work programme to the end of 2009.

Recommendation

5. The Committee is invited to formally agree the decisions which are set out above

Susan Duffy
Clerk to the Committee
Local Government and Communities Committee

20th Meeting, 2009 (Session 3), Tuesday, 1 September 2009

Subordinate Legislation

SSI title and number: The Environmental Impact Assessment (Scotland) Amendment Regulations 2009 (SSI 2009/221)

Type of Instrument: Negative

Meeting: 1 September 2009

Date circulated to members: 9 June 2009

SSI drawn to Parliament’s attention by Sub Leg Committee: No – see annex

Purpose: These Regulations amend the Environmental Impact Assessment (Scotland) Regulations 1999 ("the 1999 Regulations") to take account of changes made to the Town and Country Planning (Scotland) Act 1997 by the Planning etc. (Scotland) Act 2006 ("the 2006 Act") of the replacement from 3rd August 2009 of the provisions relating to procedures and time limits set out in the Town and Country Planning (General Development Procedure) (Scotland) Order 1992 by the provisions of the Town and Country Planning (Development Management Procedure) (Scotland) Regulations 2008.
The Environmental Impact Assessment (Scotland) Amendment Regulations 2009 (SSI2009/221) (Local Government and Communities Committee)

These Regulations make consequential and transitional amendments to the Environmental Impact Assessment (Scotland) Regulations 1999 (SI 1999/1), as a result of provisions in the Planning etc (Scotland) Act 2006 (“the 2006 Act”) and its associated secondary legislation.

Correspondence between the legal advisers and the Scottish Government is reproduced at the Appendix.

Regulation 9A(4) adds a provision, that planning refusal shall not give rise to an appeal to the Scottish Ministers by virtue of section 47 (right to appeal planning decisions) of the Town and Country Planning (Scotland) 1997 Act. However, it was not clear to legal advisers how this provision was made by virtue of the enabling powers cited in the instrument. These are powers under section 2(2) of the European Communities Act 1972 to implement the EIA Directive, and under section 40 of the Town and Country Planning (Scotland) Act 1997.

The response explains that regulation 9A(4) is made under the powers in section 2(2) of the European Communities Act. Regulation 9A(4) is intended to end the consideration of an application where environmental information has not been provided. The EIA Directive requires that environmental information is considered before a decision on planning permission is made. To ensure that a deemed refusal would result in the conclusion of the consideration of the application, regulation 9A(4) prevents an applicant taking the matter to appeal to the Scottish Ministers.

The Committee reports this instrument on the basis that an explanation has been sought and provided by the Scottish Government in relation to regulation 9A, with which the Committee is satisfied.
APPENDIX

The Environmental Impact Assessment (Scotland) Amendment Regulations 2009 (SSI2009/221)

On 12 June 2009 the Scottish Government was asked:

Regulation 2(7) inserts a new regulation 9A(4) of the Environmental Impact Assessment (Scotland) Regulations 1999, providing that where an applicant does not write to the planning authority in accordance with regulation 9A(3), the resulting deemed refusal of planning permission shall not give rise to an appeal to the Scottish Ministers by virtue of section 47 of the 1997 Act.

(a) Can it be explained which of the enabling powers cited in the instrument is being relied on to make such provision (and given it appears to modify the effect of section 47 of the 1997 Act)?

(b) If section 2(2) of the European Communities Act 1972 is being relied on, can it be explained why it is considered that such provision arises out of the implementation of the “EIA Directive” (85/337/EEC)?

The Scottish Government responds as follows:

Regulation 9A is made under powers contained in section 2(2) of the European Communities Act 1972.

Regulation 9A(4) provides that where—

(a) a planning authority on review informs the applicant that the submission of an environmental statement is required;

(b) and the applicant has not within 3 weeks confirmed that an environmental statement is to be provided,

then (unless the Scottish Ministers have made a screening direction to the effect that the application does not relate to development in respect of which an environmental statement is required) the application is deemed to have been refused.

Regulation 9A(4) is intended to end the consideration of an application where environmental information has not be provided. To ensure that a deemed refusal would result in the conclusion of the consideration of the application, regulation 9A(4) prevents an applicant taking the matter to appeal. The Directive requires environmental information to be considered before a decision is made in connection with an application for planning permission relating to EIA development (as described in the Directive). It is considered that this regulation makes provision with respect to that obligation.
We would note that regulation 9A(4) mirrors the position under the existing regulation 7(5) where the planning authority are considering an application at first instance rather than on review.