

LOCAL GOVERNMENT AND TRANSPORT COMMITTEE

Tuesday 30 September 2003
(*Afternoon*)

Session 2

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CONTENTS

Tuesday 30 September 2003

Col.

ITEMS IN PRIVATE	41
SUBORDINATE LEGISLATION	42
Disposal of Records (Scotland) Amendment Regulations 2003 (Draft)	42
PETITIONS	43
Bus Services (PE420, PE567, PE569 and PE642)	43
Taxis (Use by Disabled People) (PE568)	48
Rail Network (Local Railway Stations) (PE629)	50
BUDGET PROCESS 2004-05	51

LOCAL GOVERNMENT AND TRANSPORT COMMITTEE

5th Meeting 2003, Session 2

CONVENER

*Bristow Muldoon (Livingston) (Lab)

DEPUTY CONVENER

*Mr Andrew Welsh (Angus) (SNP)

COMMITTEE MEMBERS

*Dr Sylvia Jackson (Stirling) (Lab)

Rosie Kane (Glasgow) (SSP)

*Mr Bruce McFee (West of Scotland) (SNP)

*Michael McMahon (Hamilton North and Bellshill) (Lab)

*Paul Martin (Glasgow Springburn) (Lab)

David Mundell (South of Scotland) (Con)

*Iain Smith (North East Fife) (LD)

COMMITTEE SUBSTITUTES

Bill Butler (Glasgow Anniesland) (Lab)

Mr David Davidson (North East Scotland) (Con)

Colin Fox (Lothians) (SSP)

Mr Kenny MacAskill (Lothians) (SNP)

John Farquhar Munro (Ross, Skye and Inverness West) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

Ian Doig (Chartered Institute of Public Finance and Accountancy)

David Dorward (Chartered Institute of Public Finance and Accountancy)

David Sawers (Chartered Institute of Public Finance and Accountancy)

CLERK TO THE COMMITTEE

Eugene Windsor

SENIOR ASSISTANT CLERK

Alastair Macfie

ASSISTANT CLERK

Euan Donald

LOCATION

The Chamber

Scottish Parliament

Local Government and Transport Committee

Tuesday 30 September 2003

(Afternoon)

[THE CONVENER *opened the meeting at 14:03*]

Items in Private

The Convener (Bristow Muldoon): The first item on the agenda of today's meeting of the Local Government and Transport Committee is consideration of whether to take items 5 and 6 in private. Item 5 is about potential evidence sessions on the Strategic Rail Authority's proposals for rail maintenance and on the Society of Chief Officers of Transportation in Scotland survey, about which we have already agreed to take evidence. Item 6 is consideration of how we progress our examination of Margo MacDonald's member's bill, the Prostitution Tolerance Zones (Scotland) Bill. Do we agree to take those items in private at the end of the meeting?

Mr Bruce McFee (West of Scotland) (SNP): On the principle of taking items in private, what is the reason for considering both those items in private? What is there about them that cannot be heard in public but that might be heard in private? I ask for a general indication rather than for the absolute detail—that would defeat the purpose.

The Convener: The key point is that we are setting out the main issues that we want to examine. If we were to do so in public at this stage, we would in effect highlight the lines of questioning that the committee might choose to follow at evidence sessions, which could to some extent affect the evidence that we subsequently hear. It has been normal practice for committees to consider a paper in private when they discuss how to tackle an issue. The evidence taking will take place in public—and obviously the witnesses will give their answers in public.

Mr McFee: I believe that, as a general principle, we should always hear things in public, but I take heed of what you say and will run with it at this stage.

The Convener: Do members agree to take items 5 and 6 in private?

Members indicated agreement.

Subordinate Legislation

Disposal of Records (Scotland) Amendment Regulations 2003 (Draft)

14:05

The Convener: Under agenda item 2, we have one instrument to consider, which is subject to the negative procedure. No members have raised any points on the draft regulations and no motions for annulment have been lodged. Do members agree that the committee has nothing to report on the instrument?

Members indicated agreement.

The Convener: Before we proceed with the next item on the agenda, I should have said at the start of the meeting that we have received apologies from Rosie Kane. David Mundell was not here at the start, obviously, but he has indicated that he will attend.

Petitions

Bus Services (PE420, PE567, PE569 and PE642)

14:06

The Convener: Agenda item 3 is consideration of petitions, some of which have been in the system since before the election. We have three papers before us, the first of which considers four petitions: PE420, which was submitted by Councillor Sam Campbell; PE567, from Mr Rab Amos on behalf of the Roslin bus action group; PE569, from William Cox; and PE642, from Christine Grahame MSP. The four petitions overlap in that they relate to bus services; in particular, they raise the question whether the legislative framework for bus services is sufficient to enable local authorities and communities properly to influence the bus industry. The Public Petitions Committee has asked this committee to consider the petitions and to decide whether to take further action on them, to refer them back to the Public Petitions Committee or to agree that they do not merit further consideration.

When we considered our work programme, we decided to undertake an inquiry into the impact of the Transport (Scotland) Act 2001 and, in particular, the implementation of the aspects of the 2001 act that relate to quality partnerships and quality contract schemes. That post-legislative review will give us an opportunity to examine in close detail the operation of the bus industry in relation to the 2001 act and the opportunities for local government to influence that. Therefore, we could cover the issues that are raised by the four petitions as part of the inquiry. The paper from the clerks suggests—and I certainly recommend to members—that we respond to the petitioners, indicating that we intend to hold an inquiry, during which we will cover the issues that the petitions raise and examine their merit. I open up the meeting to members who would like to comment on the course of action that we should take.

Iain Smith (North East Fife) (LD): I agree largely with what you said, convener. It strikes me that the petitions are not really about whether bus services should be deregulated, but about the budget decisions and priorities of individual local authorities and the subsidies that they give to bus services. It is for the local authorities to address the specific issues that are raised in the petitions. The wider issue of whether the revised legislative framework is working is something for our later inquiry to consider.

Mr McFee: First, I record apologies from Christine Grahame, who submitted petition PE642.

She had hoped to be here, but she is convening the Health Committee this afternoon.

Iain Smith said that the petitions are about particular issues with local authorities. There has been a temporary reprieve for the Meikle Street service, which is the case mentioned in PE642; the service has been taken over by another operator and runs with a different schedule. Scottish Borders Council will report on a review of bus services at the end of September. However, petition PE642 involves more than just the straightforward question of the reregulation of one specific service. The petition calls on the Scottish Parliament to

“take the necessary steps to ensure that local authorities, when developing policies of social inclusion of the elderly, ensure provision of an adequate bus service for essential lifeline services in the areas for which they are responsible.”

If we want to promote social inclusion, it would seem strange not to look at the basic problem that people face, not only in rural areas but in other areas of the country, in accessing bus services either at any time of day or outwith peak periods. Petition PE642 raises an issue that should be considered by the committee and we should take it on board for further action.

The Scottish Executive talks about joined-up thinking, but it is pointless for it to say that it promotes healthy lifestyles, community integration and the use of services while people—many of whom are at the bottom of the pile and rely on buses because they do not have the income to buy a car to get around—are denied access to those services simply because no bus service runs through or near the area where they live.

I do not know the time scale for your proposal, convener, but I would say that the issue merits further action by the committee and that we should intimate our intention to accept the petition and to carry out further investigation. It may be that the results dovetail neatly with the question of quality bus partnerships and quality bus contracts, but I suggest that there is another aspect to the petition that the committee should consider.

The Convener: Do you propose that we conduct a specific investigation into petition PE642, separate from the proposed inquiry?

Mr McFee: Yes. I recognise that petition PE642 has a link with the other petitions, but it raises other issues that merit proper investigation.

Mr Andrew Welsh (Angus) (SNP): I have some sympathy with Bruce McFee's comments. There is a distinction between the other petitions, which call for an adequate bus service, and petition PE642, which mentions “essential lifeline services”. That gives petition PE642 a much greater degree of urgency. I notice that we will consider the more

general issues, but the paper by the clerk simply says that we will do so later in the session. I seek assurances that we will do so sooner rather than later and that that work will not end up being an afterthought at the very end of the session. The convener proposes to include the matter in the consideration of quality partnerships and quality contract schemes, but that inquiry will come later in the session. Essential lifeline services are matters of considerable urgency.

Dr Sylvia Jackson (Stirling) (Lab): I am persuaded more by Iain Smith's line. I understand what Andrew Welsh says, but the petitions fit neatly together and they fit into the item in our work plan on quality contracts and so on.

The Convener: I will try to draw the discussion together. I realise that an alternative suggestion has been made by Bruce McFee, but my view is that the four petitions are all about the same issue. They might use different language and have a different emphasis, but they all raise the same issues—issues on which every MSP could draw examples from their own area, where communities have inadequate bus services. My view is that the issue is not sufficiently distinctive to petition PE642 for us to single out that petition. It would be better to consider the issue in the round.

It would also be problematic for the committee to set a precedent by investigating in detail a petition that draws attention to the withdrawal of one specific bus service. We would soon be deluged with similar petitions from throughout Scotland and, having set the precedent, we would find it difficult to decline to examine other such petitions in the same detail. I do not deny that the issues are important. However, we should treat the four petitions with the same degree of importance, because they deal with overlapping issues.

Andrew Welsh referred to time scales. We expect to commence an inquiry by early summer 2004, once we have got through the major pieces of legislation that we must consider, including members' bills, but particularly the local governance bill. That is the time scale that I envisage. I hope that that is helpful for members to know.

14:15

Mr McFee: I listened to what you said, convener, but I think that it would be unfair to represent petition PE642 as a request to investigate the withdrawal of a particular bus service. As I said, a temporary solution, although not a full one, has at least come into play in relation to that withdrawal. That is something that we could replicate all over the country, which is why I suggest that we consider the whole issue of how local authorities incorporate transport

provision into their social inclusion policies. It seems strange for transport provision to be omitted from those policies, because it is such a vital element.

Frankly, the way in which to avoid being inundated from every part of the country with petitions such as petition PE642 is to investigate the issue to which it refers rather than say that if we investigate one such case we will open up the floodgates. I suggest that the reverse would be the case. If the committee considered the issue in detail—including taking elements from the other petitions, because there are similarities—perhaps we would not get the deluge of petitions on the withdrawal of bus services that I suspect we might otherwise get.

The Convener: For clarification, I am not suggesting that we do not examine the issues or that they are not important. I am suggesting that we examine the issues as part of our inquiry.

Iain Smith: I agree with the convener. If we go down the road of considering a petition because it uses buzz words such as "social inclusion" or "essential lifeline", there is a danger that we will not accept petitions that do not use such words. We must consider the merits of the case for each petition. Petition PE642 is clearly about the removal of a particular bus service. The conclusions that it draws about that removal may or may not be valid. Clearly, all local authorities should take into account social inclusion as part of their community planning and transport strategies. If they do not, they are probably failing to meet the guidance under the legislation. However, we can consider that as part of our examination of the effectiveness of the Transport (Scotland) Act 2001 and the quality partnerships.

Paul Martin (Glasgow Springburn) (Lab): For once in my life, I agree with Iain Smith. I will leave it at that.

The Convener: Okay.

Mr Welsh: Although buzz words do not bother me, I am bothered about essential lifelines. I think that that aspect hauls petition PE642 out from the others. I also note that the convener said that that aspect would be covered by the inquiry, which should be in early summer 2004.

The Convener: We seem to have two proposals. One is that we consider the issues raised by all the petitions as part of our inquiry. The other is Bruce McFee's proposal that we carry out specific work on petition PE642. Are you pressing that proposal, Bruce?

Mr McFee: Yes.

The Convener: In that case, the best way of resolving the issue is to vote on how we should deal with the petitions. The first proposal—outlined

in the briefing paper—is that we indicate to the petitioners that we intend to consider the issues raised by the petitions as part of our inquiry. The second proposal, suggested by Bruce McFee, is that we consider evidence on petition PE642 at this stage.

Paul Martin: Can Bruce McFee confirm exactly what his proposal is, because both proposals are pretty similar? Bruce McFee is asking for Christine Grahame's petition PE642 to be considered, but I understand that we are proposing that it will be considered with the others any way.

The Convener: Yes.

Paul Martin: I wonder what the difference is. Can Bruce McFee clarify that?

The Convener: My understanding—and Bruce McFee can correct me if I am wrong—is that he is indicating that we should carry out work on petition PE642 and take evidence on it now.

Paul Martin: So he wants an inquiry into that petition.

Mr McFee: I can help Paul Martin with this. I want an inquiry into petition PE642. I recognise that some issues are common to the four petitions, but any work that is done now would easily dovetail at a later stage with any further examination of quality bus partnerships and contracts. There is merit in that particular—

The Convener: I do not want to reopen the argument.

Mr McFee: I just feel that the committee should consider petition PE642 now.

The Convener: If everyone is clear about the two options, I will put the question. The question is, that we accept my recommendation that we consider the issues raised by petition PE642 as part of the inquiry. Are we agreed?

Members: No.

The Convener: There will be a division.

FOR

Jackson, Dr Sylvia (Stirling) (Lab)
McMahon, Michael (Hamilton North and Bellshill) (Lab)
Martin, Paul (Glasgow Springburn) (Lab)
Muldoon, Bristow (Livingston) (Lab)
Smith, Iain (North East Fife) (LD)

AGAINST

McFee, Mr Bruce (West of Scotland) (SNP)
Welsh, Mr Andrew (Angus) (SNP)

The Convener: The result of the division is: For 5, Against 2, Abstentions 0.

It is agreed that we will consider the issues raised by all four petitions as part of the inquiry that we agreed to undertake into bus services, quality partnerships and quality contracts.

Taxis (Use by Disabled People) (PE568)

The Convener: The next petition is PE568, from Alan Rees, on behalf of the Scottish accessible transport alliance, which calls on the Scottish Parliament to encourage Scottish local authorities to ensure that half their licensed fleets are fully accessible to wheelchair users and other disabled people and to have a standard concessionary scheme for taxis. The Public Petitions Committee has asked this committee to consider—in light of responses that it received from the Executive, the Convention of Scottish Local Authorities, VisitScotland and the Scottish Taxi Federation—whether to accept the referral to carry out further work, to refer the petition back to the Public Petitions Committee or to agree that the petition does not merit further consideration. I seek members' comments on how to proceed.

One suggestion in the paper is that, before reaching a conclusion, we request a briefing from the Scottish Parliament information centre on the issues raised in the petition and on the responses to those issues. We could seek that briefing before reaching a conclusion, but I seek members' views.

Iain Smith: That is one way forward. It would also be useful to get an update from the Executive because, according to the papers, its response was made on 29 January. It would be useful to know whether any progress has been made since then.

Mr McFee: I agree that we should obtain further information, because the information on the state of the councils dates from September 2001 and I know that some councils have since adopted policies requiring the provision of disabled access for the renewal of vehicle operators' licences. That applies to taxis as opposed to private hire cars.

Some local authorities say simply that all vehicles will have to be able to take a wheelchair safely by a certain date. From my local government days, I know that the Department for Transport has provided no further information about acceptable vehicle types, so although one local authority might test a vehicle type and deem it unsuitable for the job that it is being asked to do, another local authority might deem that vehicle type suitable for the job.

I am concerned that when local authorities perform non-destructive testing of a vehicle's safety, which is conducted largely in their own workshops, they can reach different decisions on vehicle types. That puts taxi operators in the invidious position of being asked by local authorities to buy vehicles that might in future be regarded as unacceptable for the job. We are talking about some pretty substantial investments of between £25,000 and £30,000 per vehicle.

As for concessionary schemes, a number of people who are disabled have told me that even if a taxi that is capable of taking a wheelchair is available, it is difficult to make it turn up in a reasonable time, because the downtime for picking up someone in that situation is large. Some taxi drivers avoid that like the plague if a fare going somewhere else is available.

The cost of travel must be addressed. Concessionary schemes have been taken up in some areas but, in other areas without concessionary schemes, the number of journeys that disabled people make in specifically adapted vehicles is low, given the overall investment. A clear strategy would be useful, but the first task must be to update the information, particularly on the situation in local authorities.

Dr Jackson: I say from personal experience of using crutches for a wee while that the situation is not as simple as it appears. Black cabs may be better at taking wheelchairs, but the height of black cabs above the pavement is unhelpful for people on crutches. In such a situation, an ordinary taxi can be more helpful. The issue is not easy. We need background information.

Mr Welsh: I agree. The situation is patchy across the country and the issue is not simple or straightforward. The problems in the cities are different from those in the burghs and those in rural areas. My local authority, Angus Council, has a well-developed scheme. I would like to have more information. A briefing from SPICe would help the committee in any further consideration of the petition.

The Convener: Does the committee agree to seek further briefing from SPICe and to reconsider the petition at a subsequent meeting? It has been suggested that we should write to the Executive, too. We could ask for an update from the Executive and through the SPICe briefing. The petition will then be brought back to the committee for us to consider whether we wish to undertake further work. We will advise the Public Petitions Committee and the petitioners of the decisions that we have taken today. Is that agreed?

Members indicated agreement.

Mr McFee: Will we be updated on the situation in local authorities?

The Convener: I hope that the SPICe briefing will identify enhanced or new procedures that local authorities have adopted since the original information was collected.

Rail Network (Local Railway Stations) (PE629)

The Convener: The last petition that we will consider today is petition PE629, from Norman Banski, on reopening local railway stations. The petition refers to the former railway station at Laurencekirk. We have decided to take evidence from the Minister for Transport and from the Strategic Rail Authority on developments in the rail network in Scotland and we could ask them questions not only about Laurencekirk station, but about the principle of reopening services.

One of our predecessor committees—the Transport and the Environment Committee—indicated in its inquiry into the rail industry that new stopping services should be considered as part of improvements to the rail network. I am aware that the specific issue of a particular station has been raised, but it is best if we address that in the broader context of enhancing the rail network in Scotland. I suggest that we do something similar to what we did in relation to bus services. We do not want to focus on a specific location; we want to consider how best to improve the rail service in general.

Are members content that we proceed on that basis, or do they wish to proceed in any other way? At this stage, we are being asked only for our view on how we could address the matter. We are not being asked to undertake the work. The Public Petitions Committee has not formally referred the matter to us yet; it is just looking for guidance from us on how to proceed. The Public Petitions Committee has already written to Aberdeenshire Council about the issue and is awaiting a response.

Are members content with the proposal?

Members indicated agreement.

The Convener: We will communicate that to the Public Petitions Committee.

The next item is the main item on the agenda: the budget process 2004-05. I suggest that, while the witnesses are brought in, we suspend the meeting for a couple of minutes.

14:30

Meeting suspended.

14:33

On resuming—

Budget Process 2004-05

The Convener: I welcome to the committee three witnesses who will give evidence as part of our examination of the Scottish Executive budget for 2004-05: Ian Doig, the director of the Chartered Institute of Public Finance and Accountancy in Scotland; David Dorward, former chair of CIPFA in Scotland and director of finance at Dundee City Council; and David Sawers, director of finance at Angus Council.

Our consideration of the Executive's budget this year is likely to be curtailed; we have only just started it because of the election. The best that we are likely to be able to take from this year's budget consideration is issues that we can examine in greater detail in future budgets. It is unlikely that our consideration will result in substantial changes to this year's budget. However, this is still a good opportunity for us to set the agenda for how we want the Executive's budget to progress in the years ahead, particularly in relation to local government, which obviously is the issue that we are addressing today. That is what we hope to gain from the sessions that we are having with you and with the other witnesses that we will be hearing from in due course.

The committee wants to ask some general questions about your views on the local government budget, once you have made some introductory remarks.

Ian Doig (Chartered Institute of Public Finance and Accountancy): Thank you, convener. I will keep my remarks brief.

I have prepared an introductory statement but, rather than read that out, I have lodged it with the clerk, because I know that the committee will be keen to get to specific questions. I will cut straight to fleshing out who our representatives are and in what capacity they act and that might give you an insight into the many professional fronts on which the Chartered Institute of Public Finance and Accountancy is engaged.

The institute has a full-time secretariat based in Edinburgh, of which I am the director. The secretariat provides support for CIPFA accountants and for organisations in the public services. The membership dimension of our work is governed by the CIPFA in Scotland branch executive committee, which is represented today by David Dorward, who is our immediate past chair. He is director of finance and deputy chief executive of Dundee City Council.

We also facilitate the work of the directors of

finance section, which comprises the directors of finance of all 32 Scottish local authorities. The section is represented today by David Sawers, who is a past chair of the section, and director of finance and deputy chief executive of Angus Council.

To illustrate our extensive policy and technical work, your committee has kindly invited CIPFA to provide a briefing session on the new prudential code. That will be given later this afternoon by two of my secretariat colleagues, Angela Scott and Don Peebles.

I hope that that brief introduction will assist the committee to put CIPFA into context. We are keen to assist and will be happy to respond to any questions that the committee might have.

The Convener: We are going to ask some general questions to start with.

Dr Jackson: I will begin by asking about revenue funding or aggregate external finance. There will be an increase in AEF from £7,378 million in 2003-04 to £8,125 million in 2005-06. Is that increase sufficient to take on board the inflationary pressures and the identifiable new burdens?

Ian Doig: CIPFA does not have an official view on that. It is for the Executive, subject to Parliamentary approval, to set public spending levels. Perhaps my two colleagues will give you their points of view.

David Sawers (Chartered Institute of Public Finance and Accountancy): As Ian Doig said, it is for the Executive to determine the amount of the local government budget. The committee will be aware that COSLA has a view on it, which is that local government has been underfunded under the 2004-05 settlement. That question would be better addressed to COSLA than ourselves.

Dr Jackson: You will remember that one of the issues that came up in previous budget discussions was the linking of a proposed settlement with output or outcome agreements for local services and the importance of doing that. What progress has been made on that? Have you been able to identify any best practice that we could follow?

Ian Doig: Again, the official CIPFA view is that we are not involved at that level as an institute, although my colleagues might have something to say about the process and the progress that has been made.

David Dorward (Chartered Institute of Public Finance and Accountancy): A fair amount of liaison and consultation has taken place between COSLA and the Scottish Executive and significant progress has been made. It is too early to point out areas where there has been good practice, but

local authorities are making good progress in dealing with outcome agreements. COSLA and the Scottish Executive plan to take that further in 2004-05. The budget probably does not take on board outcome agreements, as it is far too early for it to do that. The budgets for 2005-06 and 2006-07 will have a greater opportunity to take into account outcome agreements as they become better developed.

Dr Jackson: So, you do not know of any best practice anywhere.

David Dorward: COSLA will probably have a much better indication of that than we have, through the directors of finance. Outcome agreements are not simply finance based; COSLA would be better placed to answer that question.

Iain Smith: Let us move on to local government capital issues. In the next financial year, the prudential scheme will be introduced. How has that been reflected in the Executive's budget and do you think that that will enable local authorities to take advantage of the new regime?

Ian Doig: Our official view is that it is for the Executive to set spending limits. You will have a more detailed session this afternoon on the prudential code and some of the scenarios that might emerge from that. I invite my colleagues to comment on the practicalities.

David Sawers: The spending document seems to indicate a reduction in capital expenditure in real terms. However, within the revenue settlement, £916 million is provided in 2004-05 through the spending review, which is enough money to service existing local authority debt and provide for new investment of the order of £500 million. That £500 million is obviously related to the prudential framework, given that the loan charges support is there to support local government capital expenditure.

The document before you is not clear about what is happening on local government capital expenditure. The Local Government Committee in the previous session expressed the need for a local government budget to enable it to understand more fully the Executive's spending plans. This is another example of the information that is presented to you being unclear. The directors of finance would welcome the development of a local government budget. I know that Andy Kerr and COSLA are working on that. It is something that the committee would find helpful in its scrutiny role.

Iain Smith: I agree with that. You do not need to point out to those of us who have been on the committee for some time the fact that the budget is not clear—that is the clearest statement that there is.

What are CIPFA's views—if you have any views—on the adequacy of the capital resources for local government? Do you think that the Executive is making sufficient allowance for capital investment in local government?

David Sawers: The Executive is certainly making more allowance than it has in the past. I say that as a matter of judgment. It is apparent to everyone that the infrastructure in Scotland needs renewed. Things such as roads, and so on, need renewed. It is for the Executive to decide what is affordable. We would not comment on the amount in the budget; all that we would say is that there is a need for increased capital expenditure to renew our assets.

Iain Smith: You commented on the £500 million of new investment in the revenue budget. Is that additional to the specific capital allocations?

David Sawers: That is correct. It is in addition to the figure of around £400 million, which relates specifically to capital grants rather than to capital allocations.

Iain Smith: What period does the £500 million figure relate to?

David Sawers: The £500 million figure relates to 2004-05. The figure should be repeated in 2005-06.

Ian Doig: It is worth pointing out that, although the Scottish Executive budget talks about £413 million for capital, that does not reflect the whole situation, as it does not reflect capital receipts. The level of spend in local authorities is more like £1 billion. It is important that the committee understands the whole situation that it is scrutinising. Improvements could be made to the transparency of the process.

David Dorward: It is strange that, *prima facie*, the document seems to underestimate the amount of capital investment that could be incurred in 2004-05. Local authorities are making plans to use the prudential framework as effectively as they can. I believe that the local authorities are expected to make their returns today on their projected planned capital expenditure for the next three years under the prudential framework. It will be interesting to see how that adds up. The prudential framework gives local authorities an opportunity to enhance quite significantly their capital expenditure.

14:45

The Convener: We have jumped ahead to address capital a bit earlier than I had expected. Three or four members are indicating that they want to come in on various points. First, I will call Sylvia Jackson and Bruce McFee, who want to come in on prudential borrowing and capital.

Mr McFee: My question links with revenue as well, for obvious reasons.

Dr Jackson: I hope that it is not a cheeky question. You are to give a talk later this afternoon on the prudential framework. Are there any other significant points that you have not covered as yet in your answers to Iain Smith?

Ian Doig: What we would like to do in the session later on today is to talk through the principles and some of the possible scenarios. Members will be able to ask more detailed questions at that time.

David Sawers: The points that we have referred to relate to the 2004-05 settlement. The presentation to the committee will cover the longer term as well as the short term.

Dr Jackson: That is fine. Thank you.

Mr McFee: At the moment, public-private partnerships are substantially supported by means of the money that is supplied to local authorities to create a level playing field. In future, instead of supplying local authorities with level-playing-field money for PPP projects, would it be prudent or feasible for that money to be redirected into a form of revenue support that would allow local authorities to take up more effectively the borrowing scheme that we have talked about?

I am not suggesting that we take money away from local authorities that have an agreement. The Executive's clear policy has been to promote PPP. However, rather than lever in cash to local authorities by that route, how much more feasible would it be to make that money available to support borrowing under the prudential framework?

Ian Doig: The prudential framework will give far more flexibility than is the case with the previous system. We will cover all of that in the talk this afternoon.

David Sawers: I support what Ian Doig said. As part of the "best-value assessment" of capital projects, local authorities will want to investigate what provides best value. If PPP provides best value, local authorities will obviously want to continue with it. However, if PPP is not regarded as providing best value, we would want to lobby the Executive to adopt what is regarded as the best-value approach. It is too early to say which approach provides best value for money.

Mr McFee: I do not want for one moment to take you into the sphere of politics. However, if it were proven, or if there was evidence to suggest, that a method other than PPP would be better for the funding of a schools rebuilding and refurbishment programme, would it not be more effective to provide the local authorities with the level-playing-field money so that they could use it to finance their prudential borrowing?

Ian Doig: CIPFA's view is that there is no right answer. It is horses for courses. We do not say that PPP/PFI is the right answer in all cases; we do not say that it is the wrong answer in all cases. PPP/PFI is one of a range of tools that directors of finance in local authorities should consider. We will talk through the prudential code with you later on this afternoon.

Mr Welsh: I want to clarify the response to a question that Dr Jackson asked. You said that good progress has been made in output or outcome agreements for local services. What exactly does that mean? How many agreements exist?

David Dorward: I could not give you an answer to that question. The only organisation that could give an answer is COSLA. I am sorry if that sounds as though I am passing the buck.

Michael McMahon (Hamilton North and Bellshill) (Lab): You said that CIPFA does not have a view on which methodology should be used to finance projects. The new best-value regime has been in operation for a short time now. How is that developing? What approaches are being taken to monitor how the new regime is starting to take effect?

David Sawers: Are you asking specifically about the financial issues?

Michael McMahon: Yes.

David Sawers: Assessments are being done of proposed capital expenditure schemes. As part of those assessments, some analysis will be done on what solutions are available to the council. As you will be aware, PPP is a central part of the school rebuilding programme in the meantime. Taking forward a project outwith the PPP scheme would need to be done in conjunction with the Executive. At present, the PPP schemes are an integral part of rebuilding the schools.

Michael McMahon: I want to take that a little bit further. Community planning partnerships are another new development. Because those are new, there may not be a lot of evidence so far, but given the fact that those bring together funding sources from different bodies, does local government have any difficulty in tracking its spending through the CPPs? Are any issues arising around that?

David Dorward: I am not aware of any problems with that. One thing that heartens me about the prudential framework is that it includes project appraisal. Part of that project appraisal is identifying the most appropriate way of funding the project. That can include a wide variety of methods, including the prudential framework and PPP. Some of those projects will be joint funded with our community planning partners. That is happening on the ground, right at this minute.

Mr Welsh: A problem in all budgeting is comparing like with like and trying to understand exactly what is going on. How do we establish local government's base budget?

David Sawers: At present, the Executive and COSLA are having some discussions on that. To date, there is no transparency as to what local government's base budget is. I think that COSLA is pursuing that with the Executive. The Executive has, I think, indicated that it will support the provision of that figure for local government as part of the 2004-05 budget settlement. Work on that is going on at present, but we take the point that there needs to be a starting point for a local government budget.

David Dorward: COSLA brought together what it perceived to be its base budget for the 2002 spending review, and negotiation and consultation continue to be undertaken with the Scottish Executive. The local government base budget is difficult to identify, given all the new funding that is coming through and all the new initiatives that are added on a yearly basis.

Mr Welsh: Are you saying that it is not possible to get a base budget, because the situation is one of shifting sands? There must be a line that could be drawn, which would allow you to make some comparison.

David Dorward: If local government and the Scottish Executive could agree which playing field we are all on, then the goalposts would not keep shifting.

David Sawers: There is a baseline for the amount of grant that councils get, but there are a number of initiative-based pots of money that are allocated to local government over and above that. Before drawing up a local government budget, the funds that are allocated to local authorities in addition to the mainstream AEF budget need to be identified. To be fair to the Executive, it is important to realise that we have made significant progress over the past two or three years, notably with three-year budgeting. We have also made significant progress with partnership agreements with the Executive, working on several issues that have been unclear for a number of years. The Executive is committed to aiding transparency, and I think that that is partly due to the work of the Local Government Committee in identifying those issues.

Mr Welsh: Can you reassure us that there is a main stream of funding that can be identified, and that the real doubts are at the margins?

David Sawers: Within spending plans, there is the AEF settlement, in addition to which there is the capital allocation settlement. There are a number of Executive budgets where local government plays a part. From time to time,

money is mainstreamed from those budgets into the local government budget. On a strategic basis, it is important that that money is identified earlier than has been the case to date. It is important not to understate the fact that the Executive and COSLA are developing that.

Mr Welsh: We wish you well in your search for clarity.

David Dorward: Greater transparency is required in the Executive's budget, so that you can judge how it compares with a local authority's spending need. There are some good examples—one being concessionary travel—of the Executive's coming back to us, wanting to identify the actual cost of such new initiatives and offering to fund any shortfall. That is a good example of identifying the financial effect and impact of a policy and making good any shortfall in the original estimate.

Mr Welsh: The cost of new burdens is included in budget calculations, but how accurately can that cost be measured?

David Sawers: That is the \$1 million question. The Executive makes assumptions regarding the cost of new burdens. In some instances they are demand led, and it is difficult to ascertain whether the funding is too much or too little. Some calculations are based on estimates. When the cost of the initiatives is identified, it is important to go back to the Executive and explain why the estimates were too much or too little.

The Convener: Individual local authorities will have to make detailed estimates of what they expect new burdens will cost—and I realise that we are not yet at the end of the period that local authorities have to arrive at their assumptions for next year. Does CIPFA have any indication from local authorities on precisely how much new burdens are expected to come to?

Ian Doig: I should emphasise that we are not here representing local government; we are independent. The arrangements work best when local authorities are working with the Scottish Executive in a true partnership. When new legislation comes along, there is a need to gear up to accommodate its provisions. That might involve staff or premises, and it is important that local authorities are brought into such preparations. Otherwise, the outcomes might not be achieved in the appropriate time scale and with the realism that the Scottish Executive might have intended. Again, that is about transparency and partnership.

The Convener: I realise that you are not here to represent local government, but do you have any feel for the size of the new burdens that local government is likely to bear from next year's budget?

David Sawers: COSLA has identified a figure but the Executive disputes it. You will recognise the figure of £440 million, which COSLA says is the amount by which local government has been underfunded over the years. The Executive does not share that view, but the feeling in local government is that various services have been underfunded.

David Dorward: It is wrong to try to consider new burdens as a totality; it is far easier to break things down into specific new burdens. COSLA and the Scottish Executive are considering individual new burdens and assessing whether assumptions made by the Executive could be improved on. I go back to the principle: as long as the Executive goes back and reviews the actual costs of new burdens and then says that it will make good those costs in the following year's local government settlement, that is the best that can be done.

15:00

Mr Welsh: How accurately can you estimate inflation, which is obviously an important part of the revenue budget?

David Sawers: As you are aware, the Government estimates inflation regularly. The accuracy has to be reviewed from time to time. You can estimate inflation in public service requirements and you can estimate price inflation, but at the end of the day they are only estimates, albeit informed estimates.

Ian Doig: Local authorities' basket of purchases is not the same as the national average. We are better at identifying the problem than we are at offering a solution.

Paul Martin: I want to ask about the modernising government fund. As you will know, that has been fixed at £15 million for the next three-year period, with an additional £1 million available for small-scale projects in 2004-05 and 2005-06. Is the level of funding sufficient to deal with the Executive's aims in the draft budget?

David Dorward: It is always difficult to say that a level of funding is sufficient. The work that has been done through the modernising government fund has been crucial for the future delivery of public services. Pilot projects have taken place in a number of local authorities and good practice has been passed on; that has been the correct way of doing things. One could always spend more money, but I believe that the sums are adequate at the moment.

Paul Martin: The main point is that the modernising government fund should deliver the Executive's aims. When we take evidence from Andy Kerr, the Minister for Finance and Public

Services, can we advise him that you are more than satisfied that you will be able to deliver those aims with the modernising government fund over the three-year period?

David Dorward: I really could not say whether £15 million is sufficient to meet the Executive's objectives for that fund.

Paul Martin: Why might the fund not be sufficient? I appreciate what you say, but we are trying to find out whether the level of funding that the Executive has set is sufficient and, if not, why not.

David Dorward: When you set a budget, you have to consider what you want to achieve and how much that will cost. The level of funding has to build up from a base level.

I return to the issue of transparency. The budget has a figure of £15 million and objectives, but there is no line in between to say in detail how the objectives will be achieved. It is almost impossible to say whether the £15 million is sufficient, without knowing the actions that will have to be taken to reach the objectives.

Dr Jackson: I have a question that follows on from that point. I have gleaned from what you have said that you think that the process must be improved in certain respects, such as transparency. I am trying to get the important information that you have come to give us. Will you crystallise how we can make the budget process better?

David Dorward: As David Sawers said, a local government budget is required that draws together the various elements that are in the budget at present. Under each present budget head, an element is deliverable by local government. The finance and public services part of the budget runs to only two and a half pages, so the detail is insufficient to allow proper evaluation of a budget of such size. One problem is that local government issues are spread throughout various heads and the elements are not brought into one local government budget. The other problem is that the detail is insufficient.

Dr Jackson: The finance and public services budget line is forecast to grow more slowly than the Executive budget as a whole. Do you have any comments on the overall allocation to the finance and public services heading?

Ian Doig: To recap, CIPFA's view is that it is for the Executive, subject to parliamentary approval, to set public spending limits. Local government expenditure is forecast to increase in actual and real terms, but to decline as a proportion of the total Executive spend. In other words, other programmes might receive higher priority. That is probably okay in a time of growth, although it

would be more problematic if there were a squeeze and the size of the cake reduced.

Iain Smith: My question might be more relevant to the spending review process. However, has CIPFA done any work on the likely implications of the feared potential pensions shortfalls, in relation both to funded superannuation schemes and to unfunded schemes in which local government is involved?

Ian Doig: CIPFA has not done any such work. Until recently, most local authorities thought that the situation was a blip that would probably pass. However, some authorities down south are starting to consider the issue more seriously and to address it because huge amounts of money are involved.

David Dorward: To give some comfort, the situation in Scotland is far better than that in England and Wales. Historically, local government in England and Wales was allowed to have a ratio of 75:25 assets to liabilities, but that never happened in Scotland—we did not take up that option. Therefore, the local government pension scheme here is far better funded than that in England and Wales.

Unfunded pension funds, such as those for the police and fire services, are of more concern because pensions are beginning to take up a far higher proportion of the total budget for police and fire services. I believe that central Government is trying to address that issue and has been for some time. That aspect is far more worrying than the situation vis-à-vis the local government pension scheme which, I hope, will resolve itself in the medium term.

Iain Smith: In the quinquennial reviews of funded schemes, is there a general trend of actuaries recommending increased employer contributions? If so, what implications does that have for the overall local government budget?

David Dorward: The last actuarial valuation was in March 2002. The new employer contributions became effective from 1 April 2003 for the following three years. All nine local government schemes saw an increase in their employer contributions, but the increase was fairly staged—it was not dramatic—and will be built into local authorities' three-year budgets for 2003-04, 2004-05 and 2005-06. The increases were not as dramatic as what might have been expected from reading about them in the press—that is the point. Actuaries take a long-term view, whereas what was perceived through the press was a snapshot on one day of the prospective values of the pension schemes.

Michael McMahon: I want clarification for myself, but perhaps this will help the rest of the committee as well. In response to Paul Martin's

question on the modernising government fund, mention was made of the lack of transparency of the indicators in showing where moneys could be effectively used. How widespread is that difficulty?

According to the previous Local Government Committee, the grant-aided expenditure indicators are too widespread. There are too many GAE indicators and they do not always provide adequate funding targets. Could what you said about the modernising government fund be broadened out across all types of indicators, including those for rurality and deprivation? Is there a lack of transparency across the whole range of indicators or is the problem specific to certain indicators?

David Sawers: The point about the lack of transparency related to inputs to the budget rather than to outcomes. As members will know, the GAE system is a can of worms. There are various views about what measures are reasonable; for example, under the previous system, GAE indicators were refined regularly and grant distributions were changed after studies, but that led to a very minimal shift in overall grant distribution. Where we stand at present is that we say that the GAE system should be used for grant distribution. If a better system comes along, we will consider it but, to date, no proposal has gained consensus that suggests that we should not, in the meantime, stick with the tried and trusted method.

Michael McMahon: Do you have any input to give about that? Collectively or individually, do you have any ideas about what would be a better system?

David Sawers: The only point that I would make is that any amendment to the present system should be properly road tested to ensure that we know what its implications will be. We should not change the system just for the sake of it because it is important that we are aware of the implications of any change before it is adopted.

Michael McMahon: How would a change be road tested? Would the indicators for one selected local authority be changed to see whether the change was appropriate?

David Sawers: I presume that all the indicators would be examined to see what the impact of the change would be across the board.

David Dorward: Road testing would be very much a desktop exercise. One need only look at England and Wales, where there was a change in the method of grant distribution for the 2003-04 council tax, to see the turbulence that such changes can cause.

Michael McMahon: So, we can look for examples of problems elsewhere, but we do not necessarily know what the solutions are.

Ian Doig: The point is that we are talking about reslicing the cake. If extra money is being allocated elsewhere, that must happen at the expense of something else and the implications of that must be understood. That is the point that we are making about the need for research and road testing.

The Convener: One area that we have not covered is the joint budgeting that is now more common in public services. For example, in community health partnerships, there is greater overlap between local authority budgets and health service budgets. There are other areas in which local government expenditure is not as transparent as it could be, such as when trusts are set up to look after leisure services. There is ever-greater reliance on partnerships and other forms of delivery, so how can we ensure that we can still track local authority budgets, and that there is transparency in the budgets that have been allocated and the delivery of services?

David Sawers: What are we looking for from the resources that are being allocated? The Executive and local authority politicians have separate objectives so there is a mix of objectives as far as local government budgets are concerned.

On transparency, local politicians might be satisfied that the various vehicles that they use to deliver services are meeting their objectives. I am unclear as to what you think the role of the committee is in getting transparency and in scrutinising the outcomes.

15:15

The Convener: The matter is not just about this committee's role; it is about the role of the Parliament generally. For example, the health budget is massive and it can be difficult to see where the extra resources that are being put into health are reflected by improvements in services. If we are moving towards overlap between the local government budget—which is a large part of the Executive's expenditure—and other budgets such as the health budget, I would be concerned if we were not able to track whether those resources were delivering the benefits and services that we want. It is not important to me whether the Local Government and Transport Committee or other subject committees of the Parliament scrutinise that. I am asking how we can ensure that it is possible to track the finance.

David Sawers: In terms of the joint future agenda, we operate a system of aligned budgeting whereby the health service is responsible for its budgetary inputs and local government is responsible for its inputs. However, we are trying to measure joint outcomes. We have agreed outcomes that are being measured by the

partnerships, but the inputs are being controlled by the body to which Parliament has allocated responsibility.

Various mechanisms are being set up locally to ensure that there is transparency about the money that has been allocated by central Government and whether it is being used for the purposes that Government wishes.

The Convener: Some local authorities suggest that we have to re-examine the way in which such partnerships are made accountable. For example, the health service is not a local democratically elected organisation, whereas a local authority is. Therefore, there are different pressures on each. Does CIPFA believe that there should be any changes in legislation on the way such joint partnerships are managed that would ensure that allocation of resources is scrutinised sufficiently?

David Dorward: The requirement for public performance reporting for local authorities is an important part of the Local Government in Scotland Act 2003. The requirement to produce outcome-based reports could be extended to other joint-funded bodies. That would be an important change because reporting on inputs in public performance is not necessarily as important as the outcomes.

I could not say with my hand on my heart that I have seen joint future reports that show the public how the resources have been used. However, the extension of public performance reporting to local authorities could bring that about. That applies equally to trusts. There are good reasons for setting up trusts to operate facilities, but trusts might not be as transparent as local government.

Mr Welsh: Budgets have tangible effects, so it is important to separate the real from the hoped-for. In setting local government budgets, is it reasonable to assume productivity or efficiency improvement?

David Sawers: In any organisation, it is reasonable to assume that managers will examine how they are delivering a service to make sure that it is being delivered efficiently and effectively. Are you asking whether it is reasonable to assume that savings can be built into Government budget assumptions? That is a different argument.

Mr Welsh: Would it be reasonable to build in such savings? After many years of efficiency savings, how much cash would be left over and available to be brought to the rescue?

David Sawers: As you are aware, local government has been examining itself and improving its efficiency for several years. There have certainly been considerable efficiency savings during the past six or seven years since the unitary authorities were formed.

David Dorward: The question is about the extent to which one believes efficiency savings should be set by central Government. If they are set too high, there is no incentive for local government to find its own efficiency savings. If they are set at a reasonable level, it would not change the way in which local government went about making efficiency savings, but there would certainly be a better feeling among local authorities about retaining some of those efficiency savings for investment.

Mr Welsh: Retention for investment—we are almost into the art and politics of budgeting.

The Convener: We have covered most of the areas that we wanted to ask about. I draw this evidence session to an end and thank the three members of CIPFA for attending and giving evidence.

15:21

Meeting continued in private until 15:48.

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