

LOCAL GOVERNMENT AND TRANSPORT COMMITTEE

Tuesday 22 June 2004
(*Afternoon*)

Session 2

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LOCAL GOVERNMENT AND TRANSPORT COMMITTEE

16th Meeting 2004, Session 2

CONVENER

*Bristow Muldoon (Livingston) (Lab)

DEPUTY CONVENER

*Mr Andrew Welsh (Angus) (SNP)

COMMITTEE MEMBERS

*Dr Sylvia Jackson (Stirling) (Lab)

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)

*Tommy Sheridan (Glasgow) (SSP)

*Iain Smith (North East Fife) (LD)

COMMITTEE SUBSTITUTES

Bill Butler (Glasgow Anniesland) (Lab)

Colin Fox (Lothians) (SSP)

Mr Kenny MacAskill (Lothians) (SNP)

Mr Brian Monteith (Mid Scotland and Fife) (Con)

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

*attended

THE FOLLOWING GAVE EVIDENCE:

Brenda Campbell (Convention of Scottish Local Authorities)

Alastair MacNish (Accounts Commission)

David Pia (Audit Scotland)

Gordon Smail (Audit Scotland)

Della Thomas (Convention of Scottish Local Authorities)

Councillor Pat Watters (Convention of Scottish Local Authorities)

CLERK TO THE COMMITTEE

Eugene Windsor

SENIOR ASSISTANT CLERK

Alastair Macfie

ASSISTANT CLERK

Euan Donald

LOCATION

Committee Room 2

Scottish Parliament

Local Government and Transport Committee

Tuesday 22 June 2004

(Afternoon)

[THE CONVENER opened the meeting at 14:04]

Item in Private

The Convener (Bristow Muldoon): I open today's meeting of the Local Government and Transport Committee, which is our 16th meeting in 2004. Before I welcome our first group of witnesses for the afternoon, I will deal with item 1 on the agenda, which relates to consideration of an item in private. It is proposed that item 5, which is consideration of the possible contents of our draft report on the Prostitution Tolerance Zones (Scotland) Bill, be taken in private, as has been the normal practice in this and other committees. Is that agreed?

Members *indicated agreement.*

Tommy Sheridan (Glasgow) (SSP): I dissent.

The Convener: We agree to take item 1 in private, but Tommy Sheridan's dissent is recorded.

Best Value in Local Government

14:05

The Convener: That brings us to the first of our two major evidence-taking sessions this afternoon. We will receive a briefing from the Accounts Commission on best value in local government and on the 2002-03 local authority audits. The panel consists of Alastair MacNish, the chair of the Accounts Commission; Bill Magee, the commission's secretary; David Pia, the director of performance audit at Audit Scotland; and Gordon Smail, senior manager with Audit Scotland. We welcome all four of you to the committee. I invite Alastair MacNish to lead off with the briefing.

Alastair MacNish (Accounts Commission): I will outline briefly the commission's remit. There are 12 commissioners, who are appointed by ministers for three years in a rolling programme. Our duty is to hold councils to account for financial and service performance.

We secure the audit of Scotland's 32 councils and of the 34 joint boards by appointing their external auditors from Audit Scotland and the private sector. In addition, performance studies of services are undertaken, sometimes in conjunction with the Auditor General. An example of those is the recent youth justice report. Each year we publish some 80 statutory performance indicators on council services. We receive an annual overview report on local government to which I will refer later this afternoon.

I thank the committee for giving us this opportunity to share the progress that we have made to date in developing the best-value audit of local government in Scotland. David Pia and I will highlight briefly a few points in the paper that is before the committee. I hope that we will be able to answer any questions that members have.

The Local Government in Scotland Act 2003 gave local government specific statutory responsibilities in respect of best value and community planning, together with the power of well-being. An integral requirement of the act is for a best-value audit to be carried out in each authority by Audit Scotland and for the findings of that audit to be examined by the Accounts Commission. Based on that requirement, the key features of the new audit approach are a more local focus and a focus on individual councils, rather than all councils at once; a three-year cycle, so that every council will be covered over a three-year period; and a focus on results and future improvement, rather than processes. In the past, the criticism has been made that quangos examine processes, rather than outcomes. Best value is about examining improvement and

outcomes. The new audit approach should be risk based, targeted and proportionate in the targets that it sets.

Specialist audit teams are being created and will link to the work of the inspectorates. It is vitally important that we do not duplicate effort—we do not need any more paper mountains in inspectorates or in the Accounts Commission. If work has been done—for example, by Her Majesty's Inspectorate of Education—and is satisfactory, we will use the information that has already been gleaned. Every report on councils will be submitted to the commission. There will be no single label for a council, but clear conclusions will be drawn about the service provided by all services in that council area.

I refer members to page 4 of the briefing paper, which is headed "Initial meeting". In total, the audit for each council will take 20 weeks. That period is broken down as follows. An initial meeting with the auditors will take place in week 1. In weeks 2 to 7, there will be a self-assessment by the council of its strengths and weaknesses. In other words, the council will make a submission, which we will examine. Over this period of five or six weeks, the auditors will prepare to challenge the council on various areas of service that it provides. In week 8, the council will make a presentation to the auditors. In weeks 9 to 10, the overall audit will take place. Detailed audit will take place in weeks 11 to 15. The process will culminate in the last four weeks, when findings and the report are prepared.

David Pia will deal with the next couple of pages of the presentation.

David Pia (Audit Scotland): Good afternoon. I will provide the committee with a little more detail of the audit process.

The next slide, which is headed "Basic Structure for Submission", describes what we invite councils to cover in their submissions. We ask for contextual information, which gives councils an opportunity to say something about their area and the factors about the local context that are important to understand. We ask for performance results, so councils must tell us what they know about how well they perform. Councils must also cover key features of best value and community planning and refer to the guidance that the Scottish Executive issues, which covers such criteria as leadership, the management of resources, engagement with local communities and community planning. The submission should also include a draft improvement plan that sets out what the council intends to do to improve services and it should be backed up with documentation to support the points that it makes. We also invite councils to give a presentation to the audit team, prior to our analysis of the material.

I move on to the next slide. The initial analysis takes an overview of the information that the council submits about its performance and seeks to provide high-level assurance about the quality of performance in relation to the particular best-value criteria. The audit team then carries out a risk assessment with the intention of targeting areas for in-depth examination. Those areas might relate to corporate issues, such as resource management, or to particular services, for example the education service or the leisure and recreation service. The purpose of the risk assessment, which is an important part of the process, is to identify aspects of a council's activity that are worth examining more closely. The detailed audit follows and involves three weeks of visits by the audit team to the council area. The team reviews documentation and interviews a wide range of people inside and outside the council. The team might also attend and observe meetings.

The next slide describes our best-value audit report. A draft is discussed with the chief executive before the report is finalised, to give the council an opportunity to check the accuracy of the facts in the report. The report seeks to be balanced, to give a fair account of strengths and weaknesses and to take account of the local context. We do not seek to place councils in league tables or to give them a simple score on their performance. The report includes an improvement plan that sets out the action that should be taken to improve services and, of course, the report is published. Meetings take place—certainly in the initial cycle of audits—between Accounts Commission members and each council and there is provision for follow-up audits.

The next slide describes the options that are open to the Accounts Commission when it receives the report. In essence, there are four options: the commission may direct further work by Audit Scotland to examine the issues that arise from the audit; it will state its findings and record its views on what the audit describes; it may make recommendations for action to ministers and councils; and it may hold hearings and meet councils to discuss the first audit of best value that is carried out. For the commission to have such direct contact with councils in the normal course of events is an innovation; previously the commission had such contact only when special matters were being investigated.

Alastair MacNish: I move on to the slide entitled "Next Steps". We selected the first seven councils for audit with reference to geography, urban-rural split, size, political balance and so on. As members can see from the final slide, those seven councils were: Angus Council; Dundee City Council; Inverclyde Council; North Ayrshire Council; Shetland Islands Council; Stirling Council;

and West Lothian Council. While those audits are going on, traditional work will take place with other councils. The target is to complete the audit of all councils within the three-year cycle and to continue the cycle thereafter, making progress on improvement plans with the councils that have undergone their first best-value audit.

A guide on their submissions will be produced for councils. As the best-value audit is new, there will be a learning curve not only for the councils, but for the Accounts Commission and Audit Scotland. If the best-value audit is successful, it should be rolled out to the whole public sector, not only local government; the rest of the public sector should be held to account under the best-value regime. I will be happy to take questions.

14:15

Dr Sylvia Jackson (Stirling) (Lab): In your opening remarks, you said that you hope that the best-value audit will not take up too much time and that you will build into it whatever reports and inspections have already been done, such as by HMIE. I have no doubt that the best-value audit is a worthwhile process to go through, but it obviously involves a large amount of work. I suppose that you would say that the gains from the process for a council could be enormous, so their input of time will be worth while. Will you comment first on that? Secondly, I assume from what you said that every council department, service and so on will come under scrutiny within the process. Thirdly, what sort of information will you gather prior to the submission that you receive from the council?

Alastair MacNish: We believe that the best-value audit will add value to the whole process of local government service provision. It is important to say that the statutory audit of the probity of the council will continue. The external auditor will continue to do the nuts and bolts—best value is about added value and improving the service level within a council. I believe that best value will help because the council carries out a self-assessment, which we then consider. Not every department will be considered in depth—that cannot be done in a 20-week period—but a risk assessment will be done by the council and by us. If a particular department looked from the statutory performance indicators to be performing poorly and the council ignored that in the improvement plan, we would investigate that area and delve into it with the council. The process should be fairly comprehensive. I ask David Pia to deal with the third question.

David Pia: On prior information?

Dr Jackson: Yes.

David Pia: A range of information is readily available. Audit Scotland publishes the statutory performance indicators and a range of financial information is published regularly, such as the rating review, which covers local government finance. Information about spending on services is published regularly by the Executive. As Dr Jackson said, the scrutiny bodies publish reports. We will build up profiles of each council so that we have a bank of information to draw upon. That provides the basis and we will add to that the information that comes in from the council.

Alastair MacNish: The best-value audit should prevent a council from being damned in total when some very good high-quality services are being provided, because it goes into far greater depth and identifies good practice as well as poor performance. That is a big change from the usual approach of taking straight performance indicators across the whole of Scotland: we can target in on the local authority. For the first time in 30 years the Accounts Commission went out to meet all the councils. I am not saying that the councils are delighted that best value is here, but they saw the merits of self-assessment and of being able to challenge the service provision. We have had genuine consultation with councils on best value. I will ask them in a year's time whether they still think that it is a good idea.

Michael McMahon (Hamilton North and Bellshill) (Lab): Looking at the books is pretty black and white; money is either being spent properly or it is not. A lot of what you are describing, in particular self-assessment, is subjective. As you will know, my constituency covers both North Lanarkshire Council and South Lanarkshire Council. The two local authorities deliver very good services, but they deliver them differently and there is a difference in their cultures and leadership. How do you assess such things according to the criteria that you use?

Alastair MacNish: The audit team is made up of specialists and the backgrounds of its members are diverse. It is not a straightforward external audit; a far wider team is looking at this. We can use all the information that is available to us, not just the black-and-white information.

You are quite right to say that every council is different. No two councils in Scotland are the same in terms of the deprivation, social mix, and so on, in their areas. They will all be different and will be judged on their merits and, as David Pia pointed out, the contextual information base will be used to analyse them and highlight where there are differences. Council tax is a perfect example of that. Collection rates are quite different in different parts of Scotland and there are many reasons for that difference in the level of immediate recovery, many of which are justified.

Michael McMahon: That being the case, do you assist councils in determining what they should be assessing in their self-assessment?

Alastair MacNish: No, we have absolutely nothing to do with that. In weeks 2 to 7 we work separately from the councils. They do all the self-assessment. They should know the job that they have to do, and I am confident that they do. We look at the process objectively, from outside, with the benefit of all the information that we have. If a service appeared to need further comment or improvement and the issue had not been raised by the council, the auditors would challenge the council and ask why that was not included in its improvement plan.

It is not about signing off a certificate; it is about the improvement of service delivery in a council area in the long term. That will take time, and of more benefit will be the second best-value audit that will come three years down the road. The important thing is that, when targets are set, we do not suffocate the council by requiring it to achieve high targets. The danger would be that the council would play safe and set fairly low targets. It is important that we allow councils to set high targets for the delivery of services and monitor them on that basis.

Michael McMahon: So you have a purely monitoring role. What would your position be if you were not satisfied that a council was assessing matters properly?

Alastair MacNish: We have the power to hold a hearing with the council. The end result would be that we could remove individuals from the council. We hope that it would never come to that, but that is the final power that the Accounts Commission has. This process has been sold as one that should improve service delivery, not make a block between Audit Scotland and the Accounts Commission and the local authority. So far, that has been accepted as the way forward.

Michael McMahon: Are you satisfied that the process is working well?

Alastair MacNish: We are two thirds of the way through the first audit in Angus, and the Accounts Commission is having nothing to do with it until it is finished. Until Audit Scotland finishes its work, we will have no input into it; therefore, I have no idea how the process is going. I will know in five or so weeks' time.

Mr Andrew Welsh (Angus) (SNP): Can you give us a flavour of the recommendations that you will make? Will they be specific or general? Was there a phrase about removing people from councils?

Alastair MacNish: No, that was an issue that Mr McMahon raised. If it became starkly obvious

that a council was not performing at all, the ultimate power of the Accounts Commission would be to remove people. However, there is no evidence anywhere in Scotland of councils not performing at all.

Our reports are of no value unless they add value to the process, so the recommendations have to be fairly specific. If the report is woolly, it does not serve the community and it certainly does not serve the council. It should be fairly hard hitting, but objective.

Mr Welsh: There must be an element of fairness, because measuring constant improvement all depends on the starting point and the baseline. In other words, a 1 per cent increase in financial terms could actually be £1,000, whereas a 15 or 20 per cent increase could be £1—it depends on the starting point. I hope that fairness will be in-built.

Alastair MacNish: One of the benefits of the approach is that it looks specifically at one council, rather than comparing it with all 31 other councils at the same time. One of the unfair parts of the blanket cover is that we might not be comparing like with like with regard to geography or social mix. With this approach, we are looking at a specific council area and the targets that it has set itself and that we believe can be achieved.

Mr Welsh: It is clearly an in-depth exercise, with the Accounts Commission working with the council, but I hope that you are able to avoid some of the pitfalls of performance indicators and value for money. Can you reassure us on that? I remember talking to a parks department official who said, "In the past, we used to cut the grass. Nowadays, all we seem to do is measure it." Can we be assured that the new approach will avoid some of the pitfalls of sticking too strictly to indicators and will bear in mind the task itself? After all, councils have to deliver services, but you will be talking to council officials over quite some time and involving them in carrying out the exercise while they have a job of work to do.

Alastair MacNish: That is an important point. In any quango, the danger is that all that you are doing is making the position worse, rather than adding value. I believe that the audit that we are discussing today will genuinely add value to the council and to the provision of services. The council can also be challenged from within the council area by members of the public, so I believe that it will be fair. Whether people will agree with the findings in any council area is a matter for individuals, but the process should be scrupulously fair. I stress that we are totally independent and are not governed by anyone. The only governance is that the Scottish Executive can remove me from the chair. That is the only power

that it has. It cannot change the findings of our best-value audit, so the process should be fair.

Mr Welsh: Is the ultimate goal to complement and help to improve services, working with the councils?

Alastair MacNish: I believe that the bottle should be half full rather than half empty, and I want to achieve that. However, let us make no bones about it; if a service is not performing, we will identify that. That is not bad news for the community. It is actually of benefit to the community, and it may be a better service than the Accounts Commission provides in some other areas.

Tommy Sheridan: I would like you to comment on a couple of areas. Your report mentions the reserves—

Alastair MacNish: Can I stop you there? That is in the overview report, which we shall come on to in about five minutes' time.

Tommy Sheridan: Okay. I shall keep my questions until then. Most of them relate to the overview report.

The Convener: I take it from the overview that local authority audits will continue, as will audits into special service areas.

Alastair MacNish: Yes.

The Convener: Is the new system intended to complement that?

Alastair MacNish: Yes. The special reviews of specific services will continue as before.

The Convener: Thank you. I shall hand back over to you to tell us about the "Overview of the 2002/03 local authority audits".

Alastair MacNish: The overview report from the controller of audit for the year to 31 March 2003 was published recently and included the following main messages. First, on the positive side, the councils' financial controls are improving year on year. For the first time since reorganisation in 1996, there are no audit qualifications at any council in Scotland. Secondly, council tax collection rates are the highest in real terms since 1997. Thirdly, home care for the elderly in the evenings, overnight and at weekends has increased significantly over the past two years. Lastly, the proportion of waste recycled rose to 9.6 per cent in the year, although that still falls far short of the Scottish Executive's target of 25 per cent by 2006. Nevertheless, the trend for recycling is still upward.

On the flip side, we have concerns that the auditing scrutiny within councils is far from independent in some local authorities. Financial monitoring by elected members requires timely

and relevant service information and that needs attention in several councils across Scotland. However, the reduction in the value of the local government pension scheme assets, although consistent with all other pension schemes, is worrying. External auditors will continue to monitor the situation across Scotland. Moreover, borrowing from libraries continues to fall for the fifth year in a row, with only 24 per cent of the adult population now borrowing books from the library service. Some will have transferred over to DVDs and so on but, nevertheless, there has been a continual drop in library provision in the past five years.

Mr Sheridan made a point about reserves. The commission's point was not about the level of reserves, but about the fact that councils should be prudent and transparent in arriving at the reserve and should make it clear why they have arrived at that reserve for that year. That is to say not that the reserve should be 2 or 3 per cent, but that the reasons for arriving at the reserve should be transparent, clear and open. I am happy to take questions.

14:30

The Convener: I will let Tommy Sheridan pursue that point further.

Tommy Sheridan: I have questions on two or three areas, but I will take the reserves first. My concern is that the biggest growth area is in other reserves, rather than in the general fund or housing revenue account, which means that moneys that we would expect to be used in the course of a year seem to be rising. It seems that the figures are £590 million for 2000-01 rising to £686 million in 2001-02 and to £839 million in 2002-03. If that growth was in HRA or the general fund, it might be to do with changes in housing tenure and housing expenditure, but the fact that it is in other reserves worries me. I wonder whether the money should be being utilised in those financial years.

We will soon hear from the Convention of Scottish Local Authorities about the deficit that it perceives to exist and about how much is being made available to Scotland's councils and how much they require. I am very much in favour of fully financing local authorities to do the excellent job that they do, but are you applying pressure on councils in relation to the growth in reserves? Why is there such significant growth?

Alastair MacNish: That is exactly the question that we are asking. There was a significant increase in 2002-03. Such increases were not obvious in the past, which is why we highlighted that one. People's reaction has been to say, "It is up to the local authority to decide," which is true,

but councils have to be transparent when they make such provision. In our overview report, we say that we are not convinced that that transparency exists. That goes back to the earlier point about audit and scrutiny within the councils. Elected members should have the right to scrutinise the leadership clearly and openly in relation to all provision, of which the reserves are an important part. We will continue to examine that in depth during the 2003-04 audit.

Tommy Sheridan: You flagged up the private finance initiative and public-private partnerships and referred to the fact that contracts to the tune of £2.5 billion are live across Scotland. You also referred to the Accounts Commission report of 2002, which questioned whether PFI/PPP represents best value for the public pound. You do not seem to be completely happy that the reporting of PFI/PPP expenditure is as transparent and easily understood as it should be. Could you comment on that? What is the problem?

Alastair MacNish: It is not so much the reporting of PPPs that concerns us as the fact that we are dealing with swings and roundabouts. There are some benefits from PPP, but there are disadvantages. One issue, which was raised in the 2002 report, is the financing. We are concerned enough to be producing a report on the £2.5 billion education PPP in our next tranche of special reports. The issue has not gone away. There are benefits from PPPs—if they work properly, there can be benefits in relation to maintenance, for example—but there are disincentives, which were clearly identified in the 2002 report. We require to revisit PPPs, because we cannot sign them off one way or the other. We need further evidence from a far bigger tranche. Although some people claimed otherwise, we believe that our 2002 report was balanced. Given that we received criticisms and plaudits from all sides, I argue that our 2002 report was reasonably balanced. However, we need to do more work on the issue, which I can assure the committee we will carry out.

Tommy Sheridan: On the pensions issue, I have a general question about the overall 20 per cent reduction in assets, which is quite significant. The overview report points out that there has been a recovery in some markets, but are you still concerned—perhaps more than you have said today—that councils will not have enough funds to meet their liabilities?

Alastair MacNish: We have as yet no indication that the pension funds have come to a crisis point. Their performance has been consistent with that of other pension funds and, as our 2004 report will identify, there has been a recovery. The problem is that the overview report is more than a year late. One bonus that will come from best value is that our overview reports will be more up to date.

The performance of the pension funds has not been out of kilter with that of other pension fund schemes across the United Kingdom, but we are not unconcerned about the issue. After all, we are talking about a 20 per cent reduction in assets. For the benefit of the later lives of those future pensioners, it is vital that we ensure that the funds are up to date and that they are adequate. That is particularly important in the public sector, which has huge pension funds.

The 20 per cent reduction in assets was in line with the performance of other funds, but we need to ensure that the trend has bottomed out and that the figures are starting to rise. We will report back on that. Each council's external auditors have been asked specifically to examine the individual pension schemes. Obviously, not every council has its own pension scheme, because the Strathclyde pension fund covers almost half of Scotland. Indeed, that fund was more buoyant than some of the others for a while, but it dipped, too.

Tommy Sheridan: Collectively, councils control some £9.8 billion of pension fund assets. Has the Accounts Commission a role in the returns on investment that the pension funds make? Could the pension funds be removed from the chaos of the casino if a system were developed that paid a steadier stream of return on investment by keeping that public money in public use? Is it beyond the remit of the commission to develop such innovative schemes?

Alastair MacNish: That is well beyond our remit. Only a small amount of time is allotted for the commission's work. The commissioners are employed for only one and a half days a month, so the commission is a very small entity. However, we will continue to highlight any concerns that we have about the need to develop a strategy to ensure that the pension funds are as safe as possible for the pension holders. That may be a bureaucratic answer, but your suggestion is way beyond our remit at the moment.

Tommy Sheridan: That is a pity.

Mr Welsh: Audit committees are clearly crucial in tightening up performance and procedures. When will the commission issue specific guidance on those for local authorities? How will the commission encourage local authorities to introduce such committees? Will the guidance be purely advisory or will it be compulsory?

Alastair MacNish: When I wore my old hat as chair of the leadership advisory panel back in 2000 and 2001, I begged local authorities to introduce audit committees. All councils are moving towards establishing such committees, but we have concerns about the committees' independence and whether they receive

information that allows them to carry out appropriate scrutiny. We will continue to report whether we are happy with the progress that has been made.

We are not happy about progress in many councils. The remit of some audit committees that have been set up is not what it should be because it does not provide for genuine scrutiny of the council and of its corporate governance. We will continue to highlight that both in our overview reports and in our best-value reports on individual councils.

The great thing about best value is that we will be able to pinpoint whether the audit and scrutiny function in individual councils is working well. With the three-year best-value audit, we will be able to answer your question specifically. Unfortunately, at the moment, the external auditor can take only a general overview of the council's internal audit and its audit committee. Although almost all the councils now have audit committees in name, our concern is that the committees must become specific entities.

David Pia: I think that guidance on that matter has now been issued. Gordon Smail knows more about that.

Gordon Smail (Audit Scotland): I was about to mention that. Earlier this month, the Chartered Institute of Public Finance and Accountancy published for the first time guidance on the principles of how audit committees in local government should operate. That is a positive development, because it will provide a good benchmark for councils and will allow us in Audit Scotland to measure their performance.

Mr Welsh: It is also important that councils should receive advice and back-up. When I was on the Parliament's Audit Committee, I found that in many cases outside organisations lacked experience in this area, especially in how to set up audit committees. As a result, professional advice was of great assistance to them. Could councils seek advice or guidance from the Accounts Commission or could the commission guide them towards some suitable source of advice?

Alastair MacNish: It would be of greater benefit to councils and indeed the whole local government sector if COSLA could provide that advice. Our problem is that, as soon as we start to give specific advice and help on individual issues, we will no longer be independent, because we will not be sitting outside the situation. We can of course cajole and help councils through the CIPFA guidance and all our other outlets. However, providing specific assistance is outwith our remit.

Mr Welsh: I take your point. However, such advice would be helpful. I hope that COSLA is

listening to your comments and can arrange matters.

Alastair MacNish: I also hope that the external auditors will work closely with the internal auditors in councils. One of the best changes in local government in Scotland has been the strengthening of internal audit across all councils. The situation is different from what it was even five years ago and should give the audit committees tremendous weight.

The Convener: I was interested to find that, according to the 2002-03 figures, there has been substantial improvement in surpluses and a substantial reduction in deficits for direct labour and direct service organisations since 1997-98. Given that the legislation has changed since the report was carried out, how does the Accounts Commission intend to monitor the performance of DLOs and DSOs to ensure that that improvement continues?

Alastair MacNish: As that issue now forms part of the prudential framework, it will be taken into account in a council's on-going audit. However, despite one or two glitches, the majority of the DLOs and DSOs showed a continuing year-on-year improvement.

Gordon Smail: Convener, you are right to point out that the legislation has changed. As councils are now required to have trading accounts, we expect most of the organisations that were previously DLOs or DSOs to have the same trading account arrangements. Councils will also be required to disclose in their annual accounts the results of trading operations. In fact, the legislation also requires councils to break even over a rolling three-year period. Some similarities have been carried over into the new system and, as I have said, councils are now required to keep accounts for those substantial trading operations.

David Pia: We also considered that factor in the best-value audits.

Dr Jackson: It would be helpful if we could receive a copy of the CIPFA guidance on local government audit procedures.

My questions centre on two points that Tommy Sheridan raised. First, as far as PPPs are concerned, I should point out that there has been quite a spin-off of sports facilities from secondary schools in the Stirling constituency. I take it that you will consider the whole breadth of issues associated with PPPs, including the positive additions that they have made to communities. I suppose that that goes back to Andrew Welsh's earlier point about narrow performance indicators.

Tommy Sheridan also asked about your role. How can councils best learn from other councils? I accept that we need flexibility and that councils

have different needs, but we want to spread good examples. How should that information be disseminated?

14:45

Alastair MacNish: When we examined the PFIs—as they were called previously—in education, we looked at all aspects, both positive and negative. That is why it was possible to pick any part of the report on that and say that it was either negative or positive. We will continue to look at all aspects in considering spin-offs, the cost of funding and security of tenure. I guarantee that that will continue to be our main aim. Our year-on-year overview report will refer specifically to best value.

Gordon Smail: The overview report is an opportunity to spread good practice because it brings together everything from the audits that have been carried out in a year. We will continue to do that with the best-value audits, which means that recurring issues that arise—whether they are good practice or areas for improvement—will be reflected in the overview report. The report is one way in which we can disseminate the messages from our work, including the work on best value.

Dr Jackson: In addition to written material, will there be a conference to allow greater discussion?

Alastair MacNish: CIPFA is setting up various seminars for that purpose. To return to my old COSLA threads, I repeat that COSLA could play a major role in spreading information about best value.

David Pia: It is worth mentioning the improvement service that COSLA, the Executive and the Society of Local Authority Chief Executives and Senior Managers are setting up, the central purpose of which is to help to disseminate good practice.

Michael McMahon: I have a question about the performance indicators. Paragraph 17.6 states:

“Not all indicators which were poorly ranked are of equal importance ... so it is important to use this summary in conjunction with the ‘*Council Profiles 2002/03*’”.

That raises the possibility that some councils might in effect be outperforming other councils that have a better performance indicator. Is there no way in which you can tabulate the information so that the unfairness is removed? Given that you are aware that unfairness may exist, can there be a value-added tabulation of the statistics?

Alastair MacNish: We have tried hard to make the statutory performance indicators more relevant—that has been the bane of my life in the past three years. The danger is that the number of indicators will rise—we started off with 60 or 70 and kept going up—which could mean that council

employees do not do any work because they are filling in forms for the Accounts Commission. For the first time, we have now started to reduce the number of indicators. We discuss and carry out detailed consultation on every statutory performance indicator with the councils before the indicators are introduced. When we produce results for an individual statutory performance indicator, we tend to begin by giving reasons why there might be differences between councils. The added-value aspect would be in that part. However, it would need a large tome to say that X does not equate with Y because of Z.

I make no apology for returning to best value, which should remove a massive part of the problem, because services and provision will be considered within local areas, using local targets. If, for a perfectly legitimate reason, a council starts from a low base, it will get the credit for its improvement plan. The media sometimes take the simple across-the-board line and say that one council's performance is far poorer than another's, but there may be many reasons for that. The statutory performance indicators are only one element of the report on all 32 councils, but they are a significant element. It is legitimate to use many of the indicators to compare all 32 councils, but some of the indicators tend to be transitional. We continue to change, improve and modify the indicators.

Mr Welsh: Is the problem with the new system that high-performing councils will not show much improvement because they start from a high base, whereas poorer-performing authorities will have spectacular results? We all hope that authorities will improve, but is there not a problem at the higher end, where councils are already performing well?

Alastair MacNish: There is not, because the statutory performance indicators will show that, for example, last year a council had an achievement level of 94 per cent and that has now risen to 95 per cent. For another council, the figure may have risen from 75 per cent to 85 per cent, which is a huge improvement. Sometimes press releases indicate that council X has improved by 25 per cent, which may equate to an increase to 70, 80, 85 or 90 per cent. However, the report that we issue makes it clear that a council that starts at 94 per cent is doing a very good job if its achievement level rises to 95 per cent. The report identifies those councils that are in the highest bracket and are continuing to deliver on the statutory performance indicators. The information is there, but it is sometimes taken out of context.

Michael McMahon: We have had a similar debate about the publication of statistics on educational performance. Black-and-white statistics will not bring out the information to which

we have alluded: councils' starting points and the percentage increase in their performance. That was the reason for my original question. You may take into account the various facts, figures and circumstances when you draw up the performance indicators, but once the result is published an unfair judgment can be made on a local authority unless a qualification is made in the table. It would be helpful if the information were provided there.

Alastair MacNish: The report contains qualifications of the sort that you are seeking. Normally, the media have a great interest in the overview report and in best value. The major television networks will probably record a four-minute interview with me on the report. For 95 per cent of that interview, I will highlight the positives, but the 10 seconds that are used will relate to the bottom end. The report identifies all the issues. We cannot write the headlines, but we try our best to ensure that we are fair to councils that are performing well.

The Convener: As there are no further questions, I thank Alastair MacNish and his team for their interesting presentation.

Alastair MacNish: Once some of the best-value audits for the first year have been completed, we are happy to give further evidence to the committee, if that would be of use.

The Convener: That would be very useful.

Budget Process 2005-06

14:53

The Convener: The third item on our agenda is the budget process. We will receive a briefing from the Convention of Scottish Local Authorities on the submission that it has made to the Scottish Executive as part of the spending review 2004. I welcome back to the committee Councillor Pat Watters of COSLA—perhaps he should have a season ticket to the committee. I also welcome Della Thomas and Brenda Campbell from COSLA. I thank Pat Watters for supplying members with an advance copy of his briefing, which will have helped them to prepare for today's meeting. I invite him to make some introductory comments on the submission that COSLA has made to the Executive, which will be followed by questions.

Councillor Pat Watters (Convention of Scottish Local Authorities): Thank you, convener. I appreciate the opportunity to come back to speak to the committee, particularly about the spending review.

First, I want to clarify that our initial submission to the committee was a draft copy, but the submission that we have distributed today is the final document. Nothing in the final document differs from the draft document, which has simply been tidied up for presentation purposes—there should be no significant changes.

I will run through some items in our submission and consider the process, principles and approach that underpin it, details of the provisional budget for 2005-06 and our bids for the spending review.

On the process, we tried to be fully inclusive in consulting our professional associations. We tried to ascertain information about the different service areas not once but several times. The process was overseen by the various political forums in which we are involved. We also had two rounds of meetings with the portfolio ministers in order to identify their policy priorities so that we could consider how those priorities would fit in with our spending review proposals. That greatly contributed to a co-ordinated approach between the priorities of Executive spending departments and local government priorities. Such an approach is important.

We considered cost pressures under three categories: areas arising from the partnership agreement and elsewhere; specific pay and price pressures; and areas in which we believe there was significant underfunding in the previous spending review. Securing a base budget underpinned the principles and we have made significant progress in that area. I thank the

committee for recommending that preparation for a base budget for local government was important.

We worked closely with the Executive and we agreed a number of elements. However, a number of elements are outstanding and work will continue between now and September to try to reach agreement on them, which is why we have referred to a “provisional budget”. We have done so not because we do not believe that what was submitted was the most up-to-date information possible, but because there are elements that we want to discuss further with the Executive in order to find out whether we can reach agreement on how to progress matters. For example, we and the Executive know that an element will be built into the budget for supporting people, but we do not know what it will be. Therefore, simply to pull a figure out of the sky would be wrong at this point if we are really talking about a base budget for local government. We are trying to work closely in such areas.

We thank the Executive and Executive officers. This is the second time that we have gone through the process and the co-operation that we have received from the Executive and the civil servants who have been involved has been excellent—there has been a vast improvement since the last time we were involved. Obviously, people improve with practice. Perhaps we will get things absolutely right next time.

Those are some of the issues that we have discussed. We have prepared support and information and built that into the document’s appendices. There is something on each line of our bid so that people can identify exactly what happened.

The provisional budget will deliver the existing service, but does not allow for any additional local priorities within local authorities. In addition to the base budget, we have prepared comprehensive information on the additional bids, which members will see in appendix B of the document. The bid information gives descriptions of the bids, and links with other legislation are given. The outcomes and consequences of our not securing funding in areas that we believe are important are also considered. The Executive confirmed funding to the committee when Tavish Scott said:

“new initiatives should be fully costed and paid for”.—*[Official Report, Local Government and Transport Committee, 27 April 2004; c 821.]*

We have focused our submission on an outcome-based approach. In local government, we recognise that councils are not all the same, as the committee heard from Alastair MacNish. We are different organisations; some have different priorities and some have different ways of delivering services. What is important is outcomes—service delivery to meet local needs

and local priorities—and we have concentrated on that.

15:00

We continue in our submission to call for a reduction in ring fencing. We accept that tremendous progress has been made on that, but it remains an important issue that needs to be addressed in such a strategic document as our submission to the spending review.

We emphasise the problems that we have when the Executive provides specific funds for short periods. That can create difficulties, especially with staffing, because staff may be employed for a specific time, then let go. When councils let staff go, the services that those staff deliver also stop, but when we start such programmes, we and the Executive believe that it is worth while to develop them in communities. It is important for us to consider how services are delivered throughout local government.

Our submission also refers to the strategic financial concerns of deprivation and poverty, supersparsity and diseconomies of scale. We have commissioned independent work on those matters. We believe that we need additional resources on those matters outwith the spending review so that we can deal with some of the problems that some authorities—they are not common to all—have. Some of the causes are geographical and some are not.

We believe that councils operate efficiently. Since 1997, when best value was introduced, authorities have examined continually not only what services they deliver, but how they deliver those services, which is important. With any savings that they have gleaned from those efficiencies, authorities have aimed to develop local priorities and they have used what is left to meet underfunding of pay and to meet price increases, because those are not totally funded. However, we recognise that since the Scottish Executive was created and we have had our own Parliament, a pay and prices element has at last been built into our budgets, whereas we had previously to find all that money from funding for existing services.

That was a quick run-through of some of how we developed our submission and of its background. We will try to answer any questions; Della Thomas and Brenda Campbell will talk about technical aspects.

The Convener: I thank Pat Watters for his introduction and for the submission, which sets out COSLA’s case comprehensively.

Michael McMahon: I thank Pat Watters for the submission. When I read through the document, I

was struck mostly by the consequences of councils not obtaining funding, to which you have referred. When I read about that, I wondered why authorities would not receive such funding. Is COSLA concerned that some funding might not become available and that the consequences that it highlights might occur?

Councillor Watters: That relates to funding that is given for a specific period. Some financing from the better neighbourhood services fund is time limited and guaranteed and the Executive and local authorities agree that some of the services that have been developed through that fund, such as neighbourhood wardens, are delivering changes in communities. If that funding is removed at the end of the three-year funding period and we have no money to employ those neighbourhood wardens, how will we maintain them without there being a direct impact on, and a need to cut, another service in order to obtain funding?

Last year, we carried out a bidding process to supply the Executive with central bids for additional funding to Westminster. We received something like £360 million for the supporting people programme. That was three-year funding for authorities, which entered into contracts to deliver certain services to vulnerable people in society. If there is a cut in that funding—there is every indication that there will be because we have not agreed it for next year—it will have a direct impact on service delivery in communities. Many authorities have the staff in place to deliver the services, but if we do not get the funding, we will have to prioritise how we will deliver services. Those are just two examples of direct impacts on delivery of services at local level if we do not receive funding.

Michael McMahon: I appreciate that fully and I understand every one of the issues that you highlighted; there will be consequences if that funding is not found. However, I am concerned about whether there is a genuine danger that funding will not be found for any of those areas.

Councillor Watters: There is a danger that there will be a reduction in funding for the supporting people programme. We have no idea at present what the level of reduction will be and, to be fair, I do not think that the Executive knows either.

Tommy Sheridan: I want to be absolutely clear that I am referring to the right figures because I have had my pen and paper out trying to add and subtract to get to the provisional budget, the allocated budget, the agreed budget and the subject-to-determination budget totals. When you refer in the document to a provisional budget for 2005-06, are you talking about the total £9.3104 billion?

Councillor Watters: Yes.

Tommy Sheridan: That is your base budget. There is a significant difference between the announced revenue budget from the Scottish Executive of £8.2 billion and the total revenue provisional budget for 2005-06 of £8.9 billion. You state in your document:

“If the Provisional budget for 2005/06 is reduced then Ministers will need to accept public responsibility for the consequences of cuts in local services.”

You are referring to the figure of £9.3 billion there. If you do not get £9.3 billion, are you saying that there will be cuts in local services?

Councillor Watters: I will ask Brenda Campbell to comment in a second. As you say, it is a provisional budget and discussions are on-going. We have discussed with Executive officials the categories in the top part of the provisional budget table in the document and we have reached broad agreement about the level of funding. The bottom part of the table—I think that it is on page 19—contains areas that are still to be discussed. If we can reach agreement on those areas the total budget might change, but it would be a slight change. That is the cost that we are providing at the present time; it does not take account of local priorities that might need to be developed over the next year. If there is a reduction in the budget, we need to go back and look at the services that are to be provided. That would have an impact on the delivery of service and provision in local authorities.

Brenda Campbell (Convention of Scottish Local Authorities): We have made significant progress on the budget. The reason why we say it is provisional is that not everything has been agreed. Only two months ago, we did not have much agreement on the budget, but we have made significant progress in a short period.

The Executive was keen to tell us that, although it recognised the items, it could not make firm commitments at this time because the funding announcements had not been made. That is an important point because the Executive is not saying that it will remove the funding; it is saying, rather, that the figures have not yet been announced.

We hope to make a lot of progress between now and September on the categories in the bottom part of the table. We must by September identify the amounts that we have not agreed. That will then become our base budget—we cannot continually run with the provisional budget. At this point in time, however, we have made significant progress. I am not saying that we will agree on £9.3 billion—I am sure that we are not at that stage—but we will be a lot closer to the £9.3 billion than we are now.

The Convener: How does the £8.9 billion that is talked about as a provisional revenue budget for 2005-06 compare with the actual budget for 2004-05?

Brenda Campbell: I do not have that information to hand. I will need to get back to you on that.

Tommy Sheridan: You talk about closing the gap between what COSLA argues is the base budget and what the Scottish Executive has agreed so far. We seem to agree that the Scottish Executive has agreed to provide £8.283 billion. It has also agreed to additional funding of £679.5 million, although it has not specified that yet. That takes us up to the figure of £8.9 billion; however, the base budget is £9.3 billion. Is COSLA saying that, if that gap is not filled, £400 million-plus of cuts will have to be implemented?

Brenda Campbell: No. The figure includes the capital grants as well. The revenue and capital together come to £9.3 billion.

Tommy Sheridan: If we extract the capital—

Brenda Campbell: It is just the £8.9 billion that we are talking about.

Tommy Sheridan: So the provisional base revenue budget for COSLA is about £8.9 billion and the Executive has announced that it will provide around £8.2 billion, but you believe that the other moneys are available although they have not been specified yet. Is that correct?

Brenda Campbell: Yes. I think that we will make some progress in closing the gap on that £679.5 million.

Tommy Sheridan: Is the capital element of the budgets agreed as well?

Brenda Campbell: Elements of that are agreed. Page 20 of our submission shows that £287 million of that is agreed and £60 million is not. To be fair, however, the Executive has said that there might be some slippage, which is why that £60 million has not been confirmed yet. I am fairly confident that we will come to a conclusion on that.

Tommy Sheridan: So overall the £9.3 billion that you mentioned as your provisional base budget is really only minus £60 million at the moment, which is the capital that has still to be decided.

Brenda Campbell: The £60 million has still to be decided and the figure of £679.5 million has to be firmed up. It would be unfair to say that the matter is resolved; it is still under discussion.

Tommy Sheridan: I am anxious to get to that. If the £679.5 million is available but has just not been allocated, that is a positive thing.

Brenda Campbell: Yes. For example, we are saying that the budget for the supporting people programme, which is the big one, should be £432.3 million. However, the Executive may announce an allocation that is £20 million to £30 million short of that. I do not know—that is hypothetical. We still need to have that sort of discussion with the Executive.

Tommy Sheridan: Will the total announcement still amount to £679.5 million?

Brenda Campbell: That is our understanding. We believe that the figure should be £679.5 million. However, the Executive might not give us £679.5 million.

Tommy Sheridan: That is what I am trying to clarify. I have in the course of this discussion picked up from you a sense that the Executive has agreed a package of £679.5 million although it has not agreed where that money is to be spent. You have, rightly, outlined where you think the money you are asking for from the Executive should be spent. Are you now telling me that that £679.5 million has not been agreed?

Brenda Campbell: The Executive has not agreed the £679.5 million; it has agreed the items—the budget headings. It has agreed that the budget headings for supporting people and the better neighbourhood services fund should be included, but it has not agreed the figures. The figures are what we say they should be.

Tommy Sheridan: Has the Executive given you any figures?

Brenda Campbell: No. We still need to have that discussion.

Tommy Sheridan: I go back to my original point, which is that there is a significant funding gap between what you say is necessary as a base budget and what has been announced by the Executive so far.

Brenda Campbell: Yes, although we are still in discussions on that.

The Convener: Perhaps we could clarify one point. It would be premature to talk about cuts at this stage, as you are still in negotiation with the Executive over the detail of the figures. To my mind, that seems to be a normal part of the on-going budget discussion that COSLA would have with the Executive. The fact that you are having that discussion as part of the spending review is not unusual.

Brenda Campbell: No, it is not. We are pleased that we are still in discussions at this stage.

15:15

Councillor Watters: To be fair, we are probably further on. I think that Tommy Sheridan was making the point that everyone agrees that the headings for items 14 to 25 in the table that is entitled, "Areas Recognised by Scottish Executive but Unable to Make any Firm Commitment At This Time for 05/06" are right and that there must be lines in the budget for all those items. The figure that should be attached to those budget lines has not yet been agreed, but no line has been closed down at this stage and no one has been told that we will not get funding for any items in the agreement. To be fair, I do not think that the Executive will have an exact figure for some of the items until it has been able to consider the percentage that comes from Westminster. We agree that the headings are right and that we need to do more work, which is why we have described the budget as a provisional budget, rather than as a base budget.

Tommy Sheridan: I have spent about 10 minutes on the matter—I hope that the convener does not mind—because COSLA's submission says:

"The lack of an agreed budget in previous years has led to a lack of clarity in Scottish Executive funding announcements".

Such announcements do not make it clear whether the Executive is talking about new funding or funding from existing resources in local authorities, which would have a knock-on effect on other funded services. COSLA seems to be arguing that if a base budget can be agreed, future announcements will be clear because they will refer to money that is provided in addition to the agreed figures. Is COSLA saying that if the figure of £9.3 billion is not met there will be cuts in local services?

Councillor Watters: We have priced services on the basis of current costs and we believe that our figures are right. If the figure is not met, we will have to reconsider the provision of local services, so there might be a reduction in services.

The Local Government and Transport Committee knows from its work on the matter that the advantage of a base budget for us would be that there would be clarity about future announcements. If the Executive were to say, "The money is already in your budget," we would be able to ask where that money was.

Tommy Sheridan: Do you agree that if the figure of £9.3 billion is not reached there will be problems?

Councillor Watters: There is no doubt that there could be an effect on services. Of course, that would depend on where any shortfall was.

Tommy Sheridan: I appreciate that.

The Convener: Does COSLA's submission make an underlying assumption about council tax level within the proposed budgets?

Brenda Campbell: No. We made no assumptions about council tax when we prepared the figures on projected spend. The submission is based on the announcements in the 2002 spending review. That was the starting point for the figures for 2005-06, which is the final year to be covered by the 2002 spending review.

Tommy Sheridan: COSLA's provisional budget indicates that you seek funding for a minimum 2.5 per cent pay award for staff. You appear to indicate that that would be essential to prevent any awards to staff from coming out of the base budget. You also indicate that you would meet an increased award. However, your submission also says:

"Price increases have been calculated at 2.7% as per central government's published retail price index figures."

Would COSLA be willing for local government to absorb the extra 0.2 per cent that would be required to bring pay across the sector into line with the retail prices index figure, or do you accept that there would be a decrease in pay in real terms?

Councillor Watters: I will bring in Brenda Campbell, because the technical aspects are sometimes over my head. Pay in local government is a negotiated element of the budget, as it is anywhere else. We have argued—and to be fair, the Executive has recognised—that until fewer than six years ago every penny of a pay increase had to be met by local government because of previous spending reviews. We acknowledge that the building of an inflationary element into budget provision for local government has alleviated some of the problems that we faced in the past.

We have had discussions with the Minister for Finance and Public Services and will have another meeting with him to consider the entire budget provision. In our discussions with him on pay, he has said that he would work to try to keep to inflation and that—whatever the provision is—he would try to ensure that the relationship between what we agree and what is provided for is better than it is now. He also said that he is working in the dark because he does not know what his figures will be. There has been a general improvement, but what you said is right.

We are currently in consultation and our offer to general local government staff apart from teachers, firefighters and certain others is 2.9 per cent, but the provision for pay awards in our budget this year is 2.5 per cent. Therefore, local authorities will have to find 0.4 per cent in each of

the next two years to meet their commitment to the pay award. That money will come from efficiency savings by local authorities. If that happens in the future, we will have to do the same. However, the situation is far better than it was previously, when every time that we made a pay award we had to look for 2.9 per cent, for example.

Mr Welsh: What does 0.4 per cent represent in pounds?

Councillor Watters: In pounds, shillings and pence, I think that 0.4 per cent of the local government general pay budget is £8 million.

Mr Welsh: You could probably confirm that later, but it is in that region.

Councillor Watters: Yes.

Tommy Sheridan: If I can—

The Convener: You can raise one final point, but then I will bring in other members. I will come back to you.

Tommy Sheridan: Okay. I want to ask a follow-up question, but does Brenda Campbell have anything to add first?

Brenda Campbell: No.

Tommy Sheridan: I will ask two final questions—perhaps I can be brought in again later if there is time. First, if it is accepted that we are dealing with a figure of 2.7 per cent for the retail prices index, why are you not arguing for 2.7 per cent, instead of 2.5 per cent, to fund a pay award? Secondly, how many extra police does the allocation that has been set aside equate to? I think that the allocation is £6 million, but I am having difficulty finding the information as the figure is in the document that you sent us originally, which refers to different page numbers.

Councillor Watters: We will have to confirm that. Page 20 of our provisional budget mentions an additional £31.4 million, which takes into account various aspects of the police budget.

Brenda Campbell: Page 22 of the new document states that the police partnership money is £6 million. We will confirm the actual number of extra police—that is an omission from the document. The figure of 2.7 per cent is for the retail prices index or the consumer prices index—it is the index that we have used for our calculation. We used the figure of 2.5 per cent because that is the provision that was made previously. We have made a prudent assumption that is based on the fact that that figure was put in before and that there is potential for it to be put in again.

Tommy Sheridan: This is more of a political question. If COSLA accepts that the retail prices index is 2.7 per cent and you are looking for funding for pay increases that match price

increases for staff, which is the least that could be expected, why have you not requested 2.7 per cent from the Scottish Executive?

Councillor Watters: I think that it is a matter of trying to judge what would be available, taking into consideration past performance. We are trying to project what the figure would be and we have opted for 2.5 per cent; we could have on-going discussions if things moved.

Dr Jackson: On page 45 of your submission, you mention “Young People Leaving Care”; the subject comes up again on page 75, under the headings “Looked After Children” and “New Initiatives”. I read through some of the boxes under those two headings. I know from personal experience that Ballikinrain Residential School was trying to set up an initiative involving the many local authorities from whose areas the children at Ballikinrain come to consider linkages between the residential establishment, the home and the school. The initiative was about trying to get children back into their home situation as quickly as possible. I did not see any mention of such schemes in the COSLA submission. The initiative has been put before the Scottish Executive only recently, but it affects quite a few local authorities. Could you comment on that?

Could you also explain page 79 of your submission, which mentions “Upskilling the Workforce”. Under the heading “SSSC Registration”, the submission says:

“In order for children and adult carers to continue delivering services they must meet the Scottish Social Services Council standards and become registered.”

Which children and which adult carers do you mean? Are they within or outwith the local authority system? I am a bit confused about what that sentence means.

Councillor Watters: I will deal with the final point, and then I will bring in Brenda Campbell on the point relating to page 45 of our submission. Della Thomas will deal with the question about the bids that are mentioned on pages 75 and 79.

The Scottish Social Services Council standard applies from April next year, I think. Those who supply certain elements of child care, such as social workers and other social work staff must be registered with the Scottish Social Services Council. They need certain qualifications to secure that registration, so elements of training need to be undertaken in local authorities.

It is not just the cost of the training that must be taken into account; there is also the cost of releasing and replacing people to allow that training to take place. Furthermore, there is the cost of having workplace assessors come in to ensure that the training and continuing assessment take place. Over five years, the

requirements will roll out to the rest of child care, both in the public sector and in the private sector. People will have to register with the Scottish Social Services Council before they can deliver the service. Someone who cannot get registration will not be able to be employed in the sector. The costs are therefore quite significant.

Dr Jackson: I am au fait with that, but I was asking about the wording, which is not clear. When you refer to “children and adult carers”, are you talking about children as carers or children in care?

Councillor Watters: No, we are not talking about children as carers. We are talking about adult carers continuing to deliver services to the children.

Dr Jackson: The submission seemed to say that the children deliver the service. I know that there are child carers—

Councillor Watters: No, that is not what is being referred to. I am sorry—the difficulty is perhaps with the way in which that sentence has been phrased. We can tidy that up.

Dr Jackson: That is fine.

Councillor Watters: We are talking about children in care and about the adults who deliver the service to them. Remember that, over the five-year roll-out, the requirements will apply to people working in elderly care as well as to those working in child care.

Brenda Campbell: Della Thomas will be able to comment on the specific bids, but I will add to what is in our submission. COSLA is currently undertaking a body of work, together with representatives from local authorities and professional associations, which started with an examination of the situation of children in residential care. Local authorities came together to address the issue of rising costs in that area and to decide how to deal with it.

As that group came together, some bigger issues arose, including how to deal with 16 and 17-year-olds who are beyond school age. We opened up the remit of the group so that it will have greater scope. Its work is likely to continue for a considerable period of time because the information that has been gathered from councils makes it obvious that it is a big piece of work. The issues cannot be fixed in a short period of time. Initially, we thought that a short-life working group could do the work in about six months, but we have opened that up and the period will be longer. Members will probably see a bigger bid in that area in the next spending review submission, but that will flow on from the information that is in the current submission.

15:30

Dr Jackson: Will you clarify that you are considering not only children who leave care but the promotion of transitions back into the family—where possible—and school? Does the work include those areas as well?

Brenda Campbell: Yes. It also includes secure accommodation. We are examining a wide area.

Paul Martin (Glasgow Springburn) (Lab): Will you give further information on the challenges that COSLA and local authorities face in relation to police and firefighter pensions? I notice from bids 17 and 18 on pages 82 and 83 of your submission that COSLA faces significant challenges in those areas. The submission does not elaborate on those challenges, but they have been commented on.

Councillor Watters: COSLA has concerns about the pension issues but the real challenge is for the fire and police authorities. At present, as you are aware, police and firefighter pensions are dealt with through revenue, unlike the situation in relation to the rest of local government staff, for whom we have pension funds. That has been a concern for local authorities for quite some time. The Executive recognised that in the previous spending review, and it built in some money, particularly in relation to the police.

We recognise that there is a continuing problem and that problem areas will arise. For example, a big police recruitment drive took place in the 1970s and lots of the people who were recruited then will retire between now and 2010. That will cause a problem and put pressure on the fund. The matter is not just about getting new people into the service—that is easier to do—but about dealing with pensioners who leave the service. People are living for much longer and accessing pensions for longer than they did in years gone by, which puts a burden on the pension schemes. I ask Della Thomas to deal with the point, as she dealt with a lot of the bids.

Della Thomas (Convention of Scottish Local Authorities): There is not much that I can add to the points that Councillor Watters covered.

Paul Martin: Given that funding will be required not only for pensions but for the recruitment of people to replace staff who retire, there will be a serious crisis from now until 2010. Has the Executive suggested what strategy it will put in place to deal with that?

Councillor Watters: Police and fire authorities have examined the impact and have local strategies that have been active for some time. For example, we do mass recruitment for the police, which the police boards feed into. There are lots of initiatives to deal with the problem.

There are continuing discussions in the committee that involves the Executive and the police conveners. I do not have information about that with me but I can get it for you. There have been discussions about the clearly identified blip in the market that occurs when people retire, and we need to do mass recruitment. We have the authority to recruit more people annually to try to combat the problem.

The Convener: You will have heard Tommy Sheridan's questions on local government pension funds, and the Accounts Commission published a report that identified that between March 2002 and March 2003 total assets reduced by about £2.4 billion. I note that COSLA's submission to the Executive identifies that there are likely to be increased contributions from local authorities, but they seem relatively modest in relation to the drop in assets. There will be zero additional contributions in 2005-06, £12 million the year after and the same amount the year after that. Does that suggest that the asset value, which reduced, is bouncing back? Was there a surplus in the asset value in the first place that was set against the liabilities?

Councillor Watters: I had discussions some months ago with local government officers who deal with the pension schemes. The local government pension schemes, particularly the bigger ones, were performing exceptionally well. Even during their troubled period, when investments had real problems, they were still performing exceptionally well. We compared the performance of schemes in Scotland with schemes in England, which we far outstripped. The situation was eased in Scotland because of careful management of the schemes over a number of years and because some of the schemes were big and could buffer—they had assets that they could tap into when things took a dip. I will bring Brenda Campbell in.

Brenda Campbell: It is difficult to comment, because I do not have the report in front of me. However, any information that we have provided is based on information that has been provided by the actuaries, so it is fairly accurate in relation to the contributions that can be made. I will need to come back to you on how that relates to the assets.

Mr Welsh: Self-financing public sector pay awards have been a long-standing problem. You said that it has been mitigated to some extent by pay and price inflation being in-built, yet alarming spending gaps are appearing. For example, on police and fire, you say that because efficiency savings will take time to work through,

"adequate funding must be provided within this Spending Review to ensure that core fire service provision is not reduced."

The problem is still there, but the emphasis has shifted. Local government is about people. What effect will those spending gaps have on services? Surely they must be affected, unless reparation is made.

Councillor Watters: We are having on-going discussions with the Executive on the fire issue and on how we deal with the transitional funding that the Executive has accepted it will provide to make up the difference between what was budgeted for pay and what was negotiated for pay. The actual level has not been agreed, but more important is the fact that the Executive has accepted that it will pick up the tab for that transitional funding.

The deal was not just about a pay increase for all firefighters; an equalities issue arose, because whole-time firefighters and retained firefighters had different levels of pay. The cost of resolving that equalities issue was something like £5 million in Scotland—if retained firefighters had taken us to court, they would have won. That represents a bigger percentage than in England and Wales, because we have a higher percentage of retained firefighters as a result of the geographical spread in Scotland.

Modernisation will change how we deliver the fire service. For example, there could be economies of scale. What is important to us is the period for which there is transitional funding. In general terms, local government must find money elsewhere to fill any gap in funding pay awards between what is agreed and what is provided for. However, I must say to Andrew Welsh that probably much of that is within our grasp. We do not have to negotiate beyond what we can afford—we negotiate in the light of circumstances that are outside local government, but we control that process.

We have always argued that our funding from the Executive should at least match the rate of inflation, and we have largely met that aim on most occasions. I think that Tommy Sheridan pointed out that we might have fallen short of that now, but we have tried to get that level of support. As I said, we control the rest of the process. If inflation is at 2 per cent and we negotiate 3.5 per cent, we know that we are 1.5 per cent short before we start, so we must manage the system sensitively during the negotiation period. If we have to agree a figure above the inflation rate, we must accept that we will probably have to deal with the consequences and consider how to find the additional funding.

Mr Welsh: I presume that the funding gap would mean heading towards local financing from the council tax.

Councillor Watters: That would be a matter for individual local authorities.

Mr Welsh: In evidence to the committee, Tavish Scott said:

"We have agreed with COSLA that any new initiatives should be fully costed and paid for in order to prevent local authorities from having to take on additional burdens."—*[Official Report, Local Government and Transport Committee, 27 April 2004; c 821.]*

Has that been delivered?

Councillor Watters: We might have arguments about whether that has been delivered in certain areas. Moreover, the deputy minister did not make that promise to COSLA; he made it to this committee.

Mr Welsh: Perhaps you could remind him of what he said the next time that you talk together.

Iain Smith (North East Fife) (LD): I have a quick question on capital programmes and on the bid category "Demonstrable of Underfunding from Spending Review 2002", on page 77 of the COSLA submission. I want to clarify, primarily in relation to areas such as roads maintenance and other capital schemes such as flood prevention, whether that is a bid for revenue spending in such areas or whether it is a bid for revenue support for prudential borrowing.

Della Thomas: It is a bid to support revenue spending to fund existing capital programmes. We put it in the bid category of underfunding from the most recent review period because there are many problems in roads maintenance. The issue is not about developing a new roads infrastructure, but about the maintenance of existing carriageways.

Iain Smith: The committee has taken evidence from the Society of Chief Officers of Transportation in Scotland, whose survey suggests that the figure for dealing with the backlog of roads maintenance is well over £1 billion and that £60 million a year will not make much of a dent in that. Is COSLA perhaps being a little overcautious in its bid? Should it ask for more?

Councillor Watters: When we first got the bids together, we saw that they amounted to just over £1 billion. I believe that it would have been unrealistic to put those bids in. We had two rounds of meetings with the spending departments to consider what the priorities were. We tried to ensure that we were pushing at an open door. From speaking to the Minister for Transport, Nicol Stephen, we know that he is keen for additional moneys to be put in to support roads maintenance. We are trying to mirror that in our bid.

For too long there has been an underfunding of roads maintenance. For example, my local authority spends twice as much as it gets in revenue grant on roads maintenance. That money comes from elsewhere in the budget that is allocated to us. We do that because we believe that it is a priority in our community to maintain not only the roads at a better level than we get finance for, but the pavements. In rural areas particularly, lighting and pavements are important. If we had the same level of funding as is given for the maintenance of trunk roads, we would not have such a problem. The Scottish Executive funds trunk road maintenance at seven times the amount that it gives to us for our roads maintenance.

The Convener: I know that COSLA is not in favour of ring fencing resources. However, when the committee was considering local roads funding, one issue that came up was that, although some local authorities, such as yours, Glasgow City Council and the City of Edinburgh Council, are spending more than their allocation on investment in local roads, some local authorities are spending as little as half their allocation on local roads. Even if we all agreed that the improvement of Scotland's non-trunk roads network was a priority, how would we translate an additional allocation to local authorities into investment in the roads? Would there not still be a danger that some of those local authorities that are not giving the same priority to roads as your local authority is might pocket the money and spend it on another service area?

15:45

Councillor Watters: When money is ring fenced, we have no option but to spend it on whatever it is being ring fenced for—this might sound flippant and I do not mean it to—whether it is needed in that particular area or not. We argue that there has to be flexibility at a local level to develop local services in response to the needs of local communities. There is a difference between ring fencing money and sitting down and agreeing on a joint priority. If we agree on a joint priority, that is different from ring fencing, because we agree on a priority area on which money needs to be spent.

Sylvia Jackson touched on a matter that is troubling all local authorities—how do we provide services to young people who need them when we cannot provide them from within the authority but have to buy them in from outside? If you looked at that budget in any local authority, you would find that it does not meet those needs. That is particularly the case in the large rural authorities, which do not have the population base that would allow the local provision of such services. There is

a need to consider that sort of thing, which would be a shared priority.

If we were to discuss how we were going to deal with roads and ensure that the money was going to be put into the improvement of the infrastructure nationally, the Executive and local government could agree on a shared priority without the Executive forcing ring fencing on the local authorities. I believe that there are ways of achieving that without ring fencing.

Tommy Sheridan: I have a small point to make in relation to the timescale and the form of the settlement. You have taken a lot of time in coming here to present your case to us under appropriate budget headings. Will you make sure that the settlement is presented in that way so that it is transparent and clear? What is the timescale for the settlement?

Brenda Campbell: I do not think that it will be presented in that way. The Executive has certain formats in which it needs to present the information. We have said to the Executive that we would like to agree a format and, even if the documentation is not published, we would like to have some written agreement between us and the Executive that we can circulate within local government to enable people to understand the figures. That will provide some transparency, even if that format is not adopted in the published documents that reach a wider audience. On the timescale for the settlement, the Executive has said that it will make the big spending review announcements in mid-September and the individual local authority announcements in December.

Tommy Sheridan: Forgive me, but earlier you told us that you had worked with the Executive to agree certain budget headings, which I think you said are on page 20 of your submission. Why is it that we cannot read the settlement based on those budget headings?

Brenda Campbell: My understanding is that the Executive will not prepare the settlement using those specific headings because the annual evaluation report is prepared using ministerial portfolios. We have to reconcile that document with our submission. I do not think that that will change in the short term. A longer period of change will be required for the Executive to present the figures in the way in which we want them to be presented.

Tommy Sheridan: I am confused, because when you talked about agreed budget headings, I thought that the Executive had also agreed to them and that, if the Executive had agreed to them, they would show X amount of money for a particular budget heading.

Brenda Campbell: The issue is partly the way in which the Scottish Executive works. It does not work solely to a local government budget, whereas we are trying to promote the idea that it should work towards preparing a local government budget. That is also what the committee recommended. We have made a great deal of progress towards that, but publications are still presented to the public under ministerial portfolios across the Executive. That relates partly to the extent to which there is joined-up government in the Executive.

The Convener: In fairness, these are questions that would be directed more correctly at the Executive, rather than at COSLA.

Tommy Sheridan: My final point relates to the concessionary fares scheme, which seems to have been a mess. In your submission, you talk about what you expect to spend in the 14 or 16 schemes that already exist and what the Executive expected to spend. Has COSLA done any work on producing a unified, multimodal, non-time-restricted scheme similar to that which exists in Wales? Wales has a scheme that is multimodal, is not time restricted and works. Has COSLA been involved at a policy level in trying to develop a better scheme than the one that we currently have?

Councillor Watters: My knowledge of that issue is limited, although I have had discussions with the COSLA officer who deals with it. I know that last week the Executive announced the establishment of a strategic transport agency. It envisages that the agency will take control of the concessionary fares scheme, because a whole-Scotland scheme is run better by a strategic organisation than from 14 individual bases. You asked whether the scheme was properly funded. The answer to that question is probably no, as the take-up for the scheme was underestimated.

We need to consider whether usage reflects the claims of usage. I was involved with Strathclyde Regional Council when it was one of the concessionary fares scheme operators. Every time that we examined the matter, we found that we could save money on concessionary fares, because there was over-claiming by operators. I am not suggesting that that is happening at the moment, but it would be worth our investigating how the scheme is being delivered. The scheme in Wales was suggested not by the Welsh Local Government Association but by the Welsh Assembly Government. Last week's announcement by Nicol Stephen may be a first step on the road towards creating such a scheme—I do not know. However, I can supply the committee with information on discussions that we have had with the Executive, through our officers.

The Convener: Do you agree that whenever one moves from charging for a service or good to having no charging it can be difficult to predict exactly what the overall cost of uptake will be? To some extent, it was inevitable that there would need to be a review of the cost to local government of providing the service.

Councillor Watters: Absolutely. If one moves from a funded scheme to a free scheme, one can never estimate what the uptake will be. There has been a tremendous surge in uptake. We need to consider what the uptake is and how the scheme is being used. There is discussion about expanding it further to include other groups in society. We need to have a clear idea of how the scheme will develop. I have no idea whether last week's announcement will provide that.

The Convener: We have reached the end of questioning, so I thank the COSLA team of Pat Watters, Della Thomas and Brenda Campbell both for the paper that they submitted to us and for their evidence this afternoon.

Transport (Scotland) Act 2001 Inquiry

15:54

The Convener: We move on to agenda item 4, which is a paper on our agreement to conduct an inquiry into some of the issues arising from the Transport (Scotland) Act 2001. In particular, it concerns the proposal to have two committee events in Stranraer and Glasgow in September this year in order to take evidence not only from organisations such as local authorities and public transport providers, but from bus users and members of the general public. Do members have any comments on the paper?

Tommy Sheridan: That is a good suggestion, but how will we flag up the issue of user groups? Will there be advertisements in local papers such as the *Evening Times*?

The Convener: The precise detail is still to be worked out, but we intend to advertise the meetings in a way that will draw them to the attention of ordinary members of the public and users of bus services. I imagine that we shall also contact any bus user groups and other representative bodies. We shall try to identify the people who are likely to have an interest, but we shall also ensure that the public are aware that the events are taking place.

Iain Smith: Although I pressed strongly for the Stranraer visit, I am unfortunately unable to make that date.

The Convener: Do members agree to the proposals in the paper?

Members indicated agreement.

15:56

Meeting continued in private until 16:11.

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