

LOCAL GOVERNMENT AND TRANSPORT COMMITTEE

Tuesday 9 November 2004

Session 2

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LOCAL GOVERNMENT AND TRANSPORT COMMITTEE

24th Meeting 2004, Session 2

CONVENER

*Bristow Muldoon (Livingston) (Lab)

DEPUTY CONVENER

*Bruce Crawford (Mid Scotland and Fife) (SNP)

COMMITTEE MEMBERS

*Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP)

*Dr Sylvia Jackson (Stirling) (Lab)

*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 Bruce McFee (West of Scotland) (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)

Councillor Drew Edward (Convention of Scottish Local Authorities)

Neil Johnstone (Institution of Civil Engineers)

Mr Tom McCabe (Minister for Finance and Public Service Reform)

Graham Owen (Scottish Executive Finance and Central Services Department)

Andrew Rushworth (Scottish Executive Finance and Central Services Department)

James Thomson (Convention of Scottish Local Authorities)

Alan Watt (Civil Engineering Contractors Association (Scotland))

CLERK TO THE COMMITTEE

Eugene Windsor

SENIOR ASSISTANT CLERK

Alastair Macfie

ASSISTANT CLERK

Euan Donald

LOCATION

Committee Room 5

Scottish Parliament

Local Government and Transport Committee

Tuesday 9 November 2004

[THE CONVENER opened the meeting at 14:08]

Item in Private

The Convener (Bristow Muldoon): I welcome members of the committee, the public and the press to today's meeting of the Local Government and Transport Committee. I also welcome the Minister for Finance and Public Service Reform, Tom McCabe. This is his first appearance before the committee since his promotion. Supporting Mr McCabe are Graham Owenson and Andrew Rushworth from the Scottish Executive.

Before we take evidence from the minister, we will deal quickly with two other issues. I propose that we take item 4 on today's agenda in private, as we will be considering the contents of our report to the Finance Committee. Is that agreed?

David Mundell (South of Scotland) (Con): I do not have an item 4 on my agenda.

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP): I hope that we have only two items on the agenda.

The Convener: Sorry, an amended agenda was sent out. For those members who did not receive it, I clarify that under item 4 we will consider the possible contents of our report on the budget process and give guidance to our adviser on the key issues that come out of today's evidence.

David Mundell: What is item 3?

The Convener: Item 3 is on Audit Scotland's report "Maintaining Scotland's roads", which was published recently.

Fergus Ewing: Could we actually see the agenda for this meeting, convener?

Iain Smith (North East Fife) (LD): Item 1 is the item in private.

The Convener: Yes.

Iain Smith: So item 2 is item 1 on the agenda that the rest of us have, on the budget process. Item 3 is on the Audit Scotland report and item 4 is the new item that has been added to the agenda.

The Convener: Yes.

Fergus Ewing: Could it possibly be circulated? I presume that this is not an innovation.

Iain Smith: None of us has received it.

Tommy Sheridan (Glasgow) (SSP): For the record, I note my dissent to meeting in private.

The Convener: Okay. The—

Fergus Ewing: Before we move on—

The Convener: Sorry. We will deal with the agenda first. Are members other than Tommy Sheridan content to take item 4—our discussion on the potential contents of our report—in private?

Fergus Ewing: Not really, convener. I am a relatively new boy, although I am aging rapidly, and I wonder whether there is an opportunity to have a general debate about whether it is correct for us, as elected representatives, to go into secret session and have private, unreported discussions. I have argued on other committees that that is not what we are here for. Could we not have a general debate on the budget process in public, particularly as we are talking about the spending of vast sums of public money? I know that the public are interested in that. I have taken part in debates on meeting in private and I have lost every single battle but, like Robert the Bruce, that does not mean that I will give up fighting.

The Convener: I do not propose that we have a wide-ranging debate on the issue here and now because we want to make progress with other business. It has been standard practice for this committee to discuss draft reports in private. When the report is finalised and published, it will be a public document and there will be a full debate on the Executive's budget in the Parliament, so there will be plenty of opportunities for you. If you are indicating your dissent to taking the item in private, we can have a vote on it, but I do not want us to have a wide-ranging debate today that detracts from the rest of our business.

Fergus Ewing: I do not want to be uncharacteristic and make waves but I did not know that the item was on the agenda because the agenda that I have is different from the one that we now discover is the agenda for the meeting; otherwise, I would certainly have raised the matter with you and voiced my views before the meeting, so as not to keep the witnesses waiting.

The Convener: The committee has debated the discussion of draft reports before, prior to your becoming a member of it. On that occasion, the vast majority of members, including at least one member of your party, agreed with the protocol that they should be discussed in private. Tommy Sheridan has been consistent in opposing that approach, but the majority of members of the committee agreed with it.

Fergus Ewing: Very good. I gave notice that I wanted briefly to raise two other matters—

The Convener: Sorry. To finalise the matter, are there just two members who indicate dissent?

Tommy Sheridan: On a small point, it is worth noting for the record that the committee has debated the issue before; the reason why I am not asking for a wide-ranging debate on it is that we have debated it. I believe that taking items in private should be the exception rather than the rule and that we take too many items in private, but we have had that debate and I lost. I wanted to clarify that it is not the case that we have not had that debate.

The Convener: I note and recognise that. The position is that we will discuss the item in private and two members wish to note their dissent. Is that agreed?

Members *indicated agreement.*

Budget Process 2005-06

14:14

The Convener: I believe that Mr Ewing wants to raise one other point.

Fergus Ewing: Yes. As you know, I gave you and the clerk notice of two points. Today, we are fortunate to have the minister giving evidence, but he will do so before the other witnesses from the Convention of Scottish Local Authorities, the Institution of Civil Engineers and the Civil Engineering Contractors Association (Scotland).

My understanding is that, when committees are considering draft budget proposals, it is normal practice for the minister to appear at the end. The fact that that is not happening today means that we will not have the opportunity to ask the minister questions that arise from the oral evidence that we will receive from today's other witnesses. That is unsatisfactory and I would like you to ask the minister to comment on the situation.

We do not have a written submission from the Convention of Scottish Local Authorities. Despite the fact that it has had a month to prepare a written submission, we do not know what its views are on controversial issues such as the level of the council tax. Therefore, we cannot put COSLA's views to the minister, by any stretch of the imagination. I would like your guidance on the matter.

The Convener: I do not intend to put the issue to the minister at this point. Normally, we would bring the minister in at the end of the evidence taking but, in this instance, the minister has another commitment this afternoon. The choice was either to talk to the minister at the start of today's meeting or to talk to him next week. We have only a short time in which to complete our work on the budget process and, if we had scheduled our meeting with the minister for next week, we would have placed many constraints on the time available for consideration of our report. On balance, I believe that the best approach is for us to hear from the minister today and, if issues arise from our discussion with COSLA, to put them to the minister and ask him to respond to us in writing before we conclude our report.

Obviously, it would be better if we had more time, but that is a broader matter. The Parliament should engage with the Executive to ensure that there is sufficient time for full consideration of the budget in future years.

I am sure that COSLA will give a great amount of information to us in oral form. It is not the case that witnesses have to give the Parliament

advance notice of the evidence that they intend to give. Indeed, many previous witnesses have decided to give their evidence to the committee in oral form. I do not think that I would want to take up the issue with COSLA.

Fergus Ewing: I want to establish that it is correct that the minister should normally give evidence at the end of the process.

The Convener: I think that I have indicated that that would be preferable. However, in the circumstances, I think that it is more useful if we hear from the minister now.

On the basis that we want to have as much time as possible with the minister, I propose that we now proceed.

The Minister for Finance and Public Service Reform (Mr Tom McCabe): As you correctly noted, convener, this is my first appearance at the Local Government and Transport Committee since taking over the finance and public service reform brief. I thank you for introducing the members of staff that I have brought with me. You might have had contact with them in the past but it is important to put on record the names of those who support ministers on these occasions.

I welcome the opportunity to present evidence on the draft 2005-06 budget document, specifically on my responsibilities for local government expenditure. I am in your hands in terms of how the session is conducted. As you rightly suggested, if there are issues that the committee would like to examine further as a result of the evidence that it hears later on, I will be more than happy to receive questions in writing and I will do my best to ensure that they are responded to as timeously as possible. We have had a busy day today. Among other things, we have already given evidence to the Finance Committee and we have other commitments immediately after this meeting. However, if the committee feels that there is a need to speak to us again, we will do our best to accommodate its wishes.

I hope that we can enjoy productive exchanges that assist your scrutiny and give you the ability to influence the thinking of the Executive. It is in that spirit that I say that we will be as co-operative as we can be today and in the future.

As the committee will be aware, we have outlined our priorities for the spending review. They are growing the economy; delivering high-quality public services; building safer, stronger communities; and developing a confident, democratic Scotland. Members will know that growing the economy has been our top priority and is central to all spending review decisions across the entire Executive.

Local government is a key partner in delivering on those priorities and is responsible for about a third of the Scottish budget. In recognition of that, we will increase revenue support through aggregate external finance to local authorities by a total of 9.9 per cent over the next three years.

That funding, and the level of grant-aided expenditure that it supports, will not only allow local authorities to maintain existing services, but will provide further educational support for families with young children; a significant increase in resources for residential and home-based care for the elderly to meet projected demands from the additional numbers requiring care and to improve service quality; additional investment in the police service to increase the number of police officers and to meet the additional demands placed upon them; significant extra resources to enable councils to reduce their backlog of roads maintenance; and additional support for environmental programmes to meet higher standards in waste collection and waste disposal.

Quality-of-life funding will continue, with £50 million being made available in both 2006-07 and 2007-08. Moreover, we will maintain our support for the cities growth fund, which will mean £40 million in both 2006-07 and 2007-08. That will create a dedicated source of infrastructure investment funding for our six cities to deliver economic growth and sustainable regeneration for each of Scotland's city regions. That is all good news for local government.

I realise that in the past we have taken a position on a number of areas of the process and on the mechanics of presenting the budget. As the convener noted and as members know, I am still relatively new to the post and want to reflect on some of our previous positions to find out whether there is room to open up the process even further. For example, the committee has previously expressed an interest in the provision in our settlement for pay and price inflation for local authority costs. Up until now, we have taken the view that the assumptions underlying the provision for pay should not be made available publicly, because to do so would prejudice COSLA's negotiating position on future pay settlements. Clearly, the area is sensitive, and I should properly consult COSLA before making any future commitments. However, as I have said, I want the process to be as open and transparent as it can be and would welcome any suggestions that the committee might have about improving the process further.

The fact that my ministerial title now covers public sector reform has engendered some discussion in certain quarters. Suffice it to say that our efficient government ambitions have had a direct read-across to such reform. I will publish

details of the efficient government plan shortly, but I can confirm that, with the exception of a 2 per cent general efficiency saving assumption in the AEF settlement, the majority of extra efficiency savings from the plan will be available for re-investment in additional front-line services. I also make it clear that the announced AEF settlement will not be affected by any extra efficiency savings included in the plan.

The settlement for local government is based on councils increasing council tax by no more than 2.5 per cent in 2006-07 and 2007-08 as a contribution to the overall GAE uplift. The current estimates of council tax increases in 2005-06 were set following the outcome of the spending review in 2002. We expect councils to keep rises as low as possible and I have already indicated to them that I want to discuss ways of substantially improving their council tax collection rates.

Details of the outcomes from the local government settlement are dealt with in each portfolio chapter to avoid duplication. The block grant provided to local government through AEF is, of course, unhypothecated, but a service split is available for the GAE that it supports and we are currently working hard with COSLA to confirm the final allocation to those service lines and the individual allocation to authorities. That is the next step in the process and will be confirmed in the local government settlement, which is to be announced early in December.

I stress that the grant-aided expenditure allocations are not target levels of expenditure, but more the level of expenditure that the Executive thinks is justified for the purposes of calculating its revenue support funding. Of course, councils are free to incur additional expenditure over grant-aided expenditure provided that they can fund it from tax and can justify the decision to their electorates.

As I said, I come to all this new and am keen to hear members' views of how we can improve the process.

It is important to recognise that the principal outcome of the spending review is the three-year aggregate external finance settlement, which covers core local authority services such as community care, the police and environmental services. It is also important to realise that there are a number of other specific initiatives and new commitments that are supported by targeted additional funding from the Executive outwith the AEF. Those can be time-limited and decided on a one or two-year basis, whereas the AEF decides the on-going funding for core services on a continuing basis. We acknowledge that it is important that local authorities have as much certainty as possible about all funding streams, and I am delighted that the draft budget confirms

around £1 billion of revenue grants outwith AEF for each of the three years of the spending review. In addition, local authorities will receive record levels of support for capital investment. Capital grants will increase by nearly 66 per cent over the period and, by 2007-08, local authorities will receive loan charge support to provide for more than £300 million-worth of new capital investment.

In total, funding outwith the aggregate external finance will increase by 14.6 per cent over the three-year period. Taken together with the increases in aggregate external finance, overall funding to local authorities will stand at a record level of £10.3 billion by 2007-08, which is an increase of 10.7 per cent over the period. Full details of the individual funding streams that make up those totals will be shared with COSLA, and I will be happy to make that information available to the committee along with the grant-aided expenditure service split.

I hope that the committee recognises that we are trying to make improvements in the process. I repeat that I am open to suggestions from the committee. It is important that we make the process, which can appear to many people to be extremely complex, as open and transparent as we possibly can. I have no doubt that, year on year, the committee learns lessons from the process, and so do we in the Executive. We should be able to share that experience so that people in Scotland can make more sense of the very large numbers and the complex process.

The Convener: Thank you very much, minister. One of the recent innovations in local government finance has been the prudential borrowing regime. Many of the decisions about how much that will be used will be made in local government, so how does the Executive intend to show prudential borrowing in future in its budgetary documents? What assumed levels of prudential borrowing does the Executive have for future years, such as 2006-07 and 2007-08?

Andrew Rushworth (Scottish Executive Finance and Central Services Department): The budget document contains the latest projections of prudential borrowing on page 156, outwith the tables for the Executive's funding of local government. We maintain regular contact with local authorities and monitor their forecasts and levels of borrowing under the prudential regime, which, as you know, has just started this financial year. We will continue to report the revised forecasts as the budget documents evolve and the forecasts develop.

The Convener: As the years go on, will the Executive report clearly so that the committee can see whether the prudential borrowing regime is having the intended effect of giving greater

flexibility to local government by increasing capital expenditure?

Mr McCabe: That will undoubtedly be the case. We would be happy to do that. It is also important to mention that we will be launching our infrastructure investment plan over the next few weeks, which will be designed to indicate to the market some of the public sector investment opportunities that will be coming along over a 10-year period to ensure that it can gear up and take the maximum opportunities from them. Prudential borrowing in local government will have an impact on the market opportunities that are there, and we want to find ways to incorporate that to ensure that there is capacity in the market to cope with the projects that are initiated.

14:30

Bruce Crawford (Mid Scotland and Fife) (SNP): I welcome the minister to his new post. He mentioned that he is new to the post, which is right, but he is not new to local government finance, as he and I were council leaders together, between 1996 and 1999, as I recall.

Mr McCabe: We both bear the scars.

Bruce Crawford: Yes, we both bear the scars.

You will feel a bit like poacher turned gamekeeper in this process, but you will understand some of the inflation pressures that exist in local authorities, which do not exist in the normal economy. I heard you confirm your 2.5 per cent target for increases in council tax. How much account does that figure take of things such as energy prices? Local authorities are predicting that their energy prices might rise by anything up to 27 per cent, and water prices could rise by 10.6 per cent. Some councils are facing problems with the underfunding of the McCrone settlement and there are additional costs of superannuation. Local authorities, and other public sector bodies, are facing all those costs, and the inflation figure is usually greater for councils than it is for the normal economy. How do you reconcile that with a figure of 2.5 per cent?

Mr McCabe: There are a number of points there. You are right to mention that I have experience in local government. The more that I recount some of the figures that I have just recounted to you in the past few minutes, the more I find it impossible to stop my mind running back to a time when we in local government were under terrible pressure—people at the helm of local government the length and breadth of Scotland had to take horrible decisions, with a Government based in Westminster that was venting its anger and its resentment against local government here in Scotland.

The position could not be more different today. The figures that I have just recounted are spectacular in comparison with those during the terrible times that local government experienced over many years, particularly in the years following reorganisation. We should put our consideration of these matters into perspective. The landscape has changed beyond all recognition, as you are right to remind us, and the sums of money that are now available for local government are remarkably different from what they were—and in a very positive way.

Local government has received substantial increases. I have indicated the 9.9 per cent increase in AEF over three years, which is above projections and which we think builds on some very positive settlements in previous years. As I mentioned, I will be publishing our efficient government plan in the next few weeks. Immediately thereafter, we will arrange a debate in Parliament to allow MSPs properly to scrutinise it. I know that some people have appeared in the press today, rather mischievously, trying to suggest that external scrutiny should take precedence over parliamentary scrutiny, but we will always resist that notion.

We believe that many efficiencies can be gained across the public sector. We are committed to ensuring that, when those efficiencies are realised, and when a change management process is properly applied, all those gains will be available to reinvest in front-line services. That complements the increases that we have announced, and it more than adequately compensates for the factors that you rightly mentioned.

It is always tough in local government. My experience tells me that, the more services are improved, the more demand is generated, so there are always difficult decisions to make. Having said that, I, on behalf of the Scottish Executive, am absolutely confident that we have created circumstances in local government that are spectacularly different from those that were experienced over a long period of time under another regime.

Bruce Crawford: I will come on to efficiency savings in a moment, but I want to get underneath some of what you have just told us. If we consider the real-terms increases and compare the 2002-03 budget with the 2007-08 budget and apply the Treasury gross domestic product deflator, the figures show a 6.67 per cent decrease. Do you accept that, in real terms, there is a decrease in the amount of spending available to local authorities?

Mr McCabe: I fundamentally reject that notion. What you have just related in no way lines up with service development and people's experience of local government. Children in Scotland have

access to pre-five education at unprecedented and unique levels compared with previous experience. A whole range of services has been introduced in Scotland. Elderly people enjoy free personal and nursing care, for example. I could go on and on to give a list that demonstrates quite clearly the way in which services have expanded to meet the needs of people in Scotland. Therefore, I do not recognise what you say in any way whatever.

Bruce Crawford: I suppose that we could bandy figures backward and forward all day about who is right and who is wrong, but the figures that I quoted were derived from your draft budget, so it beats me why you do not recognise them.

Our adviser's paper tells us quite clearly that it will take considerable saving to reach the efficiency targets that you have set, particularly for local authorities. We are told to be a bit sceptical about the issue of efficiency savings. The figure of £500 million of efficiency savings has been used previously by public spending bodies in Scotland. How much of that is going to come from local authorities?

Mr McCabe: There are two points on that. First, on your point about the differences between us over interpretation of figures over time, I am fairly confident that our document shows clearly that there is an increase. I am happy to write to the committee to demonstrate where and how the document shows those increases. That will resolve that question.

Secondly, on efficient government, I said earlier that we will publish our document in the near future and that we will, as soon as possible thereafter, arrange a parliamentary debate. I do not want to get ahead of that discussion. I have already said that I have no fondness for some of the comments that appeared in this morning's press and which would allow external debate to get ahead of parliamentary scrutiny; I do not want to fall foul of the same thing. The announcements will be made in the near future when we will have the opportunity to discuss the issues in more detail.

Bruce Crawford: Perhaps the minister cannot talk about specifics, but is it possible to talk about generalities in respect of efficiency savings? Are there areas that would be exempt from efficiency savings? For example, on education and young people, the draft budget says that

"No efficiency assumptions have been applied to teachers or support staff salary elements of central or local government budgets".

On top of that, I am aware that several local authorities are already predicating their budgets on efficiency savings. For instance, Perth and Kinross Council predicates a budget saving of 1 per cent each financial year—about £600,000 per

annum in tax yield—to pay for its investment in learning projects. In general terms, will those areas in relation to education and young people be exempt? Will your efficiency savings be sought over and above what Perth and Kinross Council, for example, is already planning to save or will that be part of the overall package? Will authorities be expected to save across the board pro rata, or will efficiencies be targeted at individual local authorities?

Mr McCabe: I confirm that the allocations for police, the fire service and teachers have been excluded from the efficiency assumptions. I also confirm that efficiencies will be applied pro rata across authorities.

Bruce Crawford: Are you saying that Perth and Kinross Council, which predicated its budget on one of the Executive's target areas—the investment in learning project, which is about building new schools—must save over and above 1 per cent in one of your target areas? I want to be sure about what you are saying.

Mr McCabe: It is not "over and above", if I understand your question.

Bruce Crawford: Are you saying that the 1 per cent savings that the council intends to make will form part of the efficiency savings that you will set as a general target for the council, so the council will not be expected to make those 1 per cent savings in addition to the efficiency savings that you expect?

Mr McCabe: The 2 per cent figure is already factored into the settlement; it is already included, so there is nothing on top.

Bruce Crawford: I will phrase the question differently. Will the £600,000 per annum that the council intends to save form part of the 2 per cent saving that you expect the council to achieve?

Andrew Rushworth: In determining the settlement and in taking decisions on the spending review for local government, ministers have taken a view on the levels of grant-aided expenditure that they think are justified, as the minister said. They have not taken a view on individual councils. The settlement to which the minister referred will be announced in December and will give allocations to individual councils, so we cannot comment on individual councils. The overall funding settlement assumes 0.7 per cent savings per annum in broad terms in expenditure levels—gains, efficiency savings and expenditure. If an individual council budgets for 1 per cent savings, it will achieve efficiency gains over and above 0.7 per cent.

Bruce Crawford: So the savings would be additional, rather than part of the overall figure.

Andrew Rushworth: We did not start from the presumption that councils would make X per cent savings and then add a figure on top of that.

Bruce Crawford: Members of the committee understand why you have exempted targeted areas, such as teachers, from efficiency savings. However, we also understand that, from the perspective of a local authority that is trying to make savings in order to build schools, it is incongruous that a council must make additional efficiency savings while trying to make inroads into the Executive's target areas.

Mr McCabe: I do not think that that is incongruous. Given the size of the expenditure that takes place in local government, efficiencies can be generated. We will demonstrate how we intend to achieve those savings when we publish the efficient government document.

Tommy Sheridan: When was the best-value regime introduced? Why was it introduced? How have you evaluated its success or failure?

Mr McCabe: Best value has been on the go for a number of years. If my memory serves me, I think that it began around 1997—that might be a year or so out, but it was around then. I was personally involved and I am the first to acknowledge that local government has made considerable progress in respect of best value. However, we strongly believe that further efficiencies can be made, not only in local government but right across the public sector. We say that not because we seek a ruse by which to reduce the allocations that we make, but because we know that if those efficiency gains are realised, moneys will be available for reinvestment in front-line services to cope with the additional demands on local government and the public sector. There is a range of opportunities for such reinvestment.

Tommy Sheridan: Despite the seven-year operation of the best-value regime, which you said has made "considerable progress", you estimate that a further £58.5 million-worth of savings in local government in 2006-07 and £114.2 million-worth of savings in 2007-08 can be made.

Mr McCabe: In this day and age, we always deal in impressive figures, which, relative to other figures, sound impressive at different times. As I said, by 2007-08, local government will receive an overall allocation of £10.3 billion—a third of the Scottish block in that year. That is a considerable amount of money.

The world outside the public sector is continually changing. It would be disastrous and disgraceful if we did not continue to pursue potential efficiencies in the public sector and it would be difficult for the general public who fund the services to understand why we had taken such an approach. I know that there is plenty of scope for efficiencies

in the existing system, particularly within local government.

I was a council leader in local government after the mid-1990s reorganisation. There was no consensus in Scotland that there should be 32 directors of education, 32 payroll systems and 32 separate human resource departments. People were repulsed when some joint boards were set up and we found ourselves with directors of finance, separate human resource departments and separate payroll departments. Currently, the people who are tasked with making local government successful and efficient are far from happy with some organisational arrangements that were put in place back then. People have found ways—as people do—of making a success of those organisational arrangements, although they sometimes encounter significant barriers. They know about, and their minds will be open to the possibilities of, saving money—particularly as they know that those savings will be available in their entirety for reinvestment in front-line services. I stress that strongly.

14:45

Tommy Sheridan: You have avoided the point that I made. A regime has been in place for seven years. Audit Scotland and the Accounts Commission for Scotland have put local authorities on a diet and have tried to ensure that they are lean and fit machines, that there is no wastage and that there are plenty of efficiency savings. You say that there has been "considerable progress" over a seven-year period. If there has been such progress, the people in Audit Scotland and the Accounts Commission have been doing their jobs—perhaps you will want to say that they have not been doing their jobs—and local authorities have already been operating on a strict diet, so where will you find another £58.5 million in 2006-07 and £114.2 million in 2007-08 in efficiency savings?

Mr McCabe: With respect, Mr Sheridan, I do not think that you listened to the answer that I just gave. I explained exactly how we think that can be done in a number of fields. I have not gone into all the details because I am not going to pre-empt the statement on efficient government that I will make within the next few weeks.

I stress again that the process is dynamic. We are operating in an environment in which budgets are rapidly expanding. Earlier, I gave a whole series of figures. I go back to the very substantial increase in the capacity for capital investment. Given that there is going to be investment on such a scale, there may be a whole range of opportunities in procurement. There is a dynamic process in a growing budgetary situation. People in local government would be the first to say that if

local government is to remain relevant and maintain its current high levels of support and admiration among the Scottish population, it must demonstrate that it is willing to play a dynamic part in the process of ensuring that the services that are provided are as efficient as they possibly can be.

The Convener: Tommy Sheridan can ask one more short question.

Tommy Sheridan: I am sure that other committee members will subject the minister's figures to the rigorous analysis that they deserve. We should be dealing with real-terms figures instead of cash figures, which is what the minister tends to deal with to try to inflate the figures. Given the imposition of the best-value regime over the past seven years and the best efforts of Audit Scotland and the Accounts Commission, the proposition that savings of another £58.5 million in 2006-07 and £114.2 million in 2007-08 are just waiting to be taken off the shelf without real and serious reductions in front-line services and in jobs is ridiculous. Is it not the case that we are really talking about a budget that will lead to service and job reductions?

Mr McCabe: I have seldom heard such a ridiculous misinterpretation of a budget that is clearly generous and expansionist. We could be here until midnight explaining the new services that are coming on stream and the existing services that are being enhanced. Mr Sheridan advocates changes in the tax base at local level. He is just another one of those people who want to spend, spend, spend without regard to how we gather in money and pursue the efficiencies that maintain the public's confidence in the delivery of services.

Michael McMahon (Hamilton North and Bellshill) (Lab): I understand that the minister does not want to pre-empt the debate by giving details of what efficiency savings might be made. Anything that is done with local government expenditure is monitored. We have best-value arrangements and expenditure is recorded. What will you do to monitor the efficiency savings that are made in local government and how will you measure them to ensure that the targets that you set are met in the areas in which you wish to bring about improvements?

Mr McCabe: I certainly agree with the proposition that if robust audit measures are not included as part of the efficient government drive, the process becomes as good as meaningless. I assure the member that when we publish our efficiency plan, we will demonstrate that we are determined to track the changes that are made and the efficiency savings that are gained. We are also determined to ensure that any moneys that are generated through efficiency savings are

reinvested in front-line services. I agree with the notion that Mr McMahon puts forward and we will do our best to demonstrate how we agree with it when we publish our document.

Michael McMahon: In most of the debates that we have in the Local Government and Transport Committee, there are questions about how many of the figures that are bandied about are calculated and what they relate to; you have probably experienced that in today's meeting, which is the first that you have attended as Minister for Finance and Public Service Reform. Will there be a simple tabulation of the efficiencies so that people understand clearly from the outset what will be expected? That would make it much easier for us to monitor what is measured.

Mr McCabe: I have the greatest sympathy for anyone who struggles with the complexities of local government finance or, indeed, with the complexities of public sector finance per se. The subject is far from straightforward. I have served as a council leader on two occasions. I found local government finance difficult then and I still find that it can be difficult.

I have indicated to the committee that my mind is open to suggestions for change that would provide more clarity on the figures. I do not think that the budget process will ever be simple, but we should always be alive to the search for ways that better explain to people how the figures are tabulated and what outcomes we expect. I repeat that I look forward to exchanging ideas with the committee on how we can do that. Since 1999, there have been some pretty dramatic changes in the way in which the budget information is presented. It is clearer now, although I would be the first to admit that it started from a very low base. There is still some way to go and I am interested in discussing with the committee how we can achieve that over the months and years to come.

David Mundell: Given that the minister has only seven more minutes with us, we should put the council tax issue to him. You will have seen the five scenarios in Professor Bramley's paper. As that is a public document, it is only right that public concern is voiced about those scenarios. What are your comments on them?

Mr McCabe: It is important to say first that it appears that Professor Bramley's case is based on a theoretical worst-case scenario. We do not know how he managed to arrive at his figures, which have been produced only recently; we would be interested in seeing more of the background material.

Sometimes, people like to latch on to scare stories about council tax levels, although I am not necessarily saying that in relation to Professor

Bramley, whom I do not know. I remind the committee that, here in Scotland, the average council tax increase since 1999 has been about 4.5 per cent. Our council tax increases have been significantly lower than those that have been experienced down south. I have explained why they should be lower still in 2006-07 and 2007-08. Even if we consider the past five years, I do not know what empirical evidence suggests that despite the remarkable local government funding figures that we have discussed we will go all of a sudden from an average of 4.5 per cent to 15 per cent growth in council tax levels, which would have ramifications for many people—not least the elected members who consistently approved such increases. The nature of politics provides checks and balances.

The Executive does not recognise the figures, but we are more than willing to examine the propositions that lie behind them.

David Mundell: So your view is still that which Mr McConnell advanced: that the council tax increase will be 2.5 per cent.

Mr McCabe: The First Minister's view was that he saw no reason why council tax increases should be more than an average of 2.5 per cent in the years 2006-07 and 2007-08. The figures for 2005-06 were part of the 2002 spending review and were always set. We expect council tax increases in that year to be higher than 2.5 per cent—councils predict that. We ask councils to examine their budgets rigorously to see whether they can find ways to reduce increases by as much as they can; their electorates would expect them to do that, anyway. As a result of their conscientious approach to their work, people who are in local government would do that year on year in any case.

I spoke to local authority leaders shortly after I took up my post and we had a good exchange. I expressed my view that it was difficult to find reasons why the council tax collection rate in Scotland is about 4 percentage points below that in Wales. Local government can demonstrate its determination to have higher collection levels for that tax. If collection increases to the level that has been achieved in Wales, we will immediately generate an additional £75 million, for which—I have no doubt—local government would find good use.

As I did to local authority leaders, I make it clear that I have no interest in chasing the poor or people who cannot pay; we have a benefits system that takes care of that. However, my experience in local government tells me that some individuals—who may have access to professional advice—are not keen to meet their commitments. People who are more financially challenged are more likely to try to pay timeously, but some

people in the community do not follow that example.

Scope exists for local government to examine collection rates and how to improve them. The important point is that the benefits that such an exercise would generate would be available immediately for investment in front-line services.

Fergus Ewing: Does that mean that you still agree with Mr McConnell that there is no reason why councils should increase council tax by more than 2.5 per cent?

Mr McCabe: Our view is that for the years 2006-07 and 2007-08, we have made allocations to local government that indicate to us that council tax increases should be held at about the level that you mentioned. Of course, I fully recognise that in the final analysis, individual councils have the right to determine their rates of increase. However, the figures that we have announced will assist councils considerably as they meet their ambitions for expanded services and do their best to minimise the financial burden on local tax payers.

Fergus Ewing: Mr McConnell did not say that that figure was just a guideline. On 7 October, he said to Parliament:

“There is absolutely no reason whatever why the settlement announced last week by Andy Kerr should cause council tax increases to be above 2.5 per cent.”—*[Official Report, 7 October 2004; c 11130.]*

That seems to me to be unequivocal, clear and categoric. Do you depart from that now or do you still say, “2.5 per cent and no more”?

15:00

Mr McCabe: We believe that the financial allocations that have been made should achieve a situation in which increases are no more than 2.5 per cent in those two years. We fully acknowledge that elected representatives at local level have the right to determine what they regard as being the most appropriate increase. However, where substantial amounts of public funds are allocated to local government, it must justify any related decisions to the local electorate.

Fergus Ewing: I agree that we all want collection of local government revenue, council tax and other local government receipts to be more efficient. If our record is poorer than that in Wales, I hope that we all agree that that must be improved on. So far so good.

Do you acknowledge that the Scottish Executive's record in paying its bills has been criticised year after year in papers such as *The Herald*? Would not it be an example to individuals if the Government started paying a far higher proportion of its bills on time? Individuals would

then have money coming in through their pay packets and businesses that would enable them to pay their bills to the Government via the councils on time.

Mr McCabe: I accept absolutely that the Scottish Executive should lead by example. We need to review our processes constantly, and we will do that. We will try in every instance to be a beacon for others to follow. However, I do not think that the comparison that has been made is in any way relevant. There are people in Scotland who are well able to meet their bills, although very often they do not. We should be chasing them harder than we do.

Fergus Ewing: I have a final brief question. The finance spokesman for the Convention of Scottish Local Authorities, Mr Pentland, who will not be one of the COSLA witnesses today, was quoted in *The Scotsman* in relation to the 2.5 per cent promise. He said:

"There is no way the First Minister can know today the level of rise in council tax needed to be able to fund the full range of services demanded of councils by their electorate."

Why is Mr Pentland wrong?

Mr McCabe: With the greatest respect, there is no way that Mr Pentland had all the available information to hand when he made that statement. I am sure that he is sincere in his concern for his local electorate, but he does not have all the details of the settlement. I have not confirmed local government settlement figures; I will do so in December. It will be then that people should make a more rounded consideration and not beforehand.

Tommy Sheridan: Does that include the First Minister?

Mr McCabe: The First Minister is aware of the figures. I have a good idea that he knows what we are talking about here.

The Convener: I have another question. The Executive has indicated a target to increase investment in public services, using capital expenditure, by 5 per cent a year in real terms over the review period. However, the projections that our adviser has drawn out of the Executive's budget proposals for local government indicate a growth of only 3.6 per cent a year. Will you comment on that?

Mr McCabe: I cannot comment immediately because I am not entirely sure whether the projection includes, for example, the impact of the prudential borrowing regime. It might also be that some capital expenditure on higher and further education projects is not included—that might not be in the same line. I am not sure whether we are

comparing like for like, but I would like to check that and come back to you.

The Convener: Okay. If you could respond to us in writing on that, it would be—

Mr McCabe: Unless the officials want to make any comment at the moment.

Graham Owenson (Scottish Executive Finance and Central Services Department): I am not sure whether that projection takes into account, for example, table 10.03 in the "Draft Budget 2005-06", which shows additional capital expenditure from other portfolios rising from £237 million in 2004-05 to £406 million in 2007-08. However, as we say, we do not know the basis of the projections.

The Convener: The best way forward is to confirm the projections through correspondence from the Executive, which would be useful.

I am aware that the minister has other commitments at this point. There will be one more question from a member, if that is okay.

Dr Sylvia Jackson (Stirling) (Lab): I thank the minister for what he said about the quality-of-life initiative and the city growth fund. I know that the quality-of-life fund was popular, and I am glad that you are continuing with it.

You will know that one of my big concerns is local roads. I noted that your introductory statement mirrored what is in your report about extra resources being made available. Can you give more detail on that? You also mentioned non-hypothecated funding. Is not that a problem in terms of ensuring that the money goes into local roads?

The second quick question is on Scottish neighbourhood statistics, which is mentioned on page 159 of the draft budget. From what has been said in the chamber, I note the good work that is being done in that area. Where are we in respect of getting the statistics down to a very local level, so that pockets of deprivation can be identified more clearly?

Finally, in previous years we talked quite a bit about the importance of outcome agreements. Where are we with those?

Mr McCabe: On the capital allocation for roads, we have allocated an extra £60 million per year from April 2006 through GAE to help councils to address the backlog of road deficiencies. Clearly, there is a sensitive and vexed question around how we ensure that money is spent as intended. Councillors would not welcome my hypothecating that money. They feel that as elected members they have the right to exercise discretion in how they allocate resources.

The GAE guidelines give an indication across different service lines of what we think the Executive requires to spend. In the past we have not shared that information, but in future I would be interested in sharing it with the committee, so that you can examine how the money is allocated to different silos and perhaps make a judgment. However, I stress that I do not want to place local government in an unduly difficult position. There will always be times when specific local knowledge leads to different patterns of expenditure, and it is for people at the local level to justify those patterns.

As part of growing our country's economy, we see infrastructure pillars as extremely important, because they create platforms that allow people to build and grow our economy. Therefore, we would be greatly disappointed if, in a substantial way, the expenditure that is allocated for roads does not find itself heading in that direction. We will improve the flow of information to the committee and allow you to examine it in more detail.

I know that good progress is being made on neighbourhood statistics. Perhaps it would be more useful if we wrote to the committee with specific details. I know how important the production of more accurate data at the lowest possible level is, because it assists us to allocate funds more precisely to where they are needed. The production of Scottish neighbourhood statistics is an important project and I would like to take time to explain in more detail exactly where we are.

I am sorry, but I have forgotten your third question.

Dr Jackson: It was on outcome agreements.

Mr McCabe: To be frank, not as much progress has been made on outcome agreements as I would have liked. I will not come here and pretend to the committee that in the past three weeks I have covered every dot and comma of my portfolio—I will not do that after three years, never mind three weeks—but outcome agreements are important. We in the Executive need to refine the indicators that we ask local government for. We need to be sure that we are not asking for a range of information in different ways, using imprecise definitions and placing a burden on local government with regard to the information that it is required to supply to us. We end up with a confused and muddled picture if imprecise definitions and requests for the same information come from different parts of the Executive. The area is very important and we have to look at it. We must refine the indicators that we think are important and agree them with local government as soon as we can.

I am interested in some of the developments that are taking place in other parts of the United Kingdom, and I had a brief discussion on this matter with my Welsh counterpart yesterday. We have agreed to explore some of the work that is being done in Wales. That is not to suggest that we impose the solutions that have been arrived at in other areas; however, I greatly adhere to the philosophy that we reinvent the wheel far too often in Scotland. There are great opportunities for us to learn from others' experiences. We need to do that and, in doing so, refine some of the outcome indicators so that they will give us a better idea of what exactly we are getting for our substantial inputs.

This is an important piece of work that I intend to develop further. I look forward to sharing the information with the committee as much as possible, because I am sure that, as I said earlier, the committee has ideas that can influence the Executive's thinking.

The Convener: That brings us to the end of our questions for now, although we have a few further questions that we will send to the Executive in writing. We would appreciate responses in time for us to prepare our budget report. Thank you very much for your evidence this afternoon, minister. We look forward to working with you in the period to come.

Mr McCabe: Thank you, convener. I appreciate what you have said. I also appreciate the way in which members have engaged with me this afternoon. I look forward to working with you in the years to come, finding ways to demystify the budget process and helping to explain it to people throughout Scotland. Thank you for your time.

Fergus Ewing: As far as the other questions are concerned, I seek some clarification. Can members submit through the clerk additional questions that, through lack of time today, we have not had the opportunity to put? For example, I have questions on non-domestic rating income and the assumptions behind the figures that are contained in the budget. Those are quite technical questions, and I wonder whether I could submit them to the minister through the clerk. I could do that later today.

The Convener: I am comfortable with that, as long as all members keep a degree of perspective and do not submit too many questions. I am happy to accept a few additional questions from members.

Fergus Ewing: I never submit enough questions.

The Convener: We move on to our second panel of witnesses. I welcome to the committee Councillor Drew Edward, who is here on behalf of the Convention of Scottish Local Authorities and is

a member of its finance executive group. I also welcome Brenda Campbell, a COSLA corporate adviser, and James Thomson, a COSLA policy manager. I invite Councillor Edward to make some introductory remarks, after which we will go forward into questions and answers.

Councillor Drew Edward (Convention of Scottish Local Authorities): I thank the committee for inviting COSLA along to give evidence on the draft budget for 2005-06. As you are aware, the announcement of the individual authority allocations has not yet been made. We anticipate that announcement being made around 8 December, so we cannot make any comment about the implications for individual authorities at this stage; we need to wait until we get that further detail.

Indicative figures for the 2005-06 aggregate external finance settlement were announced in the 2002 spending review. It is reassuring that that funding has been confirmed, but slightly disappointing that there has not been an increase, which we would have liked. However, from the information that we have received so far, the early indications are—pending the detail on spending review announcement—that the settlement for local government is tight or relatively poor. It is particularly disappointing that the 2004 spending review has not yielded any extra resources for the 2005-06 budget.

One significant positive outcome is the minister's recognition of an agreed base budget for local government, an issue on which COSLA has made representations to the committee, of which the committee was supportive. We are pleased about that positive result from the review, which is a significant step forward in the budget. COSLA has met officers from Executive spending departments to discuss and clarify the details of the spending review for each portfolio. That has proved useful for the Executive and COSLA and has enabled us to make significant progress towards clarifying the process and improving transparency. That is our present position on the 2005-06 budget.

15:15

Bruce Crawford: The minister reconfirmed the target of 2.5 per cent for council tax increases in the coming years. What is COSLA's view of that target, given some of the information we have seen in tabular form in *The Herald* and the information on the real rates of inflation in local government costs? I have been told that energy costs may increase by about 27 per cent because of the significant increase in oil and gas prices and that water prices will go up by up to 10.6 per cent. There are also problems with the funding of the McCrone settlement—although it has been hinted that extra money may be provided for that—and

the issues of servicing pay awards and superannuation costs. That suggests that inflation in local government costs is running ahead of the normal rate of inflation. Is it COSLA's understanding that inflation in local government costs normally runs ahead of the underlying rate of inflation in the economy? Are the figures that I mentioned on energy and water costs reflected throughout your membership?

Councillor Edward: Yes. A number of pressures exist, some of which you mentioned. Pressures also arise from demographic changes, such as the rise in the number of elderly people in the population. Because there is significant growth in demands on local government, the effective inflation rate is significantly higher than the base inflation rate. There have been esoteric technical discussions about which inflation rate should be used, but the point is that there are significant pressures on local government budgets.

Members will understand the gearing ratio of increases in the total budget—council tax goes up on a 5:1 ratio because it is only 20 per cent of the budget. Any increase in the overall budget that is funded by council tax has that multiplier attached to it. I have my doubts whether the 2.5 per cent target is realistic. We have already indicated council tax rises of between 3 per cent and 5 per cent as a result of the 2005-06 budget. Because the figures were announced previously, councils have given indicative council tax rises for that year, which are well known. It will be extremely difficult to constrain the rises to 2.5 per cent in future years.

Brenda Campbell (Convention of Scottish Local Authorities): The Executive has built into the settlement calculations the assumption of a 2.5 per cent rise in council tax. That is an assumption that the Executive makes in calculating the AEF, but it must be distinguished from actual council tax rises throughout the country. A lot of media attention has been given to the matter since the First Minister made the comment about the rises, but two issues are involved. First, there is the assumption that has been built into the settlement calculation to meet the spending needs that relate to the GAE. Secondly, there is the amount that councils will need to raid—[*Laughter.*] Sorry, that was a Freudian slip. I meant the amount that councils will actually need to raise to meet those spending needs as well as the costs of discretionary services.

Bruce Crawford: How does COSLA make the Executive aware, through lobbying, of some of the real pressures on the budget before the Executive announces a target of a 2.5 per cent increase? It would have been good if we had received your evidence before we took evidence from the minister, as we could then have put these issues

to him. You are being left to deal with pressures on local authority budgets that exceed the 2.5 per cent increase. In some places, increases in energy costs are 10 times greater than that. How do you make the Executive aware of the situation, and what sort of response do you normally receive?

Councillor Edward: There is a constant and developing dialogue between COSLA and the Executive, both at officer level and at political level. We constantly make representations and pass information to the Executive. However, it is disappointing that often the Executive does not respond to that information. COSLA made significant bids in this spending round and identified a number of the pressures, but only about 30 per cent of those bids were funded. Information has been passed to the Executive and we have made clear the detail of the situation.

Bruce Crawford: Can you go a bit further? Obviously, there are many new initiatives. When I was a councillor, we used the term new burdens, and I will stick with the old terminology, as it seems to suit the situation better. You are saying that only 30 per cent of the new burdens that you are taking on are funded. If that is the case, what will have to be picked up through additional council tax? That is the only way in which councils can obtain the extra funding.

Councillor Edward: A variety of areas are affected. One that has been discussed recently in the press is the capital cost of road repairs. The bid was for £110 million and we received £62 million in the settlement. James Thomson and Brenda Campbell have more details.

Brenda Campbell: Our spending review submission consisted of a base budget and additional bids. The additional resources that we were seeking to fund those bids were in the region of more than £600 million by year 3. From what we know about the settlement so far, it appears that the Executive has provided more than £200 million of that sum. The Executive has recognised almost a third of our bids.

We prepare the spending review submission at a certain point in time and look ahead to the pressures that we expect to arise. Inevitably, pressures that we cannot forecast will always arise, so there must be discussion with ministers about how resources are built into the system to address those pressures. Energy is a good example. I understand that cost increases of the magnitude that we are now seeing started to take place only in recent months. Clearly, the significant increases in energy costs that there have been were not included in our spending review submission.

There are two issues. First, there are the bids in the spending review submission that were not met.

Secondly, there are additional pressures on local government that are underfunded or not recognised. Councillor Edward is right to say that there is an on-going dialogue with ministers. We need to use that to our best advantage between now and the next spending review.

The Convener: Is there a breakdown that indicates which additional bids relate to unavoidable expenditure and which relate to aspirational or desirable expenditure? Does COSLA recognise that there was a period—mainly in the 1990s—when investment in much of the country's capital infrastructure was neglected? The Executive must balance investment in a range of areas: hospitals, the water industry, roads and local government infrastructure. Does COSLA accept that the Executive needs to spend the resources that are available to it on the whole range of public services, not just local government?

Councillor Edward: Yes, we accept that. We live in the whole of society and do not focus solely on one aspect. We recognise that there are competing pressures. We merely want to make the case for the services that we provide. My voters want me to provide good services.

It is important to recognise that we are working together with other parts of the public sector—through the joint future agenda with the health service, for example. There are a number of opportunities for the Executive to work across the public sector. It behoves the Executive to work across departments, as well as with local government, health boards and the other providers that work in community planning partnerships. There are opportunities to join together across the public sector and make better use of resources, and the Executive needs to work with us and help us to develop that.

The Convener: Will one of the witnesses address the question whether all the bids are for expenditure that is unavoidable? Some expenditure is extremely important and desirable, particularly in relation to roads, but are there some areas of unfunded expenditure on which there is no option but to spend money and other areas on which local government would like to spend but will not be able to if the resources are not there?

Brenda Campbell: We can break that down quite easily and provide the information to the committee. When we prepared our current spending review submission, we had a different focus. In previous spending reviews, we always submitted bids for huge amounts of money that, quite frankly, it would not have been realistic for the Executive to provide. This time, when we went out to professional associations and elected members, our starting point was more than £1 billion. We were quite realistic; we said, "We are

not going to get £1 billion, so let's be realistic and look at the bids that have come in." We went through a strict political process of streamlining the bids and identifying the key priorities for local government, and that brought us down to a starting point of about £400 million. There has been a change in focus and we have prioritised the bids, but we could examine them again and provide a further breakdown. Indeed, we will do that; our next step will be to examine the areas in which we were not successful and consider what our priorities are, how we will bid for any resources that remain and how we will lobby the Executive for those resources.

The Convener: It would be useful if you could provide us with that information in writing, stating the sums of money and the areas that you believe are underfunded.

Brenda Campbell: Sure.

Dr Jackson: We talked about local roads, and I take it from the comments that have been made that that cost is not included in the local government baseline budget but is an additional cost that has not been funded to the level that local government wanted. We read in the Audit Scotland report about the amount of money that is needed. I take it that that is one of the continuing issues on which COSLA will have dialogue with the Scottish Executive.

Councillor Edward: Yes.

Brenda Campbell: As recently as this morning I met transport officials from the Executive and that is one of the issues that we discussed. Our bid was for about £60 million and the Executive has put £60 million into the GAE, so in that respect the bid was successful. The level of spend that Audit Scotland talks about in its report is significantly more than that, but we must be realistic about what can be delivered and about the timescale. There are a lot of policy discussions to be had, because we have to ask what it would be possible to deliver if a huge amount of investment was suddenly put in. There is a debate to be had with the Executive about what is realistic. We believe that £60 million is realistic and that that money could be spent properly.

Dr Jackson: You are quite correct. I have spoken to council officials about the amount of money that should be put in, but manpower resources are limited, as far as doing the job is concerned. I take it that you are looking at a longer-term strategy, which I gather is what happens south of the border.

Brenda Campbell: Yes. The discussions will be about putting in place a long-term plan for a number of years and finding the most effective way to address the issues that we face.

Councillor Edward: That comes back to COSLA's submission to the most recent review of local government funding. We talked about capital needs in relation to neglected infrastructure, such as roads, schools or office buildings, and working environments for staff. There is a huge gap in capital funding, but it is a matter of setting priorities. We could spend all the capital on the roads, but decisions have to be made on the various competing budget heads.

Iain Smith: Following up on that issue, I have a question that I have asked in previous years. Is the expenditure on roads at a level that is maintaining the roads at the same level, so that the backlog is not getting bigger? Is the backlog getting bigger or smaller, and what difference will that £60 million make? Will it make things break even?

Councillor Edward: It is a very difficult subjective judgment to say whether the backlog is getting bigger or not.

Iain Smith: Audit Scotland has said that there is a £1.7 billion backlog, with £1.5 billion of that involving local roads. We do not know whether the existing level of funding is actually making any impact on that backlog. I have been trying to get to the bottom of that question for some time. Does putting an additional £60 million into the road maintenance programme actually make any impact on that backlog or is more needed? I am trying to get some flavour of where we are.

15:30

Councillor Edward: Anything that is put in would have an effect on the backlog and on trying to keep things up to date. The difficulty is that we end up spending money on patching and repairing rather than on renewing and rebuilding. When I was a local campaigner, before I became a councillor, there was a road in my ward that was resurfaced because it hit the headlines in the local paper as one of the bumpiest roads in the world. It was resurfaced, much against the better judgment of the technical road engineers, but local people said, "This is wonderful. This road is now smooth." Less than 10 years on, it is now breaking up again, just as the engineers predicted, because of the substrata. That is our problem.

That said, there is a challenge for some of the technical staff of councils to come up with innovative solutions for patching and repair work that makes better use of those small budgets. There are a number of initiatives in that area and people are looking at technical solutions for permanent patches, as opposed to patches that last three months and then have to be repaired again. There are challenges in improving road infrastructure and there are good examples of the

continuous improvement agenda that councils have accepted.

The Convener: Later on, we shall consider whether to take further evidence from the Society of Chief Officers of Transportation in Scotland and from Audit Scotland. If the committee wishes, we can pursue those issues further.

Michael McMahon: I have a question about the idea that assumptions are being made. I do not know whether the witnesses heard our dialogue with the minister earlier, but points were made about statements from COSLA through Councillor Pentland about the problems that were foreseen in connection with the level to which council tax would have to be raised. The minister replied that there was an awful lot of assumption behind what Councillor Pentland was saying and that ministers had the advantage of having seen the figures. Is not there too much of that type of discussion in relation to the figures for local government finance? Can you see a way through that debate, so that we can talk about hard-and-fast figures rather than assumptions?

Councillor Edward: Progress has been made in getting an agreed local government base budget and developing a more open and transparent process, so there are not lots of little kitties of money salted away in various spending departments in the Executive that can be produced at various times to provide another £30 million, £40 million or £50 million to spend on certain initiatives. If we start at the beginning of a year with what we know is the local government budget and have a clear and transparent process that identifies all the resources for local government spending, that allows us to conduct those discussions on a much clearer basis because we know where we are working from. COSLA has worked hard with the Executive to achieve that, and I think that that is the way forward.

Michael McMahon: My concern is that a lot of the projections for efficiency savings would therefore be based on assumptions about how much can be saved and how much money there is to be saved. Unless we monitor what is being saved in local government, it will be difficult for the Executive and COSLA to agree in the future that the efficiency savings that the Executive wants have actually been arrived at, or whether the aim was achievable in the first place. Can we get some sort of baseline on which to base these figures, instead of continually working on assumptions?

Brenda Campbell: As Councillor Edward said, we have made significant progress to get where we are. The year 2005-06 is the first one for which we will have a baseline, as such, or an agreed local government budget. We have to look forward and see that as our starting point from which to progress.

In previous years, things have probably been less transparent and it has probably been more difficult for us to make progress in any discussions that we have had with the Executive and in any lobbying that we have done. It has probably also been unclear, from the Executive's side, how we make efficiency savings. On both sides, there has probably been a lack of understanding. I would like to think that we have made significant progress towards achieving a much better understanding between local government and the Executive, and I see 2005-06 as our starting point for that.

I may be sitting here in a year's time, having a similar discussion to that which we are having now and saying that it has not worked—I hope not. However, we are putting a marker down and saying that this is our starting point. We have an agreed base budget and that is going to be the way forward. James Thomson may want to comment on what efficiency savings local government has achieved.

James Thomson (Convention of Scottish Local Authorities): Since 1999, local government has been under the best-value regime, whereby we have had to achieve efficiency savings. Since 1999, we have made efficiency savings in the region of £650 million, or £108.7 million a year. When you compare that with the base budget in COSLA's submission, you will see that it amounts to 1 per cent of the figures there. We have made those efficiency savings so that the money can be reinvested in local priorities.

Michael McMahon made reference to Councillor Pentland's comments following the First Minister's statements. Councillor Pentland said that, although there are assumptions about council tax increases to provide the funding to which the minister referred, there are also local priorities for locally elected councillors. Several committee members are ex-councillors and will know that councillors are held accountable locally for their local priorities. The rises in council tax are intended to address those priorities as well. The efficiency savings that have been made by councils have been reinvested to address local priorities and needs as well as priorities and initiatives that councils have been required to address by the Executive.

Councillor Edward: It is difficult to talk about efficiency savings in percentage terms. One of the issues that my authority is looking at is transaction costs. We are asking what each activity costs so that we can identify an absolute value and an absolute improvement trend. Rather than simply saying that we want to make some sort of global efficiency saving, we can find out what it costs, say, to process a council tax account every year. If we can move trends in the right direction, we can see where we are making a saving by capturing

the cost per transaction. We have to have a number of such mechanisms in each local authority to find those costs and measure them, so that we can identify savings more accurately.

Bruce Crawford: On the theme of efficiency savings, it is a pity that you did not hear what the minister said—there were some reasonable things in it for COSLA as well as some things that you might find a bit more difficult. You will be aware that we are talking about in the order of £58.5 million of efficiency savings for the financial year 2006-07 and £114.2 million for 2007-08. I hope that I am not taking what the minister said in vain, but he confirmed that no efficiency assumptions will be made in relation to fire staff, police, teachers and support staff. He confirmed that he expected the efficiency savings to be reinvested into front-line services, but we did not get the chance to ask whether that meant front-line services across the Scottish Executive's budget or just across local government's budget. We need to tease that out a bit further.

The minister also said—and I find this a bit worrying—that those efficiency savings will be applied in a pro rata process. I do not think that there will be a process available to allow individual local authorities to discuss with the Executive what their levels of efficiency savings might be. That gives me some concern, because I am aware that some local authorities are, as James Thomson said, making efficiency savings year on year. Perth and Kinross Council is a good example. It is making a 1 per cent saving to pay for the learning projects that it is continuing to run, but it is expected to make efficiency savings over and above that.

If the efficiency savings are applied on a pro rata basis—by formula, effectively—what will that mean for local authorities? If the efficiency savings are to be over and above what is already being done, what impact will that have on services? Will it mean considerable service reduction in some areas? Might it mean that some of the work that we were discussing earlier, such as the attempt to get more investment into local roads projects, might come back out of the system?

Councillor Edward: It is always difficult to measure. Are we talking about the journalistic term “cuts” or about euphemistic efficiency savings? If we are talking about genuine efficiency savings, we need to find a rational way of measuring them instead of simply looking at expenditure reductions. We need to find a way of determining what it costs us to do something and how to measure the saving. To do that arbitrarily through a simple formula allocation is unsatisfactory; we would rather that a more rational process was gone through to allow councils to identify whether they are making genuine efficiency improvements as opposed to simple expenditure reductions.

If efficiency improvements are due to investment in new technology, new procedures or re-engineering—there is a variety of processes—they are merited, but it must be acknowledged that, when we invest in new technology and systems, there is a significant lag in achieving savings, perhaps of even two or three years, particularly if the saving is, in effect, a staffing reduction. In reality, most local government expenditure consists of staffing costs, so a saving—especially a significant saving—effectively means a head count. We must be realistic and accept that. We need to manage that process; a broad-brush, crude allocation of savings is not particularly helpful.

Bruce Crawford: Can I tease out the issue about roads a bit further? You said that most of local authorities' expenditure is on staff. Is there a danger that some of the £60 million of additional resources that will come from making efficiency savings in cash terms will be lost back out of the system because the people will not be there to deliver those savings?

Councillor Edward: I am not sure that people will not be there to deliver them.

Bruce Crawford: If you are to make efficiency savings and the only way of doing that is through staff, you will be taking staff out of the process and there will be nobody to do the work.

Councillor Edward: That is true. It is unavoidable if we work on that basis. One of the challenges that we face is to make efficiency savings that do not compromise future service delivery.

The Convener: Every major organisation, whether in the public sector or the private sector, will continually examine its productivity to try to improve it. One area in which there has been some development but in which there is still considerable room for improvement is the use of modern information technology systems to allow people to access local authority services more easily. Do you agree that that is an area in which further progress can be made in ensuring that local government is more efficient in delivering services?

The minister also said that, as many back-room services are replicated 32 times in Scotland, greater co-operation between neighbouring local authorities could lead to those services being delivered more efficiently and the overall service to local citizens being delivered more effectively. That seems to me to be worthy of investigation, at least at face value. Could those areas legitimately be explored to try to achieve the efficiency savings that the Executive desires to make?

Councillor Edward: Modern IT systems and joint working are areas on which councils are

actively working, but there are further improvements to be made and there is certainly scope for further investment. Those areas often require up-front investment, which is one of the difficulties with a challenging budget settlement. We need to have a spend-to-save fund to allow such investment to take place.

Councils are working towards joining up services, co-operating and using modern IT services, whether that means staff using hand-helds and not having an office base or just having better systems. A person who is using a hand-held to do assessments tends to be 30 per cent more productive. They get more done and deliver more, but we do not capture the savings. The challenge is to find a mechanism that allows those savings to be captured.

15:45

James Thomson: As Councillor Edward said, we are in discussions with the Executive about moving funding from back-room to front-line services. Potentially, we could share services across authorities and with the rest of the public sector. As members know, local government is one of the leaders in community care partnerships and a number of similar initiatives. We are in discussions about how we can apply savings across the public sector. There is also the efficient government fund, on which an announcement has yet to be made. The budget document refers to pump priming of spend-to-save initiatives, which would allow us to bid for funding to deliver longer-term efficiency savings.

Bruce Crawford: I have one more small question. The Executive has set levels for efficiency savings. If the money is to go back into front-line services, what mechanism would you like to be applied to the redistribution process? What organisations exist in COSLA to ensure that that works properly?

Brenda Campbell: I am not sure that the money to which Bruce Crawford refers will be redistributed. The figures that were mentioned earlier add up to £168 million, which has been removed as part of the settlement. That sum has been subtracted from the settlement figures in the budgets that have been allocated to councils. It has been entered as an efficiency saving by councils, as would be the case in any normal spending review. When the efficient government fund is announced—I know that the announcement has been delayed, but we understand that it will be made later this month—the £168 million will contribute to the target that is set for local government. I am not sure what the target for local government will be. If it is £250 million, £168 million of that will already have been achieved.

Achieving the balance will involve moving resources from back-room to front-line services. We are discussing with the Executive how we will evidence that. A number of initiatives have been set up to examine the matter. Besides the examples that we have discussed, there are big issues such as e-procurement and joining up councils. Some councils have already branded themselves together. Twelve councils on the west coast—the Clyde valley consortium—have done several pieces of work on the issue and have submitted a bid to the Executive for resources to progress initiatives. A considerable amount of work is being done.

David Mundell: I do not know whether Councillor Edward's colleagues have seen the paper that Professor Bramley provided to the committee or some of the media coverage that flowed from it. Do you have any comment on the paper and the various scenarios for council tax that it sets out?

Councillor Edward: I have not seen the detail of the paper; I have seen only the press reporting of it. Brenda Campbell and James Thomson have seen the paper. The scenarios for council tax are evidently foreseeable, depending on the action that one takes. The results are predicated on the action. Councils are all locally elected and the political imperative will constrain council tax rises. That is a significant constraint. Councils will want to be seen to be looking after the public pound and will not get away publicly with big rises in council tax. From discussions that I have had, it appears that councils are examining how to manage the system, the resources that are available and changes to service delivery to achieve sensible council tax rises.

David Mundell: That is a slightly different view of the paper and it is useful for members of the committee to hear it. Mr McCabe seemed to indicate that he did not know where any of the figures in the paper could have come from. However, you say quite clearly that the scenarios that were set out are foreseeable, provided that decision making in the council is consistent with the scenario.

Councillor Edward: That is clear, in particular because of the gearing effect of council tax. If a council does not constrain its budget and it has a fixed settlement from the Executive, it must fund each 1 per cent increase with a 5 per cent council tax rise—that is the approximate multiplier. However, political realities will constrain council tax rises.

The Convener: Today's newspapers contained alarmist stories about the highest figure in Professor Bramley's paper. However, that figure was based on local authority spend growing over the forthcoming spending review period at the

same rate as Scottish Executive spending grew during the 2002-04 spending review period. Are there drivers that will force local government to increase expenditure at such a rate during the forthcoming spending review period? It seems pretty unlikely that public sector expenditure will continue to rise at record rates. Increases in public expenditure must level off unless there is a dramatic increase in taxation to levels that the United Kingdom has not traditionally experienced.

Councillor Edward: A number of drivers are pushing up public expenditure—Bruce Crawford mentioned a few. I mentioned demographic change. Falling pupil numbers and increasing numbers of older people indicate a need for a resource transfer from youth to age, to look after the older people. However, if the Executive wants to maintain investment in education and such a resource transfer is not to be effected, the budget must be raised. The Executive must work in partnership with local government to discuss such matters and to make its objectives clear. We must ascertain what the public spending ceiling is and what we will get for the money.

The Convener: I want to be clear about the matter. Are there any drivers that you regard as sufficient to require a local authority in Scotland to propose a double-digit council tax increase?

Councillor Edward: I cannot speak for all local authorities. Brenda Campbell might comment.

Brenda Campbell: I will not comment on individual councils, but I can safely say that I do not expect such increases.

David Mundell: To go back a step to the dialogue between the Scottish Executive and COSLA, did Mr McConnell discuss his 2.5 per cent council tax rise with you before he mentioned it in the Parliament?

Councillor Edward: He did not discuss it with me.

David Mundell: Did he discuss it with anyone in COSLA or with any local authority?

Brenda Campbell: The First Minister made his comments in answer to a question in the Parliament, so there was no prior discussion. However, we already knew that a 2.5 per cent assumption had been made in the calculations, so we were aware of the context of the First Minister's answer. We certainly would not have anticipated a 2.5 per cent increase across councils.

David Mundell: I do not know whether you heard Mr McCabe's evidence, but such an increase is clearly still the expectation.

Brenda Campbell: Mr McCabe attended the COSLA council leaders meeting a week past

Friday and we challenged him on that. He said that the 2.5 per cent figure relates to years 2 and 3, but his answer did not go far enough. Our quarterly meeting with him will take place on Thursday and the spending review will be the main agenda item. I reassure you that there will be further discussion with the minister on the issue.

David Mundell: I want to clarify the situation for council tax payers. Do you agree that it would be unrealistic for council tax payers throughout Scotland to expect a 2.5 per cent council tax rise next year?

Brenda Campbell: Yes.

Councillor Edward: It would be unrealistic unless the Executive comes forward with significant additional funding.

Other comments in Professor Bramley's report about the way in which the Executive gives funding to local government relate to the transparency of the process. There needs to be base-budget funding for basic services, rather than just initiative funding. That is a concern for us, because not only does initiative funding give us difficulties in managing the base services, but those additional funds often have to be accounted for separately, which increases the overhead costs. If we have to have extra accountants because we have all these bits of money in different budgets, that is an additional difficulty. There should be clarity in those funds.

That difficulty also arises with a variety of capital funding that comes through on specific, ring-fenced budgets, such as the environmental funding for the waste strategy and road transport initiatives. That approach not only constrains councils but requires them to account for those areas separately, which again increases overhead costs.

David Mundell: So the most significant efficiency saving councils could make is to reduce the number of accountants.

Councillor Edward: Agreed. My head of finance would not like that statement.

Fergus Ewing: Happily, I am not an accountant.

The Convener: You are worse; you are a lawyer.

Fergus Ewing: I have become a politician, so I am descending ever lower.

I want to ask Brenda Campbell about the 2.5 per cent. My reading of what the First Minister said on 7 October was that the increases should be no more than 2.5 per cent for each of the three years. He did not say that in the first year they could be a lot more than that. He said:

"There is absolutely no reason whatever why the settlement announced last week by Andy Kerr should cause council tax increases to be above 2.5 per cent. Any council in which there is a rise above that should be operating its business more efficiently."—[*Official Report*, 7 October 2004; c 11130.]

Those were trenchant words, spoken with absolute clarity. My understanding of what the minister said earlier was that that still stood. However, Brenda Campbell is saying that, at another meeting a week or so ago, Mr McCabe said something different, which is that the 2.5 per cent applies only to years 2 and 3. Am I correctly stating your evidence about what Mr McCabe told local authority representatives?

Brenda Campbell: You are correctly stating what happened. There was a lot of media attention about the 2.5 per cent that Jack McConnell announced initially. We responded to that. However, indicative figures were already in from councils for 2005-06; indeed, some councils had already put in indicative figures for 2006-07 as well. That point was clearly made to the Executive and it was raised with Mr McCabe at the leaders meeting. Mr McCabe clarified the position by saying that, for 2005-06, it was accepted that indicative figures were in and that the First Minister had referred to the years 2006-07 and 2007-08.

The Convener: My recollection is that Mr McCabe indicated in his evidence earlier that he was referring to the two later years of the spending review. Obviously, that will be on the public record.

Fergus Ewing: That is not what Mr McCabe said in his response to me. However, as you say, convener, we can read what he said later. I expressed the view earlier that it would have been helpful if we had received a written submission from COSLA. What does COSLA think the increases should be?

Councillor Edward: The increases are for each authority to determine for itself. Councils have to consider local circumstances and local finances. They are all locally elected and they have to stand on their decisions. It is not for me to specify the tax rises for every other local authority; I find it challenging enough to debate the council tax rises for Fife, never mind the other 31 local authorities.

The Convener: You have said that indicative figures are in for 2005-06. Do you have an average for those?

Brenda Campbell: It is about 4.5 per cent to 5 per cent. We will confirm that for you.

The Convener: That would be useful.

Fergus Ewing: I thought that COSLA had a lobbying role and that part of its function was to get the best possible deal for local authorities.

Was I wrong in making that assumption?

Councillor Edward: No, not at all.

Fergus Ewing: Are you not therefore involved in at least some sort of negotiation to try to get the best deal for your councils? Unless you state an average increase that you believe is fair, the negotiation is one-sided—Jack has put his figures on the table, but you are not putting any figures on the table because you cannot. That does not seem to me to be raising the standard for local authorities, but perhaps I am just misunderstanding the role of COSLA in fighting for local authorities' interests.

16:00

Councillor Edward: You may be overemphasising the significance of the council tax. The overall local government budget is the concern. Council tax increases are a consequence of that. Councils can effectively manage their budget in a number of ways: they can raise the council tax, raise charges, do less or do what they do better. There is little additional scope, in terms of getting money and managing it. Council tax is only one part of the budget and, in some respects, it is a relatively small part. We should not get hung up on council tax, which distorts the agenda. We have to look at the local government budget in total.

Fergus Ewing: I understand all that, but that was not my question. Earlier, Brenda Campbell gave specific examples of what COSLA argued for, so I was just asking whether COSLA has asked for an overall deal.

Councillor Edward: COSLA is making a request for the Executive to fund local government.

Fergus Ewing: I have one final question, which arose from the minister's evidence. He was quite critical of the record of local government in Scotland in collecting its revenues, presumably principally the council tax. He said—I hope that I am not misquoting him, because I would not wish to do that—that the record in Scotland was 4 per cent worse than the record in Wales. I think that that was the figure that he quoted. Is he right and, if so, why?

Councillor Edward: I cannot speak for Scotland as a whole—perhaps Brenda Campbell could do that—but in my authority we work hard to collect revenues. The figure depends on whether one examines the annual in-year collection or the five-year long-term collection rate. We are approaching 98 per cent collection on a five-year basis. We do not give up pursuing council tax, even when in accounting terms it has been written off. We are still collecting community charge, which can cause

a lot of problems in my surgeries. I am not sure which comparison that figure of 4 per cent is based on. Brenda Campbell may have further details.

Brenda Campbell: I am afraid that I do not, but I will be looking into the matter. I cannot say whether the figure is right or what the comparative figures were. However, I reassure the committee that council tax collection is a priority for all local authorities and is debated throughout COSLA, particularly when Accounts Commission annual reports are published—you will appreciate the media attention that we get then. We looked at the figures for the past five years and we are pleased to say that they have improved and that they will continue to improve. However, I will examine the system in Wales and make a direct comparison. If I have further comments, I will bring them back to the committee.

James Thomson: Further to that, I received correspondence from the Welsh Local Government Association this morning. We have entered into discussions on the method for calculating comparisons and collection rates to ensure that we work on the same basis and level of understanding. We will deal with the Executive at officer level to ensure that we are comparing like with like and to work out any differences and discrepancies that may arise.

Fergus Ewing: The issue arose during the minister's evidence today, so you will be able to see exactly what he said in the *Official Report*, although I do not think that he made the comparison absolutely clear. I stuck up for local authorities and suggested that, if the Executive paid its bills to businesses on time, people would perhaps be able to pay their council tax. Do you have any difficulty in obtaining payment on time from the Executive? Do you have any other problems arising from Executive delays in the provision of services or information to you?

Councillor Edward: In relation to information from the Executive, one of the difficulties that we have is getting the detail of initiatives that are announced. We look forward to having this year's local government settlement announcement on 8 December as scheduled. An important factor for all in local government is the flow of information promptly and when we require it, as that gives us time to make adjustments and to deliver the required services. Difficulty is created if press announcements are made but we do not receive from Victoria Quay the circular that gives council officers the authority to spend money and tells them what they will receive. We cannot deliver services by press release; we must deal with formal documentation. The Executive document flow is often a critical factor.

As for paying bills, I draw the committee's attention to comparisons with the private sector.

One paper that I received in relation to a public-private partnership bid gave data on private sector company bill payments. If local government was as bad as that, we would be in dire straits. In many respects, the private sector is much worse than the public sector at paying its bills on time, especially in construction. People must make sensible comparisons and perform them correctly.

We work hard to pay our bills on time. Not many private sector companies have businesses that shut down for seven weeks in the middle of summer and they would not pay invoices for goods that had not been properly receipted and checked by staff because they were on their summer holidays. Several aspects of public sector invoicing and bill paying must be examined carefully. We recognise those facts and are considering carefully how we manage the situation to ensure that none of the businesses that we deal with is compromised. We recognise and must be careful about the situation, at which we work hard.

To make processes efficient, we are also extensively considering electronic payments and the processing of documentation such as invoices through document imaging. If the committee sent one message to the public about council tax collection, it would be useful for us if it encouraged people to pay their council tax by direct debit. It costs us about 3p to process a direct debit but about £1.25 to process a cash transaction over the counter. If people used direct debits more for all payments, that would save their money, which we spend on their behalf.

The Convener: I realise that you do not have to hand the answer on the differential between Wales and Scotland that the minister highlighted. Off the top of my head, I think that one factor might be the introduction of the poll tax or community charge in Scotland a year earlier than in Wales. Perhaps the damage that that did to the integrity of local government taxation and the culture of non-payment—not only among people who could not afford to pay but among people who could afford to pay but opted not to—might still have a hangover in the Scottish system. One more year's experience of that might be a factor. It might be interesting to examine the council tax collection rates on introduction in Scotland and Wales.

Other members have no more questions, but I have a final question, which I also asked the minister. The Executive has set a capital investment target for public services of at least a 5 per cent increase per annum in real terms over the review period, but our budget adviser's projections indicate that local government capital expenditure is likely to grow by only about 3.6 per cent per annum. Do you have an analysis that shows whether that figure is correct?

Brenda Campbell: I cannot say whether the figure is correct because we have not undertaken that analysis. All that links to the prudential regime, of which we are in the early stages. That will have to run its course for a year or two before we can comment further on capital investment, because that comes down to local decision making.

The other prudential regime issue is that supported borrowing is in the system in relation to loan charges, but they are a legacy of section 94 consents. The Executive has agreed to review loan charges between now and the next spending review. That is important for us; it is one development for which we have lobbied. We must wait for that review to kick in to see what revenue support it will provide. The prudential regime is good and presents a fantastic opportunity, but we need the revenue to support it. We must achieve a balance. It is early days for us to comment.

The Convener: I thank Drew Edward, James Thomson and Brenda Campbell for their evidence.

I will formally suspend the meeting, as most members appear to have decided that that has happened anyway.

16:11

Meeting suspended.

16:15

On resuming—

The Convener: I welcome our third panel of witnesses: Neil Johnstone, director of Halcrow Group Ltd in Scotland, who is representing the Institution of Civil Engineers; and Alan Watt, chief executive of the Civil Engineering Contractors Association (Scotland). I thank the witnesses for submitting an advance copy of their evidence and give them the opportunity to make further remarks on the budget process.

Alan Watt (Civil Engineering Contractors Association (Scotland)): We are very conscious that the committee comes across a plethora of professional and trade bodies from all sectors, particularly the construction sector. As a result, I should simply point out that the Institution of Civil Engineers represents the profession across the public and private sectors, whereas CECA (Scotland) represents the sharp end of the industry—the civil engineering contractors in your constituencies. Several other trade bodies are involved in civil engineering, but I will not go through the alphabet soup that one gets with such organisations. However, we have consulted them on our submission and as they are happy with it, we can say sincerely that we represent Scotland's civil engineers.

I should also say that this is the first time that our two organisations have worked together on something like this, which probably reflects the growth of partnering in the market and the fact that the consultants and contractors are quite happy to work together. If the committee has achieved nothing else, it has at least got us working together.

I do not want to revisit our whole submission, but I should highlight some of our conclusions in order to stimulate further debate. Scotland's civil engineers certainly welcome the draft budget; indeed, we have campaigned for some time for a long-term commitment to investment in transport infrastructure. Moreover, as secretary of the Scottish Parliament cross-party group on construction, I should point out that that was one of the group's first recommendations. However, the draft budget has somewhat pre-empted that.

Civil engineers are also very willing to work with all stakeholders to assist the programme's delivery and to ensure best value for money. After all, Scotland is a village and we have to operate on Scotland's transport infrastructure as well as build and maintain it.

We believe that Scotland's civil engineering sector has the capacity and skills to cope with the programme. I know that Sylvia Jackson expressed concern about that at last week's committee meeting, and Margaret Jamieson raised similar concerns this morning when the Audit Committee examined the Audit Scotland report, "Maintaining Scotland's roads". However, we believe that we have the capacity to deal with the situation, with the very strong proviso that there must be a steady flow of work. To do that, we need a managed programme that has highly visible milestones and potential impediments—Michael McMahon alluded to that very point at last week's meeting. We want to know in advance as much information as possible about what is going to become available and about any difficulties that might lie ahead to ensure that engineers and, indeed, ministers can manage the programme.

I hope that this does not sound like a hard-luck tale, but we should stress that the lack of investment in Scottish infrastructure over many years means that the industry is very lean and mean; it has been a case of survival of the fittest. Because there is not a great deal of fat in the industry, it will wither on the vine very quickly without a steady flow of work.

I hand over to Neil Johnstone to talk about programme management.

Neil Johnstone (Institution of Civil Engineers): I reaffirm how much we welcome the opportunity to come along in partnership this afternoon.

I will pick up on Alan Watt's final point, which was about programme management. We generally welcome the transport budget proposals, but experience has taught us that successful project delivery is aided when projects, especially major ones, are subject to skilled project management. The management processes help to identify risks and uncertainties and allow them to be managed to avoid budget problems and delays in delivery. We are concerned to ensure that those management techniques are applied not only to individual projects, but to the whole programme.

The existence in the programme of several substantial or chunky projects presents challenges for programme management. One way to deal with that would be to have flexible responses ready to deal with hiatuses in the delivery of any project. That could be achieved by creating a preparation pool of projects of various sizes that can be accelerated to ensure that expenditure levels on programme delivery are maintained. That pool would help to provide a steady flow of projects, which would allow the industry to plan for provision of resources and skills. The concept of a preparation pool is not a new one for me or my colleagues in the profession; those of us who worked in the old regional councils are familiar with it. We had our mainline programme—our transport policies and programme—and a preparation pool, which included schemes that hovered in the background but which could be accelerated through judicious judgment on the part of programme managers.

The Convener: Target 4 in the draft transport budget states that the Scottish Executive should

"Achieve key milestones in the delivery of the major infrastructure projects".

Alan Watt commented that the milestones should be highly visible because they are important indicators to the civil engineering industry that allow it to prepare for work. However, it seems to me that the key milestones are not at present sufficiently clearly indicated. What level of detail would the civil engineering industry need to plan for the timetable? We are all aware of the major projects that the Executive intends to deliver, but the exact timescales and levels that the Scottish Executive envisages for the milestones are not so clear.

Alan Watt: I will start and Neil Johnstone will act as wicket keeper.

One main issue that we would like to know about is the situation in respect of planning consents and difficulties with land acquisition, such as the relocation of occupants and the on-going planning for where those people go. We are also interested in environmental consents. At present, the programme for the major roads

projects as promulgated does not include columns that show information on planning and environmental consents. In the Northern Ireland model, that information is shown and as a consequence there has not been an eclipse—the system has worked well. There is evidence that such a system can work.

Neil Johnstone: The milestones to which Alan Watt referred, such as achieving consents, are the fairly classic ones that most people associate with the development process. Major projects are subject to ministerial approval—we recognise that the minister wants to be satisfied with the business case—which provides helpful budget clarity and means that finance is perhaps not the major hurdle. However, we cannot in a democracy proceed with projects that do not meet legal requirements. Alan Watt mentioned the fundamental issue of land. The motto of some engineers whom I know is, "No land, no jobs." All parts of the industry in Scotland have become very adept with roads projects—no one can deliver roads faster. The M74 design, build, finance and operate proved that. I think that that was the fastest a motorway has been built in Britain.

The industry is expert at road projects; those are delivered by a lean machine, but rail and public transport projects bring new legislative and other challenges, although the industry is also showing that it is coping with those. However, colleagues have noted in the past the procedures that require parliamentary approval through the committee process for private bills. Three private bills are currently before Parliament and others are in the pipeline. The industry welcomes any attention that Parliament gives to keeping that process as streamlined as possible. In general, the ability to suggest milestones in the process, in particular where investment in rail and multiparty investment are required, would help if they can be presented in the style that Alan Watt mentioned.

The Convener: The point that you make about the parliamentary process is one that you should be aware was discussed last week with the Minister for Transport. A number of us would like to see progress being made on streamlining the process.

Iain Smith: The Procedures Committee is currently conducting an inquiry on the private bills procedure. I hope that we will be able to shed some light on the matter in the next few months.

The Convener: Thank you very much. That is very useful information.

I want to come back to a point that has been raised. I know that you said that you did not see finance as being the major hurdle. I come back to the issue because I wonder whether the milestones are not clear partly because the

Executive is waiting to see exactly what costs come up for some of the major projects. Some of them will have hefty price tags. Despite the fact that the budget for transport over the forthcoming years is encouragingly high, the cost of those projects could have an impact on their deliverability finance-wise for the Executive.

Neil Johnstone: Absolutely. That is one of the uncertainties that can pop out of the process. The early declaration of intent to spend that is part of the process is extremely helpful, but there exists recognition of how costs can increase in major infrastructure projects. I do not want to bring in too many technicalities, but the phrase “optimism bias” may be known by some committee members.

The Convener: Do not start Fergus Ewing off on that.

Neil Johnstone: It might be helpful if I explain the phrase; it refers to the introduction by the Treasury of a percentage allowance. The track record of the delivery of some major civil engineering projects has led to the Treasury’s advising that in the early stages of appraisal an inflated value should be given to redress the tendency to be overly optimistic. Our profession sees that as being a reasonable thing to do in the early stages but, as more detailed studies are done, it is possible to bring the adjustment down as knowledge of ground conditions and other factors permit and costs can be refined.

On certain projects, such as the trams in Edinburgh, it is not merely the case that money is handed directly by the Executive to the council. I believe that contributions are expected from other parties, including the private sector. That is fair and reasonable and it is why I mentioned multiparty investment earlier. Those are possible hurdles along the way and underline our reason for saying that we need a flexible and fleet-of-foot approach to managing the programme.

The Convener: I will ask a final question before I bring in colleagues. You were right to identify that there is much expertise and experience in delivering roads projects. That is partly a reflection of the fact that railways have not been expanded or invested in for many decades to the degree that is now starting to happen. Is there sufficient expertise in the Scottish civil engineering industry to take on the projects or is there a need for us to try to encourage people, perhaps from within the UK civil engineering or railway industries or from other sectors, into Scotland to enable us to deliver the projects?

Alan Watt: The quick answer is that there is sufficient capacity. Usually, if something new is brought along, the expertise grows or is imported. In some cases we would probably have to import specialist skills, but the sector as a whole has

been very depressed for the past 10 years and we believe that it is still working well under capacity. Although the water industry—we do not want to go too deep into that today—is now beginning to deliver at the rate at which it promised to deliver, that has not stretched out all the wrinkles in the civil engineering industry. Spare capacity is still available.

16:30

Bruce Crawford: I am not sure about optimistic bias, or whatever the term is, but I would like some realistic bias about what can and cannot be achieved. Milestones are all very good and well, but unless we know where the journey is going in the first place, milestones ain’t going to be much good to us. What are your views on a requirement on the Executive to set delivery dates for transport projects, with a narrative that explains things, so that there is an end point that can be seen and there can be proper planning? In some ways, that requirement might be more valuable to you than milestones.

Neil Johnstone: Alan Watt might want to elaborate a little on the Northern Ireland model, but I agree that a blank statement of a milestone might not mean much to the wider population, and it is important that the wider population should understand such things. There could be a narrative that explains what the real risks are as they become known.

There is realism in the wider world, but budget realism comes in only as detailed studies progress. I think that the largest project in the budget was the Edinburgh airport rail link and that the optimism bias in the first study was as much as 40 per cent. That was as per the Treasury’s guidance, but I think I heard the minister mention a slightly lower figure earlier in the week. As understanding becomes more detailed, I expect figures to become firmer.

Bruce Crawford: There must surely be a process that would help your industry. The minister could say, “By this date, we will undertake this project, and here is what we expect the overall costs to be. Here are the challenges and the opportunities for delivery by that date.” Something as simple as that being clearly laid down at the beginning must help you guys to manage, deliver, bid and ensure that projects happen.

Alan Watt: Absolutely. We would welcome that approach. Cost is obviously a sensitivity in a commercial environment, but I think that it has been suggested in the past that it would be sensible to have a rough order of costs or cost banding, so that there is some idea of the magnitude of the job and so that the busy reader can quickly identify what the big, medium and

small projects are. That would be a great step forward for the industry, which tends to operate very much in the dark until the sudden kerfuffle at the tendering stage. If all aspects of the industry—not just the contracting side, but the consulting and design sides—were involved much earlier, we would iron out many problems before the tendering stage was reached.

Fergus Ewing: I want to raise another matter that is mentioned in your submission. Many projects—not least the building in which we are sitting—fall prey to delays. According to the answer to parliamentary question S2W-11169 that I received, work on completion of the M74 is due to start early in 2006, which is barely a year away. The *Official Journal of the European Union* notice went out only this year, and I gather that the Executive has estimated a capital cost of £393 million and that the project will be the biggest motorway project of the decade. The submission mentions factors that can cause delays, including

“land acquisition, relocation ... and environmental problems”,

such as contamination. To that could be added political opposition from—I suspect—parties that are not represented around this table. The figure of £393 million is a huge element of the budget. If there is a delay in the work on the M74, would it be sensible for the Executive to have a plan B? There could be a list of other projects that are planned, have permissions and consents, including environmental consents, and can therefore go ahead in lieu of a project that falls prey to delays. I pick the M74 project just as an example, but perhaps it is the most significant example.

Would the industry, which employs about 20,000 people and has an outturn of £1.4 billion, welcome that, particularly since I gather from your report that your members—81 in CECA's case—operate on a profit rate of 1 to 4 per cent? If the industry is out of work, there is a risk that all those 20,000 people will be out of work and will possibly go away to England or other foreign countries to find work.

Alan Watt: Absolutely—I have used that word twice and I do so sincerely. One of the biggest problems is that if a project such as the M74 project is delayed and other projects are coming to an end in preparation for that, the bucket will leak and the skills will dissipate. Scotland will lose those skills; although we can always get them back again, that will be achieved at a cost.

Are there other projects in the wings? There are not according to the programme that the Scottish Executive has shared with us or according to what has been said in answers to parliamentary

questions. We cannot see anything that could be fast-tracked into the van.

Fergus Ewing: That seems to be very serious indeed. You mentioned partnership working. We are all conscious that that is desirable and that it is beginning to happen. Would you welcome a commitment from the Executive to publish its programme of works, its timetable for when they are to be carried out and the next tier that is to be considered? Would you welcome the Executive introducing other construction projects, even if only as a fallback? I mention from my own patch the A82, the A96 and, dare I say it, the dualling of the A9. If the M74 is not ready to go ahead because there are people up trees and all the rest of it bringing everything to a halt, perhaps one of those other priority projects could provide work for your members. If the M74 project does not happen, will there be a void and a genuine risk that some of your members will be in financial difficulties? The real victims will be the employees who will be laid off because there is no work for them to do as the Executive has not taken the approach that I suggest.

Alan Watt: You are correct that there would be a void—it is known in the industry as the M74 black hole. There is a big worry that if anything causes that project to slip, the resource that is coming off other jobs to gear up for the M74 will not be employed. That is not to say that the companies that are doing the current jobs will win the M74 job, and we are used to migration in our industry, but the resource for that job exists. Just to scope that, we made a fag-packet estimate of how many souls could be involved and think that, at the zenith, it would be about 2,000 to 3,000 of Scotland's major road builders. That would include designers and suppliers as well as the constructors—the whole supply chain.

Fergus Ewing: That is around a fifth of the whole work force.

Alan Watt: It is probably about a tenth.

Fergus Ewing: So a tenth to a fifth of the work force would be out of work in that black-hole period. Most of those people with identifiable skills and experience would go elsewhere to find work.

Neil Johnstone: That is distinctly possible. I echo what Alan Watt said about the significance of a large project such as the M74 not coming to pass as planned. However, let us welcome the proposal of a preparation pool. It would be difficult if the replacement for a single large project were to be of equivalent size, because that would crowd out for three or four years the likelihood of overcoming the hurdle for that project. The preparation pool must be carefully and judiciously managed to have a blend of different-sized projects that could slip in without causing further delays.

We have skills that have been finely honed in design and build in the Scottish industry. Once the M74 project has been achieved, there will be a distinct lack of Scottish home-based projects on which those professionals can practise their skills. We are resourceful in Scotland; we have been plying our trade in the south of Ireland and in England, where there are programmes. Many of those staff still stay here, but we would like them to come back to work, to prove their worth and to show that there are careers to be had in Scotland in this sector.

Dr Jackson: My question follows on from what Fergus Ewing asked, but I want to push the matter a little further. You mentioned resources, and I am sure that there must be training implications. I know that training is happening locally because people are frightened about whether we have the necessary skills. You also mentioned project management. How closely have you been able to liaise with the Scottish Executive and what are the plans for the future? I do not often agree with Fergus Ewing but he was right to mention partnership working, not only with the Executive but with various branches of the construction industry. What partnership working is happening and what would you like to see in future?

Alan Watt: The relationship is historic—it goes back to the Scottish Office, because many of the individuals in the Scottish Executive, particularly in the roads and transport areas, carried on from there. Most of the four main bodies that are involved in civil engineering—the bodies to which I referred—have a biannual meeting with the Scottish Executive, which is ostensibly a two-way communication on what the programme will be. That allows feedback from both sides. A mechanism is in place, but I would not go as far as saying that it is a partnership. It is nothing like a partnership. It is very much a client and—

Neil Johnstone: Servant.

Alan Watt: Well, not “servant”. The relationship is that of client and consultant or contractor. There is no question about where the whip hand is, but we believe that with an assured programme, or what looks like an assured programme, we can probably move on from that relationship. Also, during the past 10 or 15 years the industry has adopted much more of a partnership ethos.

Michael McMahon: You sat through much of the evidence that we have taken this afternoon, so you will know that my theme of the afternoon is the basis on which the discussion moves forward and the assumptions that are built into certain areas. I am a bit concerned that the two sides seem to be coming from different positions. Alan Watt and I have discussed his and CECA's concerns about the basis on which consultations have gone forward and the false or wrongly collated

information on which they have been based. Do you have any confidence that the figures that you work with from the Executive are accurate enough for your industry to make the decisions and plans that you need to move forward in a timetabled way?

Alan Watt: We would not question the accuracy or honesty of the figures. They are probably the best estimate. The problem is that there is not enough information. To return to the point that was made earlier, we would like to see more information—narrative milestones, or milestones with a story, as somebody said—so that the industry can use its experience to identify potential impediments. We certainly do not question the authenticity of the information that we get, but we want more of it. I mentioned price banding, and information on that would be useful, not only to us but to MSPs, who would be able to identify with a quick look at one document what needs to be done in Scotland. Also, obviously, MSPs have an area or constituency interest and they would be able to see what needs to be done locally.

Michael McMahon: The follow-on question is whether you are in discussion with the Executive about obtaining such information and whether the Executive is resisting providing it.

Alan Watt: I cannot speak for the other trade or professional bodies, but we have requested the information over a period of time. There are difficulties with the commercial aspects of it, because we are in a commercial environment. There are also difficulties because of local sensitivities on planning. Placing something in a programme that has not yet gone out to local consultation could be seen as pre-emptive. That said, I do not think that the level of information that we are looking for is very prescriptive.

16:45

Neil Johnstone: It is the collection of that information that is important. On an individual project such as the Glasgow airport rail link, Strathclyde Passenger Transport, which is project managing, will have information that one could obtain, and the same will be true of Transport Initiatives Edinburgh in relation to the proposed tramlines and of the north-east Scotland transport partnership and the Executive in relation to the Aberdeen western peripheral route, but nobody is pulling that information together in a programme narrative with milestones. Doing so would be helpful not just to the industry but to a whole range of people from all walks of life who are interested in such projects, so it would have wider benefits for the general public. Given the sums that are being expended, the presentation of intentions and progress is a wonderful democratic thing to advance.

Michael McMahon: You will have heard the Minister for Finance and Public Service Reform asking us for suggestions, and it may well be that we can suggest that ministers provide you with that information.

David Mundell: I want to return to something that was touched on before—maintaining or managing cost through delay. The specific example that I have in mind relates to the parliamentary process for the proposed Borders rail link. Even if we had a firm Executive commitment to funding that rail link today, the timescale for the parliamentary process is unpredictable. The land issues that you referred to are also not as clear as they might be. We are assured that the budget for that project can be held over an 18-month period. Is that sort of assurance realistic?

Neil Johnstone: I think that it is, but you can specify an earliest achievement date and a latest achievement date, and then judgments can be made by those looking at that timetable. That is how most projects work in practice. I think that there is merit in that. I think that having a target date selected by the manager of the whole programme is also a worthwhile objective. Individual projects will be worked on by quite large and quite diverse teams, with many organisations, sub-consultants and contractors in different parts of authorities, so an overall vision or target can be motivational and can steer everybody towards that target. The narrative milestone could specify the earliest possible start date and the latest possible start date. Those are not strange concepts to people who deliver projects.

David Mundell: It is within the process that the budget can remain capped, however.

Neil Johnstone: That is where the juggling of programme management is really quite a skill. I am not underestimating that skill, but I think that it is an exercise that ought to be attempted. The membership that I am representing would say, "If we see that programme being made, we can plan correctly for the future, and if any special skills are needed in year 5, we can set about the training for that in advance."

David Mundell: How does that fit in with the proposals for getting rid of the road maintenance backlog, which we discussed earlier? We have heard local authority representatives indicating that they are facing huge internal cost increases. How can those projects be delivered within the previously predicted costs?

Neil Johnstone: When there is a larger programme, there is a better chance of stimulating the industry on all sides to provide cost-effective responses. Earlier witnesses referred to a challenge. The profession and local authorities are

very resilient indeed when it comes to making the most of what they can do and have tended to use cheaper surfacings. The same budget has been used to cover more square metres, but members will have noticed the difference between a 50mm blacktop resurfacing job and something that we call slurry seal, which is a bitumastic slurry that is cheaper and can be spread around much faster. One reason why the backlog is challenging is that the money that has been spent in recent times has been used to address emergencies and to provide temporary patches. Let us not deny that that is a difficult challenge to overcome. However, the civil engineering industry is quite resilient.

Alan Watt: There is another factor—the issue of annuality. Many of you have worked in or been elected to local authorities, so you will be aware that the maintenance and structures budget is the poor child that tends to be left until councils know what other liabilities they have for the year. Winter maintenance is probably the biggest risk and variable. Councils do not know at the end of March whether there will be winter maintenance costs, but they can make a good guess in January or February, when very little of the financial year is left. That exacerbates the situation. I know that Treasury guidelines are encouraging a move towards three-year budgets, but that does not affect the structures budget in local authorities. I will bow to Neil Johnstone on bitumastic slurry, as he knows more about it than I do, but there is still a mad March rush to lay down material at a time that is not the best season for doing so. It would be better for councils to wait for a couple of months, until it is warmer. The result would probably be a much longer lasting surface.

The Convener: That brings us to the end of questions this afternoon. I thank Alan Watt and Neil Johnstone for their evidence, which has been very useful.

“Maintaining Scotland’s roads”

16:52

The Convener: We move straight to the third item on our agenda, which is consideration of a paper on the Audit Scotland report “Maintaining Scotland’s roads”. More than one member of the committee has expressed interest in this issue. The Audit Scotland report is a major piece of work that adds to our consideration of the problem. The paper suggests that we may wish to consider taking evidence from Audit Scotland and from the Society of Chief Officers of Transportation in Scotland, so that we can hear its response to the Audit Scotland report. I expect that members will be minded to take such evidence. Do we agree to timetable that in?

Members indicated agreement.

Dr Jackson: When we spoke previously to Audit Scotland or the Accounts Commission, we were told about a pilot in five local authorities. I assume that that is not yet at an advanced stage, but we could ask about it. Members will recall that the pilot involved a more in-depth quality assurance approach.

The Convener: I do not mind our asking about that, as long as it does not take up too much time in the meeting, the main focus of which will be the issue of roads.

Dr Jackson: My question relates specifically to roads and to what has been done in some authorities.

The Convener: If the pilot relates directly to roads, I would be happy for you to ask about it. I thought that you wanted to broaden out the discussion to cover all aspects of local government.

Dr Jackson: No—just roads.

Iain Smith: I am concerned that we should avoid duplicating any work that the Audit Committee has already done on this issue. It has been mentioned that this morning the Audit Committee took evidence on the report from the Auditor General for Scotland. I am keen for the Local Government and Transport Committee to discuss the report, but there is no point in our doing so if the Audit Committee has already done it.

The Convener: We will timetable a session, but before we confirm definitely that we will hear directly from Audit Scotland, we will examine the range of analysis that the Audit Committee has undertaken. If it appears that the committee has covered all the bases, we can simply use the

Official Report of its meeting. However, if there are further areas on which members would like to question Audit Scotland, there may be merit in inviting it to give evidence. Irrespective of whether we deem it necessary to do that, we can invite SCOTS to appear before us to respond to the report.

Bruce Crawford: I agree that we should proceed as the convener has set out, but I want to be absolutely clear about the parameters of our investigation. If we are to take evidence from Audit Scotland and SCOTS, it might not be a bad idea for us to involve road user groups such as the Automobile Association and the Road Haulage Association, to find out about their perspective on the realities on the road. If we do not know what the parameters of the investigation are, it is difficult for us to decide whether we should widen it out that much.

The Convener: I suggest that at this stage we limit evidence taking to the organisations that I have mentioned. We are not commissioning a major report on the issue. We are trying to ascertain how Audit Scotland analyses the situation and what the SCOTS engineers think about the report.

Bruce Crawford: Can we leave the matter open? Once we have taken evidence from Audit Scotland and SCOTS, we may decide that the investigation will require more work than we initially thought was necessary.

The Convener: We heard from the AA before we heard from SCOTS, so the AA’s analysis of the state of non-trunk roads in Scotland is on the record.

Dr Jackson: Iain Smith asked about the evidence that was taken by the Audit Committee. Could we have a very short paper—about one side of A4—listing some of the points that were made at the meeting?

The Convener: I am sure that it would be possible to arrange that.

Dr Jackson: Such a paper would be helpful.

The Convener: We agree the recommendation in paper LGT/S2/04/24/5. We will move into private session to consider agenda item 4.

16:56

Meeting continued in private until 17:23.

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