

# **LOCAL GOVERNMENT AND TRANSPORT COMMITTEE**

Tuesday 1 November 2005

Session 2

£5.00

© Parliamentary copyright. Scottish Parliamentary Corporate Body 2005.

Applications for reproduction should be made in writing to the Licensing Division,  
Her Majesty's Stationery Office, St Clements House, 2-16 Colegate, Norwich NR3 1BQ  
Fax 01603 723000, which is administering the copyright on behalf of the Scottish Parliamentary Corporate  
Body.

Produced and published in Scotland on behalf of the Scottish Parliamentary Corporate Body by Astron.

---

# CONTENTS

Tuesday 1 November 2005

Col.

ITEMS IN PRIVATE.....	2977
BUDGET PROCESS 2006-07 .....	2978

---

## LOCAL GOVERNMENT AND TRANSPORT COMMITTEE

27<sup>th</sup> Meeting 2005, Session 2

### CONVENER

\*Bristow Muldoon (Livingston) (Lab)

### DEPUTY CONVENER

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

### COMMITTEE MEMBERS

\*Mr Andrew Arbuckle (Mid Scotland and Fife) (LD)

\*Mr David Davidson (North East Scotland) (Con)

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

\*Dr Sylvia Jackson (Stirling) (Lab)

\*Paul Martin (Glasgow Springburn) (Lab)

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

\*Tommy Sheridan (Glasgow) (SSP)

### COMMITTEE SUBSTITUTES

Colin Fox (Lothians) (SSP)

Mr Bruce McFee (West of Scotland) (SNP)

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

Dr Elaine Murray (Dumfries) (Lab)

Murray Tosh (West of Scotland) (Con)

\*attended

### THE FOLLOWING GAVE EVIDENCE:

John Ewing (Scottish Executive Enterprise, Transport and Lifelong Learning Department)

Claire Dunbar-Jubb (Scottish Executive Enterprise, Transport and Lifelong Learning Department)

David Henderson (Scottish Executive Finance and Central Services Department)

George Lyon (Deputy Minister for Finance, Public Service Reform and Parliamentary Business)

Graham Owen (Scottish Executive Finance and Central Services Department)

Craig Russell (Scottish Executive Finance and Central Services Department)

Tavish Scott (Minister for Transport and Telecommunications)

### CLERK TO THE COMMITTEE

Martin Verity

### SENIOR ASSISTANT CLERK

Alastair Macfie

### ASSISTANT CLERK

Euan Donald

### LOCATION

Committee Room 5



## Scottish Parliament

### Local Government and Transport Committee

*Tuesday 1 November 2005*

[THE CONVENER *opened the meeting at 14:01*]

#### Items in Private

**The Convener (Bristow Muldoon):** The main item on our agenda today is the budget process for 2006-07, but before we welcome the minister and his team we have one other item to deal with. I ask members to agree that agenda item 3, on our draft report on the budget process for 2006-07, be considered in private today and that any future consideration of the draft report prior to publication also be conducted in private. Is that agreed?

**Members** *indicated agreement.*

## Budget Process 2006-07

14:02

**The Convener:** We shall hear evidence from both ministers with responsibility for our remit. The first is the Deputy Minister for Finance, Public Service Reform and Parliamentary Business, George Lyon. I welcome the minister and the team supporting him: David Henderson, head of local government finance; Graham Owenson, team leader for local government expenditure and grant distribution; and Craig Russell, head of division for efficient government delivery. As usual, I shall give the minister the opportunity to make some introductory remarks about the aspects of the budget that he is addressing. After that, we shall move on to questions and answers. Over to you, minister.

**The Deputy Minister for Finance, Public Service Reform and Parliamentary Business (George Lyon):** It is a great pleasure to be with you this afternoon. I find myself in a similar situation to that of Mr McCabe when he attended the committee last year and had not been long in the job. I shall do my best to answer all your questions and I shall pass any detailed ones to my colleagues from the department. If there are any questions that we cannot answer, we shall certainly get back to you with detailed written answers.

I welcome the opportunity to give evidence on the Executive's detailed spending plans for 2006-07 and 2007-08, as published in the draft budget for 2006-07, in relation to my responsibility for local government funding. Although I am largely in the committee's hands as to the issues that might be raised, it may be helpful if I say something first about the context in which the draft budget is set and if I address the recommendations that the committee made following its consideration of last year's budget publication.

The revenue support plans for local government for 2006-07 and 2007-08, which councils receive through aggregate external finance and various other Executive grants, remain largely unchanged from those announced last year following the 2004 spending review. The draft budget document for 2006-07 confirms that AEF will increase by 5.3 per cent over the next two years. In addition, councils will receive significant specific revenue grants amounting to more than £1 billion per annum. Direct capital grants will increase to £465 million by 2007-08, which is a rise of 24 per cent over the current year.

In reaching this settlement for local government, we assumed that councils would increase council tax by about 2.5 per cent in 2006-07 and 2007-08

as a contribution to the overall increased expenditure underlying the settlement. That assumption has not changed. We expect councils to keep rises as low as possible. Councils have improved their council tax collection rates in recent years and now collect a higher proportion than ever before. I expect them to continue that upward trend.

Spending in the public sector, including support for local government, has increased substantially. By the end of the present spending review period, revenue support to local authorities will have increased by more than £3 billion compared with the 1999-2000 financial year. That is an increase of 55 per cent, which is good news for local government and, of course, excellent news for the people of Scotland, as they depend on the front-line services that are being provided.

We must realise that such growth cannot continue for ever. We will have to look carefully at everything that we do, everything that we would like to do and everything on which we spend our valuable resources. Normally, the next spending review would have taken place next year, in 2006, which would have allowed some reflection on the totals for 2007-08. However, the decision of the Chancellor of the Exchequer in July to postpone the next Whitehall spending review to 2007 has led to a change in the position in Scotland.

We are taking the opportunity to have an overview of our strategic priorities and to consider them in the context of Scotland's future needs. We are also taking the opportunity to reflect on how public sector services are delivered. For example, the institutional framework that is now in place predates the creation of the Scottish Parliament and we need to look at how appropriate that framework is and how we can improve on it to deliver public services—including local government services—that are more user focused, effective and efficient.

Change is overdue, but not top-down change. I stress that we are focusing not on where boundary lines should be drawn, but on what front-line staff and those at the coalface believe to be the way forward. Although we will be prepared to change structures where necessary, our overall focus is not on structures; it is on a clear and shared vision of the role and value of public services. We want a sustainable model for efficient delivery, high performance and strong accountability.

Over the summer, my colleague Tom McCabe and I met leaders in local government and other public services. We will continue that dialogue with local government and others in the public services to generate innovative responses on the longer-term governance, management and shape of public services in Scotland. We will consider and act on the most appropriate of those responses.

Tom McCabe has outlined elsewhere our intention to issue a discussion paper on the reform of the public sector to support that dialogue—more details will emerge shortly. However, whatever changes follow, they are unlikely to have any significant effect on our spending plans until after 2007-08. For the present, the postponement of the next spending review means that the financial landscape will be largely unchanged for the next two years.

As we are committed to growing the economy, we will be equalising the rate poundage for business. We will provide extra resources to local government so that councils are no worse off, but our financial room for manoeuvre is now limited. We have to be aware that finances will remain tight for the foreseeable future.

I would like to return to the draft budget. The details on the outcomes from the local government settlement are dealt with in each portfolio chapter, but they are not repeated in the Finance and Central Services Department chapter in order to avoid duplication. I remind the committee that, although the block grant provided to local government through AEF is largely unhypothecated, a service split is available for the grant-aided expenditure that it supports. The budget document now includes details of the GAE provision by portfolio. I hope that that aids the committee in its consideration of budget plans.

A general point that some commentators overlook is that the GAE allocations are not target levels of expenditure. Rather, they represent a level of expenditure that the Executive thinks is justified as an input to the calculation of revenue support funding. Councils are free to incur additional expenditure over and above GAE, provided that they can fund it from local resources and justify it to the electorate.

I am open to suggestions about any ways in which we might improve the presentation of such facts and figures and would welcome any views that the committee might have on that.

Last year, the committee made several recommendations about the local government budget. Most of them were addressed in Tom McCabe's letter of 15 November to the convener, but four further recommendations were highlighted in the committee's report to the Finance Committee, each of which I will cover.

First, in paragraph 15 of its report, the committee asked the Executive to provide information on the action that it will take if it becomes clear that cost inflation for local government is significantly higher than previously assumed, for reasons that are outwith local government control. We have taken a range of measures to ensure that any inflationary pressures

can be afforded. In setting figures in the 2004 spending review for the provision that is to be made in 2006-07 and 2007-08, account was taken of the expected inflationary increases in staff and non-staff costs over the full period. Those inflationary increases were partially offset by the efficiency savings that local government was expected to make as part of the Government's efficient government plan.

In normal circumstances, those total figures would not be revisited, but we have said that we would be prepared to continue to discuss the settlement for 2007-08 if local government can show significant progress towards meeting the efficiency targets. However, as I have said, our room for manoeuvre is much less following the chancellor's announcement that the spending review down south would be delayed.

As part of our public sector reform agenda, we have made it clear that we look to local government to play its part and to explore opportunities for joining up services and working in partnership to ensure that Scotland has maximum value from every pound that is spent and to improve further the services that are provided.

In paragraph 27 of the committee's report, the second recommendation was that the Executive should pay more attention to the non-financial data that are associated with monitoring efficiency savings, such as output measures and quality indicators. A general efficiency saving of 2 per cent, which equates to £168 million, was applied to local government to cover the current three-year settlement from 2005 to 2008. That reflects the fact that local government is autonomous and not accountable to ministers. However, we are clear about the fact that local government will be expected to deliver. That is why we have commissioned the improvement service to develop a framework for local authorities to monitor efficiency savings on an output basis. The efficiency target that has been set for local government is achievable and we have identified other opportunities for savings whereby local government can retain the money that is realised and reinvest it in front-line services.

The third recommendation, at paragraph 41 of the committee's report, was that we should rationalise and consolidate specific grants when possible; that the current array of grants should be fully identified and classified; and that programmes that are intended to continue should be consolidated into AEF at an early opportunity.

We have recognised the concerns of the committee and the Convention of Scottish Local Authorities about the apparent lack of cohesion. As part of the Executive's wider reform agenda, consideration is being given to rationalising those funding streams and to whether it might be

appropriate to consolidate any of them into AEF—the core local government finance settlement—and to place greater emphasis on the outcomes that they deliver. That might not be practical for all such funding streams, as some are for one-off specific short-term initiatives, but we will consider each continuing grant carefully to determine whether it would be appropriate for the money to be consolidated into the core local government finance settlement.

The fourth recommendation, at paragraph 48 of the committee's report, was that the potential scope for prudential borrowing in housing should be clarified. As the committee is aware, no limits have been set on the levels of prudential borrowing that may be undertaken nationally or by individual authorities. Authorities can borrow such amounts as are consistent with their circumstances under the prudential code. In determining their levels of prudential borrowing for housing revenue account purposes, authorities take account of many factors, including the amount of housing debt, future rent levels, future housing receipts and the size and condition of the housing stock.

I hope that the committee will recognise the improvements that we have made in the process, but I am happy to consider views on any further changes that are aimed at securing greater openness and transparency. I am happy to answer questions and for my officials to answer questions that I cannot.

**The Convener:** Before inviting questions from members, I should tell the committee that we have been advised by the broadcasters that there has been a difficulty with the broadcasting system. I will suspend the meeting for about a minute to allow the system to be corrected.

14:15

*Meeting suspended.*

14:16

*On resuming—*

**The Convener:** I am advised that the broadcasting system is now ready to be used again. I will start off our questions on the pressures on local government and the potential impacts on council tax. Minister, you referred to the committee's recommendation that the Executive should take full account of inflationary pressures on local government. You indicated that you would be prepared to do so, provided that local government can demonstrate the cost pressures.

I draw your attention to the information that we received from local government for the purposes

of our report last year. Councils do not believe that it would be feasible for them to meet existing cost pressures as well as the Executive's aim of having council tax rises of the order of 2.5 per cent. That issue is particularly acute for 2007-08. You have indicated that there is a degree of flexibility, albeit that there are limits on the flexibility that is available to you. What discussions have been held with COSLA with regard to its perception of a gap between local government funding and meeting the Executive's targets? Is there any narrowing of the gap between where the Executive stands and where the local authorities appear to stand?

**George Lyon:** Allowance has been made for general pay and price inflation in the settlement. We look to local government to play its part in offsetting some costs through efficiency savings. I should point out that allocations for education, police and fire service pay have been excluded from efficiency assumptions. With regard to the genuine concerns around the settlement for 2007-08 in particular, we have made it clear to local government representatives, with whom we have been in regular dialogue—both Mr McCabe and I have met COSLA representatives and these issues are discussed regularly—that we would be willing to examine the 2007-08 settlement provided that councils can demonstrate that they have met the efficiency savings that we have asked them to meet as part of the efficient government programme.

The room for manoeuvre is perhaps slightly less than it was until recently, which is mostly due to the fact that the spending review down south has been put off until 2007. That means that there is no new settlement. Basically, we are working with a static settlement as far as moneys flowing from Westminster are concerned. We are certainly willing to engage with local authorities on a continuing basis to discuss how we might deal with their concerns. We look forward to their publishing a report in the not-too-distant future on how they have managed to achieve the efficient government savings that are required of them.

**The Convener:** There is still a bit of time in which to respond to the proposals for 2007-08, as next year's budget could make further adjustments to what is proposed. However, as regards the 2006-07 budget, local authorities were certainly advising us last year that they felt that it was unlikely that most local authorities would meet the Executive's council tax target of 2.5 per cent. Are local authorities now advising you that they are more confident or less confident than they were a year ago about meeting that target?

**George Lyon:** Ultimately, as you know, those decisions are for local government, but it is clear that the Executive has been encouraging local government to be as conservative as possible in

setting council tax rates. We have had some indication of what the council tax rises will be for 2006-07 and it certainly seems that they will be above 2.5 per cent. I can only restate, as all ministers have done, that we want local authorities to do everything possible to try to contain rises.

**The Convener:** Does the Executive have any figures showing how far above 2.5 per cent the current indications suggest the average rise would be?

**Graham Owenson (Scottish Executive Finance and Central Services Department):** We have some indicative figures for 2006-07, but they are not complete; we cannot give an overall number for the whole of Scotland because not all councils have given us a figure for 2006-07.

**The Convener:** How many local authorities do you have figures for? What is the range?

**Graham Owenson:** I do not have those details to hand.

**The Convener:** Would it be possible to supply those figures to the committee in writing?

**George Lyon:** We can certainly write to you. As soon as we have all the information in from local authorities, we shall respond to you on that point. There are certainly indications from the information published so far that councils are looking at a figure somewhere above 4 per cent for the council tax settlements that they will arrive at, but we do not have all the information in. Until it is all in, I would prefer to wait; I would rather give you the full information than just the information that is currently available.

**The Convener:** You said that you want increases in the council tax collection rates—I am sure that everyone agrees with you on that. As you will be aware, council tax benefit has a relatively low take-up rate. To what degree is the Executive, working with local authorities, trying to drive up that take-up rate and what impact do you expect a higher take-up rate to have on improving collection rates?

**George Lyon:** The Executive, working with local authorities, clearly wishes to see that figure improved. It is essential that everyone who is entitled to housing benefit makes good use of it. Of course, that is of benefit to local authorities as well, so we shall work closely with them. I cannot put a figure on the improvement that we expect in take-up, but I am sure that we can confirm in writing the possible scope for improvement in collection rates if everyone entitled to housing benefit actually claimed it.

**The Convener:** You mean council tax benefit, I think.



**George Lyon:** Yes, I mean council tax benefit. Sorry.

**Bruce Crawford (Mid Scotland and Fife) (SNP):** I do not envy the minister's job in trying to deal with some of the obvious tensions in the system. The Finance Committee's budget adviser had confirmation from the Executive that there were two types of savings in the on-going efficiency savings exercise: efficiency assumptions that were built into the budget baseline in the spending review settlement; and savings targets that were not built into the budget baseline and which departments were free to redirect into front-line services once the savings were made. However, the budget adviser also went on to say, quite tellingly:

"As with the efficiency savings in total, local government again bares a disproportionate share of the first category of savings at 63%—nearly twice its share of the budget."

The budget adviser to the Finance Committee certainly recognises that there are tensions as far as local government is concerned.

My question relates to the recent decision that has been made under equal pay legislation that was passed some time ago. The court costs that flowed from that have been significant for local authorities, some of which are only now getting to grips with the scale of difficulty that the decision might bring.

In the light of those significant equal pay concerns, has the minister made any attempt to get a handle on the scale of the problem across Scotland, by authority? There will be tensions if local authorities find themselves hit disproportionately by efficiency savings while having to deal with the equal pay situation. Something will have to give. I simply do not think that they can deal with all the equal pay issues. Indeed, information that I have received from Glasgow and other places suggests that, to deal with those issues, local authorities will have to trim back services more significantly than would have been the case in order to meet the target for efficiency savings.

Has the minister taken those issues into account or made any assumptions about what it will cost to address them? What is going to give—the council tax or the efficiency savings? From the information that I have received, not everything can survive in the atmosphere in which local government finds itself.

**George Lyon:** I should address your initial point that the impact of the efficiency savings on local government will be disproportionate. Local government has been asked to make, by 2007-08, savings that equate to 4 per cent of its GAE for 2004-05, with only 5 per cent of those savings—£201 million—taken off at source. Other service

providers have been asked to make similar savings. For example, the Scottish Executive Health Department has been asked to save £515 million by 2007-08, which equates to 6.4 per cent of the health baseline for 2004-05. It is not fair to argue that local government has been asked to bear a disproportionate amount of the efficiency savings. I have given you the figures. As I said, health has come forward—

**Bruce Crawford:** I understand what you are saying, but I have to point out that those words did not come from my mouth; I am simply using the terminology that the Finance Committee's budget adviser used. If you are saying that he is wrong, perhaps he needs to look at the matter again.

**George Lyon:** I am quoting the actual figures. The adviser might well have been comparing the local government proposals with the original proposal that the Health Department make a 2.1 per cent saving. After the review, the level of efficiency savings required from health increased to 6.4 per cent. Those are the published figures. In the interests of equality and fairness, I have to point out that the proposed efficiency saving for health is significantly greater than that for local government.

We are aware of local government's concerns about the single status agreements on equal pay. However, I should point out that, as those decisions were made as a result of negotiations between COSLA and the public sector unions, it is up to local government to decide how it deals with the matter. I have no doubt that COSLA will tell us about the cost of those agreements and that the issue will form part of the overall discussions on future settlements, especially on the 2007-08 settlement.

You are right to say that Glasgow is one of the first councils to have reached a settlement on the matter. However, attempts to settle the issue in other areas have not been agreed. Until we get a clear picture of what is happening throughout Scotland, we will have to reserve our position. That said, I assure the member that our discussions with COSLA on the costs of the single status agreement will continue over the coming months.

**Bruce Crawford:** I have the information that was given to us by the Finance Committee—

**George Lyon:** I understand that, but I simply have to put on record the position with regard to efficiency savings and dispel the notion that you have expressed.

**Bruce Crawford:** I realise that the equal pay issue has to be resolved between COSLA as the employer and the employees. However, local government did not introduce the legislation. We agree with it or we do not; in any case, we need to

support local authorities and allow them to reach a position where they can comfortably pay for the agreement. It will not wash simply to say, "It's nothing to do with us," and hand the whole matter over to COSLA and the unions. I hope that you will give a guarantee today that you will look at the matter again. It is inevitable that the considerable pressures will go beyond Glasgow, so will you be prepared to reconsider and enter into negotiations with COSLA about how the local government settlement might be adjusted to deal with them? Without such an agreement, frankly, the efficiency savings will never be reached.

14:30

**George Lyon:** I make it clear that once we get a full picture of costs throughout Scotland—and we will not know them until most of the agreements have been hammered out—we will enter into discussions with COSLA about them and about other cost pressures that concern it. Indeed, we are in discussion with COSLA at the moment about the cost pressures. I can give you an absolute guarantee that there will be discussions. We recognise the challenges that local government faces. However, until we get a full picture of what costs will be—and we will have the final figures only after all the discussions have taken place throughout Scotland—I guarantee you that discussions will take place and that we will engage constructively with COSLA.

**Bruce Crawford:** I have other questions, but I will let other members ask theirs first.

**Mr David Davidson (North East Scotland) (Con):** Can I assume that the figures that you quoted were not real-terms figures? What you were handing out sounded very optimistic.

**George Lyon:** The figures in my opening speech were cash figures.

**Mr Davidson:** I thought so. People in local government deal with real-terms figures and with what services will cost.

Following on from what Bruce Crawford was saying about efficiency gains, single status, pay equality and so on, what assumptions did the Executive make in the knowledge that the legislation has been around for some time? I accept that the agreement was made between COSLA and the unions. What assumptions were made for efficiency savings in employment in local government over the next three years? That is the largest part of local government costs.

For the past five years, COSLA has been saying that it gets many new burdens that are not necessarily fully funded. The announcement yesterday about improvements in support for care was an example. There are also comments in the

budget documents about local roads not being maintained as they should be. What assumptions have you made on the new burdens over the next three years?

**George Lyon:** The real-terms figures in table 10.02 on page 154 of the draft budget show that we have a growing budget, once all the funding routes have been taken into consideration. The budget grows in real terms through to 2007-08. The bottom line of table 10.02, the "Total" figures, shows you that that is the case.

In making our assumptions, we take into consideration all the issues and the cost pressures facing local government. That is how we eventually come to a decision on how we fund local government. All those issues, including pay increases, are taken into consideration.

You also touched on our assumptions about the employment of staff, or otherwise, in local government. I am afraid that we do not focus on that. It is for local government to decide how many employees it will or will not take on. That is a matter for local control and local authority decision making. Our assumptions are made on cost inflation and staff costs as well as on various other pressures across the piece.

**Mr Davidson:** You say that your assumptions are based purely on the inflation of wages and other things.

**George Lyon:** They are based on inflationary costs across the piece.

**Mr Davidson:** Therefore, somewhere in all this, because of the background legislation, the Executive must have taken a view on employment levels. Presumably your efficiency drive will consider either employment levels or productivity, but you have not answered the question on them.

There is a marginal increase in real terms, but we are told by local government that that is likely to be gobbled up by new burdens not being fully funded. Perhaps you might explain how you come to value new burdens. Are they genuine? Do you make a contribution? What assumptions will local councils work to when they prepare their budgets? At long last, there is a benefit going to the payers of the business rate, but the council tax payer seems to be the jam in the sandwich—stuck in the middle being hit from either side.

**George Lyon:** There will be benefits to local businesses as a result of the decrease in business rates and we will make up the funding difference to local government—that was guaranteed in the minister's announcement. On that policy announcement, I should point out that the figures are not included in the current budget figures that are in front of members. They will be revised once the next budget document is published.

Decisions on local government employment levels are ultimately decisions for local government—that is how we have tackled the local government efficient government requirements. We have taken off just over £200 million at source and the total balance of efficient government moneys that local government must make is around £324 million. We are looking to local government to demonstrate how it will go about that. It will be up to the 32 councils to make individual decisions, but we have asked them to publish documents at some point in the next couple of months that demonstrate how they will go about things. Those documents will be similar to the documents that the Scottish Executive has published. It will be up to the local authorities to demonstrate that they will deliver efficiency savings by the actions that they take, but I must restate clearly that the proposals are not about cuts—they are about making the delivery of public services more efficient. It is up to councils to decide how that will happen.

**Mr Davidson:** If you have made no assumptions about employment levels, where do you see the savings coming from?

**George Lyon:** I made the point that it is up to the councils to decide what the right priorities are for their areas, and they will no doubt reach views on how to make efficiency gains. I re-emphasise that we expect the money to be reinvested in front-line services—that is the whole point of the exercise.

**The Convener:** I want to return to table 10.02, to which you referred. The figure at the bottom of that table certainly shows an increase in real terms in the total budget, but do you accept that the increase between 2005-06 and 2007-08 is down to the increase in Scottish Public Pensions Agency resources? Such expenditure is an important part of Government expenditure and ensures that pension schemes are properly funded, but the implication is that there will be an overall standstill in the funding of front-line services.

**George Lyon:** There are several lines in table 10.02, including revenue and capital lines. The capital line should be read in conjunction with the modernising/efficient government fund line, as there is nothing in that line for 2002-03. There has been a transfer from the capital line to the efficient government line, but that money can be used to invest in capital programmes if local authorities decide to do so.

The bottom line of table 10.02 shows a slight budget increase in real terms, but the table must be read in conjunction with table 10.03, which contains capital spending and revenue from other sources that will go to local government. The figures in table 10.03 are in addition to the figures in table 10.02. Members can see that there will be

quite substantial growth, especially in local government capital, which will grow from around £375 million in the current year to around £465 million. Of course, the figures do not include prudential borrowing figures. I think that I said in my opening statement that we expect capital investment to rise this year, from around £175 million to around £973 million, through the use of prudential borrowing. Therefore, I would argue that substantial extra money will go into local government through a variety of routes, which should help authorities not only to sustain services, but to invest in new capital projects that I am sure we all want.

**Graham Owenson:** May I clarify the prudential borrowing figures? The figures are £107 million in 2004-05 and £931 million over the next three years.

**The Convener:** Table 10.02 implies a marginal reduction in real terms of £10 million in the revenue budget. Table 10.03 shows that that is more or less balanced by an £8 million increase in other funding streams. The point that I am making is that revenue support is broadly static over the three years.

**George Lyon:** If you examine the capital and the prudential borrowing that have been made available to local councils, you will see that there is a substantial opportunity for increased investment across the piece. I take your point about revenue, but we have made other funding streams available to local government and that should help with any investments that they wish to make.

**Dr Sylvia Jackson (Stirling) (Lab):** In target 1 you talk about efficiency gains, more efficient government and improving service delivery. Have you discussed with COSLA and individual local authorities where they think that those efficiency savings are going to come from and what the implications for them are? Having heard what David Davidson said about local roads—an issue with which I am involved—how do you think that the improvement in service delivery will be achieved by local authorities in addition to on-going maintenance of local roads?

**George Lyon:** I will not have the details of where local government expects to make efficiency savings until local authorities publish documentation setting out how they will achieve those savings. Through discussion with local authorities, we have determined that they are considering e-procurement for more efficient procurement of services. By linking up with the Scottish Executive's e-procurement service, they would achieve quite substantial savings. However, until they publish full details in their plans for efficient local government, which we hope to see in the next couple of months, I am not in a position

to say exactly where they intend to make those efficiency savings.

**Craig Russell (Scottish Executive Finance and Central Services Department):** I can give some indication. You are quite right that we have had discussions with local authorities. As an example, Glasgow City Council's business plan shows that it intends to make savings in back-room operations, procurement, asset management, strategic partnerships, energy consumption through the use of energy efficient appliances, absence management and increased use of access centres. Its budget specifies that it expects to save something in the order of £19.8 million. We are pushing the point that it is then for the council to determine how it uses that saved money. If it chooses to, it can fill potholes or it can do something else. That is partly why we have said that we are not going to pre-determine how local authorities will have to use that money.

The minister is reluctant to go further than that because Glasgow City Council was one of the few local authorities that could point to a specific efficiency element in its best-value regime. That is what we are talking to the improvement service and others about delivering from all local authorities. Later in the year—the report is due by 29 November—we expect to be able to say more about how that will be dealt with by every local authority.

It would be fair to say that not all local authorities will be able to specify their savings in the way that Glasgow City Council has done. Smaller local authorities will have greater difficulty with some of those headings.

**George Lyon:** I will ask Graham Owenson to clarify a point about the local government revenue AEF line in table 10.02.

**Graham Owenson:** You must remember that the figures in the top lines in tables 10.01 and 10.02 are net of the efficiency assumptions. By 2007-08, local authorities will be delivering £168 million of efficiency savings. So, although that line may be reducing marginally in real terms, it is net of £168 million of efficiency savings that local authorities are making.

14:45

**Dr Jackson:** Let us return to the investment and improving service angle. In no way was I suggesting that you would dictate to local authorities what they would spend their efficiency gains on; I was asking whether, in the discussions and negotiations that I assumed, from what you said, that you had had with COSLA and the local authorities, they had identified some of the needs that they would use extra money for. I know, from discussions that we have had, that local roads and

other issues have been raised. I simply want to know what information about their immediate needs you have gained from your various discussions.

**Graham Owenson:** In the previous spending review, we made allowance for general pay and price inflation. Provision was also made, following various discussions with the relevant portfolio ministers, for roads and for care for the elderly across the portfolios. Additional needs were recognised in the settlement, and money was provided. For example, £60 million was found for local roads in 2006-07 and 2007-08.

**Dr Jackson:** I have one more question on how energy efficiency will be brought about. You mentioned procurement. Could you follow that through and tell us whether you see any downside to that? What will it mean? How will local authorities go about their procurement in order to save money?

**Craig Russell:** That is a very wide question. There are two primary mechanisms by which they may deliver procurement savings. One is simply better procurement within the structures that they currently have. The other—our preferred option—is that they join eProcurement Scotl@nd, which will provide a general catalogue of goods and services that may be procured. The downside that each local authority will have to consider is the extent to which procuring in that way may damage or undermine local businesses. However, provision will be made for local companies to be in the catalogue. It is not a requirement that the biggest global saving is made automatically; local authorities may choose from the catalogue which business to use. One of the reasons that we have pushed Glasgow as an exemplar of take-up of the eProcurement Scotl@nd service is that 6,000 commodity suppliers would go in the catalogue and provide a much wider base from which people might draw.

**Mr Andrew Arbuckle (Mid Scotland and Fife) (LD):** Earlier today, in a Finance Committee meeting, local authority councillors and officials complained about the fact that so much of the Scottish Executive's funding is ring fenced and—even worse—often requires matched funding. The plea from them was, "Trust us and we'll deliver. Don't tie our hands." Minister, you talked earlier about aggregating several projects or initiatives. Can you give us more information about how you mean to loosen the purse-strings and whether that will happen in the coming financial year?

**George Lyon:** The amount of ring fencing has been static over the past few years. The Executive gave a commitment to ensure that as much money as possible was made available in a way that allowed local government to decide what its priorities were.

Two issues arise from the question that you put to us. One is about the need to reduce the number of funding streams to local government, under our public sector reform agenda and efficient government agenda. One of the complaints that we get from local government is about the number of bids and plans that have to be submitted before they can access the money. We have taken that criticism on board and a review of all the various funding streams is taking place to evaluate in which areas we might be able to amalgamate them, make them simpler and less bureaucratic, and reduce the cost to councils of bidding for the money.

A second piece of work sits alongside that. I refer to the attempt to move to outcome agreements with local government that Tom McCabe and I are very keen to see progressed. They are not the easiest thing in the world to develop. However, if we can come up with a sufficiently robust set of outcome agreements with local government that can be validated and easily understood by both sides of the equation, I believe that we should hand over the lump of money and say, "In return for your agreement to deliver these outcomes, you can decide what is the best, most efficient and best value for money way in which to deliver them."

A lot of work is going on inside the Executive to try to develop those types of models. They have been used in one or two areas, for example in relation to antisocial behaviour. We believe that that is a way in which to take a step forward in our aim to give local government the freedom to make decisions about how to deliver services. We also believe that the agreements offer tremendous opportunities to achieve our objectives of driving efficiencies and getting better value for money out of the system.

The key question for all of us is to decide what the outcomes should be and how to get an agreed set of measures of what the outcomes are. For instance, if we take free personal care, how do we evaluate the impact that that makes on someone's life? For example, has it kept them out of care homes longer? A whole range of questions needs to be answered. The same is true of many other services. We want to pursue that vigorously as part of our public sector reform agenda and our efficient government agenda.

**Mr Arbuckle:** The Executive has set up a budget review group. What is its remit with regard to local government? Will the group look at the panoply of local government service delivery or at some aspects of it?

**David Henderson (Scottish Executive Finance and Central Services Department):** If I may, I will come in on that one. The review that has been announced will look at all the specific

grants that go to local government, some of which are within the aggregate external finance—the amount is about £2 billion in total. It will not focus on the unhypothecated block revenue support grant, which is in the order of £5 billion or £6 billion. Ministers and officials will look at that separately, alongside the external review.

**Mr Arbuckle:** When do you expect to make an announcement on the findings of the review group?

**George Lyon:** Once it has reported and we have had time to consider the findings. We will then be in a position to make an announcement. The group is only just starting its work. Our expectation is that we will not see the completion of its work this side of the new year. David Henderson may wish to add to that.

**David Henderson:** The initial target is for the group to complete its report in the early spring. Its findings will feed into the next spending review.

**Michael McMahon (Hamilton North and Bellshill) (Lab):** In previous discussions on the budget document, our difficulty has been that neither side of the table has agreed about the starting point of any of the assumptions or calculations that come before us. Even in our report last year, we had to say that one of our biggest problems was that the Executive had no central record of the grants that it has given to local authorities. We often do not have the raw data to hand that would allow us to make the assumptions that could lead us to reach agreement on what can be saved or spent, how and where it is spent and what outcomes can be achieved. Are we any closer to getting to that baseline?

**George Lyon:** I believe that I have just been handed one. I will ask the official to explain exactly what is in it.

**Graham Owenson:** Table 10.03 in the draft budget document attempts to do just that. It is a summary at portfolio level of all the other funding streams that are available to local government outwith the main settlement. We regularly update the information throughout the year and share it with COSLA. The paper that we have just handed the minister is a copy of one of the finance circulars that we issue periodically throughout the year. We use them to tell local government about all the funding streams that are out there. We are happy to provide the committee with a copy of the circular.

**Michael McMahon:** Does COSLA agree with the figures?

**Graham Owenson:** Yes.

**Michael McMahon:** So, we have a starting point.

**Graham Owenson:** We do.

**Michael McMahon:** That is progress. Thank you.

**Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP):** Roads are the first issue that I want to raise. The minister will recall that last year the Society of Chief Officers of Transportation in Scotland, which is the body for local authority road engineers, estimated in its independent appraisal that it would cost just short of £4,000 million to bring Scotland's road network up to standard. It felt that spending on roads was falling nearly 50 per cent short of what was required to achieve that improvement. The minister will be aware from the situation in his own constituency of the huge burden that local authorities face in maintaining their roads. That is certainly true in my constituency of Inverness East, Nairn and Lochaber.

Does the minister recognise that if a repair that is needed to a particular road is delayed over a period of years, the cost of that repair is likely to increase substantially, by far more than the rate of inflation? That means that a failure to provide sufficient resources to tackle those problems might lead to even greater calls being made on expenditure in the longer term. Without in any way being facetious, does the minister agree that in Scotland there is perhaps a consensus that we need more money to be spent on road repairs and less money to be spent on taxi fares?

**George Lyon:** I will not comment on the member's final question. The £4 billion that the SCOTS report estimated needed to be spent on roads is the result of an accumulation of underinvestment over a long period. That cannot be reversed overnight, once the increase in public spending that many of us have argued for over many years starts to come through.

There has been significant growth in the amount of money that is being put into roads. Indeed, in the most recent spending review, which was for 2004-07, it was announced that an extra £60 million would be made available to invest in local roads. Although I am pleased about that, I acknowledge that more money is needed and that sustained long-term investment will be necessary to bring our roads up to the state that we would like them to be in. I fully support extra money being made available, but we must live within the budgets that we have. We have made extra resources available and I do not underestimate the challenge that we face after 18 years of underinvestment. It is not possible to turn round the situation quickly, but we are making progress in tackling the problem. The extra resources that we made available for 2005-06 and 2006-07 in the last spending review represent a significant step forward.

**Fergus Ewing:** I thank the minister for that answer and I agree with a great deal of his analysis. I appreciate that no one has a magic wand for addressing those problems, but I hope that he will consult SCOTS frequently, to consider ways in which we can reduce the cost of carrying out repairs.

In that regard, I will make a specific suggestion that I believe might be helpful. From information that has come my way recently, it seems that in my patch there is a growing conservation bureaucracy, whereby the difficulties that companies that carry out road works face in dealing with Government agencies and quangos—not least the Scottish Environment Protection Agency and Scottish Natural Heritage—are adding inordinate amounts of time to their work. If the minister took a close interest in the matter and asked for advice from the leading companies, perhaps through the Civil Engineering Contractors Association or another representative body, on how to tackle the task of making the work less expensive and less hassle, that might help. That is a constructive suggestion that is meant in the spirit that I always seek to adopt, as the minister knows.

**George Lyon:** I take Mr Ewing's suggestion in the spirit in which it was made. I recognise that, as part of our efficient government programme and, indeed, the whole public sector reform programme, efficiency, value for money and getting things done are paramount. I am aware of the difficulties that not just councils but the Scottish Executive roads divisions, for example, encounter in tackling problems where there is consensus across the political parties in every council. I cite the example of the need to tackle the bottleneck on the A82; I avoid it on the way back to my constituency by driving an extra 20 or 30 miles round it. I am fully seized of the problem and I assure Mr Ewing that I will do everything that I can to make sure that those bottlenecks are removed.

15:00

**Fergus Ewing:** I am grateful for that assurance. I, too, try to avoid the temporary traffic lights on Loch Lomond side—traffic lights that recently celebrated their 40<sup>th</sup> birthday. However, I understand that there is no truth in the rumour that Historic Scotland is seeking to have them declared an historic monument.

Given that business rates, for which you have responsibility, minister, are to be looked at and reformed soon, one further aspect should be looked at. That is the burden on businesses in the retail sector. In Inverness, there has been a spate of shop closures in the city centre's old town. Those small shops pay inordinate business rates. Meanwhile, they watch their customers go to the

new shopping mall, the Eastgate, which is a good shopping mall, and to out-of-town retail stores and supermarkets. Those small shops bear a disproportionate burden because of how the rateable value is calculated. A cost-neutral exercise could adjust that by changing how the rateable value is calculated.

I appreciate that those are technical issues, but the Executive might wish to explore them carefully by independent analysis. Shopping patterns have changed radically in the past two decades, but rating has not caught up.

Rather than asking the minister for an off-the-cuff opinion, although I am always happy to listen to him should he want to utter one, I ask him whether he will consider instructing an independent analysis from a suitably qualified chartered surveyor into whether I am right and, if so, whether it would be possible to tackle the problem of rating for small shops and so make life a little less difficult for small businesspeople and for small retailers in Scotland.

**George Lyon:** I am happy to receive correspondence from the member on the matter. I give him an undertaking now that I will examine closely the issues that he raises. There is a small business rates relief scheme that is aimed at helping small businesses, but I am not sure that it would provide any relevant help in the circumstances that he describes. He describes a significant move to shopping in bigger retail outlets that have been developed around Inverness. If he presents me with details of the problem, I will look at them and will respond to him in writing.

**Tommy Sheridan (Glasgow) (SSP):** In your opening remarks, minister, you referred to improved rates of collection of council tax. I read a GMB report yesterday that suggested that the level of uncollected council tax was £94.8 million in 2003-04, but £121.7 million in 2004-05. In other words, uncollected council tax has increased by £26 million in Scotland. Are you aware of that?

**George Lyon:** I am aware that collection rates have improved, although perhaps the totality of the sum outstanding has increased despite that improvement. I will ask officials to comment on the detailed point that you make.

**David Henderson:** I do not have the details. We can check, but I am not aware of those figures.

**The Convener:** We could ask the Executive to confirm whether the figures that the member has quoted tally with its understanding of the situation before we complete our report.

**George Lyon:** Okay. We shall respond to the member's question.

**Tommy Sheridan:** I would appreciate that, convener.

**George Lyon:** Do you also wish details of the improvement in collection rates? Every percentage point is worth about £17 million to local government. Even a 1 per cent lift is quite a substantial boost to any council in Scotland.

**Tommy Sheridan:** The problem that the report that I read yesterday flagged up was that the growing debt burden across Scotland is leading to more difficulties in council tax collection as a whole, which means that achieving any improvement in collection rates is now extremely hard. Given that there has been a £26 million increase in uncollected council tax, the problem seems to be growing rather than getting smaller. Local authorities have made it clear to us that the settlement means that they will be unable to introduce council tax rises of 2.5 per cent and maintain the level of service delivery. Are they being honest and candid with us, or are they misleading us?

**George Lyon:** We have made assumptions about the inflationary and cost pressures that councils throughout Scotland face. We have done our calculations on what we think a fair settlement should be for the next three years. That is why we have come to the conclusion that we have. We have indicated that we want councils to keep council tax rises as low as possible, but it is clear that the ultimate decision on that rests with councils, which are answerable to their electorate for the decisions that they take. There is one point of detail that David Henderson wishes to clarify.

**David Henderson:** In relation to your first question, earlier this year we commissioned a report on levels of non-payment and why people do not pay. Researchers went out to talk to people who do not pay to find out why that is the case. That report is expected to be submitted shortly and I expect that it will be published.

**Tommy Sheridan:** The Local Government and Transport Committee would be very interested in that report and I hope that we will receive a copy of it. What assumptions did you make about inflation and about wage-cost rises?

**Graham Owenson:** The rate of inflation that we assumed in arriving at the settlement was based on the retail price index, and was 2 per cent. I do not have all the pay assumptions that were made, although I remember that the issue was discussed with the committee last year. We were to consult COSLA on whether the pay assumptions should be made public or whether that would affect negotiating strategies and so on. I just need to check back on that.

**George Lyon:** We can get back to you with a detailed response on that.

**Tommy Sheridan:** I would appreciate that. You indicated that COSLA identified in its discussions

with you what it saw as gaps in the funding, which you did not accept were gaps. Over three years, COSLA is talking about some £839 million-worth of gaps, which is a considerable amount. How much of that related to equal pay settlements or did they not feature in the discussions?

**George Lyon:** I will ask one of the officials to comment on that because we are talking about the 2004 spending review, which I was not party to, so I cannot give you a blow-by-blow account of the discussions that were held with COSLA. We have had discussions with COSLA about some of those issues since then and it has certainly raised its concerns about the need to make resources available and about some of the cost challenges. One of those challenges relates to equal pay, of course. I will ask one of the officials who was present at the time to elucidate, as I was not around then and so could not possibly comment.

**Graham Owenson:** Equal pay pressure did not feature in our discussions with COSLA at the time of the spending review.

**Tommy Sheridan:** That is what I suspected. In your most recent discussions with COSLA, what global figure for the equal pay settlements was established? I am looking for a ballpark figure because we are hearing talk of hundreds of millions of pounds. As you know, Glasgow City Council has started a major cuts review in order to pay for its equal pay settlement. If that is not even included in the gaps that COSLA has identified, do you not accept that it is potentially a time bomb for services?

**George Lyon:** Potentially, it is a big challenge for councils. At the moment, we have an indicative figure for the Glasgow settlement. Until we get a handle on the total figure for Scotland and see clearly how the negotiations are being conducted across Scotland and what conclusions are reached, we will not be in the position to say what the total impact will be on a Scotland-wide basis.

Clearly, councils have raised the issue with us. They have also raised the issue of further funding for deprivation and, in the case of rural councils, supersparsity. Councils have raised a range of other issues on which they would like to see the Executive taking action. We have given them a commitment that we will continue to undertake constructive dialogue with them. We have signalled that, provided that we receive assurances in the publications that councils produce demonstrating what they have done that they are meeting efficient government targets, we are willing to discuss the 2007 settlement, on which councils' main concerns have centred to date.

**Tommy Sheridan:** COSLA has brought to your attention the concerns that councils have about

funding for deprivation and the supporting people budget which, as you are aware, may affect our 2012 homelessness target. In addition to those concerns, there is also the concern about the equal pay settlements—although surely paying people what they are supposed to be paid should be part of efficient government. How can you possibly support the statement that the Minister for Finance and Public Services made in January, in which he said that he saw

“no reason for any council tax levels to rise above 2.5% for 2006-07 and 2007-08”?

Given all those financial pressures, surely the minister's call for increases of not more than 2.5 per cent is unrealistic.

**George Lyon:** As I have stated on a number of occasions, the decision for the level of council tax that is to be put in place comes down to councils ultimately. We believe that the settlements that we have announced will meet the needs of councils. We are in discussion with them about their concerns about some of the cost pressures. We recognise that the number 1 priority for councils is that we enter into discussions with them on the 2007 settlement, which has been their priority in all the discussions to date.

**Tommy Sheridan:** So you see no reason for the increase being more than 2.5 per cent.

**George Lyon:** I believe that councils should be able to keep their council tax increases as low as possible—

**Tommy Sheridan:** The Minister for Finance and Public Services said that they should be 2.5 per cent.

**George Lyon:** Given the settlement and the historical context of an increase of 55 per cent in the AEF that has been distributed to councils since 1999-2000—

**Tommy Sheridan:** Will the increases be 2.5 per cent?

**George Lyon:** As I said, I believe that councils will be able to keep their increases as low as possible.

**Tommy Sheridan:** The Minister for Finance and Public Services told the Finance Committee that the increase should not rise above 2.5 per cent. Do you agree with that? The question is a simple one.

**George Lyon:** My view is that councils should be able to keep it near to that figure. Yes.

**The Convener:** Three members have indicated that they have a supplementary question. As long as they keep the questions brief, I will try to take all three of them.



**Bruce Crawford:** The Executive has rightly emphasised front-line services. Therefore I wonder what local government would make of the following scenario. Minister, you confirmed in a reply to the convener that revenue will in effect be static in real terms over the period. There is also the problem of the additional costs of the equal pay settlement and the cost of adult care and additional support for learning. I am told, certainly by local government, that all those areas are causing difficulty for councils.

In all those areas, front-line services are affected and yet one of the lines in table 10.01 under the heading "Committees, Commissions and Other Expenditure" shows a rise from £692,000 in 2002-03 to £44,218,000 in 2007-08. I understand that that expenditure is for the Local Government Boundary Commission for Scotland, the office of the chief statistician and the improvement service. That seems to be real growth in behind-the-scenes bureaucracy rather than front-line services. Can you explain that stark contradiction?

15:15

**George Lyon:** Can I write to you on that figure, explaining exactly the allocations? You made the point about the sums flatlining at present. We have to take into consideration the context of a 55 per cent increase to local government over the piece since 1999-2000. We must also take into account the fact that there is an expectation that growth in public spending in Scotland will level off because of the United Kingdom spending review in 2007. Therefore, there is a challenge for all of us to ensure that we deliver best value and efficient public services. I will write to you with more detailed explanations, once Graham Owenson has given you an initial comment.

**Graham Owenson:** I am afraid that there is not much that I can add to what the minister has said. We will consider the deliverables—

**Bruce Crawford:** I am grateful for that. However, I am baffled that we have a budget increase from £692,000 to £44 million that we cannot explain today.

I am glad that you also confirm that the revenue budget is, in real terms, static, despite the other things that you said about it. I look forward to finding out exactly what those hidden bureaucrats will be doing.

**The Convener:** Minister, you said that there is an expectation that budget settlements will be tighter in 2007 than in the past. I refer you to table 0.02 of the draft budget, which sets out the total Scottish Executive budget in real terms. It shows that, in real terms, the budget is rising from £27.4 billion in 2005-06 to £29.1 billion in 2007-08. There is still growth in the total Scottish Executive

budget. The point that the committee has been trying to make is that there does not seem to be any real-terms growth in the local authority budget. All the other areas of expenditure are being asked to make efficiencies to fund improvements in services.

**George Lyon:** You make two points. When talking about the levelling-off of budgets in Scotland, I was referring to 2007-08 onwards. As I said in my opening remarks, there will be a review of public spending at Westminster in the spring of 2007. We will find out then what the budgets are likely to be. However, the expectation is that the growth in budgets is unlikely to continue.

I recognise fully that there is growth in the overall Scottish Executive budget until 2007-08. However, although the revenue budget is, in real terms, reasonably static, there is significant opportunity in capital and prudential borrowing for extra resources to be made available to local government. In fact, we believe that the investment that we expect local government to make as a result of the prudential borrowing arrangements that we have put in place will rise to close to £1 billion of investment.

The settlement contains real-terms rises for local government in the provisions that we are making through the various funding streams.

**Dr Jackson:** I would like to make two quick points. First, I welcome what you say about bringing funding streams together, particularly in connection with what Bruce Crawford was saying about backroom operations, so to speak. What changes is that necessitating in departments and for civil servants? I notice the title of one of the Scottish Executive officials with you today, for example. What has the holistic approach meant for working together?

The second point follows on from Fergus Ewing's point about local roads. As I understand it, there is an on-going audit, to which I think he alluded. Minister after minister has been concerned about local roads. Some additional money is going in, but when we get a realistic assessment of how bad the situation is, there has to be a 10 or 15-year plan and a ring fencing of the moneys that are being given in order to get to grips with the situation. That would give some comfort to people out there who are coping with that difficult situation.

**George Lyon:** On your final point, the Auditor General for Scotland investigated that matter when I was on the Audit Committee. There are certainly arguments about the level of backlog and the total money needed. I am sure that Tavish Scott will be able to provide more detailed answers in his evidence this afternoon.

On the public sector reform agenda, we believe that there are substantial opportunities to drive through greater efficiencies in the public sector by the merging and sharing of backroom and support services. Those are important in their own right, but there are substantial opportunities to squeeze out extra financial resources, which can be spent on front-line services. That will be one of the main drivers not only of the efficient government agenda but of the public sector reform agenda, on which we are shortly to engage in discussions.

**Craig Russell:** I will pick up a couple of points. First, the efficient government agenda involves discussing with local authorities issues such as the timing of repairs to roads. One of the greatest impacts on the condition of our roads is the frequency with which certain bits are dug up. I am sure that members have occasionally seen a bit being dug up and laid one week, and then dug up again the following week. There is clear efficiency potential there; moreover, aggregate refill is an expensive resource, so to fill a hole, dig it up and refill it has a considerable hidden cost. Also, it is occasionally noticed that the quality of the fill is not particularly good. For example, if a fairly porous refill is done in the run-up to winter, that leads to the surface breaking down and needing to be repaired again. Those are potential efficiency savings that we would expect to discuss with local government.

On your question about internal realignment, we are in the process of considering who is doing what to whom internally, and whether it makes sense to be brigaded as we are. As things develop we would expect to rebrigade commands appropriately to reflect the tasks at hand.

**Mr Davidson:** I am still puzzled about how the right to borrow is actually an increase in the availability of cash, as if somebody was not going to pay for it.

My question is also on roads. Mr Russell has made a point about a major issue. Roads are divided between two different ministers and two different budgets. I have raised a concern in the past to which I have not had a satisfactory answer. It relates to local government, and I will use Aberdeenshire as a prime example. The A90 is regularly blocked, dug up and covered again. Heavy traffic is forced on to local B roads, which results in expensive repairs two or three times a year, just to cope with it. There appears to be no clear method whereby local government is reimbursed for the damage caused by a breakdown in trunk road availability. Is that being worked up between the two departments, or will the Executive join the budgets and the overall management? You could allocate contract work from the local authority, as you do in some instances anyway. How will we clear this up? The

local taxpayers are screaming their heads off about damage being done to roads, which they have to pay for.

**George Lyon:** I do not know what other commitments ministers have given previously, but I will take your concern away, have a look at it and see what can be done to ensure that the issue is addressed properly. However, I do not think that central control over both budgets is the answer, and I do not think that local government would agree with that, either. I take it that that is what you are suggesting.

**Mr Davidson:** As local authorities appear not to recover the cost to them of the damage that has been done, I think that they are looking at any solutions that would give them some money to cover that cost.

**George Lyon:** That is quite an interesting proposal.

**The Convener:** That brings us to the end of our questions. I thank you and your officials for attending the meeting this afternoon. I am sure that you will look forward to receiving our comments on the budget in due course.

I will suspend the meeting for a short period while we wait for the Minister for Transport and Telecommunications to arrive.

15:26

*Meeting suspended.*

15:29

*On resuming—*

**The Convener:** I welcome to the committee for the second part of our scrutiny of the 2006-07 budget Tavish Scott MSP, the Minister for Transport and Telecommunications. He is supported in his evidence by John Ewing, the head of the Scottish Executive's transport group, and Claire Dunbar-Jubb, the transport group accountant. We will start the session in the normal manner by inviting the minister to address the committee on the transport budget for 2006-07. After he has done that, we will move to questions and answers.

**The Minister for Transport and Telecommunications (Tavish Scott):** It is a delight to be here this afternoon to consider the transport elements of the draft budget for 2006-07. I have some brief comments to make, which I hope will be of assistance to the committee in its assessment of the transport portfolio.

The draft budget document for 2006-07 has been presented with some minor changes. The rationale behind most of those changes has been

to highlight the key programme spending plans that will become the responsibility of the new transport agency. We have sought to provide as much clarity around that as we can. We have also taken into consideration some of the recommendations that the committee noted when the then Minister for Transport appeared before the committee to discuss stage 2 of last year's draft budget. Efficient government savings have been identified in the transport portfolio, and my team has been working with delivery partners to ensure that those savings are realised and delivered during the 2004 spending review period.

The spending review process will enable us to look forward to future years of spending and to focus on priorities and key spending areas in transport. In simplistic terms, I want to ensure that I get everything that I can from the use of public money. Therefore, our priorities for delivery during the 2006-07 financial year are as follows. We wish to invest to maintain the momentum of our 10-year transport investment plan and our commitment to spend around £3 billion on transport capital infrastructure projects and service improvements over that period. As you know, I will also complete a review of transport capital projects in the next few weeks.

We wish to maintain and improve Scotland's existing rail and trunk road networks. We wish to invest in public transport service improvements by, for example, promoting integrated ticketing, delivering a better deal for rail passengers in the new franchise and introducing a new bus route development fund—all better outputs for passengers across Scotland. We wish to extend the benefits of concessionary travel by introducing national schemes—one for older and disabled people, the other for younger people—and we need to ensure the delivery of our partnership agreement commitments to create the new transport agency for Scotland and a network of new regional transport partnerships.

We want to ensure that, as one of the cross-cutting themes in Government, sustainable development and the environment are considered as part of transport spending. There is, in short, a two-part process. The first part is the work that my department is currently undertaking in relation to the national transport strategy. A draft strategy will be ready shortly, and a formal consultation on it will then take place. Within that will be a strategic environmental assessment of transport and the choices that are available to us, and to Parliament in scrutinising us, in that regard. The second element of the process is the Scottish transport appraisal guidance—STAG—which provides advice to planners and decision makers on the appraisal of transport projects where our support is necessary for those spends. The key criterion of STAG is the impact of the proposed transport

interventions on the environment. The national transport strategy provides an opportunity—and will provide an opportunity during 2006—to launch a wider debate on the issues, to which I attach considerable importance.

I also bring to the committee's attention some of the changes that we have introduced in the transport budget. The changes were raised by committee members in previous Local Government and Transport Committee discussions. Some of the changes are fairly technical.

I want to raise four specific issues. First, table 8.01 in the draft budget for 2006-07 has been presented to reflect the level 2 spending plans that will be the responsibility of the new transport agency. I suspect that colleagues would expect us to provide that clarity, and I hope that the table goes some way towards helping you with that. The transport agency will be directly accountable for level 2 spending plans for rail services, concessionary fares, motorways and trunk roads. Some further level 3 programme expenditure within the other public transport line will also be the agency's responsibility.

The second point is on the integrated transport fund. Its budget line in the draft budget for 2006-07 has been unbundled to reflect the expenditure for which the transport agency will be accountable and that for which the Enterprise, Transport and Lifelong Learning Department will be accountable. That is intended to give the committee as much clarity as we can.

The third point relates to other public transport funding, which will increase by £7.5 million in 2006-07 and in 2007-08, to reflect the transfer from the Department for Transport of additional resources to undertake the new rail functions.

The fourth and final point is on the additional funding of about £330 million for the additional rail powers for which the Scottish ministers have taken responsibility. That is not reflected in the draft budget but will be included in the budget bill for 2006-07 when it is introduced in January next year.

All those aspects are part of the start of our major programme of structural reform. We are developing a new transport agency along with a new network of regional transport partnerships. I am confident that those structures will enable the right people, skills and experience to be brought to bear on our undoubtedly ambitious programme of infrastructure projects and service improvements that lie ahead of the department in the coming financial year.

With those brief points, I hope that I have given a flavour of where we are. I am happy to answer questions.

**The Convener:** I will ask a couple of questions. How will the new transport agency's spending plans be accounted for? Will they be brought to the attention of and dealt with by the committee? For example, if you were asked to account to the committee for spending plans in future years, would you be held directly accountable and be supported by staff from the transport agency, in addition to civil servants?

**Tavish Scott:** That is a fair proposition. Any minister with responsibility for transport now or in future will be accountable for the transport agency. That must be the way it is. None of us was elected to this place to create looser structures. A minister must be directly accountable to Parliament through the committee.

In my job, I will be responsible for such accountability to the committee and to Parliament. I am open to suggestions on the matter. In a formal setting, it would be good practice and common sense for the agency's chief executive and any appropriate staff to be present to be questioned by the committee.

**The Convener:** My only other question is about the considerable capital expenditure plan in the budget, which will take several years to achieve. Some large projects are likely to be subject to slippage and might not be delivered as quickly as we envisage. Do you have robust plans to ensure that if any project experiences slippage—I will not name any—you can bring forward other projects in the plan to use the funding and ensure that Scotland's transport infrastructure is brought up to date in the shortest time possible?

**Tavish Scott:** You raise two issues. We certainly do our best to ensure that developed projects have the ability to slot into an expenditure opportunity. The example of the unfortunate slippage on the M74 project, because of legal action, shows that we have been able to slot in several other projects, such as the second Kincardine crossing and the A75 route action plan upgrades. We do our best to profile expenditure in the way that you suggested.

The other aspect is that, as I made clear in a recent debate in Parliament about a capital project in transport, I am determined that we should hit our numbers and timescales. That is why, after I came into my post, I asked John Ewing and the team to bring me a review of where we are on our capital transport projects and programme. That relates to the interest that the Finance Committee has rightly shown in ensuring that we hit numbers and timescales. We have sought to be proactive on that and responsive to the needs of the Local Government and Transport Committee and the Finance Committee. The review will conclude shortly—within weeks, I hope. If there is any change to either the numbers or the timescales,

you can be assured that I will bring it back to Parliament in the appropriate way to ensure that colleagues are kept up to date with the plans.

**Paul Martin (Glasgow Springburn) (Lab):** I commend objective 2 of the draft budget, which states that you will

"Promote social inclusion by connecting remote and disadvantaged communities and increasing the accessibility of the transport network."

I see from the targets how you seek to connect with remote communities, but I do not see anything about how you intend to connect with disadvantaged communities. Given that the objective has not changed in the past year, what has been happening over the year and how do you intend to deliver the objective in future?

**Tavish Scott:** If we need to be more explicit about the investments—which in some ways we take for granted—to support a variety of modes of transport that are used by people who live in the kind of community that Paul Martin fairly mentions, we will do so. We might need to do more work on the construction of the explanations that we use to show that. I am happy to go back and look at the narrative. I suspect that the numbers can be put together in a way that shows that, through a variety of funding allocations and routes, we invest strongly in the provision of such services. If that is not explicit in a target or the narrative that surrounds the transport portfolio budget, I accept that we need to do more work on that. I am happy to take a recommendation from the committee in relation to that need.

**Paul Martin:** In dealing with social exclusion, more assistance could be given by transport providers, given that £53 million has been invested in bus subsidy. Perhaps we should expect more from transport providers in areas of social exclusion.

**Tavish Scott:** I take the point about expecting more of our transport providers. We have built into the bus route development fund—I hope that I have badged it correctly—a challenge to bus providers and transport companies to be more inclusive and imaginative about routes that may not be commercial but which we can support because they meet particular objectives for communities such as the ones that Paul Martin is talking about. That is an issue on which we can do more work. Again, if we can provide more detail on that, we will.

**John Ewing (Scottish Executive Enterprise, Transport and Lifelong Learning Department):** Through the national transport strategy, we are taking account of how we can best address social inclusion issues. A dialogue is taking place on that. We have also recently begun a conversation with the Confederation of Passenger Transport

about how best to build on conclusions that the committee drew in its investigation of the bus industry. That will involve discussion of how to tackle some of the issues that Paul Martin identifies.

**Paul Martin:** Table 5 in the Scottish Parliament information centre briefing gives information on transport efficiency savings by source. There are headings on rail franchise procurement and the introduction of ticketing machines. I ask the minister to elaborate on how we are to arrive at those savings and on what savings will be returned to the company that operates the franchise.

15:45

**Tavish Scott:** John Ewing will keep me right on how the figure on ticketing machines was built up. Forgive me for not being absolutely familiar with the original construction, but anyone who goes from Queen Street to Waverley day in, day out will know the current position. Ticketing barriers have improved fare box returns and the expected savings will translate into a reduction in First ScotRail's subsidy requirement bid. The company will not get more; rather, the taxpayer will not put so much money into the company and the overall service will be improved. I dare say that there have been glitches, but the approach has worked on the Queen Street to Waverley route and has been rolled out to other stations in Scotland. I hope that the company and therefore the taxpayer will benefit from the advantages of such income—that will be of assistance.

On rail procurement, the franchisee—First ScotRail—is on course to deliver the key elements of its capital expenditure programme, although the scale of the undertaking has posed difficulties for programme co-ordination in the organisation. Work programmes at stations are now established and the programme for the remainder of the 2005-06 financial year is now largely agreed. The company has worked hard to identify additional alternative sources of funding and contributions from third parties where doing so is appropriate. It has also looked for opportunities to reallocate expenditure that is not needed for a particular resource. Therefore, First ScotRail has adopted a number of practical targets and action points in order to produce savings and it has discussed with the department how things can be taken further.

**Paul Martin:** I asked about ticketing machines. What percentage of savings is being returned to the company? Will there be a net effect on future ticket price increases?

**John Ewing:** The efficiency savings money will not be returned to the company, but will reduce the overall subsidy that the company is paid. It is therefore banked for the public sector.

One benefit of ticketing gates is that they improve the company's revenue collection. That takes us to the issue of revenue share and the potential for payback to the public sector if the revenue that First ScotRail gathers exceeds the expected targets. We received a repayment of £1.5 million from First ScotRail for the second half of 2004-05 and we expect a share in the revenue growth from the railways in the current financial year, although it is too early to say what that amount will be.

**Mr Davidson:** I was a little puzzled by the minister's opening statement, in which he spoke about an increase in spending. Table 8.02 shows a reduction in rail service spending in real terms. The figures for ferry and bus services are flat. I accept that there have been areas of improvement, but we need to use real-terms figures and not current pricing when we are considering long-term budget lines.

I appreciate the minister's comments on the timetabling of transport infrastructure projects, about which we look forward to seeing details. I presume that expected delivery dates and final cost predictions will be provided. I think that he said that they would be and I hope that they will be—if he did not say that they would be provided, we would like them to be.

I want to return to route development. I have seen obvious advances in airports, but for the sake of argument, how will Inverness airport and Aberdeen airport—which are extremely unlike the central-belt, hub airports—be improved as a result of partnerships with the Executive? Can the minister give us more details about what he expects from the route development fund for freight?

Finally, what assumptions has the Executive made about inflation in the transport sector in general? What efficiencies are being sought?

**Tavish Scott:** Mr Davidson has asked many questions. I will not let him get away with what he said about table 8.02. There is a 7.5 per cent increase in public transport spending in the next financial year compared with the current financial year. I am very pleased with that—those of us on the right side of the argument about public transport spending applaud any Government that increases spending on public transport. If Mr Davidson takes an alternative view, that is fine: we live in a democracy, and he can argue for something different. In such terms, 7.5 per cent is a step forward.

We have, very helpfully, used the criteria—which, of course, must be subject to European Commission approval—to encourage greater use of route development out of Inverness and Aberdeen airports. That did not happen to the

same extent when the route development fund was first established. There have been several initiatives, particularly in Aberdeen—I am sure that Mr Davidson is well aware of them—to open up new routes. I always go further in applying that policy to encourage new routes if I can. That applies to all our Scottish airports, including the two that he mentioned.

I met the general manager of Aberdeen airport a week or so ago when I was coming south from my constituency. We had a very positive discussion about the investment that BAA is making in a new international arrivals and departures hall at Aberdeen airport. It will include a great deal of branding that will represent a very positive image of Scotland for people arriving in Aberdeen. On the back of that, BAA is taking forward with us several initiatives that I hope will develop further. It would, however, be inappropriate to go into specifics.

Of course, the route development fund also applies to Inverness, and I hope to see further developments there. Moreover, I want to make sure that the negotiations on the private finance initiative buyout are concluded by the end of the year. I hope that that will bring benefits for Inverness airport in attracting new business. There is a very positive story to tell.

Perhaps John Ewing can find the table on our investment in freight. I may ask Claire Dunbar-Jubb to answer the question about assumptions on inflation, but we need to be quite specific about what we mean by inflation. If David Davidson is asking about the entire transport budget, I am sure that we can give an answer.

**John Ewing:** Table 8.08 shows the planned resources for developing both freight facilities and the freight industry. The resources include a freight facilities grant to encourage the transfer of freight from the roads primarily on to rail.

The financial planning of the transport budget, like any other part of the Executive budget, is done on a cash basis. We have to be able to measure the outturns over a period. They will vary depending on the various elements in the budget. Construction costs inflation is often ahead of ordinary inflation, and we must think about that when we consider what we can deliver with the available resources.

An important part of any procurement process is the maximising of efficiencies. However, it is a little bit like asking, "How long is a piece of string?" When we set out to build a project, we go to the market to ensure that the process of procurement is competitive and that it delivers at the best price.

**Mr Davidson:** Can you give us a range? I appreciate that different sectors will have different rates of inflation.

**John Ewing:** We cannot at the moment, unless Claire Dunbar-Jubb has the numbers.

**Claire Dunbar-Jubb (Scottish Executive Enterprise, Transport and Lifelong Learning Department):** We may need to come back to you to confirm this, but I am fairly certain that the real-terms figure is about 2.5 per cent. We know that there are different factors for the construction industry in relation to roads and rail. When we do our forecasting we take the factor index into our calculations. In the draft budget, a generic inflation figure is applied to the whole Executive for cash-based funding.

**Mr Davidson:** Thank you.

**Tommy Sheridan:** The total budget figure for rail services in Scotland is £270 million for 2007-08. The minister indicated that the figure excludes the extra budget that will come our way from London—the budget that is commensurate with the new powers that the Parliament is assuming from Westminster. In order for us to arrive at a global figure, can he give us an approximation of that extra budget?

**Tavish Scott:** Although some detail remains to be sorted out, we expect the global figure to be around £360 million. It comprises three elements, and it may be helpful if I detail them for the committee. The first is the previously given value-for-money funding in relation to Network Rail's activities in Scotland, and is based on an estimated Scottish share of Network Rail's regulatory asset base. The final determination of that will be made by the Office of Rail Regulation, which is why we cannot give a specific figure at this stage.

The ORR will also sort out a number of other issues in that respect—some elements have not been finally sorted yet. I think that I said in my opening remarks that, as soon we have the final figure, we will bring it to the attention of the committee as quickly as we possibly can.

**Tommy Sheridan:** So, by 2006-07 or 2007-08, we could be spending somewhere in the region of £630 million a year on the provision of rail services in Scotland.

**Tavish Scott:** If the figure for the franchise is added to the Network Rail expenditure, one would arrive at that kind of figure—give or take some details.

**Tommy Sheridan:** I asked the question to ascertain whether the minister has an estimate of how much it costs in total to run the rail network in Scotland. There has been some recent analysis of the subject.

**Tavish Scott:** The cost to the taxpayer in Scotland, to whom in this context I am pleased to be accountable through this committee and the

Parliament, are the costs of the franchise—over the period with which we are familiar—and Network Rail's costs in relation to the physical infrastructure of the network. I can assure Mr Sheridan that we keep a tight eye on all that expenditure and will continue to do so.

The costs will be one of the principal responsibilities of the transport agency. We need to ensure that what is a huge amount of public money on an annual basis by anyone's standards is properly accounted for. We are extremely confident that that expenditure is appropriate to the needs of the Scottish rail network and, of course, the passengers who depend on the service.

**Tommy Sheridan:** How much more would it cost for the transport agency to run Scotland's rail services as a public concern?

**Tavish Scott:** That is a somewhat hypothetical question. The service is operated by First ScotRail, which has the franchise, and by Network Rail, which is responsible for the infrastructure. I am sure that Mr Sheridan is familiar with the make-up of Network Rail. The situation is as it is. I cannot answer a hypothetical question.

**Tommy Sheridan:** Perhaps the minister could have a stab at it after he has had a chance to think it over. Given the huge amount of public money that is being poured into rail in Scotland, it seems to make sense that we should own the service.

Which budget heading does the M74 come under and how much does the road account for in each of the relevant years?

**Tavish Scott:** The M74 comes under the capital construction line in table 8.10 on page 132 of the budget document. The figures are as they appear in that table.

On the first point about the rail franchise and Network Rail operations, I want to make it clear that Mr Sheridan should not be under any illusion about the fact that, as a member of the Scottish Parliament and as a member of the Local Government and Transport Committee, he has the absolute right to hold those bodies to account through the new transport agency and the minister for transport of the day. It is important to recognise that the accountability mechanisms have greatly improved as a result of the transfer of responsibilities. I am sure that he and others will want to take advantage of that in the pursuit of the best value for public money.

**Tommy Sheridan:** On the M74, does the minister accept that it was unfair of him to imply that the legal action that is currently under way is an impediment? Such an implication is contrary to the democratic rights of those involved, who are trying only to uphold the result of the public inquiry into whether the road should proceed.

16:00

**Tavish Scott:** I do not think that any minister—I include myself—has implied any such thing. I do not accept the basis of the question.

**Tommy Sheridan:** I have two final points. The evidence from England is that a railway station closure programme is under way on the basis of station usage. Will you give us a commitment that such a criterion will not be used to evaluate train station closures in Scotland and that criteria will be clearly established and will involve consultation with all user groups, trade unions and others before any stations are proposed for closure in Scotland?

**Tavish Scott:** We do not propose to close any stations, so I am not aware of guidance or guidelines that relate to that. I can only repeat an earlier point—I apologise for boring the committee—that because we now have the powers, the transport minister of the day will be astonishingly accountable to the committee and to Parliament on such matters. It is impossible to imagine that such an issue would not be raised through every mechanism that is available to members.

**Tommy Sheridan:** My final point relates to Scotland's identity and transport issues. When I travel to other countries, I am struck that their airports tend to be named after iconic individuals in those countries, such as JFK in America. Is the minister willing to consider the Rabbin Burns airport in Prestwick, the William Wallace airport in Glasgow or the St Andrew airport in Edinburgh? Would that be a way to boost our cultural identity through our airports?

**Tavish Scott:** It would be dangerous for me to make policy on the hoof without proper discussions. I flew into the George Bush airport in Houston—

**Tommy Sheridan:** I avoided that one.

**Tavish Scott:** I thought you might have done.

The suggestion is worthy of consideration, but—forgive me—I will not make policy on the hoof on naming airports. The former lord provost of Edinburgh undertook an exercise on the branding of our airports and on ensuring that they are attractive places at which to enter Scotland, and it is important to make as much of that as we can. I am prepared to accept that that might include what we call our airports. I will leave it at that.

**Fergus Ewing:** Last year, in our report for stage 2 of the budget process, the committee made several specific and detailed recommendations about major transport projects, all of which were intended to help the civil engineering sector and the achievement of the aims that, broadly speaking, we tend to share. Those

recommendations included several points to which the Executive does not appear to have responded, although I understand that it is not obliged in standing orders to respond to stage 2 recommendations. I am interested in the minister's comments on some of the recommendations. First, should a preparation pool be developed through consultation between the civil engineering industry and the Executive?

**Tavish Scott:** I am sorry; you are talking about a preparation—

**Fergus Ewing:** I am talking about a preparation pool of contracts, such as the major road contracts for the new Kincardine bridge or the final stage of work on the A830 to Mallaig, which is going ahead, so that when slippage occurs—as with the M74—other projects can be brought forward. Such projects might include the Ballinluig junction on the A9 or improvements in my constituency to the A96 to Inverness airport, which I believe the minister has said he wants to proceed. The general question is whether the Executive has a preparation pool of contracts so that, when slippage occurs—as it always does for a plethora of reasons—our civil engineering sector does not sit waiting to be needed but instead has the opportunity to use its staff and capacity and the supply chain to undertake other work.

**Tavish Scott:** There are a couple of aspects to consider. Mr Ewing was on the Finance Committee when we discussed issues relating to the infrastructure investment plan, so I know that he recognises that an important aspect of the Executive's decision to create and commit to an infrastructure investment plan is that that approach gives as much certainty as can be given, not just in the transport portfolio but across all portfolios, about the capital investment profile of the devolved Government. As someone who comes from a local authority background, I believe that that is the right approach, because the same question used to be asked of me as a local councillor. I would be asked whether it was important that local authorities should be able to give an indication—not specific details, but some indication—of the profile of capital spend over a substantial period, so as to allow the very planning that Mr Ewing has described to happen. I would argue strongly that that is what is occurring through the infrastructure investment plan across all portfolios.

My answer to the question that the convener asked about specific projects applies to Mr Ewing's question as well. If projects are at a developed stage, we seek to slot them in, for want of a better expression, where expenditure allows that to happen. However, I am sure that Mr Ewing accepts that we can do that only once those projects have been through the appropriate

assessments—notably a STAG assessment—and once funding has been sorted out, whether it is a 100 per cent funded project that is ours to promote or a joint project with a local authority or any other partner. It is important that that process happens. I think that committee members would be concerned if we pulled off the shelf a project that had not completed its appropriate technical and financial assessments and simply slotted it in at an early stage. I have no doubt that that would lead to cost overrun and slippage of timescale, which I am determined should stop happening.

I am also familiar with the recommendations and arguments made by the committee about the need for as much planning as possible around the delivery of infrastructure projects. I hope that I have answered Mr Ewing's question in relation to the overall plan and in specific terms, but I recognise that the transport agency will be an important part of the process of delivery. My frustrations about projects such as the Ballinluig junction were pretty self-evident, but we can ensure that the new system that is being put in place will improve the process. I hope that members, local authorities and—more important—local people will have as much clarity as possible about timescales and that those of us who pay for such projects will have as much clarity as possible about funding.

**Fergus Ewing:** I thank the minister for that reply and I accept that he has answered my question up to a point. However, the joint submission by CECA and the Institution of Civil Engineers identified the issue of bringing forward projects to the development stage. The submission said:

“the industry believes that having pre-construction issues resolved and projects on a shorter lead-in time would undoubtedly allow far greater flexibility to manage the programme, the spend and thereby the delivery.”

I hope that the committee will consider those more detailed recommendations, which I do not really have time to go into now.

Moving on to other matters, I would like to ask about the Executive's commitment to introduce tramlines to Edinburgh. I know that the minister will have been following the emerging developments closely, as his predecessor did. The report recently published by Transport Initiatives Edinburgh Ltd shows that the cost is now estimated, optimistically, at £714 million or thereabouts. By the Executive's own net present value test, do those tram projects still qualify for, or deserve, the support of the Executive?

**Tavish Scott:** I shall deal with the tram issue, but let me deal first with Mr Ewing's point about infrastructure projects overall. I accept his argument about advancing projects to the development stage, but I caution him against asserting that we should allocate committed



expenditure to projects before they have been fully worked up. He would be rightly critical of us if we did that before projects had been through the appropriate processes. I just want to put that on the record; I do not wish to labour the point.

As regards the tramlines, Mr Ewing will just have to forgive me, but I am not going to give a specific answer in relation to any capital transport project. As I said in my opening remarks, when I came into post, I asked for a review to be carried out of all the capital transport projects, including those relating to roads and rail. That review is all but complete and I hope to have discussions about it soon. As I have said on the record, I will come back to the Parliament through the committee or using whatever mechanism is appropriate if there is any change to the devolved Government's commitments on any project, either in relation to its financial position or the timescale.

I am sorry that I will not be drawn on any specific project, but my determination to hit our budget numbers and our timescales applies to all our projects. That is why I asked for the review that John Ewing's team has all but completed to be carried out. We will bring that back to the Parliament at the appropriate stage, when we have concluded our deliberations on it—if there are any changes to announce.

**Fergus Ewing:** I can understand why the minister does not want to make an instantaneous judgment but, given that he said that he was determined to hit the numbers and the timescales, perhaps I could urge him to get back to us if it turns out to be the case—as I believe it is—that the fact that the tramlines in Edinburgh will cost £714 million now means that the net present value judgment that his predecessor set out in his evidence to the Edinburgh tram bill committees no longer fulfils the one-to-one criteria. That is my reading of the situation. Perhaps the minister could look into that and get back to the committee on it.

**The Convener:** I think that the minister has already indicated that he will get back to us if there are significant departures from the present proposals as a result of the review that has been undertaken.

This will be your final point.

**Fergus Ewing:** My final point is about concessionary fares, which I suspect are a topic of continuing interest. The issue is covered on page 128 of the draft budget. I think that I am right in saying that the planned expenditure of £106 million and £110 million for 2006-07 and 2007-08 respectively is somewhat less than the ceilings that were referred to in the ministerial statement on the scheme, which I think was made on 8 December last year. I hope that I understand the reasoning behind that.

My question is a general one. From speaking to operators and companies involved in the project, my information is that there are serious logistical and practical problems that will make it highly difficult, if not impossible, for the concessionary fares scheme that will use smart card technology to be introduced as planned in April next year. Am I right about that?

**Tavish Scott:** I certainly accept that the timescale is challenging, but it is my job as the minister who is responsible for the transport portfolio to deal with such challenges and to ensure that we hit our commitments. I am determined that we will make the best stab that we can at doing that. Given that the target is undoubtedly challenging, I am sure that Mr Ewing will not be surprised to hear that I, too, meet bus operators regularly and that they have expressed concerns to me. It would be surprising if they had not, given the complexity and the challenging nature of the project. I can say to the committee that the tenders for the smart card technology and the installation of the information technology support for the concessionary travel scheme have been received and we are analysing them. Mr Ewing should be in no doubt about the fact that we are progressing the project as quickly as we can. As I have said, I am determined to sort out any problems and to deliver the scheme.

**Fergus Ewing:** I hope that the minister makes his stab in the daylight rather than in the dark.

**Tavish Scott:** I will not get into stabbing today.

**Bruce Crawford:** I for one am glad about the increase in the resources that are being put into transport infrastructure. In the draft budget, you say that putting in place new transport links will make a significant contribution to the growth of the Scottish economy because those links will get goods to market and people to work. However, I am not yet sure whether I applaud your efficiency targets—I want to burrow down into them a bit more.

The Executive's efficiency technical notes suggest that, by 2007-08, efficiency savings will be made that equate to 1.4 per cent of the departmental expenditure limit of the transport budget, yet the average savings for Scottish Executive departments will be 4.4 per cent of the DEL. Why do the efficiency savings that are identified in the transport budget appear to be less ambitious than the average for the Scottish Executive portfolios?

16:15

**Tavish Scott:** I will get John Ewing to deal with the detail of that, because he was the lead officer in pulling those figures together. By definition, there will be figures above and below the average

for the Executive. Some portfolios, including transport, are below the average figure. I was the Deputy Minister for Finance and Public Service Reform when we carried out the departmental and portfolio assessments for the efficient government programme and, from my recollection, transport had some of the harder choices on efficiency savings, not least because cutting transport spending or changing the spread between capital and revenue means that projects would simply not happen. That is one of the choices that the Government has. I ask John Ewing to burrow down into the detail, as Mr Crawford asked.

**John Ewing:** Part of the reason is the issue that the minister has hinted at: an awful lot of expenditure in the transport programme is delivered by other people or through a competitive procurement process for individual projects. We expect to drive our efficiencies through that, but they were not scored as part of the broader efficiency analysis. We identified several specific examples that fitted into the definitions that we were given and which we thought we could deliver in the timescale.

**Bruce Crawford:** I appreciate what the minister says and I accept the difficulty. However, the Executive's definition of efficiency improvements hardly sits comfortably with what has just been said. The technical notes define efficiency as

"producing the same outputs with fewer inputs"

or

"producing more or better outputs for the same inputs."

That is the guideline that the Executive has set and, in that regard, transport is no different from other portfolios.

**Tavish Scott:** That is a fair point—we are no different from any other Government portfolio. I do not want to cover the same ground, but one element is that some portfolios do better than others, if that is how we wish to see the matter, rather than looking at the Executive as a whole. I understand that the committee is scrutinising the transport portfolio rather than anyone else's. John Ewing is right that much of our expenditure is dealt with by other organisations. There is no point in making excuses; we have made the best estimate of the efficiency savings that we can make and those are the figures that you have.

**Bruce Crawford:** I appreciate that, but I hope that you understand that the purpose of the question is that every efficiency saving that we can find may be able to produce more to spend on other transport projects. I hope that you can continue to find ways in which to increase the outputs with fewer inputs, as the Executive has suggested should happen.

**Tavish Scott:** I accept that point—that is our thinking on the matter, too. However, fundamentally, if we want to spend more money on a particular project or in a particular budget line—such as the route development fund, which David Davidson mentioned—we could do so, but if that is to be a quantum leap, we would simply have to cut expenditure elsewhere. As I am sure Tom McCabe, the Minister for Finance and Public Service Reform, has explained to the Finance Committee, we can do so much in the system but, if a quantum leap in the profile of expenditure was needed, we would have to make hard choices about which budget line we wished to change dramatically to support that other one.

**Bruce Crawford:** I appreciate that, but the terminology that the Executive has used about getting better outputs for the same inputs does not necessarily support your point. The definition is that you should produce the results that you are expected to produce from less input. I am just using your definition, although, as you say, it may not fit with the transport portfolio as well as it does with others. However, there is an issue.

**Tavish Scott:** We do our best. You will not be surprised to hear that there is an internal exercise that demands of us and other portfolios the delivery of better value for money in the way that you describe. That process is on-going.

**The Convener:** Michael McMahon has a question.

**Michael McMahon:** I am sorry, convener, but I meant to indicate earlier that Bruce Crawford had covered the area on which I wanted to question the minister. Although I might have asked the questions differently, I do not think that the minister's answers would be markedly different.

**Dr Jackson:** There seems to be a lot of work going on with contracts, minister. In my constituency, the Raploch regeneration project has been doing an enormous amount on the opportunity gap—it has been constructing a road and it has been able to take on local labour and provide training, which has led to permanent jobs. That seems a win-win situation.

My first question is on the back of what Bruce Crawford said. What is your department doing generally on contracts and innovative approaches? My second question is on the skills gap. I am sure that the section of the report to which Fergus Ewing referred on the engineering sector earmarked the difficulty that the sector envisaged with regard to skills. What work has been done on the skills gap? Is it decreasing? When we raised the issue of local roads with George Lyon earlier in the meeting, he suggested that we might ask you—

**Tavish Scott:** Did he now?

**Dr Jackson:** He suggested that we might ask about the possibility of getting a more holistic view of roads. Obviously, that issue is outwith your portfolio at the moment, but we have always been keen to have a much more planned approach to the maintenance of local roads. We would like that to be dealt with in the context of transport as a whole.

**Tavish Scott:** I will deal with your questions in reverse order and perhaps ask my colleagues to deal with the contracts issue. First, on local roads, one of the pieces of work that we are conducting in conjunction with local authorities is to pull together an asset management register of local roads across Scotland so that we have on record the same kind of analysis as we have for our trunk road network. That will give us, in simple terms, as accurate a record as we can of both the condition of local roads, because that is part of the asset register, and the maintenance schedule for them.

I am extremely keen for us to ensure that the money that is allocated to local authorities for local road maintenance through the GAE mechanism is spent on local roads. The picture is a bit patchy; some local authorities spend more and some spend less than their GAE entitlement. However, I am always keen to point out to my colleagues in local government that we fulfilled the COSLA bid in the most recent spending review in relation to local roads, not least because of pressure from local government and members of the Parliament. It is frankly disappointing for me to see that some local councils have not spent their full GAE allocation on local roads, although they asked for it. I want to come back to that issue with my colleagues in the Finance and Central Services Department and see what we can do to help that process.

Part of that process—and this is why the asset management register is so important—involves ensuring that we and local government have as clear a picture as we can of the condition of local roads, the maintenance schedules and the planned expenditure, broken down by each local authority area. I hope that that is helpful to Sylvia Jackson and that it gives a flavour of where we are on the issue.

On skills and engineering, I have discussed with ministerial colleagues in the Enterprise, Transport and Lifelong Learning Department the issues in relation to the skills gaps. I have also discussed with education ministers the issue of encouraging more young men and women to look for careers in engineering and to pursue engineering degrees. There is ministerial involvement across portfolios to ensure that we take off our normal departmental hats to address such issues across boundaries.

I am not sure that I picked up the point about contracts; perhaps John Ewing could speak about

it. However, I can say that the transport agency will have a role in disseminating best practice on contracts. That may be of assistance in the situation that Sylvia Jackson described. The agency may be able to help in contract management and the construction of contracts or in creating conditions that help particular groups. I am sure that the agency will work with local authorities in disseminating best practice.

**John Ewing:** There are no specific initiatives along the lines of the Raploch scheme that Sylvia Jackson mentioned. Part of the difficulty in operating such a scheme is a combination of the general procurement rules, European Union rules and striking a balance in judging which company should be taking a contract forward. Should a company be judged on its willingness to employ local people or on the price for which it is prepared to deliver, which relates to what Bruce Crawford said about outputs and inputs? Sylvia Jackson raises an interesting question, but at the moment we have no specific schemes in that area.

**Dr Jackson:** That innovative way of approaching the opportunity gap might be made more general. Even if it is not applicable at the Scottish Executive level, it might be at the local level. It would put us in a win-win situation in addressing the skills issue as well as the opportunity gap.

**Tavish Scott:** I will give a commitment to raise the matter with George Lyon. If there is a good, appropriate working model, the improvement service could pursue the issue in local government; it would be exactly the kind of issue that the improvement service would wish to take up and provide advice on across local boundaries.

**Dr Jackson:** Lovely. Thank you.

**The Convener:** I note that expenditure under the heading “Other Air Services” in table 8.07 has increased from £2.4 million in 2004-05 to £16.8 million in 2005-06. Is that the air route development fund?

**Tavish Scott:** Yes.

**The Convener:** That is what I wanted clarified.

**Mr Davidson:** There is talk in academic circles and in the industry that massive savings and efficiencies could be made if the rolling stock operators on the railways were responsible for the maintenance and management of the rail system. Do you have any thoughts on that, minister? Is any work being done on the matter?

**Tavish Scott:** I hope that Mr Davidson will accept that, given the devolution of rail powers and the challenge that that undoubtedly creates for Government and for the agency in particular, we need a little time to bed down both the delivery and monitoring of rail. We need to ensure that the

franchisee's performance targets are met. I will be more than happy, using the agency's expertise, to discuss with the rail industry any innovative solutions that can improve the performance of the system and introduce improvements for passengers. However, you will have to give me a little time to let the system bed down before we can take forward new ideas, thoughts and initiatives on the operation of the system.

**Mr Davidson:** I thank the minister for that positive response.

**Bruce Crawford:** Does the minister agree that the Conservative member seems to accept that some of the disjunction and fragmentation that happened as a result of the privatisation of the railways can be undone and that we can have a much more joined-up system? Does the minister accept that that is a good idea?

**Tavish Scott:** It is difficult for me to deal with being drawn into politics. However, I note the points that Mr Crawford makes and I do not necessarily disagree with them.

**John Ewing:** May I make a point of clarification?

**Tavish Scott:** Not on politics, John.

**John Ewing:** The heading "Other Air Services" includes the air route development fund and the potential support for the development of the Highlands and Islands air services, about which we are in discussions with the Highlands and Islands transport partnership.

**The Convener:** What is the split between the two?

**John Ewing:** I think that it is £12 million for air services and £4.8 million for the route development fund.

**The Convener:** Thank you. That brings us to the end of questions. I thank the minister and his colleagues for answering the committee's questions. You will receive our report in due course.

**Tavish Scott:** Thank you.

**The Convener:** That is the end of the public part of the meeting. As soon as the minister has left, we will go into private session.

16:30

*Meeting continued in private until 17:05.*

Members who would like a printed copy of the *Official Report* to be forwarded to them should give notice at the Document Supply Centre.

No proofs of the *Official Report* can be supplied. Members who want to suggest corrections for the archive edition should mark them clearly in the daily edition, and send it to the Official Report, Scottish Parliament, Edinburgh EH99 1SP. Suggested corrections in any other form cannot be accepted.

The deadline for corrections to this edition is:

**Friday 11 November 2005**

#### PRICES AND SUBSCRIPTION RATES

##### OFFICIAL REPORT daily editions

*Single copies: £5.00*

*Meetings of the Parliament annual subscriptions: £350.00*

The archive edition of the *Official Report* of meetings of the Parliament, written answers and public meetings of committees will be published on CD-ROM.

##### WRITTEN ANSWERS TO PARLIAMENTARY QUESTIONS weekly compilation

*Single copies: £3.75*

*Annual subscriptions: £150.00*

Standing orders will be accepted at Document Supply.

Published in Edinburgh by Astron and available from:

**Blackwell's Bookshop**  
53 South Bridge  
Edinburgh EH1 1YS  
0131 622 8222

**Blackwell's Bookshops:**  
243-244 High Holborn  
London WC1 7DZ  
Tel 020 7831 9501

All trade orders for Scottish Parliament documents should be placed through Blackwell's Edinburgh

**Blackwell's Scottish Parliament Documentation**  
Helpline may be able to assist with additional information on publications of or about the Scottish Parliament, their availability and cost:

**Telephone orders and inquiries**  
0131 622 8283 or  
0131 622 8258

**Fax orders**  
0131 557 8149

**E-mail orders**  
[business.edinburgh@blackwell.co.uk](mailto:business.edinburgh@blackwell.co.uk)

**Subscriptions & Standing Orders**  
[business.edinburgh@blackwell.co.uk](mailto:business.edinburgh@blackwell.co.uk)

**RNID TYPETALK calls welcome on**  
18001 0131 348 5412  
Textphone 0845 270 0152

[sp.info@scottish.parliament.uk](mailto:sp.info@scottish.parliament.uk)

All documents are available on the Scottish Parliament website at:

[www.scottish.parliament.uk](http://www.scottish.parliament.uk)

**Accredited Agents**  
(see Yellow Pages)

and through good booksellers

Printed in Scotland by Astron