

LOCAL GOVERNMENT COMMITTEE

Tuesday 25 April 2000
(*Afternoon*)

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CONTENTS

Tuesday 25 April 2000

	Col.
BUDGET PROCESS.....	802
SUBORDINATE LEGISLATION.....	833

LOCAL GOVERNMENT COMMITTEE

13th Meeting 2000, Session 1

CONVENER

*Trish Godman (West Renfrewshire) (Lab)

DEPUTY CONVENER

*Johann Lamont (Glasgow Pollok) (Lab)

COMMITTEE MEMBERS

*Colin Campbell (West of Scotland) (SNP)

*Mr Kenneth Gibson (Glasgow) (SNP)

*Donald Gorrie (Central Scotland) (LD)

Mr Keith Harding (Mid Scotland and Fife) (Con)

*Dr Sylvia Jackson (Stirling) (Lab)

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

*Bristow Muldoon (Livingston) (Lab)

*Mr Gil Paterson (Central Scotland) (SNP)

*Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD)

*attended

WITNESSES

Nikki Brown (Scottish Executive Development Department)

Duncan Gray (Scottish Executive Development Department)

Bill Howat (Scottish Executive Development Department)

Ainslie McLaughlin (Scottish Executive Development Department)

Professor Arthur Midwinter (University of Strathclyde)

Christie Smith (Scottish Executive Development Department)

CLERK TEAM LEADER

Eugene Windsor

ASSISTANT CLERK

Craig Harper

LOCATION

Committee Room 3

Scottish Parliament

Local Government Committee

Tuesday 25 April 2000

(Afternoon)

[THE CONVENER *opened the meeting at 14:06*]

The Convener (Trish Godman): Right, comrades, let us start. Before we begin the formal agenda, I should say that all members should have received a letter saying that Eugene Windsor has been promoted and will now be with us permanently, which is good. I have to say, however, that his attitude has changed a wee bit since he got his promotion—[*Laughter.*—]and that we will have someone else working alongside him. I want to record my thanks for all his work so far, my congratulations on his promotion and my best wishes for a successful future. I am sure that the rest of the committee will agree with me. [MEMBERS: “Hear, hear.”]

Mr Kenneth Gibson (Glasgow) (SNP): Speech!

The Convener: He is not yet used to speaking in committee.

I ask members to agree to hold item 4 in private, because the Accounts Commission will be giving us information about specific councils. If members agree to that, we will follow the Chatham House rule—what is discussed stays within these four walls and we do not take it any further. Is that agreed?

Members indicated agreement.

Mr Gibson: Why do you want to do that in private? I know that it concerns councils, but local authorities themselves discuss such matters all the time.

The Convener: The Accounts Commission information has not yet been published. Do you agree to discuss it in private? Last time, you agreed and then said that you had not.

Mr Gibson: That is not true. I might just stick, bubbly, and move that we discuss it in public. [*Laughter.*]

The Convener: You would be outnumbered.

Mr Gibson: Right, I shall accede to your request, convener.

Budget Process

The Convener: We move to the first item on the agenda. I introduce Christie Smith, Bill Howat, Duncan Gray, Ainslie McLaughlin and Nikki Brown, who are all from the local government division of the Scottish Executive. They will give a presentation and then we will ask questions. A paper has already been provided; all members had a copy sent to them at the weekend.

Christie Smith (Scottish Executive Development Department): I did not intend to make a presentation, but rather to make a few remarks about the various processes that we are involved in that will lead to the determination of the local government settlement for next year. I have sent out some papers about how the current system works. There is a figure for the total local government settlement for next year in the annual expenditure report. That figure is subject to review over the summer. The Scottish Executive's review of its forward plans will be subject to the UK Government's spending review, which will set the Executive's overall budget totals for the following two years. We expect the Chancellor of the Exchequer to announce the total for Scotland in July, which will allow ministers to set out their plans in September.

Ministers are also committed to consulting local government about the settlement. Mr McConnell, the Minister for Finance, will meet the Convention of Scottish Local Authorities on 10 May—the day after he appears before this committee—to discuss COSLA's views and consult it on the settlement for next year.

The papers that I have already sent to the committee describe how the settlement is currently determined each year. That work is continuing and the expenditure and distribution committees have begun their work. In addition, Mr McConnell has asked us to examine some aspects of the current system, to see whether they can be improved for next year. He has, for example, asked us to examine what scope there is for introducing three-year settlements for each council. He has also asked us to examine what scope there is for simplifying the distribution system and to investigate whether, by agreeing jointly between the Executive and local government the outcomes that we want to pursue, we can make less use of specific grants, ring-fencing, hypothecation and so on. Mr McConnell has set up a joint COSLA-Scottish Executive working group to examine those and other strategic issues. The work of that group is expected to be reflected in the settlement for 2001-02.

I will limit myself to that brief description of the reviews that we are engaged in and the work that

we are doing to feed into the Executive's review for next year. The papers that have been issued to the committee describe the situation that we start from. I do not want to say much more by way of introduction, but I would be happy to answer any questions that members may have.

The Convener: Thank you. I would like to make a comment on your paper, which I found very complicated. I speak for myself—I do not know whether other members understood it. Local government finance is undoubtedly a complex issue, but it seemed to me that a document that read more easily would have been more helpful.

You said that the minister has asked you to examine outcomes and that local government and the Executive will be involved in that. Does that mean that he intends to get into consultation with local government about priorities? By outcomes do you mean priorities or something different?

Christie Smith: This has to do with joint priorities and with the respective roles of the Executive and local government in delivering the commitments that are made in the programme for government. We want to establish what degree of agreement can be reached, so that there can be a joint statement of desired outcomes.

The Convener: You also said that in September ministers will make a final decision about distribution of finance. When are local authorities usually told what their budget figures will be? Is it in about January?

Christie Smith: I said that by September ministers will be able to outline their draft plans, which will then be considered by the Parliament. By that stage in the draft plans there is usually one figure for local government, which is discussed with COSLA and others over the following two months. That figure is usually finalised around December, and the distribution between councils is decided on shortly after that.

The Convener: So there is no intention of trying to give individual councils a better idea before January? Legally, they have to set a budget by 9 March, which is a very short time, given that they have to work out what their priorities are and how to distribute the money.

Christie Smith: We are examining ways of bringing the timetable forward, but there are quite a few constraints. We start with a global figure in September and have two or three months to work that into a detailed distribution. If we move to three-year settlements or a new system, that will complicate the process.

Bristow Muldoon (Livingston) (Lab): I welcome the consultation process that is to take place with COSLA, in which I expect this committee will be involved. Do you expect that the

system of safety net adjustments will be considered within the review period to produce stability for local authority funding? I understand that there has been a fundamental review of service distribution and that you want to give local authorities time to adjust to that.

I am concerned that areas whose population is continually growing can be disadvantaged. Although their grant-aided expenditure will increase year on year, they are not likely to receive the full finance because of the safety-net effect but will have to provide services for the people who have moved to the area. I recognise that that causes problems for only a small number of authorities, but it tends to be the same authorities every year and the situation is predicted to remain the same for 10 or 15 years. Do you expect that to be reviewed?

14:15

Christie Smith: The fundamental purpose of providing a three-year forward look for local authorities is to provide stability so that they can plan and organise their services more effectively. To ensure that they can, we need to examine every one of the existing mechanisms for smoothing and damping. Safety net schemes are part of that. There are damping mechanisms in the system that ensure that every change is phased in over a number of years.

Donald Gorrie (Central Scotland) (LD): I have several questions, so I will get two in just now and join the queue at the end.

There has been an annually widening gap between GAE and aggregate external finance. Successive Governments have fixed a figure of what they think is reasonable local government expenditure but have not fully funded it. Is that a policy or an accident?

In the real world, what is the difference between guidelines and crude and universal capping, other than that guidelines force a council to reach a predetermined figure over a year or two rather than in one year? Is there any real difference?

Christie Smith: I will answer the first question and ask Ainslie McLaughlin to answer the second.

The gap that you refer to is not between GAE and AEF but between GAE and councils' budget to spend. As I understand it, GAE is fully funded through AEF or council tax.

Donald Gorrie: No. I do not think that that is correct.

Christie Smith: I think that it is correct. The gap—which is about £400 million or £500 million—is between councils' budget to spend and GAE. GAE is the figure that is used to calculate the

financing of local government from whatever source.

Donald Gorrie: I have not got the right pieces of paper with me, but I could demonstrate to you that that is not correct.

Ainslie McLaughlin (Scottish Executive Development Department): The main difference between guidelines and crude and universal capping is that guidelines are not firm and give councils the ability to budget above the guidelines by a small amount. Also, councils can carry forward any surplus that they have if they have not spent the figure in the guidelines.

Mr Gibson: I understand that there is difficulty with regard to the difference between GAE and guidelines in that some local authorities spend only a little more than GAE and some spend much more—I think that Angus Council spends 1.7 per cent above GAE whereas Shetland Islands Council spends about 24.8 per cent above. I do not have the figures to hand; those are from memory. I understand that although there has been a widening gap, Jack McConnell has declared that the gap will close up in the next 15 years. What impact will that have on budgets on the ground and on service provision?

In paragraph 23 on page 7 of your submission, you say that Scottish ministers have the power to cap an authority when it is considered that the authority's planned level of expenditure is excessive in absolute terms or when it is considered that the planned year-on-year increase in its expenditure is excessive. How would that be defined on an authority-by-authority basis?

Christie Smith: I will ask Ainslie to deal with that question.

Ainslie McLaughlin: On your first question, the guidelines system contains an element of convergence. Councils that spend significantly above GAE have their full guideline increase for that year scaled back by the amount they spend over GAE. That is meant to be a gradual process of convergence over 15 years.

Mr Gibson: The impact on front-line services in Glasgow City Council, which spends about 13.8 per cent above GAE, and in Shetland Islands Council, which spends more than 24.8 per cent above GAE, will be considerably greater than the impact on services in Angus, which spends 1.7 per cent above GAE. What allowance will be made for such a difference?

Ainslie McLaughlin: The convergence mechanism is designed not to create sharp corrections year on year, which means that the process of convergence will be gradual for a council such as Glasgow.

Mr Gibson: Will there be a substantial reduction

for authorities that do not spend as much over their GAE figure?

Ainslie McLaughlin: Those authorities will receive the full guideline increase.

Mr Michael McMahon (Hamilton North and Bellshill) (Lab): My question concerns the scope of your report. Local authorities have raised with the committee concerns about the cost-effectiveness of challenge funding, particularly the amount of money available for administrative costs in accessing such funding. Does your report address that issue?

Christie Smith: The Minister for Finance is aware of such concerns, which is why he wants us to investigate whether there is a better way of achieving the same end. We will focus on agreeing outcomes so that central and local government can agree on their aims and there will be less emphasis on the mechanisms of and conditions attached to funding and on inputs into the service.

Mr McMahon: Will you extend that investigation to all types of grant? For example, will you examine the effectiveness of rules on the distribution of grants and the effect of such rules on local authorities' ability to spend grants?

Christie Smith: We are not reviewing specific grants as such. The policy responsibility for each grant lies with the minister responsible for that service area. However, we are trying to find a new approach to defining outcomes that will make it less necessary to use specific grants, ring-fencing and hypothecation.

Donald Gorrie: In paragraph 3 on page 1 of your report, you say, quite correctly:

"Local authority self-financed expenditure (LASFE) . . . scores as public expenditure."

I have always been defeated by the reason for that. As the tax is raised locally and spent locally, it is no business of the Chancellor of the Exchequer. Will you explain the matter in words that I can understand?

Secondly, councils report to local MSPs that they have had to cut their budgets. When local MSPs raise that issue, ministers tell them—no doubt correctly—that, as the percentage increase is such and such, there have been no cuts at all. Will you shed some light on that matter?

Christie Smith: On your first question, this area is complex and has been a source of disagreement between us and COSLA. However, we will examine the issue with COSLA in the strategic issues working group.

I will briefly outline the Executive's position. Local authority expenditure is public expenditure however it is raised, which is in line with

international conventions on local authority expenditure and the UK fiscal system. Local authority expenditure has an effect on aspects of the Executive's expenditure such as council tax subsidy and other nationally financed programmes, which is one of the reasons such expenditure is counted against and controlled as public expenditure.

On your second point, about divergent views on budget cuts, I cannot speak for individual councils, but the basic problem seems to be that whereas councils talk about cuts in their budgets at spend—what they intend or want to spend—the Executive talks about the resources that are being provided to local government. Although the Executive might be providing for a 3.7 per cent increase in resources to local government—as this year—councils might be budgeting for a greater increase than that, and so may well say that they have had to cut their budgets. That does not mean, however, that they will have to get by with less funding than the previous year.

Donald Gorrie: Are you saying that the cuts are only in councils' proposed—and overambitious—budgets? Many councils have claimed that they are making real year-on-year cuts in their budgets.

Christie Smith: The total resources being provided to local government are increasing, on average, by 3.7 per cent this year and every council will receive some increase. However, councils are saying that that increase is insufficient to fund the services that they want to provide in a year.

Bill Howat (Scottish Executive Development Department): I want to elaborate on that. Like you, I go round visiting councils. One of the things that seems to get missed out of the debate is the fact that even if the resources are increasing, there is a great deal of change at any given moment in time.

The COSLA councils and the Scottish Executive share priorities—education, social work and public transport. It is inevitable if, for example, education is given a big increase—say 6 per cent—that that might mean the council is unable to give a 6 per cent increase to what might be termed local priorities. There are arguments about whether cuts are going on. As Christie Smith said, the overall total being provided by the Executive is increasing, but that does not necessarily mean that there is equal jam for all in each council area. Expenditure is always being reprioritised and reallocated.

The Convener: Are you happy, Donald? I guess you are not, but does that answer your question?

Donald Gorrie: I am not happy, but I understand what is being said.

Johann Lamont (Glasgow Pollok) (Lab): You will no doubt be aware that there has been an attempt to open up the debate on the impact of the budget on women, in particular. What consideration has been given to gender impact assessments of budgets? Have you considered examining budgets in a slightly different way to see whether they meet the needs of women, which are particularly obvious in local government?

On page 4 of your submission on the local government finance system, you talk about different ways of distributing GAE. You say that such distribution

“should be based on objective factors that are outwith the policy choice of local authorities.”

Implying that there is some kind of objective truth and that policy decisions are not based on an objective identification of need does not seem a particularly reasonable distinction.

In an area such as Glasgow, the explosion of drugs has an impact on the number of young people coming into care, which has an impact on social services. We cannot do other than meet that need. Money may come along later, but a decision has to be made. Do you agree that the distinction is rather false? One of the difficulties that we have is the suggestion that there is an objective truth, when policy decisions are driven as much by objective identification of need as by situations.

I note that you say that it is difficult to define how to decide on museums and galleries, because they are so highly discretionary—I think that that is the term used. Do you have any observations on the experience of an area such as Glasgow, which has museums, galleries and a number of other services that provide a national function, which are within local government expenditure in a way that they are not in the city in which we are meeting? Has any work been done to consider what is called metropolitan status for Glasgow? Is it reasonable to expect the local government division to develop that?

Christie Smith: I will start with the point about the gender impact. By and large, we would expect the gender impact of the expenditure programmes for the various services to be taken into account when they are put together. There is not a separate stream of consideration in the local government finance system, although we would be glad to take into account anything that you have to say on that point.

Johann Lamont: Will you link into the equality unit in any way?

Christie Smith: Yes. When we do our review, we work with the education department, the social work department and the various other bits of the

Executive. They all feed in their needs and priorities and that is put together into a local government finance package. I am sure that each department consults the equality unit on the gender impact of their programmes, but we do not have a separate local government finance gender impact programme. If you think that we are missing something by not having one, we would be glad to hear about it.

14:30

You are right about the objectivity or otherwise of the distribution system: we try to make it as objective as possible. In the case that you described, if there is a greater need, such as a larger client group of children in care or people with drugs problems, that will feed through into the system. In our paper we are saying that councils should not be able to distort the distribution by making discretionary choices in their policies; that they should not be able to decide to spend more on something that would automatically feed into the system in a way that would look as if they deserved or needed to spend more. In the case that you described, that should feed its way into the size of the client group and into the distribution system.

I will ask Nikki Brown, who is responsible for the distribution, to say a few words about museums and galleries and metropolitan status.

Nikki Brown (Scottish Executive Development Department): It is acknowledged that certain services are provided by local authorities for people who live outside their areas. A number of distributions in the distribution settlement take account of flows of people into local authority areas. As you say, museums and galleries is a particularly difficult area to define, which is why it is one of the assessments that is made on the basis of expenditure—it is not easy to find objective indicators of need to spend.

Johann Lamont: With regard to an area such as Glasgow, would there be an acknowledgement that it not only provides a national service on a range of issues, but that it is particularly hard done to because of the size of the city and the tax base? It plays a national role yet is a city with narrowly defined boundaries and a small tax base. Do you see that Glasgow plays a similar role to the capital but that that cannot be acknowledged by the way in which moneys are currently distributed?

Similarly, the drug addiction service in Glasgow often supports people from outwith the city, but there is no recognition of that in the funding. In addition, the profile of the population is more likely than not to be poor and elderly and poor and disabled.

Nikki Brown: As I said, a number of factors are taken into account in the distribution system. We are keeping all the distributions under review and considering whether there are better ways of making distributions. If there are other ideas that councils would like to put to us, we would be pleased to consider them.

Mr Gibson: One of my concerns is about the way in which GAE is assessed on a year-by-year basis. For example, the assessment for school transport in 1999-2000 was £46,569,000 and is exactly the same for the following year—no account is taken of inflation. However, if one considers the detail, the allocation for school transport in East Lothian plummeted by 56 per cent, from £1,794,000 to £789,000, whereas that for Glasgow City Council has increased from £1,152,000 to £4,005,000. I am concerned that one local authority's GAE can be reduced by 56 per cent while another's is increased by 248 per cent. I do not believe that there is such a colossal variance in the amount of money needed for school transport on a yearly basis. Can you explain that?

COSLA has raised the issue of section 94 consents. Public expenditure appears to be counted twice: first when the borrowing consent is given and again when the money that is borrowed is paid back. Why? Should it not be counted only once?

Christie Smith: I will ask Bill Howat to deal with the question on section 94 and then Nikki Brown will answer the question about school transport GAE.

Bill Howat: You are due an answer to a question—

Mr Gibson: Which I asked two months ago.

Bill Howat: That is correct and puts me in a slightly difficult position. The matter that you have raised falls to my finance colleagues. I understand that the question is about to be answered. I suggest that you will get that answer and then you will either be happy or unhappy.

Mr Gibson: I am sure that the rest of the committee will be on tenterhooks. I do not want to get phone calls at midnight asking me about the answer to the question. Would it not be possible to give us a wee sample?

Bill Howat: You appreciate my difficulty. The simplest thing I can do is explain my understanding of the system, rather than pre-empt the answer that you will get from the Minister for Finance.

Although COSLA has raised the issue, it is inaccurate to say that section 94 leads to public expenditure being counted twice. If any body or individual buys a capital asset through borrowing,

a transaction takes place at the time of purchase. If one buys a £10 million secondary school, £10 million has to be handed over; that counts as expenditure. Over the lifetime of the borrowing, one services the debt—that is also expenditure and counts as such. However, under our public expenditure system, we do not count the repayment of the principal because that has already been counted at the initial point of transaction. From a financial standpoint, the public expenditure system seeks to count as public expenditure the transaction's costs at the point when they arise. That is my understanding of the system and I would be very surprised if the answer that you receive did not reflect that in some way.

Mr Gibson: I will not press you any further on that. I also asked a question about school transport.

Nikki Brown: One of the items we reviewed with COSLA last year was the account taken of population in the distribution system. We introduced new secondary indicators to reflect different ways of measuring population distribution. The GAE for school transport was one of the GAEs that were affected by that; the allocations to local authorities in the settlement for the current year are not on the same basis as the allocations for the previous year. That is why there are changes in the allocations for particular local authorities.

Mr Gibson: Why is the variation so massive? I could accept a variation of 5 or 10 per cent without any difficulty, but I do not think that Glasgow's population has increased by 248 per cent or that East Lothian's has fallen by 56 per cent. Surely such huge variations from year to year make it difficult for local authorities to plan expenditure? Could not the changes have been phased in over a number of years, as they have a major impact on fairly small local authorities such as East Lothian Council?

Nikki Brown: When reviews are undertaken, it is difficult to predict the size of variations. However, variations clearly exist, which is why we have a damping scheme for the new review. The GAE is affected by the new review and the changes will be phased in over a number of years.

The Convener: I am not sure that you answered the question.

Mr Gibson: You were saying, Nikki, that the changes were based on population, but I do not think that demographics change quite so dramatically. Do you accept that dramatic alterations in GAE assessments over a fairly short period, such as a year, cause difficulties for local authorities, even if damping effects are in place?

Nikki Brown: I should clarify that the indicator that is being used is a measure of population

dispersion. We have moved to an indicator that takes into account rural settlement patterns and the proportion of the population that lives outwith settlements of 1,000 people.

The Convener: Does that mean that the procedure will change again?

Nikki Brown: The methodology is not expected to change again, unless councils put it up for review.

Mr Gibson: If that is so, why have urban local authorities received so many additional resources under this procedure?

Nikki Brown: The argument is that rural authorities were receiving more than their fair share before. With COSLA, we have examined the distribution method and adopted what is arguably a more objective measure. The distribution is now fairer.

Mr Gibson: Are there other GAEs where that is happening? All we have is a superficial GAE figure that, as I said, has not altered by a penny, year on year, yet there is huge variation within the GAE. Are other GAEs similarly affected by instability?

Nikki Brown: We reviewed a number of assessments last year and we expect to review a number this year. I cannot think of any where the change in distribution has been so marked as with school transport. It is unusual to see such wide variations.

Dr Sylvia Jackson (Stirling) (Lab): In one of the papers before us there is a diagram that shows that there will be a working party on local government finance. The text accompanying that diagram seems to indicate that the working party will include local government officials. How does that fit in to the working group that will involve the minister, or the Scottish Executive, and COSLA?

I, too, want to ask about indicators. I come from a fairly rural constituency and note from other committees that research into rural deprivation indicators is taking place. The lack of funds for road infrastructure is a major issue—it is an area that is being squeezed, as ring-fencing is not taking place. I am sure that that issue affects urban and rural areas. Are you able to comment on how indicators might be developed to take into account road infrastructure, rural deprivation and growth in an area?

Christie Smith: The consultation arrangements that are set out in the paper to which you refer are standing arrangements and reflect the system the Executive inherited. In a sense, they are permanent arrangements, involving ministerial meetings, the working party, the distribution, the expenditure committee and so on. They are rolling on, if I may put it that way. The special working group that the minister set up with COSLA is

examining reform of the system. It is considering whether we can introduce three-year budgeting, whether we can simplify the distribution arrangements and whether we can do something about the various damping and safety-net schemes to make the system a bit more intelligible.

That is the relationship. It is still a COSLA-Executive joint group, but it steps outside the existing system a bit to consider those issues. Its aim is to produce some proposals before the next settlement, whereas there will need to continue to be standing arrangements of one kind or another to consult COSLA on keeping the system up to date.

The second question was about rural deprivation. The distribution committee has a rolling programme of reviews of GAE. The top priority this year is a review of deprivation. A ministerial-COSLA steering group is overseeing that review and the Minister for Rural Affairs, Ross Finnie, is on the group. The review is about whether the system takes adequate account of deprivation wherever it is found in urban and rural areas. We confidently expect transport to be an issue, particularly in relation to rural areas but possibly also in relation to peripheral estates.

We have awarded a contract to researchers to scan what evidence exists on the effect of deprivation on councils' need to spend. The exercise is not just about where there is deprivation; it is about the extent to which deprivation means that councils will incur additional costs. That research will be available to the ministerial steering group by the end of May. We shall see where to go from there. The review is intended to be wrapped up to inform the next local government settlement.

14:45

Dr Jackson: Do rural deprivation indicators include the state of roads? Does considering transport include consideration of the road infrastructure?

You did not answer the question about growth in areas as another indicator.

Christie Smith: I apologise for that. We have not got to the stage of examining the state of roads in rural areas. At the moment, we are seeing what evidence there is that deprivation causes councils to spend more on certain areas. If that throws up the state of the roads, that would be the next stage. We are now at an exploratory stage.

Population is probably the biggest influence on the total distribution and it is reflected in a range of indicators. It affects the number of pupils at school and the number of old people using social work

services, for example. That is built into the distribution system, so it should be reflected.

Dr Jackson: You mentioned school populations. What is the lag on that?

Duncan Gray (Scottish Executive Development Department): One of the reasons the present distribution comes out quite late—in December—is that it waits for the information from the latest school census to incorporate school pupil numbers in the distribution for the forthcoming year. That is school census data in relation to September of the year prior to the year to which the distribution relates. It could not be more up to date than that.

Mr Gil Paterson (Central Scotland) (SNP): I do not find your answer to the point about council cuts plausible. You said that cuts are from areas on which councils would like to spend money, such as new projects, but my experience and that of other committee members is that the real cuts in council expenditure have been made in core services. Were you saying that there is a direction or order from the Government to councils to spend in certain areas, such as education? Is it not the case that the effect of such an order is that no new moneys are available and councils need to cut into services that they have been providing for a long time?

Christie Smith: I was saying that the Executive is providing more resources to local government. Councils are saying that they are having to cut their budgets. Bill Howat offered an explanation of how that can come about. I could not account for all councils. Mr McConnell has said to COSLA that he does not want to go on claiming that each settlement is brilliant while COSLA denies that and says that it leads to cuts. That partly underlies some of the work that we are doing to reach agreement about what the outcomes from local government expenditures should be.

Mr Paterson: We understand that in the past 10 years there has been a significant downward trend in local government expenditure in real terms. You are suggesting that although you have long-term planning and a three-year programme in mind, which is good for any business—as someone who is experienced in business, it is beyond me how local authorities can budget on a year-on-year basis for long-term projects—that trend will continue. In other words, what you are talking about is just a reshuffling of the same moneys.

Christie Smith: I cannot speak about the past 10 years, although we would be happy to give you a note on that. In real terms, expenditure increased last year and this and is projected to increase in real terms next year. We are just beginning another review for the forward years. That is the position in the time of the Executive.

The Convener: Would you like information on the past 10 years, Gil?

Mr Paterson: Yes.

The Convener: That would be helpful.

Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD): I have two questions. First, every one of us who has been a councillor recognises that it is pay settlements in Scottish local authorities that have robbed many budgets. What are your thoughts on that? At the moment, as far as I am aware, no account is taken of pay settlements, nor has it been for as long as seven years.

My second question arises from my background as a member of the Highland Council. Do you recognise that the powers of police and fire boards to requisition funding can dislocate councils' budgets? What proposals do you have to tackle that problem, which made quite a mess of Highland Council's budgets?

Christie Smith: The general presumption is that local government should fund pay increases from within the resources that it is given. It is not given a separate increase to cover pay increases. That presumption is made across the public sector—for the Scottish Executive, executive agencies and so on. It is not true that no account is taken of pay increases in the settlement. Account has been taken of teachers' pay increases and pay increases in the police and fire services. Those are reflected in this year's increase of 3.7 per cent above the rate of inflation.

I do not quite understand Jamie Stone's second point about the pre-emption of resources by the police and fire services.

Mr Stone: I will explain. A police board that covers several local authority areas can, by a majority vote of its members, requisition the revenue funding that it requires. The councils in the area covered by that police area—it is the same for fire services—have no way of stopping such requisitioning. If a police board is bloody-minded, it can decide to give itself an increase that is way over the rate of inflation, which can snooker budgets. No matter how much authorities may try to talk to police boards, the boards have that power and it is a source of instability in our budgetary process.

Christie Smith: You are talking about a joint board on which all the councils are represented.

Mr Stone: Yes.

Christie Smith: They have to reach agreement on police and fire resources. Are you suggesting that they should not be able to do that or that unanimity should be required?

Mr Stone: Members will agree that it would be helpful if you would agree that that is a problem for councils—I do not know what the answer is. I have seen examples of budgets being seriously mucked about with.

Christie Smith: We will take note of that and draw it to the minister's attention.

The Convener: I want to pick up on the issue of pay increases. Efficiency gains—in other words, best value—were supposed to fund pay reviews, but councils must now have reached the stage where that is not going to happen. The committee has discussed that before and the minister needs to consider it seriously. I know that COSLA is always champing at the bit for him to do that. Even if councils pare everything down and there is best value in every department, there will come a time when they are unable to fund the pay review. That is something that we need to take up in another place.

Colin Campbell (West of Scotland) (SNP): My question is about GAE distributed on the basis of past expenditure. My eye lit on civil defence as an area where, because you cannot identify any objective indicator, you pay up on the basis of what has happened before. First, I presume that not all councils have civil defence provision—you can confirm that when the time comes—because the figure is only £2.7 million, which is infinitesimal. Secondly, I question the lack of an objective indicator, because two or three weeks ago the Scottish Executive sold its last underground bunker at Cultybraggan in Comrie, presumably because the third world war is not imminent. That decision would seem to be a fairly objective indicator, which could also be used for civil defence.

Christie Smith: I will have to send you a note on that matter, if that is okay.

Colin Campbell: It is a bit abstruse, but it is my special interest.

The Convener: That is a surprise.

Mr Gibson: I think that the word interest should be replaced by obsession.

When the convener opened the discussion, she talked about the complexity of the paper that you have submitted, which several members discussed with me before the meeting started. I would like to draw your attention to annexe 8, entitled "Council tax benefit subsidy limitation". Surely there is a flaw in the structure of local government finance that makes it extremely difficult for mere mortals such as the general public and ourselves to understand when we receive information such as the following:

"the relevant excess increase in the council tax, dR, is

$$(4) dR = \text{minimum of } (T2 - T1 * 1.05, \frac{E}{(1 - 1/2 B) * N}, \frac{E}{(1 - 1/2 M) * N})$$

I will give the official report a copy of that. There must be a simpler and more straightforward way of expressing that information so that the people who pay our wages can understand it.

Christie Smith: I apologise for the complexity of the documents. I have been in post for about four weeks. I am all for simplification of the documentation, which reflects the complexity of the system as it currently exists. If we can make progress on simplifying the distribution and other aspects of the system, we may be able to provide slimmer and more user-friendly documents next time. Duncan Gray is the expert on the council tax subsidy limitation scheme, so he may want to add to that.

Duncan Gray: I will not try to explain the algebra in words. What is before you is a copy of a circular that was sent to local authority finance departments. The formula was intended to explain to the finance department in a local authority how to calculate the amount of reduction in its council tax benefit subsidy should it budget beyond the guideline limits or above a particular level of council tax. It is the most complex circular that the department has ever issued. There are two limits that a council may come up against and there are no easy ways of explaining them without resorting to a bit of algebra. I think that it could be simplified a bit, but it is intended for folk in local authority finance departments. The idea behind it is simple: if councils budget above a certain level, they will receive less council tax benefit subsidy.

Mr Gibson: Can that not be explained without this formulation?

The Convener: I am delighted that the public was here when Kenny Gibson read that out, because it is very complicated. We are supposed to put a political overview on this. I have never been able to put a political overview on algebra and I do not expect that I ever will be able to, but this just shows that we are not always as daft as we are made out to be.

Do you want to say something, Colin?

Colin Campbell: I want to say in charity and friendship—because that is how we operate here—that I am reminded of an agent of mine who once said, “You should remember the mnemonic, KISS—keep it simple, stupid.” That way, we can communicate with a larger number of people.

The Convener: There you are: a good piece of advice.

Mr Paterson: Is that a Glasgow kiss?

Colin Campbell: No, not a Glasgow kiss.

15:00

The Convener: I would like to thank the witnesses for coming along. We have exhausted our questions. There are one or two things on which I would be interested to get some more information—particularly on the changes that have taken place and especially on how to assess the school transport GAE. It is interesting that such massive changes resulted from your decision to change how you assessed something. If you have done something and decide that it was not quite right, you may be able to return to what it was or you could come up with something new.

This has been an interesting question-and-answer session. No doubt you will be back again some other time. I hope that you will take note that masses of algebra ain't really the subject for us.

I thank you very much for coming.

Bristow Muldoon: Can I just say, convener, that I am quite comfortable with algebra.

The Convener: Bristow obviously got a degree in algebra, so he can explain it.

Comrades, I now welcome Professor Arthur Midwinter, who is dean of the faculty of arts and social sciences at the University of Strathclyde. Arthur has been before the committee before and his paper has been sent out with the other papers. I guess that you want to go through your paper, professor, and we will then ask you questions? Is that okay?

Professor Arthur Midwinter (University of Strathclyde): That is fine. I wrote the paper before the departmental report came out, so there are slight differences in the figures, simply because the department's figures use a later year base. Mine are based on 1997-98. The trends, however, are still the same, despite those minor differences.

I have tried to provide you with a context of what has been happening over the past few years. You asked for a 10-year trend; I have done a seven-year trend. Many of the questions that were asked are relevant for longer than the year ahead.

I have also tried to raise three or four questions that you may want to address as part of the budgetary process. They concern issues that you have gone into. I have not produced any detailed discussion of the GAE formula. I am happy to take questions on it, despite not having my GAE green book with me. I might not know about some of the detailed indicators, but if members would find it helpful to find out my view on aspects of GAE that were raised with the officials, I would be quite happy with that, although it is not covered in my paper.

Mr Paterson: I found your paper to be much more in the real world than the Executive's. Yours

may not be as weighty, but it is a document that is easily understood. I think that it will be understood by people who are running councils in, as I say, the real world.

In the final sentence of the conclusion to your paper, you say:

"However, I take the view that these problems cannot be resolved simply by a review of the distribution formula."

I take it that what you are really saying is that what is needed is a review of local government finance.

Professor Midwinter: My understanding is that the Executive's position has been that there is a need to do something now, rather than a need for an independent review. My view is that there should be a review. I have no particular view on whether that should be carried out by the committee, by the Executive or by an independent body. However, the committee has touched on structural problems in the system that cannot be solved by simply looking at how the formula is distributed among authorities. That would be likely to have only minor effects on the amounts of money going to councils.

A disadvantage in the current system is the high level of dependency: councils are so dependent on Government grant that they are all arguing with each other about the components of the formula, rather than concentrating on looking after their own services and taking their own tax decisions. Councils are so dependent on the outcome of the formula that most of them are now making representations about elements of the formula that they think are adverse to them. I do not think that that is especially healthy.

Mr Paterson: I would like to ask about the adverse impact on local government. How does your view compare to that of the Executive, which is that everything is rosy and that there is plenty of money being thrown at local government?

Professor Midwinter: There are minor differences between my views and those given in the officials' presentation, and major differences between my views and those given by politicians, which have not been quite the same. The officials are here presenting the factual position as they see it.

Over a number of years, central Government grant has been falling. It continues to fall. If I remember correctly, Donald Gorrie asked about the gap between grant-aided expenditure and aggregate external finance. That was a relevant question. GAE, which is the amount that councils can spend on services in the Government's view, has been increasing modestly in recent years, but AEF, which is the Government's share of funding, has been falling, marginally, each year. Therefore, as far as I am concerned, no additional resources

have been provided for local government by the Executive. The Executive is saying that local government can spend slightly more on services, but that the share that is funded by the local taxpayer will rise. Documents have made it clear that the Executive is making provision for further increases in council tax.

Going back to the poll tax days and the introduction of the council tax, you will remember that there was an increase in value added tax to fund subsidies to local government to keep the tax bills down. Over the seven years that I have considered, the centre's share of the funding has fallen from 88 per cent to around 82 or 81 per cent. During that period, the additional costs of the shortfall have been transferred to local government. From the figures that I have seen, that began under the previous Administration and has continued under the Westminster Labour Government and the Scottish Executive. You might want to raise that point with the minister.

Mr Gibson: I noticed a few wry smiles while you were sitting at the back listening to the answers from the officials.

Professor Midwinter: I was just glad that I was not giving the answers.

Mr Gibson: And I was wondering what was going on in your mind.

I ask this question from a position of jealousy: looking at the suntan that you and others have after the recess, I think that perhaps my week in Ardnamurchan should have been spent somewhere else.

How is the quality of service provision affected by self-financing pay awards? What impact is there on, for example, best value?

Professor Midwinter: The position that is being presented is complicated. I take issue with the opinion that additional resources are being provided. I have already taken issue with whether the Executive is providing resources from within the total cake that is available.

The problem of pay settlements is not unique to local government; it cuts across all parts of the public sector, including budgets that I have had to manage for the past five years. I speak from direct experience.

As I understand it, ministers' spending priorities for local government are education, social work, and police and fire services—those are described in the documentation as protected services. Those four services account for 80 per cent of local government spend. If they are protected services, councils' capacity to meet efficiency gains of 2 to 3 per cent a year—which, in effect, is the impact of having no, or only a modest, contribution towards pay—is what I have called in my paper a "fairly

gold" approach to public finances. By that I mean that if an assumption that savings will occur is built in, without it being known whether they will occur and without identifying what the savings will be, they might never materialise.

I was looking at some figures yesterday that showed that the number of home helps available in Scotland fell year after year from 1993 to 1998—the most recent figures available. Similarly, the number of places available in residential care for the elderly fell over that period. Glasgow museums have been highlighted, while in Aberdeenshire, toilets in a tourist area were being closed.

People's experience on the ground is not the same as what is being shown by the figures. Obviously, the figures are accurate, but with the absence of any allowance for wage inflation in the settlement, when a local authority makes up its budget, it starts by considering what it provided last year and how much it will cost to provide that again next year—that means that it builds in an allowance for inflation. It takes the new figure that is given by the Executive—which in most cases will say what the shared priorities are—and decides how it should balance the books. That is why almost every local authority might find that it has to cut its existing services in order to provide the funds to meet the shared priorities.

The position is that there is an existing budget, that there is no provision for the new cost of that budget in the next year and that additional moneys are being provided for shared priorities, all of which are increasingly earmarked around specific services. The result is an on-going round of tax increases and service reductions. That is my experience of the past five years.

Mr Gibson: So you believe that this impacts adversely on the likelihood of local authorities being able to provide high-quality, best value services?

Professor Midwinter: It means that they are having to reduce their current level of service in many cases.

Mr Gibson: You talked about rates—I was fascinated to note that the proportion of aggregate external finance financed by non-domestic rates has risen from 23 per cent in 1993-94 to 29.5 per cent. You said:

"It is not clear if this is the result of strategic choice, or budgetary drift."

That is quite a mischievous statement, but an interesting one. What is your view on that? What impact, if any, has it had on Scottish businesses?

Professor Midwinter: It is not clear to me, as I have not seen a public explanation. I cannot recall a minister saying that that is being done as a

deliberate act. As I understand it, there has been a commitment to maintain the business rate in real terms. It is allowed to rise each year only in line with inflation. If Government grant to local authorities is falling in real terms, the business rate element will rise as a result.

Secondly, whereas under the former rating system any excess local authority self-financed expenditure would be financed between both sets of rate payers, at the moment it is all falling on the council tax payers, which is why the council tax increase has been so high. In a sense, there is a real reduction in Government-funded grant, and there has been the maintenance of the rate for non-domestic ratepayers in real terms over the period, leading to their paying an increasing share of AEF, and a big increase in council tax as a result, which radically alters the balance of the contribution towards local services.

Members should ask an economist about the effect on business, as I do not feel qualified to comment on that.

15:15

Mr McMahon: I will ask you about the capping guidelines, which have a technical aspect and a political aspect. I do not know whether they can be taken separately or must be considered at the same time.

In technical terms, there are problems because of the rules and structures of the guidance on what local authorities can spend themselves. Can those problems be overcome by altering the rules? If so, does the issue come down to the political aspect of interfering with local democracy in relation to the amount that can be spent?

Professor Midwinter: In principle, I have never seen a need for guidelines. I understand that local authorities asked for them as an aid back in the 1970s, when Bruce Millan was asking for the first round of cuts in local spending. I see no reason for the Government to set expenditure guidelines for local authorities. It is perfectly legitimate for central Government to decide how much it thinks local authorities should spend and what an authority's share of that should be. Thereafter, an authority should be left to get on with it. That has always been my view.

The argument was made in the previous discussion about that arrangement being in line with international conventions. It must be in line with international accounting conventions, but nobody in the United States would dream of the federal Government telling a local authority what it should spend. It is true, in accounting terms, that local authority self-financed expenditure is public expenditure, but as far as I am concerned, there would have to be a massive overspend before it

had any serious economic consequences. I do not know of a single academic paper that has made the case for it. It is what, in my paper, I called Treasury orthodoxy—it is true because it is true. The Treasury believes that it has to control all sources of public finance. Most of the rest of us disagree.

Donald Gorrie: I was interested in your remarks about home helps and the number of places in residential accommodation. I have always found it difficult to get accurate information on real cuts on the ground. Could you give us guidance as to good sources for that information—on outputs rather than inputs? For example, one of the main topics of conversation at the most recent meeting that I had with local government people of my political persuasion was holes in the road. I know that Liberal Democrats are supposed to get excited about holes in the road.

Professor Midwinter: I do not know of any measure of holes in the road.

Donald Gorrie: Holes in the pavement are far more important, in my view.

Those people felt that they had had to cut their road repairs budget significantly year on year.

Is it possible to get real figures on such issues? I feel that we are on the same side, in that we want to achieve an accurate picture; after that, we might have political divergences. However, the Executive has its own agenda, which is to persuade us that everything is marvellous.

Professor Midwinter: The figures that I was quoting came from an Accounts Commission report. The Accounts Commission annual report, with performance indicators, is a good source of information. The trends are from that document, which summarises what has happened to five key indicators over previous years. Many of the information sources provided by the civil service are accurate. The civil service produces local government finance statistics. The social work group also produces data.

It is possible to get data, but the most recent I could get were for 1998. The data are always a couple of years behind. The people in your information centre have access to most of the official data in the public domain. Official data are likely to be the best, simply because they are provided to the Government for government purposes. I use them all the time and, as you know, reach different judgments from ministers about their implications. The Accounts Commission performance indicators were the source of the social work data.

Donald Gorrie: I found it particularly difficult to get information about the voluntary sector. Do you have any data on that?

Professor Midwinter: I cannot help you on that.

Colin Campbell: The footnote to table 1 in your memorandum, on trends in local government finance in real terms, states:

“Figures deflated by HM Treasury GDP deflator at market prices, 1997-98”.

Did you do those sums on the basis of the Treasury’s deflator, or did you get the figures from a Treasury note?

Professor Midwinter: I applied the Treasury deflator to the cash sums to come to the real-terms figures. I did the conversion myself.

Colin Campbell: You are good at that kind of thing and I am not. Paragraph 5 says that manpower levels have fallen by 12,000 full-time equivalents. I know that there is probably no way that you can say how many people’s lives are touched by that fall. Having been a head teacher who employed 0.1 of a person or 0.5 of a person from time to time, I know that it is not easy to calculate but, taking an educated guess, how many people do 12,000 full-time equivalents really represent? Are we talking about income being taken from 15,000, 24,000 or 30,000 people?

Professor Midwinter: We must remember that a large chunk of those figures came from the reorganisation of local government, with people taking early retirement packages and their posts not being replaced. It is a bit difficult to read the situation. At the time, I understood that there was a lot of interest in people who had been coping with the stress of getting out. The figures are not for straightforward job loss in the conventional sense; they were triggered by the reorganisation of local government, which was based, in my view, on quite questionable figures about the scope for saving.

The Convener: Like Gil Paterson, I found your paper helpful and readable, which made a big change from the material that we had to plough through, doing algebra with the figures.

You said at one point that the comprehensive spending review concentrated on the Executive’s own priorities, such as health, education and children. When I asked civil servants about priorities, they said that in the next spending review the priorities would be discussed with the Convention of Scottish Local Authorities. How much faith do you have that we will get more local authority input into that process? You said that local authorities would stress local needs more than the Executive would, and I think that it is important that COSLA is involved at an early stage and that agreement on priorities can be reached. Do you think that there can be constructive dialogue?

Professor Midwinter: I intend to take every

opportunity offered to me to make a submission, and I advise the committee and local authorities to do the same. There is the prospect of a much more open process, even though the changes are at the margins. Your discussion with the civil servants concerned shared priorities within the local government cake, rather than the priorities that emerged from the comprehensive spending review.

I have now managed to get my copy of the draft departmental expenditure report. Over the next four years, on the current figures, the growth for local authorities from 1998-99 to 2001-02 is 8.6 per cent, which is slightly less than the level of inflation, and indicates a continuation of the current trends. The increase in spending on the children and central Government education portfolio is 14.3 per cent. The increase in spending on health is 26.8 per cent. The increase for Scotland overall is 16 per cent, so the figures confirm that support for local authority finance is a lower priority than those other areas. It is for ministers to defend that allocation, but I think that it will have consequences.

My view is that COSLA should certainly be involved in serious discussions with ministers. I get the impression that ministers are willing to listen, and I am in regular correspondence with them about such matters. However, there is a stark difference between the increases for local government and those for other programmes.

Dr Sylvia Jackson: Table 1 shows the AEF figure for 1997-98 followed by the figure for 2000-01, which represents a reduction. However, I understand that the Executive says that there has been an increase of more than 3 per cent.

Professor Midwinter: The figures that the Executive was referring to were for the total provision for local government spending, which is not the same as central Government support. AEF is the amount that central Government is giving to support the spending. The Executive is talking about Government-supported expenditure, which is shown in the line above AEF in the table.

I chose 1997-98 because it is the midpoint of the table as well as the year of a changeover in Government. Although Government-supported expenditure fell substantially in the previous three to four years, it has risen modestly. My overall figure of -3.3 per cent shows that the old figures for 2000-01 were still less than the position in 1993-94, when council tax was introduced. The percentage has increased slightly since 1997. However, on aggregate external finance, which is Government support for local authorities, the trend downwards has continued over the whole period. The amount that central Government plans for authorities to spend is now rising modestly by 3.7 per cent. However, the amount that central

Government gives as its share of financing that programme is still falling in real terms.

Mr Gibson: That is why the share of block grants has fallen from 88 per cent to 82 per cent.

Professor Midwinter: That is right. The local authority share of block grants has fallen throughout the period since 1993.

Bristow Muldoon: Are all the figures in table 1 consistent, given that changes in local government finance took place in the middle of the period and some services, such as water, were transferred out of local government control? Have figures for those services been stripped out?

Professor Midwinter: Yes, the figures are all consistent.

Bristow Muldoon: Do the tables take account of any assumptions about additional expenditure from the recent budget?

Professor Midwinter: No. The table was prepared in advance—as I was going off to the sun—and before I had seen the departmental report. There is little change in local government's position as a result of the recent announcements. Most of the changes are in health spending allocations.

Bristow Muldoon: I am sure that you are aware that the committee shares your view that there should be a fundamental review of local government finance. Do you think that assessment of GAE needs to be addressed? For example, you have identified a decrease in the number of home helps and residential care places for the elderly, although there are demographic increases in the number of elderly people who require support. Should we take account of how the Government assesses local government finance?

What is your view of the general proposal for harmonisation across local authorities in terms of the amount of money that they are spending above GAE?

Professor Midwinter: One of the central issues is the amount that the Government decides should be spent in the service blocks. That means that the problem with the GAE formula is not necessarily to do with the sharing out of the money among authorities for home helps; it might be to do with the total amount of provision of home help or residential care for the elderly. There have been problems with that block since the introduction of community care, when the service was transferred from social security.

15:30

Because I spend my time examining GAE, I noticed that Christie Smith made an important point when he said that the Government is

considering ways of simplifying GAE. The committee should be consulted on that process. At the moment, we have a system that, because it makes use of statistical analysis, is one of the most sophisticated in western Europe. Most countries use simpler systems. Since reorganisation, part of the problem has been worries about the reliability of the local authorities' spending budgets. For two or three years, the system has been in a state of transition and the councils are only now in a position to carry out the conventional tests that they would normally do. As Christie Smith mentioned, there is damping only in specific areas of GAE: the social work GAE was damped, but the school transport GAE was not. The initial figure is adjusted many times, and that undermines the objectivity of the GAE process. We have an opportunity to simplify it, to make it more understandable and stable.

Bristow Muldoon: What is your view of the Executive's intention to harmonise GAE and local authority expenditure? As Kenny Gibson said, the figures vary considerably.

Professor Midwinter: I do not think that I will see harmonisation in my lifetime. I cannot remember the figure that Mr Gibson quoted, but the notion of convergence taking place—on top of everything else that is going on—is unrealistic. The officials were right to say that it is a long-term project.

We have a needs assessment system that, although I have said that it is one of the most sophisticated in Europe, is not rocket science. It is not scientific as it requires an element of judgment. GAE is fine as a method for distributing grant, but it is dangerous to use it normatively to determine what a council ought to spend. In the 1980s, the Audit Commission said that about the standard spending assessments, which are the English equivalent. I am sure that, in 10 years' time, there will still be councils that are above their GAE. There will be all sorts of changes to the formula in that period and there will be all sorts of population changes.

Mr Gibson: I take it that you think that a time scale for convergence of 15 years is unrealistic.

Professor Midwinter: Long-term planning should mean 50 years.

Mr Gibson: Perhaps the minister hopes that someone else will have to carry the can.

In your report, you say that the Executive should consider moving to a Barnett-style formula to provide stability in the short term. Would you expand on that?

Professor Midwinter: In a previous consultation exercise, I submitted a paper with that recommendation, so I am sure that the minister

knows my views. I am relaxed about the client-group method; it is quite sophisticated. However, we have to bear in mind the disruptive impact of the reorganisation and the so-called mismatch problem, of which, as an ex-Glasgow councillor, Mr Gibson will be aware. Because of reorganisation, some authorities have budgets far in excess of their GAEs—it is not just Dundee and Glasgow—whereas other authorities are in a position to allow spending growth. A further problem is that there was a period during which the regular tests could not be done, as there was no data. For instance, we had to have a temporary adjustment to the social work GAE treatment because of the absence of data. On top of all that, councils have been using the GAE as a target for services. I know councils that will say, "Why are you spending x per cent over your GAE?" My response to that would be, "Why does the GAE total matter?"

The statistical analysis on which the GAE rests depends on the robustness of the data and is linked to past expenditure. In the use of the regression analysis, the underlying assumption is that authorities with high needs will spend more and those with lower needs will spend less. Only the needs factors will result in higher expenditure. There was a discussion with Mr Christie Smith about whether the indicators were objective and robust. Part of the problem is that, in several of the services that local authorities provide—such as parks, leisure and recreation services—there are no standards, and the matter is left to the authorities to judge. There are, however, pupil-teacher ratios and other targets for schools, which ensure the provision of broadly equal services, and there are instances in which authorities spend more because they want to, as is their right. It becomes increasingly difficult to disentangle the data to show where the needs factors or political choices are causing higher expenditure.

As a result of all those factors, especially the reorganisation impact and the mismatch—Glasgow and Dundee were two out of 10 authorities that inherited GAE budgets well in excess of their GAEs—and all the problems of the data, the councils need stability. You spoke of the example of East Lothian, I think—

Mr Gibson: East Lothian, in respect of school transport.

Professor Midwinter: When the census was carried out, one of the measures for rural settlement patterns was the percentage of the population in centres of less than 10,000—but not the 1,000 population that was discussed. In the 1991 census, the population of Stornoway rose from 9,800 to 10,000, and overnight Western Isles Council was judged to have changed from being the most rural authority in Scotland to being a far

less remote rural authority. It changed from having 100 per cent of its population in small settlements to having only 67 per cent of its population in those areas. The impact on its grant must have been dramatic.

There is instability in the system. Barnett is a simpler formula, which works to bring stability. The formula in the GAE is applied to all spending, whereas the Barnett formula would be applied only to the increases. Starting with the historic costs, the formula could make marginal adjustments, as Barnett does, in line with population or other such criteria over the 3 or 4 per cent growth. Instead of cutting out the needs and then making an adjustment for x, y and z—I think that there are four or five adjustments to the initial formula—to arrive at a figure that councils can live with during this period of review, we could move to a simpler system whereby the historic budget is taken as the best. The figures at the margin could be juggled according to the changes in the population, so that authorities would receive close to what they received in the previous year. That is the logic behind the formula—it is a force for stability.

Mr Gibson: You are obviously concerned about GAE. What is your view on sub-service GAEs, of which there are some 20 in education alone?

Professor Midwinter: Could you expand on that question?

Mr Gibson: You are saying that the philosophy of using GAE as an indicator is built on sand, because of all the different factors that can affect it.

Professor Midwinter: I am saying that problems with it have arisen because of reorganisation.

Mr Gibson: You mean such as lack of data and the gap between what applied before and after reorganisation.

Professor Midwinter: Yes. It is logical to have sub-service GAEs if the needs factors are different. However, there are four key factors: population, poverty, sparsity and the cost of providing a service. There are different ways of measuring those, but they are the factors that count.

Mr Gibson: So you are calling for a more simplified structure that everyone can understand.

Professor Midwinter: Yes, particularly if there is to be a review. If four ad hoc adjustments have to be made to a GAE figure to arrive at a figure that most councils can live with and that is close to what they are spending, that will undermine the objectivity of the methodology. Why not take those adjustments for granted and move to a simpler system that everyone can understand? Time can be taken subsequently to undertake a review of

the needs formula to determine whether it would be appropriate to return to a more sophisticated system.

However, when regression analysis is used in these kinds of exercises, the underlying assumption is that authorities have freedom of choice. In making their decisions, authorities will react to needs in their environment, not to a target figure that is provided by the Executive or the Department of the Environment, Transport and the Regions.

Mr Stone: You mentioned the poverty aspect. Many of us are concerned about the shift that you mentioned from central Government taxation to local government taxation. Not only in the Highlands, but in many parts of Scotland, people who are above the benefit threshold are getting hit—people who do not have high or average incomes. What steps are MSPs or Government taking—either in the Scottish Parliament or at Westminster—to address that problem?

Professor Midwinter: The problem of people who are just above the safety net?

Mr Stone: No, the whole relocation of taxation from central Government to local government, and the fact that council tax has increased while income tax has dropped.

Professor Midwinter: Am I aware of any concern about it? No.

Mr Stone: Are you aware of any moves to address the matter?

Professor Midwinter: No. It is part of the strategy and the figures are fairly clear. The Government is assuming a 5 per cent increase for next year.

Mr Stone: Are you saying that that is deliberate?

Professor Midwinter: Yes, as far as I can tell from reading the papers.

Mr Stone: You are sitting in Tommy Sheridan's seat, so you can say that.

Professor Midwinter: Wow. My kids will be impressed.

Mr Gibson: Suntans are obviously infectious.

Professor Midwinter: Mine is real.

Johann Lamont: This is when I show how stupid I am, as I am struggling with this document even more than I was with the complicated one that we saw before. Paragraph 12 makes a point about taxation. As I am often told, one of the difficulties that faces local authorities is the proportion of local Government expenditure that comes from central Government and is not raised locally. The bias has shifted towards central

Government and therefore towards more direction, which affects the ability of local councils to have autonomy and to be accountable to their local electorates. Some unions have told me that they feel that the proportion is the opposite to what you are suggesting and that more is having to come from the local tax.

Professor Midwinter: Autonomy and accountability are not inconsistent. This issue is complicated. The general level of Government support is much higher than it has ever been. When I started examining the issue, it was 68.5 per cent. At the time of the crisis in 1974, when the Layfield committee was set up, it was increased to 75 per cent in Scotland. It was progressively reduced to below 60 per cent during the Conservative years, then, during the poll tax crisis, it rose again to 88 per cent. Now it is falling again.

However, your local authority colleagues are absolutely right in identifying what is known as the gearing effect. In a year in which the Government provided 87 per cent of the cake but decided to cut that to 86 per cent, the cost to local authorities of replacing that money would be 6 or 7 per cent, according to the ratio of grant. In the context of councils having no money for pay settlements, although pay settlements of 3 per cent are due, the consequence would be that council taxes would be raised to pay for that 3 per cent gap.

As I said, autonomy and accountability are not inconsistent. Overall, the level of grant is higher than before. However, for the past seven years, the strategy has been to reduce central Government's share of the total. In my view, local authorities and this Parliament should raise more of their own funds, so that they can be more accountable. The right to tax and spend is fundamental to any political institution, and the fewer tax powers people have the more constrained and the less accountable they are. I support the suggestion that authorities ought to control more of their finances. That is one reason why I believe there ought to be a review, as this is one of the structural problems to which I referred earlier. The figures are stark. A 60 per cent real-terms increase in council tax broadly corresponds to the fall in grant that has taken place. That has resulted in a combination of service reductions and council tax increases.

Johann Lamont: You said earlier that there ought not to be guidelines on spending.

Professor Midwinter: I do not think that there should be.

Johann Lamont: So accountability would control the extent to which councils could put up council tax.

Professor Midwinter: As it used to.

15:45

Donald Gorrie: Are you aware of any academic or official studies of the hidden costs of the growing tendency to have competitive bidding for Government funds? Your paper mentions the excellence fund, but there are a number of others. When we go round the country, councils—especially those that have not succeeded in their bids—complain to us that a huge amount of official time at the council goes into preparing bids. Presumably, officials at the Scottish Executive spend a lot of time vetting them and deciding who will get the money. That is a huge use of expensive public time, which detracts from the benefit of the exercise. Are you aware of any study quantifying that? Would it be possible to undertake one, and would it be useful?

Professor Midwinter: There has been no such study, although studies of the hidden costs of compulsory competitive tendering were done seven or eight years ago. By their nature, academic studies are time consuming. There could be a study of the issue that you have raised, but it would not be published for two or three years. The study that investigated the hidden costs of CCT focused on the time spent on preparing the bids and so on.

Donald Gorrie: That is a useful analogy. Perhaps you and your colleagues could study the costs of competitive bidding.

Professor Midwinter: Academics go through the same exercise—we are often invited to tender for research contracts. One of the things that one says is how much one wants the contract because of the time that it will take to prepare the bid. I am sure that local authority officials are in the same position.

The Convener: There are no more questions from the committee. Thank you for providing us with a comprehensible overview of local government finance. I take on board your comments about the committee's being consulted on any changes to the GAE. I am sure that we will want to pursue that. When we undertake our review of finance, I am sure that you will appear before us again or make written submissions. Your contribution today has been most helpful.

Professor Midwinter: Thank you.

Subordinate Legislation

The Convener: The next item on the agenda is subordinate legislation. The first instrument before us is the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Amendment Regulations 2000 (SSI 2000/77). Eugene Windsor informs me that no member has raised concerns about this instrument. I have to ask the committee whether it is content with each of the instruments that are before us. Are members content with this instrument?

Members: Yes.

The Convener: The next instrument is the Non-Domestic Rates (Levying) (Scotland) Regulations 2000 (SSI 2000/92). The Subordinate Legislation Committee, which met this morning—Bristow Muldoon and I are both members of that committee—wrote to the Executive about the instrument, as there was some doubt about the figures that it contains. A reply has now been received. In his letter, copies of which can be supplied to members, the clerk to the Subordinate Legislation Committee states:

"The Committee noted firstly that the accompanying Executive Note states that non-domestic rates provide around £1.5 billion annually and asked the Executive whether in future such figures could be given more precisely."

He goes on to say that

"the Executive states that the figure of £1.5 billion quoted is an estimate of non-domestic rate income that the Scottish Councils estimate they will collect from the businesses in the year 2000-01. The figure of £1473 million quoted in 'Serving Scotland's Needs' is the amount of the NDRI, which at the time of publication (1999), the Scottish Executive estimated that would be distributed to councils in 2000-01. The Executive explains that the amount distributed in any year is always different from that collected in any year as it includes flows from NDRI in past years."

That sounds almost as complicated as the paper that we received about finance. The letter concludes:

"The committee's questions related to the Executive note and there was no comment on the substance of the instrument. The Committee will be drawing the attention of the Parliament to the Executive's response as providing clarification sought by the Committee."

Mr Gibson: The document that we have received from the Executive details the distributable amount of NDRI as £1,662.691 million.

The Convener: The figure given to the Subordinate Legislation Committee was £1,473 million.

Mr Gibson: That is only about £180 million difference.

Donald Gorrie: The Subordinate Legislation Committee's recommendation paper states that there is a breach of article 10(2) of the Scotland Act 1998 (Transitory and Transitional Provisions) (Statutory Instruments) Order 1998. Is that a matter of concern, or is it merely a technicality?

The Convener: We think that the breach is that the order is effective from 1 April. The Subordinate Legislation Committee picked up the other issues this morning.

Mr Gibson: I think that we should seek further clarification on the resources. There is no reason why we should not delay consideration of the regulations for a week, while we receive further information. There seems to be a significant anomaly regarding the amount of money that we are discussing.

Bristow Muldoon: I do not agree. We are discussing the Executive note, which explains what the instrument is about, rather than the body of the instrument. The exact amounts will be covered in other information about the Scottish Executive's budget. It is important that explanatory notes and Executive notes are accurate, but they are not part of the legal document.

Mr Gibson: It is important that the same figures are used, given that both sets of figures come from the Executive. I do not see what difficulties would result from our delaying consideration of the instrument for a week while we seek further information, to ensure that this matter is tightened up a bit.

Bristow Muldoon: I do not see what advantage there would be in doing that.

Mr Gibson: I have no axe to grind on this, but I think that it would be a good idea to dot the i's and cross the t's. That might also mean that the next time the Executive presents us with an instrument of this sort it will provide us with rather more detail.

The Convener: The Subordinate Legislation Committee delayed consideration of the instrument and wrote to the Executive about it. As I said, a summary of that exchange is available to any member who wants one. This morning the Subordinate Legislation Committee decided to bring the Executive's response to the attention of Parliament as providing the clarification that was sought by the committee. I understand the point that Kenny Gibson is making but, as Bristow Muldoon says, the discrepancy was in the Executive note. This will be picked up in Parliament.

Mr Gibson: At the end of the day, this is a technical matter. It is not something that we will lose sleep over. Given what you have just said, I would be happy to proceed.

The Convener: Given what I have said about the instrument being referred to the Parliament, are members content with the instrument?

Members *indicated agreement.*

The Convener: I have been informed that I cannot put the question with the caveat that I included. Are members content with the instrument as it is?

Members *indicated agreement.*

The Convener: Now I can say that it will be referred to Parliament.

I will have to ask the public and the official report to leave before we consider the next item, which is on our report on the performance of council refuse collection services.

15:54

Meeting continued in private until 16:55.

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