LOCAL GOVERNMENT COMMITTEE

Tuesday 31 October 2000
(*Afternoon*)

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LOCAL GOVERNMENT COMMITTEE
28th 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

Lesley Bloomer (Audit Scotland)
Paul Cackette (Office of the Solicitor to the Scottish Executive)
Caroline Gardner (Audit Scotland)
Pete Hancock (Scottish Executive Development Department)
Don MacDonald (Scottish Executive Finance Group)
Angus MacKay (Minister for Finance and Local Government)
Ainslie McLaughlin (Scottish Executive Development Department)
Professor Arthur Midwinter (University of Strathclyde)
Christie Smith (Scotttish Executive Development Department)
Alec Taylor (Audit Scotland)

CLERK TO THE COMMITTEE

Eugene Windsor

SENIOR ASSISTANT CLERK

Irene Fleming

ASSISTANT CLERK

Craig Harper

LOCATION

Committee Room 1

Scottish Parliament

Local Government Committee

Tuesday 31 October 2000

(*Afternoon*)

[THE CONVENER *opened the meeting at 14:02*]

The Convener (Trish Godman): Right, comrades—let us start. We have not received apologies from any members, but Gil Paterson and Bristow Muldoon will be a bit late.

This is our first meeting since the death of Donald Dewar and I would like the *Official Report* to record the committee's regret at Donald's untimely death. I am sure that all members feel that regret.

Statutory Performance Indicators

The Convener: We are joined by Caroline Gardner, the deputy Auditor General of Audit Scotland; Alec Taylor, the performance indicators manager; and Lesley Bloomer, whom we have met before and who is the director of the performance audit. They will go through the usual procedure of a 10 or 15-minute presentation, after which there will be time for questions.

Caroline Gardner (Audit Scotland): Thank you, convener. We are pleased to have the opportunity to talk to the committee about the Accounts Commission's work in publishing performance indicators. We hope that their publication will be a useful source of information for the committee in future. We will talk for no more than 15 minutes. I shall give the committee a quick update on the new audit arrangements under the Scottish Parliament. Alec Taylor will talk then about the context of the performance indicators and the way in which they have developed until now. Lesley Bloomer will pick up some of the issues that we face, concerning the way in which the PIs should develop in future.

Members have in front of them a pack that contains a hard copy of the slides that we will be talking to, which is entitled "Statutory performance indicators for local government". They also have a couple of examples of the ways in which we publish performance information, to which Alec will refer later. We will take members through the main points that we want to get across this afternoon.

The first slide aims to set out how the new audit arrangements look under the Scottish Parliament. The Public Finance and Accountability (Scotland) Act 2000 established the new arrangements and will have effect from 1 April. The Accounts Commission is still responsible for securing the audit of local government in a range of ways and has the power to make reports in the public interest when required. It can also censure, suspend or disqualify members and officers of councils if necessary. That set-up recognises specifically the fact that councils are democratically elected, rather than being accountable to either the Scottish Executive or the Parliament. Therefore, the Accounts Commission retains its previous role in relation to local government.

A new post has been created of Auditor General for Scotland, who is responsible for the audit of almost all the other spending bodies that spend public money in Scotland. The Accounts Commission and the Auditor General are served by a new audit delivery agency, called Audit Scotland, which employs all the staff who carry out the work of the Auditor General and the Accounts Commission and exists solely to provide services to them.

We think that those audit arrangements are much more effective and streamlined than those that apply in the rest of the United Kingdom. On the one hand, they give us the critical mass to be able to carry out our work effectively and on the other, they enable us to take a cross-cutting look across the entire Scottish public sector, in addressing such issues as partnership working. We can also trace the process through from the Executive to the local spending bodies, to ensure that the implementation of policy and the delivery of services are being carried out effectively.

The new arrangements are in place. They recognise the separateness of local government, but give us the opportunity to have a cross-cutting look at the public sector, which can offer real benefits.

The next slide is headed "Performance audit". Within the new arrangements, we are working hard to ensure that our responsibilities can make a real contribution to improving the quality of public services in Scotland, through holding spending bodies to account more effectively and by helping them to improve, rather than by simply looking back at what happened in the past.

There are two key questions on performance, in which members will have an interest. The first question is straightforward and concerns how good performance is. The second—in line with best-value policy—concerns whether improvement is taking place. Are spending bodies continuing to drive up their performance to ensure that they are matching existing best practice?

Our approach can contribute to establishing better public services in the six ways that are set out on the slide, and the challenge for us is to ensure that we strike the right balance between supporting good practice and innovation, and challenging people to improve when evidence suggests that that is possible. That is the approach that we are developing across the public sector, with a special remit for local government under the auspices of the Accounts Commission.

Members might be interested to note that, although some aspects of that approach apply in most parts of the public sector, they are most advanced as an integrated package in local government because of the history of the legislation that is operated in local government.

I will move on to slide 3, before handing over to Alec Taylor. Within the performance audit, we have three main tools at our disposal. The first is a value-for-money study, which looks down through a specific service or function and makes comparisons across a range of bodies to identify what the range of performance is, what works most effectively and where there is room for improvement. The second tool is performance indicators, which we are here to talk to the committee about in more detail. The third tool is management arrangements—the processes that underpin especially good or poor performance, as shown up by the PIs. We are aiming to integrate those three tools much more effectively in future, to ensure that we can give Parliament and councils information that can be relied on.

Alec Taylor will talk in more detail about the PIs.

Alec Taylor (Audit Scotland): I shall make a few points about the way in which the PIs have developed and the way in which the information is published, which is the final outcome of the process. The key is contained in the Local Government Act 1992, which sets out the framework under which we operate.

Slide 4 shows the criteria that we have to use. They are

"cost, economy, efficiency and effectiveness".

The slide also shows that we must be able to facilitate comparison over time as well as between councils in any financial year. Each year, as we review what our direction should be for the following year, we must retain an awareness of the requirement to balance continuity with any change or development that needs to take place.

Part of the problem of change lies in finding a balance between the practical and the desirable. As slide 5 shows, councils must collect and publish information—audited arrangements must be in place for them to do that. We must ensure that we are not asking too much of councils and that, when we ask for information, they can provide it. If their systems cannot provide the information, there will be little point in introducing new indicators. We have put such arrangements in place in one or two councils—with the agreement of the relevant professionals—to assist them in ensuring that they have information in place to report on important issues. That is one way in which we can assist the process.

In determining our annual direction, we put considerable effort into working with a wide range of interest groups. Before we issue our formal consultation paper in the summer months, we spend time talking to professional associations, social workers, planners, education directors, various units within the Scottish Executive and other interest groups to ensure that much of the paper's content is already understood and known by the people who are likely to be affected by it. Once we have taken account of the responses to that consultation paper, we issue our direction, which happens about this time each year. Indeed, the direction for the next financial year will be going to the Accounts Commission next week. The direction is then backed up by a lot of guidance—on the definition of terms and the interpretation of information—for the relevant officers in councils and their auditors.

In echoing the need for some consistency over time, our direction for the next financial year is very similar to this year's direction. For next year, we are introducing one new indicator and dropping one, which means that we have the same number of indicators. Very little change will take place. However, I reiterate that that is all done on the basis of extensive consultation.

Slide 7 illustrates that, at the other end of the process, we publish the information for the whole of Scotland in several ways. Each year, we distribute a series of pamphlets widely. One of those, which is entitled "Benefits, Finance and Housing", has been included in our pack, which gives a national picture and highlights important messages about a range of indicators. In addition to those pamphlets, we issue a compendium of the data without analysis to allow people who want to undertake any analysis of their own to do so. The data and pamphlets are on our website. The data are also available on disk and are sent out to all sorts of people, such as council officers, students and civil servants in the Scottish Executive.

During the summer, we also sent chief executives a profile of their councils for the first time. Those profiles contained detailed comparative analyses of many of councils' performance indicators in relation to other councils. Next February, we will distribute more widely a similar document for the 1999-2000 data. All our information for a financial year is published in January and February the following year. Next time round, we expect to issue about eight pamphlets that will cover about 50 to 54 indicators.

In slide 8, I present one of the tables that are contained in a pamphlet as an example of a figure that relates to rent arrears. The figure exemplifies how we present data where we can, by illustrating the national picture and reflecting change over time. It shows rent arrears for council housing since 1993-94 and indicates a trend of increasing arrears against an increase in the level of rent that is due. As a result of receiving such information, we undertook a value-for-money study on the management of rent arrears, which was published in June. That demonstrates that, as well as simply being presented in this way, PI data are used for other purposes.

The ninth slide shows last year's rent arrears for the 32 councils. That information is presented in tabular form in the pamphlet, with the comparative arrears figures for the previous two years. There was clearly a wide variation in the level of rent arrears, but I wanted to illustrate how, for some performance indicators, we have used family groups to provide a more like-for-like comparison between councils. Lesley Bloomer will now say something more about issues that arise from the information.

14:15

Lesley Bloomer (Audit Scotland): Alec Taylor has talked about PI work. I will describe the concerns that councils have had about our work and the ways in which we have addressed those concerns. I will then speak briefly about future developments.

We take seriously concerns that are raised by councils. If councils are not happy with the PIs, they will not use them. An increasing number of councils use the indicators to plan targets for improvement with their heads of service. PIs should be used in that way to contribute to improvements in performance. We need to ensure that councils are happy with the PIs so that more councils use them to improve performance.

I wish to address the two issues that are outlined on slide 10. First, concern has been expressed that there are too many PIs. Three years ago, the Scottish Office established a set of PIs to reflect the introduction of the best-value regime. That meant that there were two sets of PIs, as in England, which gave rise to a lot of work.

We worked hard with the Executive to combine the two sets of indicators 18 months ago. It is worth noting that unification of the sets of indicators has only recently been achieved in England, where the work was carried out by the Department of the Environment, Transport and the Regions rather than by the Audit Commission, which is our equivalent body. There is still a perception among councillors and council officers that there are two sets of indicators, but that is not the case. We have worked hard to reduce the number of indicators.

Secondly, there is a view that the PIs lead to unfair comparisons and that, in reporting on them, we do not compare like with like. Complaints have been levelled at a few indicators, in particular at those that involve local targets or those that concentrate solely on expenditure. In the most extreme example, it is hard to compare Clackmannanshire's need for expenditure with Glasgow's. In those cases, we have developed the criteria that we use so that we select and define PIs in a way that makes them much more readily comparable. The committee will be aware of that from the document that we sent on statutory performance indicators.

We are also using family groups where there is evidence that external factors influence a council's performance. We use family groups to group councils for rent collection rates, council tax collection rates and refuse collection. Rent and council tax collection rates are affected by levels of deprivation and refuse collection is affected by how dispersed the population is. We will continue to work hard to improve PIs.

I will finish by talking about the future development of PIs. We will continue to develop the indicators to ensure that they are robust and that they are strictly comparable between councils. We want to begin to develop some voluntary cross-cutting partnership indicators for measures such as the number of racially motivated incidents, the number of people who participate in sport and so on. To make a difference in cross-cutting areas, councils must work in partnership with other bodies, such as health bodies, enterprise agencies, the police, fire services and so on. Councils will be able to use indicators that reflect partnership working in their community leadership role. They will be able to use such indicators with their partners to help to drive change.

Audit Scotland and the performance audit team will work to develop a more rounded picture of performance. That relates to Caroline Gardner's point about the three areas of our work: management arrangements and best value audit; performance indicators; and value-for-money studies. We are working to pull together reporting of our indicators with our other work—in particular with the best value audit. That will mean that we will be able to put together information on how good a council's processes are and on how good the service that users receive is. That will give us a much more rounded picture of a council's performance.

Equally, we will explore, using VFM studies, why councils vary so much in performance. Alec Taylor mentioned rent collection rates, which offers a good example of the extent of variation between the performance indicators of councils. We followed that up with a VFM study and we will be doing more of such work in future.

That is all that I would like to say now about how we plan to proceed. I will be happy to take questions.

The Convener: I will start with two easy questions—I think. Alec Taylor said that you had introduced a new performance indicator and dropped an old one. I would be interested to know why you did that, and what the indicators were.

If you find that a council—let me put this delicately—has delays with repairs or has invoices that are not paid within 30 days, and if it does not change that for a couple of years, how long is that situation allowed to go on? What can you do about it? I have used two easy examples, although there might be other more serious matters that councils do not address, even once you have issued a report.

Alec Taylor: I will respond with the easy answer first. The indicator that we propose to drop relates to staff costs in the library service. We did that because of our developing criteria—it is difficult to compare costs of an element of service provision between councils. That is particularly evident in Glasgow: the Mitchell library does not have a lending facility, but it is a very expensive high-quality facility. To compare Glasgow's library staffing costs with those of other councils was considered inappropriate for the purposes of our criteria.

We also wanted to consider more carefully the end product—the outcomes and the outputs—rather than the resource inputs into services. We have developed indicators for the library service that relate to use of libraries. That is far more important in general terms. We are therefore determined to drop the indicator of costs.

The indicator that we are introducing relates to the educational attainment of looked-after children—a social work matter. It stems from the social justice action plan and from the proposal that there will be a target for children who are leaving care: achievement of standard grade English and maths. That means achieving literacy and numeracy. That is a developing target and it was felt that a new policy initiative ought to be reflected in the PIs.

To some extent, the length of time that situations—such as that which you described, convener—would be allowed to continue would depend on the importance of the matter in hand and on the extent to which the council's performance had varied. There is now an issue about best value, including consideration of continuing improvement. There are one or two indicators on which some councils are not doing particularly well, but they are making a determined effort to improve. That is important.

On the other hand, if a council is doing very well, but is somewhat complacent about service delivery, that also shows up in the indicators. In serious cases, a council's auditors will stay with a matter and draw issues to the council's attention annually.

If no council is doing particularly well in relation to an indicator, we might—as we did with the housing rent arrears service—decide that it is time for more general consideration through a value-for-money study. We would investigate whether examples of good practice could be drawn to councils' attention. We have a number of ways of dealing with such matters—as you mentioned, convener—but it depends what the issue is.

Donald Gorrie (Central Scotland) (LD): I would like clarification on the graph on slide 9. I might think of a more intelligent question in due course, but I simply do not understand the "Family group analysis" thing that is shown on that slide.

Alec Taylor: Slide 9 relates to an analysis that was carried out on the basis of deprivation and population density. That analysis stemmed from a concern that was held by a few councils that their situation was very different from that of other councils and that a comparison across the 32 councils—whether in tabular or graphic form—was inappropriate. Glasgow is the most common example. It was considered inappropriate to argue that Glasgow City Council should be doing as well on some indicators as the Scottish Borders Council or the Western Isles Council were. Similarly, it was considered inappropriate that Highland Council, with its dispersion, should do as well as some of the more tight-knit council areas.

We carried out an analysis that divided the councils into three groups according to population density and deprivation, to show that those councils that were more alike still suffered from significant variations in performance. We wanted to ensure that Glasgow City Council, Clackmannanshire Council and Highland Council were not being compared unfairly.

Donald Gorrie: I assume that the bars on the chart relate to the list of councils in figure 2(a).

Alec Taylor: That is correct.

Mr Kenneth Gibson (Glasgow) (SNP): In table 4—on the percentage of invoices that were sampled—I note that Glasgow City Council used a sample of 803,126 invoices—I assume that that is all the council's invoices—but the West Lothian Council sample included only 568 invoices. How confident are you that the authorities are presenting comparable figures? Given the fact that other local authorities seem to have provided all their invoices, are you sure that West Lothian Council sampled 568 invoices at random? Could the results have been skewed? Might it be appropriate to use a common measure, such as all a council's invoices?

How appropriate is the number of repairs per house as an indicator, given the fact that houses come in different sizes, designs and ages? Repairs could range from fixing a bolt in a gutter to a major re-roofing exercise.

Alec Taylor: I will deal with the first question and Lesley Bloomer will deal with the second.

The issue of a common measure is very important. Initially, the indicator was designed to allow for a minimum sample size of 500, which was agreed as being statistically relevant. However, the guidance that we provide to both the auditor and the council is that the sample should come from a range of departments and should consist of different types of invoice. Increasingly, we have encouraged councils to provide a 100 per cent sample. We can take some comfort from the fact that many councils provided huge samples.

Mr Gibson identified the fact that West Lothian provided a low number of samples. However, it would be clear to the people of West Lothian and the council's auditors that that is a low number. We hope that there will be a movement towards a near 100 per cent sample size in all councils. However, the specification of the indicator was based on a minimum sample size and we have taken the matter forward from there.

I do not have the figures for 1999-2000, but I hope to see an improvement in the performance and an increase in the number of samples that councils provide.

Mr Gibson: Is there any reason why there is such variation in the number of invoices that are paid within 30 days? I know that that is a bugbear of many members of the business community. The Forum of Private Business indicated that several of its members have gone bust because of that. According to the table, there has been a substantial decrease in the number of invoices that are paid within 30 days by Inverclyde Council and Fife Council although, commendably, councils such as the City of Edinburgh Council have improved significantly. Overall, there does not seem to be any change—the rate is 70 per cent across all local authorities. Invoice payment seems to be a bit of a rollercoaster ride.

Alec Taylor: You raise one of the key issues about the performance indicators, which is that they raise questions rather than give answers. However, that type of information allows the sort of question that you are asking to be asked. The Federation of Small Businesses has raised the issue with us many times. In a few months, we will publish the third-year data and examine them to see whether there has been any improvement. At this stage, however, I do not know why there is such variation. Clearly, there is variation in the quality of systems that are available in councils. That is why some can give us a 100 per cent sample and others can produce only a small sample. Perhaps that is part of the answer. We will keep an eye on the situation and we hope that it will improve.

14:30

Lesley Bloomer: You asked how we can compare the level of repairs, but it is important to remember that the condition of the stock will vary enormously in differing local authority areas.

Mr Gibson: I wondered how relevant the information was.

Lesley Bloomer: It is relevant in a couple of ways. We took the information about the number of repairs per dwelling and the number of emergency repairs per dwelling. Because of the variability in the data, we did a value-for-money study on it, which was published a couple of years ago. In that study, we used data from Scottish Homes, which conducts a three-yearly stock condition survey, to examine the stock condition. We found that the age and condition of the stock play a part in the number of repairs: older and less reliably sturdy stock will need more repairs. More important, however, was the way in which the council managed the housing repairs work. If the council was firm about charging tenants for repairs that were needed because of wilful damage, fewer of those repairs needed done. Also, if a council was proactive regarding its maintenance work, fewer ad hoc repairs were required.

The performance indicator data showed us what the variability was. A classic example was the fact that East Dunbartonshire had a higher number of repairs per house than North Lanarkshire. That did not fit, as East Dunbartonshire is a less deprived community and I believe that the stock condition was broadly similar. On examining that situation, we discovered that the difference had arisen because of the management style, rather than external factors such as stock condition.

The same situation is found repeatedly when an area is examined using a value-for-money survey. We examine factors that are external to the council and factors that are in the control of the management of the council. External factors play a part but, frequently, a bigger part concerns the way in which the council manages the processes. That is why we think there is good value in the value-for-money studies: they allow us to pull out examples of good practice that other councils can use.

Mr Gibson: Table 5b in the leaflet, which deals with the overall proportion of housing response repairs completed within target, shows that Angus has 91.7 per cent, which seems good, and that West Dunbartonshire has only 57.8, which does not seem very good. I take your point about East Dunbartonshire, but those figures do not tell us whether a council is doing all those repairs because its stock is not in good nick or whether the opposite is true. From a lay perspective, there does not appear to be a sufficient explanation of what those figures might mean. Other figures, however, will be perfectly understandable to members of the public and will clearly show whether the local authority is doing better than it did in previous years.

Lesley Bloomer: That is a good point. We need to keep reviewing how user friendly our pamphlets are and how much explanation is contained in them. We will have to keep working at that to improve it.

The table with the information about the overall proportion of housing response repairs completed within target is interesting and we will treat it with more care in future. Authority response target times vary greatly. It is heck of a hard to hit the target if the target is four hours, for example. A council that achieves 90 per cent when its target is four hours is possibly doing better than a council whose target time is 24 hours.

Mr Gibson: I am surprised that the criteria are not standardised. I assumed that they were, as that would allow relevant comparisons to be made.

Lesley Bloomer: That is one of the issues that have arisen. We have had complaints about the fact that it is difficult to make like-with-like comparisons. There is no uniform categorisation of repairs. There is no agreement on what constitutes an emergency repair and no agreement on the time scale in which repairs should be done. It is not our job to set those criteria.

Because standardisation of criteria is so important, we have carried the information in pamphlets, and in the compendium we have all the information on the councils' exact target times, so that informed analyses can be made. This year, pending what we hope will be the development of standardised response times, we are taking the repairs that councils aim to complete within 24 hours and asking how many they managed to do. We will report that in the pamphlet, which will be easier to interpret. Our difficulty is that there is no standardised response time, and we cannot impose one, but we are working with directors of housing to try to move the matter forward.

Caroline Gardner: May I add one brief point? During her presentation, Lesley Bloomer talked about the changes that we made recently to the criteria for performance indicators; two important changes will affect indicators such as response times. First, it should be obvious which way is up for an indicator—that is, it should be clear which is good performance and which is poor, so that if there is a change, it should be clear whether things are getting better or worse.

The second change is that we should focus on national, not local, targets. If that means working with local government to establish what national targets ought to be, we will do that.

Mr Gibson: That is important when looking at comparisons.

Bristow Muldoon (Livingston) (Lab): First, I wish to make an observation. I welcome the reports on the improvement in rent arrears collection and the fact that housing repair responses are within target in West Lothian. I am sure the council's excellent convener at the time contributed to that.

Colin Campbell (West of Scotland) (SNP): Namely yourself.

Bristow Muldoon: More seriously, I was concerned about the section at the beginning of the report, on council tax collection levels. I know that you are just identifying questions and that it is for the Executive and local authorities to consider them, but there is a puzzling and concerning gap between the level of council tax collection in Scotland and that in England and Wales. In addition, the situation did not get better during the three years that are covered by the report. Why is there such a gap between our collection levels and those in England and Wales?

Lesley Bloomer: We did a VFM study on that subject three years ago, and went back and highlighted the position last year when we published the data. Several things affect council tax collection levels, particularly income levels and deprivation levels. The significant factor in Scotland, which England and Wales did not have, was the non-payment campaign, which focused particularly on the west of Scotland, and which we reflected in our report. That is one of the reasons the position in Scotland now is worse than it is in England and Wales.

Our reason for revisiting the issue when we published the data last year was the concern that you raised, which was that the position did not seem to be getting better. For each of the pamphlets that we publish we put out a press release, in which we try to be balanced. The press release that went with this pamphlet was challenging. We said that there had to be improvement, and that it was not acceptable for collection levels to continue as they were, because those who paid were subsidising those who did not. We will keep an eye on what happens with collection rates. If they do not start to improve, we will maintain a press-release focus on the issue so that the message gets through in the media.

However, we have found improvements. When we published our original report, Glasgow City Council sat down with us and the external auditor and agreed a set of improvement targets. Those targets are still low, but the council is meeting them, which is excellent. We understand that there have been problems with the introduction of new information technology systems, which have disrupted collection regimes, and that that may be part of the problem for the other two councils—West Dunbartonshire Council and Inverclyde Council—that we highlighted as having low performance. Those new systems should be bedding down now, and we will be keeping an eye on performance in those councils and across the piece.

Bristow Muldoon: My other point, which also relates to the issue that does not make much sense to me, concerns table 3, which shows the cost of collecting council tax. For example, Falkirk Council records a huge reduction in the collection cost per dwelling, from about £11 to just under £3, and its collection rate remains the same throughout the period. In contrast, Fife records an increase in the collection cost per dwelling, from about £4 to £14, and its collection rate remains roughly the same. It is difficult to understand that. Falkirk seems to be making huge savings, or efficiencies, in its collection cost and that is not affecting its collection rate, whereas another authority seems to be putting much more effort into its collection and is not getting any benefit.

Lesley Bloomer: It is necessary to examine what the councils are doing. As Alec Taylor pointed out, the indicators do two things. They allow us to make comparisons across all councils on the council tax collection rates. They also allow us to make comparisons within a council over time. The focus tends to be on the comparison over time on indicators on which we ask for costs. We work closely with the Chartered Institute of Public Finance and Accountancy to ensure that the costs are allocated uniformly. That is a hard job. For that reason, there may be variation in how councils allocate costs between headings. Allocation of costs is complicated by the fact that some staff who work on council tax may also work on housing benefit, so the council has to split up those costs somehow. It can be difficult to allocate costs.

As a result, when we have cost indicators we tend to focus on what is happening within a council over time rather than between councils. Bristow Muldoon used the example of the decreased cost in Falkirk. We would need to examine the detail to find out what has happened there. Has the council altered its procedures? Has it cut its costs or changed the way in which it allocates them? We work hard to make indicators comparable between councils, but it is more difficult to do that on cost indicators than on some others.

Mr Keith Harding (Mid Scotland and Fife) (Con): I know from my experience of talking to councils that they feel overburdened and that they question the value and usefulness of much of the data that they are asked to produce. How do you intend to overcome those concerns?

Lesley Bloomer: We have been working hard to overcome them. The work that we did with the Scottish Office to combine the sets has helped enormously.

The demands to produce data come from Audit Scotland, but also result from a host of statutory returns that, as you know, councils make to the Scottish Executive on a variety of matters. We are working with the Society of Local Authority Chief Executives and Senior Managers—SOLACE—the Convention of Scottish Local Authorities and the Scottish Executive on the joint performance information group. Our objective is to examine the demands that are placed on councils to see whether we can streamline and harmonise them.

The work that has been undertaken on social work is a good example of that. All the relevant bodies—Audit Scotland, the Scottish Executive, COSLA and the Association of Directors of Social Work—came together to consider the performance information that had to be reported and that was needed to run the service. They recommended improvements on the information that they needed to have and alterations to what they wanted to report. That process has worked well. The work of the joint performance information group is likely to lead to further work of that type to streamline and co-ordinate all the reporting requirements. That should reduce the overall burden on councils.

Mr Harding: Am I right in assuming that there is no performance indicator in this report on finance for the collection of non-domestic rates?

Alec Taylor: There is no performance indicator for non-domestic rate collection.

Mr Harding: Why not? Non-domestic rates are one of the biggest revenue earners for local councils. Why is no check made on that collection?

Alec Taylor: It would be easy to say that I do not know, because that is the fundamental of any other answer that I might give. That issue has not been raised directly with us by any of the bodies with which we have discussed the performance indicators. In general, our PIs relate directly to services that are provided by the council to a range of publics. That is probably why we have not examined that income stream.

Mr Harding: But the council is the service provider: it collects the rates.

Alec Taylor: Absolutely.

Mr Harding: It seems strange that one of the biggest sources of income generation for councils is not subject to a performance indicator. You are very critical of councils for not collecting council tax. How do we know who collects what in terms of business rates?

Caroline Gardner: The answer is that we do not know at the moment. We have done a couple of VFM studies, which explore in more detail the collection of rates and other corporate services of that type. We should perhaps explore the broader question of the effectiveness with which councils gather all their revenues. We will certainly take that point away with us.

14:45

Mr Michael McMahon (Hamilton North and Bellshill) (Lab): To go back to the issue raised by Kenny Gibson, the impression that is being created is that we are comparing apples with oranges. If that is the case, what value do the statistics have? For example, many people question school league tables, because different backgrounds and catchment areas affect the results; there is little value in comparing a high-performing school with a low-performing school, without taking into account the background of the students who go to each school.

Is there no way in which you could add a qualitative dimension to the statistics, instead of carrying out quantitative data analysis, collecting figures and presenting them in a name-and-shame fashion? What possibility is there of producing a value-added table that shows improvements in the level of collection of rent arrears in, for example, Glasgow compared with a more rural or better-off community? Unless there is a qualitative dimension, the statistics have little impact, other than to say that one council is better off socio-economically than another.

Caroline Gardner: There are at least two answers to that question. First, we already do that to some extent through the family groupings, which Alec Taylor talked about, which deal with fairly complex statistics to show what affects performance and then group councils according to how they are affected by those factors. That starts to make comparisons.

Secondly, the PIs are designed to be comparative across councils and over time. The comparison over time works in any case, and councils find the cross-council comparisons useful, because they understand what some of the variations are. We have the power to use value-for-money studies to explore what is driving better or worse performance in much more depth than is possible with PIs. In that way, the comparisons can be made much more valuable. I talked about the ways in which we are developing performance audit as a technique for the future. One of the things that I am keen we should do is to make more use either of contextual information or of standardisation to ensure that the comparisons are as robust as they can be.

If we had a bit more background, it would be nice to talk about how we try hard to ensure that the tables are not just league tables and that they are reported sensitively, and that councils are helped to make use of them. We understand that the tables are sometimes used in the way that was described, especially by the media, but we try to ensure that the information that lets people make sense of the indicators is as widely available as the indicators themselves.

Mr McMahon: My next question concerns the point that you have just made. Your report contains a commentary on each set of statistics, but the commentary just confirms what the table says; it says that councils A, B and C are doing quite well, and councils E, F and G are not. It contains no analysis of the statistics or anything that would suggest why councils A, B and C are doing better. Statistics relating to the PIs and why they might be counted in a particular way may be encapsulated, but the commentary does not suggest why that might be the case; it simply reflects that a certain council is doing well in a certain statistic.

Caroline Gardner: It is always difficult for us to get the right balance and to present the PIs in a form that is not hugely indigestible—the full compendium is telephone book-sized. We need something that gets the main messages across to the public, but also gets information to councils and to people whose interest is more detailed in a way that allows them to make sense of it.

We work hard at getting the balance right but we do not claim to be entirely there yet. The use of family groups is one way of trying to make the comparisons more useful in a visually simple way—people can simply look at the graph and see quickly which councils come together and are most like theirs for the service in question.

Mr McMahon: Would it be too difficult to add a paragraph or two in the commentary, by way of analysis of the statistics, to suggest that a simple reading of the table is not enough to indicate that one council is performing better than another?

Caroline Gardner: You are right. Sorry—three of us are trying to answer the question.

Alec Taylor: Inside the front cover of each of the pamphlets is a statement about a number of factors that affect the council's ability to perform. It says that those

"local factors may mean that a council with a performance which, at first sight, appears to be worse than that of another has, in fact, done better given the circumstances it faces."

We try to flag up caveats to avoid the problem of over-simplistic interpretation—the league table effect, where somebody comes out top and somebody comes out bottom.

Mr McMahon: But the commentary does not say, "This table could be affected by some of the caveats at the start of the document." It says, "Councils A, B and C are at the top and councils D, E and F are at the bottom"; no analysis of the statistics is included to point out that there may be a reason for that.

Lesley Bloomer: As Alec Taylor said, factors are included on the introductory page of each pamphlet. The commentary on council tax collection costs says:

"the cost of collection may be affected by: the ability and willingness of taxpayers to pay"

and so on.

In the commentary, we try to list the factors that may affect the performance levels. Without doing the volume of work that is involved in a VFM study, it is difficult for us to say why there is such a range of performance. Many internal and external factors can be involved, and it is incredibly difficult to unpick them. We would do that in a VFM study, but we have 65 council indicators and another 11 for fire and police. Understanding properly what is happening cannot be done in the commentary. We need to go round an area, which is what we do for council tax, rent collection and so on. However, we outline in the commentary external factors that may affect a council's performance. We try to do that routinely in the commentary—I am sorry if there are issues on which we have not done so.

Performance indicators are just numbers. It is impossible to reflect the quality or detail of service provision in a number. That is why we use the jigsaw analogy—our statutory performance indicators are one part of the jigsaw. It is incredibly important to understand quality issues about service provision—councils should speak to their users and staff about that. Performance indicators are important, however, in that they prompt questions. If, for example, North Lanarkshire has a much lower level of rent arrears than Fife, we ask, "What is going on here?"

We produce audited figures. Yes, there are queries about the comparability of one or two of them, but across the board they are audited, robust figures that allow councils to say, "Hang on a minute—what is happening here?" That is their real value. We cannot encapsulate everything in a number, but we can get the number to prompt questions. We reflect the caveats that are associated with the figures in the commentary and in our press releases.

Dr Sylvia Jackson (Stirling) (Lab): I hope that my points are related. First, I am reminded of performance tables in education. One of the difficulties is the use that is made of the statistics, not only—obviously—by the press but, in this case, by councils. They could feel devalued. They might, underneath, be doing a fairly good job but, as Michael McMahon said, the statistics do not reflect that.

The starkest example that we have had to date was when we discussed the refuse collection figures the last time that Audit Scotland was at the committee. Those figures showed efficiency in terms of time per wheelie bin. However, the big message to emerge from the report was concern about what we are doing about waste management in general. If a council were thinking of having different wheelie bins for paper and glass, or a similar waste management structure, the time taken per bin might be higher and there could be cost implications. We know that there will be cost implications when we move over to more sophisticated waste management systems.

Lesley Bloomer will remember that the last time she came before the committee, we were at great pains to emphasise the importance of the qualitative analysis that needed to go alongside the quantitative data, which can too easily be misread or misunderstood. Taking the example of refuse collection, how would that report appear next time?

Lesley Bloomer: The performance indicators for refuse collection are the cost of refuse collection and the number of complaints—that is a new indicator. Alec Taylor will correct me if I am wrong.

Mr Gibson: I am sorry to interrupt, but I think there is also an indicator that relates to the proportion of bulk uplift for disabled people and so on.

Lesley Bloomer: Yes. I was referring to the household indicators. If a council introduced different bins for households, the costs would increase. At the moment, all councils use systems that are based on wheelie bins, so the figures are comparable. If a council were to change its system, we would have to reconsider the way in which we report that indicator, because it would become a transitional indicator. The situation would not be clear; if a council introduced different bins to improve its recycling rate, the costs would rise and that rise would not necessarily be a bad thing. We would provide additional commentary in support of that indicator, saying that additional costs for recycling would push the figure up. Does that answer your question?

Dr Jackson: I am trying to say two things. First, there may need to be a change in what you are reporting. It could be important to know the amount of money that is being put into investigating recycling. Secondly, as Keith suggested, we need to keep abreast of what the performance indicators are doing and whether they are truly related to necessary changes in policy, such as waste management. Are we adjusting the performance indicators to reflect policy changes? Have I made myself clear?

Lesley Bloomer: I think so.

Mr Gibson: Apart from the fact that she said Keith and not Kenny. [*Laughter.*]

Lesley Bloomer: Perhaps Alec Taylor would like to come in on that point and link it to policy.

The Convener: There seems to be a bit of buck-passing going on here.

Alec Taylor: I think that it was what rugby players call a hospital pass.

We are working with units in the Executive all the time, asking what policy initiatives are coming through and in what direction we need to be going. One of the fundamental problems is that we establish a direction in summer 2000 for the financial year 2001-02 and it is January 2003 by the time that those figures are published. I often ask people whether they can tell me what the key issues for public reporting will be in two and half years' time—if they could, I would ask for the six lottery numbers for Saturday and retire now.

However, there are some areas, such as social work, where there have been several policy initiatives and we have worked closely with people in the department. I mentioned the new indicator in the social justice action plan, and that is a key example.

Last year, we introduced a new indicator for refuse recycling that asked about methods of refuse disposal and the proportion that goes to landfill. Cost is pertinent to that, because over time we will be able to identify those councils with high costs and to find out whether there is any correlation between cost and the proportion of waste that goes to recycling schemes.

Our difficulty is that we get one shot at this every year. Getting any trend information takes three years, so this is a long game. We must be patient, even though sometimes that is frustrating. Part of the frustration is that when we introduce a new indicator for inter-authority comparison, for the first year we have only one year's data. We cannot make comparisons over time; we can make only bland comment on which councils are and are not doing well.

15:00

We try desperately to avoid making the obvious judgment that there is a straight league table of 32 authorities and that they should be ranked as if they were part of a football league. Going beyond that requires several years of consistency. That takes me back to what I said earlier about the Local Government Act 1992, which requires consistency over time. In some areas there is fairly rapid policy change or new initiatives are built on to old policies. One has to strike a balance when deciding on performance indicators.

Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD): Keith Harding has touched on areas where constructive work may be done in future. One way in which a council can make a difference in running its finances is in the management and rescheduling of borrowings. By that I mean borrowing long, borrowing short and changing the portfolio. That can have a revenue impact on budgets. Do you have any plans to look into that form of management in the 32 Scottish local authorities? I accept the point that you make about having to build up the statistical evidence. However, would you consider providing examples of best value that might be useful to Scottish local authorities?

Caroline Gardner: Given the complexity of the issue, I suspect that that might be hard to capture in one PI or even a small number of PIs. However, we might profitably do a VFM study that compares treasury management practices across the 32 councils in Scotland. As a new audit organisation, we will over the next three months consult local authorities and the range of stakeholders in local government about our priorities in using VFM resources over the next three years. We can include the management and rescheduling of borrowings as a topic in those discussions to gauge whether people feel that an in-depth examination of the issue would be beneficial.

Mr Stone: I welcome what you say; that is a good, constructive reply.

In my next question I display my ignorance, as I ought to know the answer but do not. When you develop something, what mechanisms for reporting to the Scottish Executive have been established or may need to be established?

Caroline Gardner: At the moment, we produce two types of reports. One is a report to individual councils that sets out how they measure up against the good practice that we have identified, the benchmarks of performance information and the areas in which councils have shortfalls to address. As a follow up to that, councils are required to agree an action plan with their local auditor.

At the national level, we produce a report that sets out what good practice is and how local government in Scotland as a whole compares with that. The Accounts Commission does not report to the Executive or the Parliament. Its power is the power of publicity. We would publish our report, aim to get media attention for that through the responsible use of press releases and briefings for journalists, and make it known that, through the audit process, we will revisit what has happened. Publicity is our key weapon in getting councils to take action.

Colin Campbell: When we were talking about refuse collection, I was reminded that when we last discussed that subject one of my colleagues concluded that, because there had been such a decline in the number of people involved in refuse collection, that would certainly not be a career for his children.

However, that is not the point that I wanted to make. To what extent might it be worth considering the effect on staff of meeting performance targets? Can that be measured by the number of premature retirements through illness? The other day, I talked to somebody who works in the public sector. It is clear that in many areas the pressure on people is intolerable, and I thought that that might be a valid area for inquiry.

Lesley Bloomer: That is an interesting point. The focus on all of us, as public servants, is increasingly on performance, and measurable performance is part of that. The value lies in prompting questions about how things are going. We can put the information into the public domain, so that councils can use it, and surround it with appropriate caveats. It is then up to councils to use that information sensitively.

Caroline Gardner: We aim to examine good practice rather than cost cutting. Cost cutting is never the focus; the focus is the balance of economy, efficiency and effectiveness.

Colin Campbell: I understand that the motives are pure and honourable all round. However, there is a definite human cost, which someone should measure.

Donald Gorrie: There is a lot of interest in replacing the ring fencing of Government money that is given to councils by measuring inputs, outputs and performance indicators. Do you think that you have satisfied the Executive or COSLA, or both, that you have made enough progress to provide a good set of proposals for measuring outputs? Where does the issue lie at the moment?

Caroline Gardner: We genuinely think that we have made a great deal of progress over the past couple of years, mainly through working closely with COSLA, the professional associations and the Executive to ensure that we strike the right balance between challenge and support. It is right that councils are held to account for their performance and that hard questions are asked. However, the process should not be about developing sticks to hit people with; it is much more about helping people to identify what works and to make meaningful comparisons between themselves and others. We have moved forward a long way.

We are also keeping a close eye on the interesting work that COSLA and the Executive are doing on, for example, local outcome agreements, whereby, instead of expecting everybody to hit the same target, agreements between councils and the Executive would reflect local circumstances and priorities. We think that audit could play an important part in ensuring that the targets are reasonable and challenging enough without being impossible and that performance against them is reported accurately. I hope that the Society of Local Authority Chief Executives and Senior Managers would agree that we have gone a long way towards getting the balance right. The system will inevitably continue to develop and there is still a lot that we can do to get that rounded picture of performance to councils and bodies such as this committee.

The Convener: Thank you for that. I have a couple of points to make in rounding up—this is not a question, so do not panic. The relevance of the repair indicators has been pointed out and Lesley Bloomer has said that she hopes to make them more user friendly and to standardise times and repairs according to national targets. In the context of Sylvia Jackson's point about the amount of data that councils must respond to in looking for the kind of information that you want, I think that, in your talks with COSLA and the Scottish Executive, streamlining those requirements will be useful.

Keith Harding's point about the fact that nobody appears to be considering the non-domestic business rate—whether it is being collected and, if not, why not—is important. The committee will certainly try to find out whether something can be done about that, whether by Audit Scotland or by someone else. The issue will not go away.

Michael McMahon and Sylvia Jackson asked about how we explain statistics: how one day things can be all right, but the next day the opposite can be shown.

This has been a useful hour and 10 minutes. You are now allowed to go off and have a coffee; we must meet the Executive. Thank you for coming along.

Budget Process

The Convener: The next agenda item falls into two parts. First, we have the Scottish Executive; we will then speak to Professor Arthur Midwinter.

We are joined by Christie Smith, head of local government finance in the Scottish Executive development department, by Neil Rennick, head of the local government finance expenditure branch, and by Don MacDonald, who is in the finance co-ordination unit. The format will be the same as usual: we will hear from the witnesses and then ask questions.

Christie Smith (Scottish Executive Development Department): I understand that the original focus of this meeting was on the impact of resource accounting and budgeting on the presentation of the local government figures in "Making a Difference for Scotland: Spending Plans for Scotland 2001-02 to 2003-04" and its predecessor document.

I wrote to the committee yesterday to set out the position: although there are small differences between the two documents in the make-up of the figures, those are not accounted for by resource accounting and budgeting, which has no impact on the presentation of local government figures.

Because there is no impact, I feel that I have no more to say on that aspect. My colleagues and I will be happy to answer any questions or to comment on other aspects of the figures that members may be interested in.

The Convener: What is the reasoning behind the Executive's decision to adopt RAB?

Christie Smith: I will ask Don MacDonald to answer that, as it was his responsibility to implement RAB.

Don MacDonald (Scottish Executive Finance Group): The basic principle behind resource accounting and budgeting was to apply to Government accounting the principles that apply to the rest of the economy. The previous Government system was based on cash, which had the advantage of being fairly simple and understandable. Under that system, departments planned and accounted for cash as it passed through their books, irrespective of when it was spent or when the items purchased were to be used.

Resource accounting and budgeting introduced the accruals accounting concept to public spending. That meant that it matched payments and receipts to the time period when the costs were incurred, rather than to when they were paid. It also recognised the non-cash costs of Government activity, for example the consumption of capital assets throughout the year—assets may not have been bought in a given year, but some of them may have been used up. RAB allocated part of the cost of the asset to the year in question. That is a very broad outline of the basic principles behind RAB. I am happy to deal with specific, more detailed questions.

The Convener: Was there any reason why the Executive made the change? Was it because central Government accounting was coming into line with—

Don MacDonald: Yes. Resource accounting and budgeting was introduced across the whole UK by the Treasury. Moves to do so began before 1997, and RAB has now come into practice.

Donald Gorrie: I would like to ask a wider question about local government finance. The latest Executive announcement of additional expenditure allocated to the various departments included what seems to be a significant increase for local government. It is difficult, however, for people in our position to tease out certain things.

If we accept that some parts of local government activity receive a significant amount of extra money and that, within limits, each council can make its own arrangements, can we be confident that there will be no further cuts in areas such as libraries, recreation, youth work and support for voluntary organisations, whose funds have been repeatedly cut in previous years? After the specific increases for the more important and attractive areas of activity are subtracted, will the overall increase still leave enough for increases, or at least no cuts, in other areas?

15:15

Christie Smith: I must preface my reply with the usual caveat that it is up to each local authority to make decisions on budgets in each service area. However, the increased sums are substantial and, by and large, are not hypothecated to any particular service. In the past, we prioritised local government services within the settlement. Although ministers have yet to decide on the final form of the settlement that will be announced later this year, we do not envisage that a similar approach will be taken. Local authorities will have the freedom to deploy resources as they see fit. It was certainly the intention behind the global settlement for local government that authorities should be free to boost, if they so choose, the sort of services that Donald Gorrie mentioned—what might be called local services.

Donald Gorrie: Many committee members get around and I have been concerned by what I have been told about a number of councils instructing their officials to find further cuts in the coming year. I just wondered whether they knew something that we do not know.

Christie Smith: I do not know what the councils know. There is presumably always a case for making savings if they can be made, as they can be turned to account elsewhere. However, no such suggestion underlies the announcement.

Mr Stone: I am sorry to return to one of my old hobby-horses, but I will illustrate it with an example from my constituency. Many years ago, a swimming pool in Invergordon was sold and a capital sum of hundreds of thousands of pounds was paid over into an account. That money is still there, but cannot be spent because it counts against section 94 of the Local Government (Scotland) Act 1973, which affects the council's capital budget. As I understand it, section 94 was introduced to control borrowing. However, we are talking about a real capital balance that is being held and that is, in effect, frozen for all eternity. Alongside that, a rule stipulates that, although one can spend capital from current revenue in the current year, it cannot be carried over into the following year. We are talking about real money, not borrowings. I have often thought that councils might be helped if those rules could be tweaked or the controls freed up. Mr Smith, I have asked you before and will ask you again about the Scottish Executive's plans—if there are any—to examine this particular and rather detailed problem.

Christie Smith: We are reviewing the future of section 94 controls with COSLA and we are considering other options. On the immediate horizon, there will be substantial increases in central Government support for capital expenditure by local authorities as a result of the spending review. We are reviewing what are known as the receipts rules, which are agreed with COSLA and require a proportion of each council's capital receipts to be pooled for distribution to other councils. We hope to announce three-year capital allocations for councils this year. I am not quite sure how your council's position in relation to Invergordon will be affected by that; however, there has been substantial movement and we are committed to examining the future of the section 94 arrangements.

Mr Stone: Might any review include situations where actual capital balances are held but are boxed in by section 94 rules? One can understand that having large sums of money sitting in perpetuity doing nothing, apart from earning interest, does no good to anyone. In fact, a change in the rules could serve the Scottish Executive's interests by helping to keep a control on borrowing.

Christie Smith: I am not familiar with the case that you mention, but I know that the Executive does not prevent councils from getting receipts and using them. It may be that in this case the council thinks that the money will count against a future allocation and is reluctant to use it. We will certainly be reviewing the rules on receipts in the capital allocation system. That may solve the council's problem.

Mr Stone: I have one more supplementary.

The Convener: Well—

Mr Stone: I will shut up.

The Convener: We have to remember why we invited the Executive. We asked Executive officials to explain the implications of resource accounting and budgeting. They should not find themselves having to answer a question that would more appropriately be addressed to the minister, who will be with us this afternoon.

I now call Bristow Muldoon—I will be listening carefully to his question.

Bristow Muldoon: Thank you, convener—I was going to say minister, but that is perhaps for a future date. My question does not relate to resource accounting and budgeting, so I will save it for the minister.

Christie Smith: If it is any consolation, I will be back here later this afternoon with the minister. It is not out of the question that he might refer some questions to me.

The Convener: Let us hear the question.

Bristow Muldoon: My question is on a technical matter rather than on policy, so it might be better if Christie Smith answers it. The COSLA distribution committee met last week—I do not know whether the Executive was present at that meeting. Has the Executive considered the recommendation that was reached at that meeting, which was that there should be no ceiling on increases in grant-aided expenditure this year, but that there should be a floor for any councils experiencing reductions in GAE? In effect, COSLA's proposal was that such reductions would be compensated for by all the councils, whereas in the past only those few councils whose GAE increased funded the safety-net regime.

Christie Smith: The meeting to which Bristow Muldoon referred was an internal COSLA meeting, in which the Executive was not involved. When ministers met COSLA on 11 September, they received a number of recommendations from the working group, of which the recommendation that Bristow Muldoon outlined was one. The Executive and COSLA are now consulting internally on which of the options they would prefer in the final package. Ministers will meet COSLA again on 15 November, when I hope they will bring this matter to a conclusion so that there is a new structure for the settlement that is to be announced in December. We do not have a formal position on that, although we are aware that COSLA has reached a view on it.

The Convener: Kenny Gibson.

Mr Gibson: There is no point in having a dress rehearsal, so I will wait for the minister.

The Convener: I thank the witnesses for coming. We will see them later.

Okay, comrades, we welcome again Professor Arthur Midwinter, who helped us with stage 1 of the budget process. He is here to help us to consider the implications for local government of the Executive's most recent budget announcement, which was made on 20 September and is detailed in "Making a Difference for Scotland: Spending Plans for Scotland 2001-02 to 2003-04".

Welcome, again, Professor Midwinter. You are becoming a familiar face to the committee. We will be hearing from the Minister for Finance and Local Government this afternoon and members have a written report from COSLA. We will stick to the format that we have used at previous meetings. We will invite you to speak for a few minutes before we ask questions.

Professor Arthur Midwinter (University of Strathclyde): When we last met, I raised concerns about some developments in recent years: the restraint of central grants; the efficiency assumptions over pay; what I saw as an imbalance in the treatment of local government as compared to the Executive's programme; and some of the on-going structural problems in the local government finance system.

I regard developments in the past six months as welcome progress. As a result of the 2000 spending review, there has been an important shift on a number of the issues that I mentioned. There has been a real increase in grant, as calculated by the gross domestic product deflator. Ministers have recognised the need for that to make allowance for what are termed inflationary pressures, which are not solely to do with pay. In the work that I am doing for the Finance Committee, I am examining the possibility of generating separate deflators for the different programmes. It is welcome that it is now recognised that there is likely to be a pay cost this year.

The provision for spending growth for local government is broadly in line with the programme as a whole—I make it 20.4 per cent over the planning period compared to 21.9 per cent for central Government. That is much better than the figures that we saw six months ago when the local government increase had been roughly half the total for the programme as a whole. As a result of that increase, there may be greater stability in council tax levels compared to the figures that we examined last time. I have seen no projections for council tax for Scotland, but the figures in the UK comprehensive spending review, which contains data for UK local government, suggest a growth in council tax of about 14 per cent over the period. If that comes off, that will be an important change from the situation in the past five years.

You will be aware that the comments that I made to the committee last time I also made in a submission to the minister. I suggested that the consultation process appears to be working. The concerns of this committee were expressed at a meeting of the Finance Committee in July and it seems that there has been a response to those concerns. When I drafted the memorandum and suggested that you might want to ask the minister certain questions, I did not know that he would appear before the committee 10 minutes after me.

One of the concerns that I raised last time was the problem of convergence and the long-term objective of trying to bring the council budgets in line with grant-aided expenditure. The documents this year suggest that there is considerable provision for spending growth and services such as parks and leisure and recreation are mentioned. Of course, over the past couple of years, there has been no growth in the revenue support grant in those areas. We need to be clear whether the minister is saying that even authorities that are spending substantially above their GAE on those services can assume that it will be in order for them to increase spending on those areas. That is because the excess for those programmes in the GAE last year was around 30 per cent—councils were already spending substantially more than the GAE figures.

You will know from our previous discussion that I have reservations about using GAE prescriptively. The table that I have produced gives the percentage by which each council currently exceeds its GAE. It is disturbing that, five years after reorganisation, the authorities that suffered from what was known as the mismatch effect are in roughly the same position—some 10 to 12 per cent above their GAEs. That gap is unlikely to close. There will be a process of grant simplification over the next two or three years. That should be welcomed, although we have not yet seen the final details.

15:30

Grant simplification and the relaxation on spending should be considered jointly to discover whether there is some way of giving realistic figures for those councils that are suffering from the mismatch effect. I have suggested using a Barnett-style approach. At the moment, GAE is calculated and then adjusted. A guideline figure is produced for each council, which is closer to what the councils spend, as opposed to their GAEs. It would be better to reverse the process—begin from the point that councils are at and produce a target from that point. At the moment, we have unrealistic gaps between GAE and spending.

The current suggestion on efficiency is that councils should be able to generate recyclable savings—I heard COSLA use that phrase last week. It would be an advance if those figures were not included in the spending settlement. However, authorities were given them as targets, which would be monitored through the audit process. The authorities should be allowed to choose whether to spend the money on service development or to give council tax rebates. That would be a good way of giving back greater political choice to local government and it would provide an incentive for making efficiency savings.

There has been progress in the right direction. The GAE system is under strain and I believe that the high level of grant that authorities receive is a problem. That will not be addressed in the Executive's review of local government finance. However, compared with how I felt six months ago, I am reasonably optimistic.

Bristow Muldoon: Thank you for your paper, which was very useful. All the documents and papers that you have submitted are thought-provoking.

You recognise that there has been a significant increase in funding. Have you carried out any analysis of the likely level of the increase after the effects of McCrone are taken into account?

Professor Midwinter: The decisions on the costs of McCrone have not yet been taken. Sensibly, such an analysis could be carried out only after they have been taken. Even allowing for McCrone, there will be some element of real growth. The forward projections are based on the GDP deflator, which is the best indication that we have. However, they represent an approximation. If McCrone were to trigger other settlements in local government, through the bandwagon effect, there would be fewer resources for developing services. At this stage, all one can say is that there is now a provision for real growth where there was not one before. However, we cannot say precisely what the figure would be. It would be unrealistic to give a percentage.

Donald Gorrie: I want to be clear about the table. Does the 1995-96 figure show the amount by which the new council exceeded its GAE?

Professor Midwinter: No. In that year, a paper went to the distribution committee, which examined the potential budgets of the new authorities. The working group that was considering the issue compared the inherited budgets of the new authorities with their likely share of GAE. The calculations were not based on the first budgets that the authorities set, which were issued in the following year. Dundee City Council is at the top of the league; this committee does not like league tables, so perhaps we should say that it is at the bottom of the league. The authority is not there through its own efforts. The disaggregation of the Tayside regional budget—where the Tayside region was spending its money—meant that the new Dundee City Council inherited a budget from the two old authorities that was 2.2 per cent above the level of its likely GAE. This calculation was made on the basis of figures for the year before councils first set their budgets. It was used to decide what sort of safety net was necessary.

This was a general problem for most of the cities. As members can see, the four city authorities appear in the top 10. There was a tendency for many central services posts to be passed to the cities as the biggest inheriting authorities. There has not been much change since that time, except that the authorities that theoretically did well out of reorganisation and inherited surpluses—those at the bottom of the table—have been spending up. I hesitate to use that phrase, but the figures suggest that that has been happening. There has been growth in the services in authorities in the bottom part of the table. As some members will know from experience, Dundee City Council and Glasgow City Council made major cuts over the period that we are dealing with. However, their spending is still 10 to 12 per cent above GAE—the notional figure that the Executive thinks councils should spend on a service. That suggests that a problem is built into the system and will not be eradicated through convergence on GAE.

Donald Gorrie: So the 1995-96 figure was a notional figure, whereas the 2000-01 figure indicates the real excess.

Professor Midwinter: Those are the latest figures, which were published last month.

Donald Gorrie: So in Dundee, for example, there has not been any shift. The council thinks that it got a raw deal at the time of disaggregation and it is still in the same position.

Professor Midwinter: Yes. The council has made savings. However, most of the authorities at the top of the table have a declining population, so in addition to the shortfall that they inherited they have a declining grant. Even making savings in an effort to meet the guidelines would leave their spending substantially above GAE.

The Convener: Before I call Gil Paterson, I would like to ask you about that. Last week, COSLA decided to revisit the fact that a declining population means a decline in grant, even though it may not mean a decline in deprivation. I am thinking of cities such as Glasgow and Greenock. Those areas have a declining population, which means a decline in grant. COSLA felt that deprivation levels were not being considered and decided that a different approach was needed. Do you have any knowledge of that?

Professor Midwinter: I am not privy to the discussion. Are you referring to the report in today's papers?

The Convener: Yes. I was at the meeting of COSLA last week where this was decided.

Professor Midwinter: Presumably COSLA was adopting the line that it intended to take when negotiating with the Executive, which will make the final decision on this matter. I understand that the Executive is considering a simplified way of allocating resources for years 2 and 3 of the current settlement. It could be based simply on population or on five or six indicators. The problem with having five or six indicators is identifying a rational basis for determining their relative weight. Under the client-group method, there is a statistical way of allocating resources. If five or six indicators were used, allocation would be determined by the judgment of the Minister for Finance and Local Government. However, I think that the Executive is moving in the right direction. The steps that it is considering would produce a degree of stability in allocations to councils and would be better than applying GAE figures to whole budgets. Does that answer your question?

The Convener: I just wondered whether you had any thoughts on the matter.

Professor Midwinter: Taking those steps will provide greater stability.

The Convener: Yes, it should.

Professor Midwinter: The measures do not go as far as I would like them to, however.

Mr Gil Paterson (Central Scotland) (SNP): Thank you for your paper, which I find easy to understand—I am a bit thick, you see. It is a brighter paper than the previous one: it is more upbeat and I think that you are patting somebody on the back.

Professor Midwinter: Now that he has gone.

Mr Paterson: Paragraph 2 of your paper implies that more needs to be done. Paragraph 5 says that

"the Executive remains committed to maintaining NDR in real terms, which will put additional pressure on council tax."

Can you quantify what that pressure would be?

Professor Midwinter: The pressure would depend on the final decisions and the small details. As I understand it, non-domestic rates will rise in line with inflation—they will be maintained as they are in real terms. If the spending settlement suggests real growth higher than the level of inflation, that will be funded wholly from either increased grant or council tax—probably from a combination of both. By contrast, if NDR, grant and council tax were allowed to grow in line with the settlement, the pressure on council tax would be reduced. However, it would be wrong of me to try to quantify that without conducting further research on it.

I cannot remember for how many years NDR has been kept in line with inflation, while council tax has not, with the result that council tax increases have been consistently higher than non-domestic rate increases. I can say that maintaining NDR in real terms will put pressure on council tax, but I would not want to comment further without seeing more detailed assumptions. At the moment, we have only level I figures, which are global ones rather than a breakdown.

There are always uncertainties in local government finance. We do not know whether there are going to be balances this year. Council tax can be affected in a number of ways, and if balances were available, one of the advantages of the new system would be that all the balances could be used to reduce the council tax—focusing only on the council tax. When people make predictions about the percentage increase for next year, the only thing that I am sure about is the fact that those predictions will be wrong. People make predictions every year. For years, ministers have said that the average increase should be 5 per cent, but it is usually 7 or 8 per cent, as there are things that cannot be predicted from the global sums.

Without wanting to quantify the pressure, I assume that, if non-domestic rates were allowed to increase in line with the figures in the settlement, that increase would be higher than inflation and the pressure on the council tax and the grant would be less.

Bristow Muldoon: I understood that, in recent years, the effects of the rises in GAE and the levels of the guidelines had resulted in several authorities reducing the gap when they stood in excess of GAE. However, comparison of the mismatch now with that of 1995-96 does not seem to suggest that. Was there a jump in the decline among some authorities? On several occasions, West Lothian Council has indicated to me that, over the three or four years, it has experienced a declining proportion of GAE.

Professor Midwinter: Sorry? It has experienced a declining proportion of GAE?

Bristow Muldoon: It has experienced a declining proportion of expenditure over GAE—the excess has reduced over recent years. However, these figures do not seem to suggest that.

15:45

Professor Midwinter: The total excess has been growing consistently since reorganisation. It was 1.5 per cent at reorganisation and it has risen every year. This year, it is roughly the same as it was last year, which is about 7 per cent. Things may change for individual authorities, but guidelines are not substitutes for GAE. GAE exists, but guidelines are given to a council as a target for spending. There is often confusion, even among local authority people, about what is GAE and what is a guideline. I was travelling back on a train recently with a senior councillor, who told me that his council now spent at GAE, but what he meant was at guideline. In fact, his council was more than 10 per cent above GAE, so if a finance chairman does not understand it—

Bristow Muldoon: I am clear about this. Recently, I had a conversation with the chief executive of West Lothian Council. He showed me graphs—I cannot remember the precise figures—that indicated a downward trend over three or four years in terms of the percentage of excess over GAE.

Professor Midwinter: Of course, I do not have the in-between figures in my report. What you say may be the case for that council, but it does not suggest that over the five years there has been much change in its position. Where it is, and what happened to its GAE, depend on the decisions that it took this year. If it "lost" in the GAE for last year, that would be reflected in its GAE performance. The figures are in the public domain. It is perfectly possible that that council thinks that it is getting closer to GAE without actually doing so, given the confusion that exists. I could examine that issue and drop you a note, if you like. I can give you the figures over six years, if you wish.

Bristow Muldoon: That would be helpful.

The Convener: Are there any more questions?

Professor Midwinter: I do not want 10 people asking me for the figures for the councils in their areas.

The Convener: No. Thank you for your contribution. Like Gil Paterson and Bristow Muldoon, I always find it a pleasure to read your documents, because I can understand them. Gil and I seem to be in the same boat as far as understanding the papers is concerned. I am sure that you will be here again, but this has been a useful session. Thank you for coming along.

Professor Midwinter: Thank you and good luck.

The Convener: We will have a comfort break of 10 minutes.

15:47

Meeting adjourned.

16:02

On resuming—

Train Operating Companies (Rateable Values) (Scotland) (No 2) Order 2000 (SSI 2000/draft)

The Convener: Comrades, can I have your attention again, please? I extend a warm welcome to Angus MacKay, who is the new Minister for Finance and Local Government. I guess that he will be before us on many occasions. Is this your first appearance before a committee as the Minister for Finance and Local Government?

The Minister for Finance and Local Government (Angus MacKay): This is my first appearance at a committee meeting since the First Minister asked me to take up the post. My understanding is that I have to swear an oath tomorrow and that various other things have to happen before I become the minister properly.

The Convener: We will perhaps be soft on you today, as you have not yet sworn your oath.

Mr Harding: Can we rely on you to tell the truth, minister, if you have not yet taken the oath?

Angus MacKay: Always, as you would expect.

The Convener: This section of the meeting is in two parts. We will deal first with a statutory instrument and then move on to stage 2 of the budget process. At the table with the minister is Ainslie McLaughlin, head of local government division 3, who has been appointed to the post that used to be held by Bill Howat. Bill was well known to the committee. Pete Hancock, who is head of business rates policy, and Paul Cackette from the office of the solicitor to the Scottish Executive are also at the table. I welcome you.

As you know, comrades, Angus MacKay may ask his officials to answer questions during this part of the proceedings.

Mr Gibson: What a cop-out.

The Convener: That is normal practice, so we will have no comments from SNP members. That does not include Gil Paterson.

The instrument before us today is an affirmative instrument, the Train Operating Companies (Rateable Values) (Scotland) (No 2) Order 2000 (SSI 2000/draft). The order revokes a previous order—that was approved by the committee at its meeting on 7 March—in which, it is understood, there were some errors. That is why the order is shown as coming into force on April 1 2000. The report from the Subordinate Legislation Committee is included in members' papers for today's meeting. That committee does not consider that the attention of the Parliament should be drawn to the order.

The procedure is as follows—I will allow time for questions for clarification and explanation of the statutory instrument during which questions can be addressed to the minister, who can answer himself or ask his officials to answer on his behalf. At the end of that time, I shall announce that the time for questions is over and we shall start the debate.

The minister will then read his statement and move the motion formally. I shall then call on any members of the committee who wish to speak to indicate that they want to do so. Members must speak either for or against the motion. When all the members who want to speak have done so, I will put the question on the motion. Is that clear?

Members *indicated agreement.*

The Convener: Do members want to ask any questions for clarification or explanation?

Donald Gorrie: I add my fawning remarks on the minister's promotion. I am sure that we will work happily together.

The obvious questions are, what are the changes since we passed the first order in March and why are there changes? If I understand correctly, the total rateable value of railway premises in Scotland is £743,000. I find that hard to believe. I thought that the figure would be much higher than that. There must be a lot more behind this than I have seen so far.

The Convener: Does the minister want an official to answer?

Angus MacKay: I think that that might be wise on this occasion, convener.

Ainslie McLaughlin (Scottish Executive Development Department): The valuations of the train operating companies have been set independently by the assessors, after discussion with the train operating companies.

Bristow Muldoon: The officials might confirm this, but the reason that Donald Gorrie might be surprised about the level of rateable values is that the order relates to train operating companies, but not to Railtrack plc, which is the biggest landowner in the railway industry. That might answer Donald Gorrie's question.

Ainslie McLaughlin: That is correct. There is a separate order for Railtrack, which has a considerably higher rateable value than the train operating companies.

Donald Gorrie: Why is Railtrack not involved?

Ainslie McLaughlin: The order for Railtrack was made in March this year.

Pete Hancock (Scottish Executive Development Department): The order came before the Local Government Committee in March.

Donald Gorrie: We passed an order in March in good faith. Did the railways provide the right information then? Why did we pass something in March that we have to re-pass in altered form in October?

Paul Cackette (Office of the Solicitor to the Scottish Executive): On one of the introductory comments that was made by the convener on why there is a train operating companies No 1 order and a No 2 order, the second order is not because of an error in the first one. The orders relate to different financial years. The train operating companies order that was debated by the committee in March covered the period from 1 April 1999 to 31 March 2000. The order that is before the committee today deals with the period from 1 April 2000 to 31 March 2005. It is not correct to say that the second order is the result of an error in the first—they relate to different financial years.

Donald Gorrie: Thank you. That is much clearer.

The Convener: If there are no other questions of explanation or clarification, I ask the minister to speak to and move his motion.

Angus MacKay: Thank you very much, convener—it says in my script. [*Laughter.*]

Members who have been involved in the committee for longer than I have will recall that, on 7 March, the committee debated seven orders relating to the rating of the prescribed industries—we have touched on that already. On 20 June, two further orders were debated. Prescribed industries are those that do not lend themselves easily to conventional valuation. For the most part, they are utilities that were or are still in some form of public ownership.

The draft order that is before the committee today forms the last element of the package of statutory instruments that is needed to finalise revaluation 2000. An Executive note has been circulated to explain the policy objectives, financial effects and purpose of the order, which will help to enable agreement to be reached so that the rail operators concerned can plan ahead in the knowledge that their rates position is properly settled. I pause here, in case there are any questions that can be answered at this stage.

Mr Gibson: By someone—

Angus MacKay: Probably Bristow Muldoon, judging by experience.

The Convener: The time for clarification has passed, but if the minister will move the motion we can open the matter up for debate.

Angus MacKay: The draft order that is before the committee relates to the revaluation of non-domestic rates. Revaluation is required by statute to take place throughout Great Britain every five years. The 2000 revaluation has just been completed. As with previous orders, the draft order has been subject to detailed discussion and consultation with the relevant industry, as well as with a range of appropriate national bodies. In Scotland, those discussions took place between industry representatives, officials from the Scottish Executive and the Scottish assessors.

Rail representatives approached the discussions in a realistic way and, as a result of the process that was undertaken, valuation figures were arrived at that are acceptable to the industry. Similar discussions have taken place in England and Wales. Cross-border contact was maintained throughout the process with officials in the Department of the Environment, Transport and the Regions and VOA—an acronym that I do not understand. Perhaps one of my officials can tell me what it stands for.

Ainslie McLaughlin: It stands for the Valuation Office Agency.

Angus MacKay: As a result of that contact, harmonisation of valuation treatment and practice north and south of the border has been a key feature of the valuation. Wherever possible, the valuations reflect that.

On 7 March and 20 June, the committee approved orders that prescribe rateable values for the electricity, gas, water and docks and harbours industries. Orders that relate to the rail industry were also approved, although the committee was advised that a further order was on the way that would deal with the train operating companies. That order has arrived today.

On 7 March, the committee approved the Train Operating Companies (Rateable Values) (Scotland) Order 2000, which relates to the valuation of shops and other types of premises that are occupied by each company on Railtrack plc's operational land for 1999-2000. Since the previous revaluation of non-domestic rates in 1995, such retrospective orders have been prepared annually, to try to deal with rateable values for the train operating companies. Such orders were laid retrospectively to try to accommodate the changes that were taking place annually in and around the industry. That had the advantage of ensuring that the valuations were accurate, but it necessitated the preparation of orders every year instead of every five years.

In addition, the retrospective orders for the train operating companies have come to be regarded as something of an anomaly among the other orders for the prescribed industries, especially since the train operators now work in a more stable, post-privatisation environment. For those reasons, the Train Operating Companies (Rateable Values) (Scotland) (No 2) Order 2000 (SSI 2000/draft) is intended to cover—as has been discussed—the five-year period from 2000 to 2005. This will be the last such order that will be laid retrospectively. From now on, orders that provide for the rateable values of train operators will be properly in line with other orders that deal with the prescribed industries.

Does that raise any questions in anyone's mind? If not, I shall bash on.

I know that there has been a spirit of consultation and joint working throughout the revaluation. The development department and I hope that that can continue. The Executive has made it clear on many occasions that it is keen to learn from revaluation 2000 and that it is willing to consider changes that would improve the non-domestic rating system. The Scottish Valuation and Rating Council, which comprises business representatives and others who are active in the rating and valuation field, is currently undertaking a review of revaluation 2000 as well as examining more widely non-domestic rating practices and procedures. The SVRC will release the results of that work later in the autumn and I will take a keen interest in its findings. I commend the draft order to the committee.

I move,

That the Local Government Committee recommends that the draft Train Operating Companies (Rateable Values) (Scotland) (No 2) Order 2000 be approved.

16:15

The Convener: Members should indicate whether they wish to speak. I remind members that they must speak for or against the motion—they must not ask questions.

Mr McMahon: I am not going to ask a question. I want to speak in favour of the motion, although I want to raise a caveat. The last time that we discussed such an order, I was puzzled that there was negotiation. It does not happen in all cases, but in some cases an organisation negotiates a rateable value with the Executive. Although the minister has said that he likes the idea of consultation and co-operation, I am not sure what mechanisms are in place should that consultation and co-operation break down.

Mr Gibson: No questions.

Mr McMahon: It was not a question, but an observation. I am in favour of the order, but I am concerned that there is no mechanism for reaching agreement should there be a breakdown in co-operation.

Angus MacKay: Should I attempt to respond to the observation, convener?

The Convener: That is up to you.

Angus MacKay: I am advised that if co-operation were to break down, the bottom line would be that the matter would come before Parliament for a decision on the appropriate rating order. There seems to be an awful long way between intimate discussions and a matter going before Parliament. Clearly, a series of blanks would have to be filled in en route. It would be in the interests of the industry and the companies to reach an agreed solution that was acceptable to Government, rather than to put themselves in circumstances where a random decision could be made by a committee of the Parliament, separate from such discussions.

The Convener: The question is, that motion SIM-1029, in the name of Angus MacKay, be agreed to.

Motion agreed to.

That the Local Government Committee recommends that the draft Train Operating Companies (Rateable Values) (Scotland) (No 2) Order 2000 be approved.

Budget Process

The Convener: The next item is stage 2 of the budget process.

As Angus MacKay is now the Minister for Finance and Local Government, he will remain in his seat. He is accompanied by Neil Rennick, the head of the local government finance expenditure branch, and Don MacDonald, of the finance co-ordination unit, whom we met less than an hour ago.

Mr Gibson: That is not Don MacDonald, it is Christie Smith.

The Convener: I apologise to Christie Smith. I have new contact lenses and one of my eyes cannot see too well.

It was anticipated that we would take evidence from Jack McConnell today. However, there has been a reshuffle of the ministerial team that is responsible for local government and that brief has passed to Angus MacKay. Members will recall that, on previous occasions, Jack McConnell explained the process of review and modernisation that was taking place in relation to the distribution system in local government. We will listen to what Angus MacKay has to say and then ask questions, as is our normal practice.

Angus MacKay: I am genuinely pleased to have the opportunity to appear before the committee to discuss matters of interest that relate to the finance and local government brief. Members will understand that, given that this is only my second 24 hours in post, I am not necessarily as up to speed on all matters as one might wish. Members of the committee have had more face-to-face contact and meetings with my officials than I have. It will take me a day or two to get my feet fully under the table. Having said that, I am anxious to be of assistance to the committee. My officials will also be of assistance, where possible.

I know that the committee wishes to raise a number of specific issues, particularly in relation to the reform programme for local government finance. It may be helpful if, very briefly, I provide an update on the progress that has been made since May, when Jack McConnell previously appeared before the committee.

Excellent progress has been made, especially with the Convention of Scottish Local Authorities, in taking forward the reform agenda. Notable progress has been made on some specific arrangements: on the three-year budget settlements for local government revenue and capital; in the attempt to simplify distribution arrangements; in increasing the focus on service outcomes; and in reviewing the system of expenditure guidelines. Next month, I intend to meet COSLA to confirm the structure of the local government settlement for the next three years. I know that COSLA and individual councils have welcomed the significant increases to the aggregate local government figures that were announced last month, following the spending review. I understand that, for the first time, COSLA was actively involved in the spending review process. That is to be applauded by all sides.

We plan to announce in December the three-year settlement allocations for individual councils, prior to the local government finance order being debated early next year. As a former convener of finance in a Scottish local authority, I recognise the importance of that to local authorities' ability to get best value out of existing resources and to plan long-term service delivery in a more settled context.

The significant real-terms increases in revenue support and capital investment that have been announced and the programme of reforms provide a genuine opportunity to modernise local government and to make improvements across the range of services. This represents an exciting fresh start for local government.

I am happy to attempt to answer members' questions. When I cannot, I will defer to my officials.

Bristow Muldoon: I omitted earlier to congratulate the minister on his promotion. Apart from that, I welcome the change that brings local government into the portfolio of the minister who is responsible for finance. The financial relationship between the Executive and local government is crucial.

I accept that the minister is new to the brief and that he might not be able to give substantive answers to all my questions. However, I am keen to explore a number of aspects of the way in which the Executive currently views local government finance. The first issue that I would like to raise concerns guidelines. In any reform of the system, do you envisage the Executive putting more trust in local government and abolishing guidelines or relaxing them considerably?

My second question was helpfully suggested by Professor Arthur Midwinter, who gave evidence to the committee about half an hour before the minister. In the past, the Executive's policy has been that there should be convergence between actual budgets and grant-aided expenditure. Obviously over the next few years, it is likely—given the extra investment that there will be in local government—that local government will increase its expenditure on many services. On several of those services, councils are already spending well above GAE. Is the Executive reviewing its position on convergence?

Thirdly, within the Executive's spending plans, there is no specific target for council tax increases over the next few years, although I understand that the UK Government has set such a target in England and Wales. Does the Executive have figures in mind, or is it comfortable about leaving decisions on that to local government?

Angus MacKay: I think that all those questions are wrapped up in the set of reviews that are taking place. It is intended that we will bring those reviews to a culmination in December and make clear our thinking then. I will ask my officials to reply on the three points that Bristow Muldoon raised before I give my views on those matters.

Christie Smith: The future of expenditure guidelines is one of the explicit remits that was given to the reform process this year. The working group that Jack McConnell and COSLA set up has produced a report on that, which the Executive and COSLA are considering. As I said, the minister hopes to reach agreement on that with COSLA in November and that will pave the way for the announcement of the settlement in December.

Arthur Midwinter's point about GAE is important only in relation to expenditure controls. In any other sense, what does it matter whether councils spend above GAE? It matters only if the Executive has a policy view on what they should spend. The point about GAE is wrapped up with the issue of expenditure controls and the questions about whether there should be expenditure guidelines, how strong and how flexible they should be and so on.

One of the indirect effects of expenditure guidelines is that they will restrain council tax increases, which is tied to the matter of the Executive's view on local council tax increases. Expenditure guidelines, GAE convergence and council tax increases are wrapped up together. It is true that we will need to make a national council tax assumption for our calculation of the grant for each authority, but that does not necessarily have to become a guideline, a cap or any other kind of explicit control. That is what is up for grabs over the next few weeks in discussions between the minister and COSLA and so on.

Angus MacKay: I am anxious that we move as quickly as is practical and sensible, so that we can maximise the flexibility that is available to local authorities. Obviously, the overall level of funding is important—it is perhaps what local authorities regard as the most important factor. Equally important is the capacity of local authorities to be flexible within annual budgets and over the three-year budget projections.

In recent years, local authorities have been given greater flexibility and they have, broadly, responded extremely well to that. There are certainly issues of flexibility in relation to local accountability and democracy, which are fairly intimately entangled with the matters that we are discussing. I am anxious to support and foster such flexibility. I am a firm believer in local government and I want us to help it to do better. The best way of doing that is to encourage local government, where prudent, to be more flexible and to give local government the opportunity of being more flexible.

Mr Gibson: Although Colin Campbell still carries a torch for Frank McAveety, I congratulate Angus MacKay on his well-deserved promotion. I am sure that he will make a great leader of the Opposition one day.

I, too, have three questions. First, will a budget be set aside for the assassination of busking bagpipers? I am sure that the minister will appreciate that that is a priority at the moment.

My second question touches on Bristow Muldoon's mention of convergence. As Angus MacKay knows, his predecessor talked about convergence taking place over 15 years. That caused alarm in councils such as Glasgow City Council and Dundee City Council, whose budget expenditures are well over the GAE figures. Christie Smith asked whether it matters that councils spend more than the GAE figures. Can I take it that the 15-year plan to converge will be abandoned, or will GAE simply be altered to meet local authority budgets? If convergence takes place, what will be the implication for local government services in those authorities that are most exposed to convergence?

16:30

Angus MacKay: The short answer to one of your questions is that I cannot today announce the abandonment of or commitment to anything in particular. Those are precisely the issues that we will be debating with COSLA and others in the coming weeks. We need to get into the matters in some detail to see what kind of new settlement can be made.

On the general point about the impact of the financial settlement on local government, particularly with regard to McCrone—

Mr Gibson: COSLA said that more than half of the £3.024 billion would be taken up by McCrone if the recommendations were fully funded. Even without McCrone, an extra £1.5 billion in new burdens on local government is expected in the next three years. In itself, that will exceed the £1.2 billion that has been allocated.

Angus MacKay: It is too early to say what the burden of McCrone will be. That issue is a challenge that will face the new Minister for Education, Europe and External Affairs in the coming weeks and months. We have to look at the McCrone price tag in the context of what is ultimately agreed. At that point, we can take stock. Clearly, money has been earmarked to deal with the issues, but we will not know anything more about that until McCrone is settled.

I know that, at the time of the local government settlement, COSLA made clear what its view was. I think that the finance spokesperson, Craig Roberton, said that COSLA had reiterated that it believed that its fair share of the spending review was £1.2 billion over the next three years. He said that he was delighted to hear that that was what the share would be. COSLA took a positive view of the financial settlement that was made by the Scottish Executive in favour of Scottish local government.

I am aware that a range of pressures is involved and that some of them can arise from new burdens, some from new policy directions and some from difficulties that emerge annually from within local authorities' budgets. Each local authority will have its own views about the appropriate ways to manage those pressures. As Deputy Minister for Justice, I became familiar with those kinds of arguments in relation to police budgets.

At the end of the day, the comments that I made in my opening contribution ring true: local authorities can look forward to operating in a transformed environment with increased budgets in real terms. That will be a revelation to finance conveners who have been involved in local government in recent years. The operating environment has changed dramatically.

Mr Gibson: I am impressed that you have moved so quickly on the bagpiper issue.

Angus MacKay: I like to deliver, Kenny.

Donald Gorrie: I would like to put down some markers. I do not expect to get a response today.

Minister, you will be aware that this committee has been keen on a thorough review of local government finance. Your predecessor did not support that, but I hope that we might revisit that issue and that we can get either co-operation from the Executive in our investigation or a full-blown royal commission.

Secondly, there was obviously a big shemozzle around the local government budget earlier this year. If, in the coming year, any councils were compelled to make cuts, as opposed to efficiency savings and genuine economies, there would be great unhappiness and disgust. I hope that the extra money will ensure that there are no cuts in road repairs, libraries, sports, education or social work and that, if possible, some of the cuts in these areas can be reversed.

Thirdly, some people have vociferously advocated not being unfair to councils that are losing their population and have problems of urban deprivation. Although it is correct for those councils to fight their corner, we should also remember that rural councils have felt that some previous settlements have been unfair to them and, furthermore, have the reverse problem of other councils in that they have growing populations. I hope that you will take account of those issues.

Finally, as the voluntary sector has been one of the main sufferers of 10 years of local government cuts, I hope that the minister will pay particular attention to the central funding of the voluntary sector and will give councils enough money to allow them to reverse cuts to these important local bodies that contribute to social inclusion and many other Government targets.

Angus MacKay: Those wide-ranging suggestions spring from Donald Gorrie's long and distinguished record in local government. I shall try to respond briefly to the issues that he has raised.

On the broader idea of a review of local government finance, my understanding 24 hours into the job is that our current job is essentially to take action in several different areas to revitalise the machinery surrounding local government. Once such action has been taken, it will be important to stop and take stock of our position and perhaps consider then whether a review of local government finance would be required. However, I do not want to prejudge the committee's work on this issue, which begins in January, I think. After the committee has concluded its investigations and made recommendations in its report, and once we have finished our overhaul perhaps some time in December, we will have a clearer picture of whether a review is still needed and, if so, what form that review should take.

Donald Gorrie mentioned the difference between real cuts and efficiency savings. There is a fine line between cuts and savings; however, his general point is that, with growing budgets for local authorities, all councils should be taking hard decisions about where to direct extra money instead of hard decisions about where and how to remove money or constrain expenditure. Although that is a fair point, I rest on my earlier comments about the more generous financial settlement that has been announced for the next three years, which I hope will have a positive effect.

On the differences between urban and rural authorities—and in particular, in the case of councils suffering depopulation or having other difficulties that affect their finances—the distribution formula perhaps requires to be reviewed. We will engage with that issue in the review that the department will undertake and will try to address Donald Gorrie's point through that formula and other mechanisms.

Given the issues under discussion, it is probably unfair to say that Donald Gorrie's final point is the most important point. However, with historically reducing budgets, voluntary sector organisations have very often been in the front line; they have been the first to receive cuts and the last to receive increases in funding. Of course, there are some sensitivities and difficulties around this issue; for example, if central Government tried to pick up the tab, there might be some dysfunction between an organisation's capacity to be sure of funding year to year and to be sensitive to what is required locally. Furthermore, there could be a threat to an organisation's charitable status. Some authorities have tried to pull together a compact with the voluntary sector to ensure a greater degree of continuity, and we should seek to spread the security of three-year budgeting for local authorities to partner organisations. I am happy to acknowledge that the sector is critical to the delivery of important services across a range of policy areas.

Mr Harding: I add my congratulations to those of my colleagues, minister; unlike the SNP, I will try to work with you.

From what you have said today, the assumption is that the Executive's objective of promoting convergence between GAE and budgets is still continuing. It has been acknowledged that the authorities spend an average of 7 per cent above GAE and, to expand on what Donald Gorrie said, the greatest impact falls on the usual three, with cuts of 30 per cent for libraries, 31 per cent for leisure and 45 per cent for cleaning. Those are all major issues for the general public. Do you foresee that some of those matters will be addressed in your budget settlement, or will councils yet again have no choice because of ring fencing and hypothecation—your priorities—and therefore have to cut services?

Angus MacKay: From recollection of my brief, which I have been looking through over the past 24 hours, I think that I am right in saying that the vast majority of the money to be rolled out over the next three years, which we have been discussing, is unhypothecated. I recognise the constraints placed upon local authorities by hypothecated funds and the concerns expressed by councils' finance conveners and by others. We want local authorities, as far as practicably and sensibly possible, to take their own decisions about funding in their areas. That means that hard decisions will be faced about where to invest and where to pursue excellence—and where to step back a little to allow our priorities to develop.

You outlined two or three areas which, along with the voluntary sector, perhaps bore the brunt of the requirement for savings in the past, in a different financial context. I hope that, as we move forward, shake out the current system, try to innovate and try to introduce flexibility to local authorities, we will increasingly leave the onus on the local authorities themselves to take decisions on funding, on the shaping of the delivery of services, on the services that they seek to deliver, on the kind of partnerships that they seek to build and on how they try to innovate in their own financial housekeeping.

I hope that that addresses the points that you raised, Mr Harding.

Mr Harding: Thank you, minister. Down south, in England and Wales, a 14 per cent increase in council tax is being projected over the next three years. Does the Executive have no idea what impact that settlement will have?

Angus MacKay: I will have to defer to my officials on that.

Christie Smith: The DETR makes an assumption of a national council tax increase in England of roughly 4.5 per cent a year. That is not a guideline, target or control; it is an assumption that the department must make for the purposes of grant calculations. We will also have to make such an assumption.

The question whether the reform process needs to go any further is up for grabs. In the same context, we have assumed increases of 5 per cent over the past three years. That has not, in fact, been the actual level of increase. It was 4.4 per cent this year; it was 2.7 per cent last year. Our assumption is not necessarily an indicator of how councils behave, which is dictated more by the amount of grant that they get. As the minister said earlier, there are substantial increases in grant.

Mr Harding: Why can councils down south make an assumption, whereas you do not seem to be able to make one here?

Christie Smith: We are able to make one here, but the spending review announcements were later here because of the timetable for the spending review. We are therefore now in the process of turning that announcement into detailed allocations. We will have done that by the time we announce the provisional settlement in December.

Mr McMahon: I also welcome the minister. Arthur Midwinter said earlier how pleased he was about the progress that has been made, and it has been good to hear the many positive things that you have already said, minister, even though you do not yet have your feet under the table.

Coming from Lanarkshire, I am aware that about a quarter of the vacant brownfield sites in Scotland are there, owing to the problems over the past couple of decades. There has been strong, continuous economic development in the area, but the Lanarkshire local authorities are concerned that that may not be progressing as well as it might because of the problem with capital receipts. Can you make any comment on progress towards allowing the flexibility required to cover such issues? You referred to that earlier.

Angus MacKay: It has been helpfully whispered in my ear that that is part of the review agenda. That seems to be a useful exercise, but it is also short code for, "I'll get back to you on that one."

I am not sure how aware committee members are of the intended breadth of the review. I am not sure what dialogue has taken place about that. It might be helpful for us to put something on paper, if we have not done so already, indicating to members what time scale we have in mind for such a review, the issues that we would touch on and the areas that might be affected. I would be more than happy to deal with specific questions from individual members in the context of that information.

The Convener: That would be helpful.

16:45

Mr Gibson: I am sure that your heart will be gladdened by Keith Harding's overture, but I wonder if David McLetchie was consulted first.

Mr Harding: I said that I would try to work with the minister; I did not say that I would work with him.

Mr Gibson: In recent months, we have grappled with the issue of section 94 consents, and I do not intend to repeat the comments that Jamie Stone made before you arrived, minister. However, COSLA's spending review 2000 document says that there should be

"consideration of the abolition of Section 94 consents. This would significantly assist local government in taking forward investment decisions on a best value basis."

However, your predecessor, Jack McConnell, said in a letter to the convener:

"If COSLA believes that it is possible in some way to enhance the spending power of either local government or the Assigned Budget as a whole through the abolition of section 94 or some other mechanism, then they are under a serious misapprehension."

That is a matter that I and my colleagues have raised in recent months with COSLA, with the minister and with officials. Despite the numerous meetings that appear to have taken place between the Executive and COSLA, both groups still seem to be holding firm to their positions on whether section 94 consents can unlock capital investment. Will you get round the table with COSLA and try to resolve the issue—because the matter seems to be running on and on—so that the Executive and COSLA are speaking with one voice?

I also want to ask about hypothecation. Committee members appreciate that it is important for the Executive to get its local government policies through, but there is obviously deep concern among committee members and in local government that decisions on new initiatives in local government are often taken without being fully funded from the centre. Will you review hypothecation? In particular, will you consider whether any hypothecated services will be fully funded by the Executive in future?

Angus MacKay: You have raised two interesting points. The issue of section 94 consents will, not surprisingly, be up for grabs in the review and we will be considering that. I will seek an early meeting with COSLA. It would be astonishing if I did not do so, and I am sure that that is one of the issues that COSLA would like to put on the agenda. I want to discuss that issue and a number of others.

We hope to announce three-year non-housing capital allocations, and we are examining whether longer-term consideration should be given to reviewing the whole system of section 94 capital controls. It may be the case that doing so will have implications for the revenue settlement, as it is through the revenue settlement that support is provided for councils' debt-servicing costs. We shall certainly examine that.

On hypothecation, I understand that the department and COSLA are already undertaking an initial pilot exercise on the possibility of replacing the current approach to expressing joint service priorities with a more thematic approach that would be linked to the objectives set out in the programme for government and in other policy documents. If that is achieved, it could improve transparency in aligning the expectations from resources allocated to local government with our own policy priorities and commitments. If that is successful, it could allow scope to consider reducing hypothecation and ring fencing.

I think that that is the nub of Mr Gibson's question. I should stress that hypothecation and ring fencing account for a relatively small proportion of total grant support to local government. None the less, they are something about which local authorities are highly exercised and I recognise their interest in the issue. I hope that we can make progress in that area as well.

Mr Gibson: Arthur Midwinter presented a paper to the committee, paragraph 4 of which says that

"the resources available for service development will still be less than for the Scottish programme as a whole."

Can you tell me why that will be the case?

Angus MacKay: I cannot tell you that, but I can tell you that I met Arthur Midwinter just before the start of the committee meeting and I shall try to arrange a meeting with him as soon as possible to discuss a range of issues. I am sure that he will want to discuss some of the points that he raises in his paper and I hope that I will be better placed to address them when I next appear before the committee.

Mr Paterson: In our experience, efficiency savings is another way of saying cuts. In the private sector, nobody who is drawing up a budget for a business would include a proviso for cuts if they did not know that the cuts were going to take place. Will you take a more enlightened view of efficiency savings, making them real rather than imaginary, so that we do not face the same situation that we have had this year, when people have been making cuts and making the excuse that they are efficiency savings?

Angus MacKay: One of the problems facing local government is trying to retain the confidence of its customer base—the people who live and work within a local authority boundary. Over a long period, local government budgets have come to be shaped not by the requirement to deliver services or by the local population's need to use those services, but by the total size of the budgetary cake and how that has changed year on year. A process may start out at a given point with a range of services but, over a 10 or 15-year period, those services may change shape, shrink or evolve, often exclusively in relation to budget reductions. If that happens every year for a 10-year period, the result can be a set of services that do not make any sense.

When it comes to efficiency savings, my experience in local government, short though it was, tells me that it is possible for local authorities to change what they do and how they do it. Ideally, that change should take place in the context of the local authority seeking to reinvent itself and the way in which it delivers services. The worst possible way for that to happen is for the local authority to seek to achieve efficiency savings in the context of shrinking its expenditure, purely as an accounting exercise.

I would like to foster a climate in which local authorities are encouraged to be innovative about what they do and how they do it. If they make efficiency savings—and there are efficiency savings that genuinely can be made—to reinvest the money that is released into other areas or to improve service quality, that is to be applauded and encouraged. What I want to see less of and move away from is the situation in which local authorities shape services purely in response to the requirement to shrink budgets. That often results in a range of services that are no longer in tune with what people require, do not offer best value and reflect the wrong end of an evolutionary process that can be 10 or 20 years old.

Mr Paterson: Thank you. Finally, I add my congratulations on your new appointment, minister.

The Convener: Thank you, minister. I hope that you do not feel that you have had a baptism of fire. We asked some wide-ranging questions and you have given us a flavour of your position on voluntary organisations, council tax assumptions, distribution, brownfield sites, section 94 consents and hypothecation among other things. There are some questions that you could not answer today, and we understand that, but we hope to get some answers either in writing or when you come back to the committee in person.

Angus MacKay: Thank you.

The Convener: Right, comrades, stay where you are. Our meeting is not finished yet. We have to report our views to the Finance Committee by 10 November. There will be an opportunity to consider a draft of that report at next week's meeting, but it would help the clerks if members could tell them what they want to include in the report, based on our discussions today. To consider the draft report, we must go into private session. I know that members would not want the Executive to know what we are discussing, and I shall keep it a secret.

16:54

Meeting continued in private until 17:10.

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