

LOCAL GOVERNMENT COMMITTEE

Tuesday 15 May 2001
(*Afternoon*)

Session 1

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LOCAL GOVERNMENT COMMITTEE

15th Meeting 2001, Session 1

CONVENER

*Trish Godman (West Renfrew shire) (Lab)

DEPUTY CONVENER

Dr Sylvia Jackson (Stirling) (Lab)

COMMITTEE MEMBERS

*Mr Kenneth Gibson (Glasgow) (SNP)

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

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

*Mr Gil Paterson (Central Scotland) (SNP)

*Iain Smith (North-East Fife) (LD)

*attended

THE FOLLOWING ALSO ATTENDED :

Donald Gorrie (Central Scotland) (LD)

Professor Arthur Midwinter (Adviser)

WITNESSES

Councillor David Alexander (Falkirk Council)

Alex Jannetta (Falkirk Council)

Roddy McArthur (Perth and Kinross Council)

Angus MacKay (Minister for Finance and Local Government)

Neil Rennick (Scottish Executive Development Department)

Harry Robertson (Perth and Kinross Council)

CLERK TO THE COMMITTEE

Eugene Windsor

SENIOR ASSISTANT CLERK

Irene Fleming

ASSISTANT CLERK

Craig Harper

LOCATION

The Hub

Scottish Parliament

Local Government Committee

Tuesday 15 May 2001

(Afternoon)

[THE CONVENER *opened the meeting at 14:03*]

Budget Process 2002-03

The Convener (Trish Godman): Comrades, we will continue our scrutiny of the budget. We have with us Professor Arthur Midwinter and Donald Gorrie. We asked representatives of the Scottish Trades Union Congress and the Chartered Institute of Public Finance and Accountancy to attend our meeting but they declined, as did representatives of Dumfries and Galloway Council because of the difficulties that they are experiencing with foot-and-mouth.

We welcome to the meeting Councillor David Alexander of Falkirk Council and Alex Jannetta, the director of finance at Falkirk Council. Alex Jannetta will speak for a few minutes after which I shall accept questions.

Alex Jannetta (Falkirk Council): Thank you, convener—and thank you for the invitation. Members will have received our submission, which I will supplement with a couple of points.

As members know, there are two aspects to local government finance—capital and revenue. I will start by making some points about present and future capital investment in local government. Members will see from our submission that Falkirk Council's capital allocation is around £8 million per annum. That includes a reasonably healthy increase of more than 25 per cent in the current financial year, although that has to be put in the context of a local authority that has total assets in excess of £0.25 billion. Obviously, the two figures do not marry and each year we have to make difficult choices. Because of the allocation and, in particular, because of the need for investment in our schools, we were one of the first authorities to go down the private finance initiative route. We now have five schools that arose from PFI.

On the capital side, the main points are that the allocation is, in our view, inadequate, the capital expenditure control system is rigid and greater freedom and flexibility are needed—I know that members are considering ways of achieving that. I mentioned in my submission the prospect of more self-regulation and a prudential scheme to ensure that local authorities, in certain contexts, can

invest more in their assets.

We have documented some figures from our revenue budget. We welcome the move towards three-year budgeting and the end of the guideline system, but we still feel that resources are stretched and that there are funding uncertainties for 2002-03 and beyond. Prominent examples are the McCrone award for teachers and the national grid for learning, where investment is required to ensure that pupils in our schools are up to speed with information technology.

To supplement the submission, I will give a couple of examples of some of the burdens that we face in our major services. People talk about raising standards in education. Falkirk Council has a budget of around £10 million for children with special needs. The final accounts are not yet available, but in the previous financial year we expect to have overspent by around £1 million on that £10 million budget. A variety of factors come into that, not least of which is an increased awareness among parents of the needs of their children, which can involve the children being seen by a psychologist. If the children are not in mainstream education and they go to a special school, the demands are far in excess of the cost of normal integration. So, despite raising our budgets significantly above the rate of inflation, we face an overspend. The other example is from social work. We expect to have overspent on home care by just under £1 million—£800,000—on a budget of £5 million. As our clients are living longer, they require more intensive care packages. We have some clients who cost in excess of £50,000 per annum.

Although, on the face of it, a 5 per cent increase in our funding is very welcome, those examples illustrate for members the fact that local authorities have to consider more than just inflation; we have to deal with other demands and pressures and some of those are in the major services such as education and social work.

We point out in our submission that, even with the increased budgets, it is difficult to cope with demands. We suggest that it would perhaps assist local authorities if we were given greater flexibility to use ring-fenced moneys and specific grants to look across services and to ensure that resources are directed towards the areas of greatest need—especially in the front-line services that I mentioned.

In summary, we welcome the change to three-year budgets and we see a desperate need for greater capital investment in our essential services—particularly in schools and roads. Government needs to recognise that there are additional demands, beyond inflation, because of demographic and other socioeconomic changes. Those demands place great pressure on local

authority budgets. We suggest that greater flexibility would assist us in meeting those demands.

A final point is the balance between central and local funding—the so-called gearing effect. Our submission shows that something like £160 million out of a budget in excess of £200 million comes from central Government. Our council tax base is expected to raise around £30 million. The relativities are such that any small change in expenditure has a significant impact on the council tax that we have to place on our citizens.

Those points supplement our submission. We will be happy to answer any questions.

The Convener: Falkirk Council was one of the pioneers of PFI. Last week, other councils told us that they were unhappy with section 94 consents. If you had a choice, would you opt for PFI and get rid of section 94 consents?

Councillor David Alexander (Falkirk Council): There is no doubt we would opt for section 94 consents. Not only were PFIs expensive, they have created a number of problems in education that did not exist before. For example, because of problems with access to PFI schools, we have great difficulty meeting the Scottish Executive's directive on community schools. The PFI schools are ours only during educational hours. PFI is more expensive and there are major practical difficulties for local authorities—particularly in education.

Alex Jannetta: We inherited a situation, post reorganisation, in which our secondary schools had major problems. As I indicated, there was no way that our capital allocation could have gone anywhere towards providing a massive injection of capital into particular secondary schools. When officers went to councillors, they explained that it would not be possible to address the problem through conventional mechanisms. Therefore, we put it to them that PFI was the only game in town. Councillor Alexander has outlined the misgivings, but there was no other policy option if the council wanted to deal with the problems in schools.

Councillor Alexander: Convener, you will appreciate that there is a new administration in Falkirk Council. As the opposition group, our position at the time was to promote the principle of charitable educational trusts, which we believe would have created an alternative and would have addressed some of the concerns that we now have. The administration at the time felt that PFI was the only game in town. As a result, that was the direction that our officers took—and quite rightly so, because that was the instruction from the majority group at the time.

Mr Keith Harding (Mid Scotland and Fife) (Con): Thank you for your comprehensive

submission. You mentioned the difficulties created by the gearing factor. Have you any suggestions about how to address those difficulties?

14:15

Alex Jannetta: That is being examined in the review. Suggestions have been, and are being, made through the Convention of Scottish Local Authorities about a revaluation of the council tax banding system. Consideration has also been given to returning non-domestic rates either wholly or partially to local government control.

Our principal point is that accountability is blurred when £160 million of a total budget of £208 million comes from central Government. The authority relies so much on a year-on-year increase in grant that it finds itself in a corner when difficult decisions have to be made on budgets. That was a particular problem during the period that immediately followed reorganisation. Surely local politicians should be held fully accountable for those decisions.

Although there are areas that could be considered, I accept that there are no easy solutions. That does not prevent the main problem, which is the blurring of accountability between local politicians' responsibilities and those of central Government, given that most funding comes from central Government.

Mr Harding: Under the heading "Capital Expenditure" in your supplementary submission, you mention the backlog of repairs, particularly for roads and schools. Have you quantified the cost of that backlog?

Councillor Alexander: The cost of the existing backlog of school repairs has been quantified at around £40 million.

Mr Harding: You said that your capital consent is set at £8 million a year.

Councillor Alexander: Yes.

The cost of the standstill programme of repairs to roads—that is, bringing roads up to a reasonable standard and making repairs to lighting—is about £30 million to £35 million. If we were to include improving the quality of roads, building new roads and upgrading lighting, the figure would be significantly higher.

Mr Harding: So, despite the budget increases that have been announced this year, you are still nowhere near resolving any of your problems.

Councillor Alexander: We are considerably short of the minimum requirement—in effect, we are simply standing still.

Alex Jannetta: In the first year after reorganisation, our capital allocation was £7.2

million. In the space of five years, our capital allocation has risen to £8 million. This is not simply about investing in schools and roads, which are major services; that money must cover the range of services, other than council housing, including social work, looking after the basic infrastructure of our office buildings and so on. Education and roads are high up our list of priorities, but it is not as if the full £8 million can be spent on increasing investment in schools or roads.

Mr Gil Paterson (Central Scotland) (SNP): In your submission, you talk about large projects, such as the construction of five secondary schools.

The convener raised the choice that exists between PFI and section 94. Are you able to quantify the savings you would have made if you had had a choice, rather than having to play the only game in town, which was PFI?

Alex Jannetta: We were attracted by the policy direction and by the fact that there would be no significant burden on council tax payers if we were to go down the PFI route. The amount of level-playing-field support from central Government was integral to our PFI project. We were one of the first councils to go down the PFI route. Because we got in early, we got level-playing-field support of £8.64 million a year. Members can read about that in our submission.

Council members gave officers policy objectives. We argued that the project, at the time, was sustainable. Schools have been built and there has been no consequential increase in council tax. Each project must be debated on its merits and the full financial consequences must be worked out. We negotiated level-playing-field support for the particular project that we embarked on, which was the first in Scotland to involve schools. Once we had worked out the figures, we felt that a PFI project could succeed.

The situation could be entirely different now. The committee asked whether we were contemplating another PFI project. We are not, but if we were to, I suspect that central Government would not make available the level of support that we received when the first project was in the pipeline. Circumstances are different now compared with when we considered that project back in 1996-97.

Councillor Alexander: We must also consider the bigger picture of total local government expenditure—that is, the total amount available to the Executive to distribute. The higher the percentage of level-playing-field support that is paid out, the less there is available for local authorities to spend on services. There is no doubt that the authority would have chosen the route of section 94 consent, as that would have been the most cost-effective route for local government

budgets overall. Falkirk Council, like most authorities, sought to protect its position, but we also recognised that the local government cake as a whole was becoming somewhat smaller.

Mr Paterson: May I ask a supplementary question, convener?

The Convener: *indicated agreement.*

Mr Paterson: Councillor Alexander, I was interested to hear you say that you could not get the use of the schools after school hours. For the record, could you quantify the difference to the authority between a school that is not constrained by PFI and a PFI school?

Councillor Alexander: There are additional charges for out-of-hours services at PFI schools. Schools that are run by the local authority are flexible—our staff will man the schools after hours. The owners of PFI schools employ all the auxiliary staff, which means that there are always additional costs for and problems with extra-curricular activities. For example, children's luggage was left in the street after they returned from a field trip because access to the school could not be gained.

Meeting our community school requirements also raises a number of difficulties. One would envisage individuals using sports and leisure facilities at a community school, but that causes a problem in PFI schools, as they are run for profit after school hours. That is the major difference.

Mr Paterson: My last question is—

The Convener: Very last, Gil.

Mr Paterson: Will the five PFI schools to which you referred revert to council ownership at some point, or will they revert to someone else's ownership?

Councillor Alexander: At the end of the 25-year leasing period, we will have paid £360 million but we will not own anything. We will have the option to purchase the schools at market value or to extend the lease, but we will not own them.

Mr Kenneth Gibson (Glasgow) (SNP): I would like to congratulate David Alexander on becoming Scotland's newest council leader. I hope that he remains in the position for as long as he wishes.

The Convener: Please do not make any political points.

Mr Gibson: The points that Mr Jannetta made about PFI and the level playing field were echoed by the administration in North Lanarkshire Council, which we visited a year ago—other local authorities are deprived of resources by flagship projects such as those run by Falkirk Council.

Mr Jannetta talked about the £250 million that Falkirk Council has in capital assets and about

how the £8 million that is available is inadequate to catch up on the backlog of repairs. What is the rate of depreciation of the asset base? Will that £8 million go towards reducing the backlog, or is it insufficient to mitigate depreciation?

Alex Jannetta: It is obvious that the £8 million is not enough to mitigate depreciation. We are unable to invest in schools, roads and other services and, post reorganisation, we had to cut normal revenue-funded repairs as well. In effect, we faced a double whammy—we had reducing capital allocations and reducing levels of day-to-day maintenance.

Depreciation would not cover that angle. I gave the example of the value of our assets simply to give members a guide against which to set our capital allocation. There is no way that, taking account of depreciation, £8 million could go anywhere towards safeguarding assets of that value.

We hope that there will be an end to the section 94 regime and that local authorities will have greater flexibility to invest in schools and roads, which are deteriorating year on year, despite what we did on PFI. In the long run, if local authorities are unable to invest more in their capital infrastructure, we will probably end up in the same situation as other public sector—or former public sector—organisations, such as the health service, where there is too little investment in capital. We have deteriorating assets and do not have the revenue to invest even in day-to-day repairs. We are not addressing the main problems of major capital investment, whether it is investment in a boiler in a school or in the school itself.

Mr Gibson: Given that you have £8 million, what is the on-going level of depreciation of your asset base?

Alex Jannetta: It is about 10 per cent.

Mr Gibson: If your assets are deteriorating by £25 million and you are getting £8 million to counter that, in effect that means that the backlog is increasing by about £16 million or £17 million a year.

Alex Jannetta: I do not want to give the impression that all our assets are in bad nick.

Mr Gibson: No, but there is a level of on-going depreciation.

What, if any, impact has the lack of adequate revenue grant over the past four or five years had on council tax levels?

Alex Jannetta: The early years after the 1996 reorganisation, 1998 and 1999, were bad years. We did not receive any increase in grant and our expenditure was being constrained, first of all by the capping regime and then by the guideline

system. In those early years, we were lucky if we were able to increase expenditure by 0.5 per cent or 1 per cent. At the same time, we were faced with a reduction in grant. In those early years, we had high percentage increases in council tax, although in our case percentages are slightly misleading, in that we have just about the lowest council tax in mainland Scotland. Our indicative council tax increase for 2002-03 is 5 per cent, but that is 5 per cent of £813 at band D, whereas the Scottish average is more than £900.

Things have improved as far as our council tax increases are concerned. For an ordinary member of the public, that 5 per cent increase represents about 80p a week. We consult the community and say, "For a 5 per cent increase, this is what we propose to do in the budget." We argued for increased funding for critical areas such as home care, children with special educational needs and the general raising of standards in our schools. People were generally supportive of the budget. In relative terms, our council has managed to keep down its council tax levels, but in the years immediately after reorganisation, the high levels of council tax increase were inescapable, given the level of Government grant that we were receiving.

Mr Gibson: So was your decision to increase council tax by 5 per cent—more than double the rate of inflation—based on provision of additional services or on maintenance of services at the current level because of reduced revenue grant?

Councillor Alexander: It was accepted across the political spectrum in the authority that this year's budget was a standstill one, which was an improvement on previous years. Council tax levels tell part of the story. In the six years since 1995-96, Falkirk Council's increase has been 48 per cent overall. However, during that period there have been additional charges for social work services and increases significantly above the rate of inflation for other council services, such as the burial service and cremation, and for the use of council facilities such as sports facilities. All that makes it difficult for the authority to meet its policies of social inclusion and the encouragement of healthy lifestyles. The whole package has to be taken into consideration. Council tax levels give an indication, but there have been additional burdens and additional pain for the residents of the Falkirk Council area.

14:30

Mr Gibson: As you may know, the committee is conducting a comprehensive and independent review of local government finance. Does Falkirk intend to make a submission? If so, will you consider alternatives to the current funding regime, such as local sales tax, or will you be operating out of the box in terms of what you

would include in such a submission?

Councillor Alexander: Our favoured option at the moment is for local income tax to broaden the tax burden across the community. There are additional sources of income that we believe local authorities should have the right to consider—we support the principle of the increase in local authority involvement in other areas. We also very much support the power of general competence.

The Convener: Before we continue, I want to point out that Kenny Gibson asked four questions. Please ask the questions through me.

Iain Smith (North-East Fife) (LD): Are there any areas of expenditure where your council feels that the amount of grant-aided expenditure that is assessed for your authority is way out of line with your actual expenditure needs?

Alex Jannetta: We certainly spend above GAE in education, but whether that implies that the GAE is inadequate is a matter for debate. We would probably argue that the amount that we get through the distribution system is insufficient in relation to the essential service of education. As a consequence of that, the authority has chosen to exceed its GAE in its investment in education.

The other example would probably be roads. We see our GAE for roads as inadequate, although that may be due in part to our constrained geographical boundary and road lengths. The distribution of the GAE depends on what we feel we need to spend to ensure that our roads are maintained to a reasonable standard. Those are two examples of the main services for which we consider the GAE to be inadequate.

Iain Smith: An issue that has been raised is the increased number, in some authorities, of placements by children's hearings into secure and residential accommodation. Have you faced that problem?

Alex Jannetta: The specific GAE that you are talking about is quite volatile, as it depends on the decisions of children's panels. It is not an acute problem, in that it has not contributed to an overspend in Falkirk's budget in the past couple of years, but we are conscious that that can change—it would just take one bad year. The local authority would have to pick up the tab—if that is the point that you are trying to make—if the GAE were inadequate. That is outwith our control, given that the children's panel makes the decisions. If we had to pick up the tab, that might mean redirecting resources from another heading to pay for that particular area.

Iain Smith: I was trying to identify whether that was a general issue.

Alex Jannetta: Yes. It is a volatile issue—it can change from year to year.

Iain Smith: Is the amount of additional resources from the Scottish Executive adequate to meet the additional costs for your authority of the McCrone settlement?

Alex Jannetta: As I said in our introduction, there is some uncertainty about that. In the current year, we hope that central Government will meet the full costs of the McCrone settlement. However, our indicative budget includes an estimated funding shortfall of about £0.75 million in years two and three—2002 and 2003. We are awaiting full details of the reimbursement that we will get on McCrone, but we expect to face a deficit of about £1.5 million over those two years.

Iain Smith: Is that in addition to what you would expect to pay for teachers' pay?

Alex Jannetta: No. That is not the case. The shortfall would be the equivalent of a 3 per cent increase. Taking the tack that pay awards would not normally be recognised by Government, as has happened in previous years, it could be argued that we simply have to budget for that 3 per cent. The money must be found from somewhere and, if it is not found from Government grant, the burden falls on the council tax payer.

Donald Gorrie (Central Scotland) (LD): The assumption that council tax would increase by more than the rate of inflation, which is 5 per cent at the moment, has been part of successive Governments' funding packages for local government. Does that assumption create political problems for councils such as Falkirk Council, which has a fine balance of political parties? Do the public accept that the increase in council tax is somewhat higher than the rate of inflation? Is the Government package workable or will it cause problems if it continues in the same way?

Councillor Alexander: To a certain extent, that is seen as an attempt by central Government to pass the buck. The situation must be seen in the light of the transfer from direct to indirect taxation. We cannot ignore the increases in water and sewerage charges, because those are locked in to increases in council tax charges. The public are becoming increasingly aware of the issues that relate to council tax and water and sewerage charges. The situation is becoming a problem, but not for myself.

The Convener: In your presentation, you said that you needed greater flexibility in the specific grant. Do you mean that you want to shift the grant into GAE, or do you want the grant to have flexibility?

Alex Jannetta: I will take education as an example, as that is one of the largest areas of specific grant. We have something like £15 million in specific grants and, of that figure, £5 million is ring-fenced for excellence funds in education.

However, year after year, when I see the director of education about the non-ring-fenced element, I have to say, "Your budget is too high and you require to reduce it." That does not make much sense. Therefore if the £5 million was not so rigidly ring-fenced, we could transfer moneys to other areas, including the core elements of the education service.

The director of education says to me, year on year, that if the service is to have a balanced budget, we have to reduce areas such as the per capita grants to schools. Does it make much sense to make such reductions on the one hand, yet—at the same time—to have specific ring-fenced grants? That may camouflage the situation so that everybody thinks that education has had massive increases, when the reality is that, from reorganisation onwards, not a year has gone by when I have not had a discussion with the director of education about the size of his budget. We could use increased flexibility to decide on the best use of resources, according to our local needs.

The Convener: The issue of section 94 consents always arises, and the committee will address that matter. I was interested to hear your comments on PFI and what happens when a school closes, which I had not thought about deeply. I was also interested in your comments on the costs of new burdens and the fact that you are signing up to Executive decisions regarding new burdens and the way in which they are funded.

Thank you for your time. Your evidence has been helpful. If we need to call you back, I am sure that you will be delighted to attend the committee again.

Alex Jannetta: Thank you.

Mr Gibson: Convener, I am afraid that I must leave now.

The Convener: I cannot believe my luck.

Mr Harding: The meeting will be quick from now on.

The Convener: Yes, it will take only half the time.

We welcome our witnesses from the Scottish Executive: Angus MacKay, the Minister for Finance and Local Government and Neil Rennick, who is head of the local government expenditure and council tax branch. I am sorry that we kept you waiting, but the clerk tells me that it was for only a wee while. You have a few minutes to make a statement, after which I shall open up the meeting for questions.

The Minister for Finance and Local Government (Angus MacKay): I thank the committee for giving us the opportunity to give

evidence in the consultation on the 2002-03 budget process. I shall keep my remarks brief, as I am aware that time is pressing.

It is important not only that local authorities should have the resources to fulfil their responsibilities, but that they should have the stability and flexibility to plan their spending and investment effectively. The committee will be aware of the work that the Executive has sought to undertake so far, especially with the Convention of Scottish Local Authorities, in trying not only to increase the total levels of funding available, but to give councils the certainty of three-year grant allocations and flexibility in setting their budget totals.

I remind the committee that COSLA was involved in the spending review process for the first time last year and welcomed the announcement of a £1.2 billion increase in support for local government over the three years of the spending period. The settlement provides for a 19 per cent increase in revenue grant support and a 40 per cent increase in the non-housing single capital allocations over three years. For the first time, every local authority in Scotland is receiving an above-inflation increase in grant this year and for the following two years.

For the first time in recent years, the settlement includes provision for general pay and price inflation, as well as substantial additional resources for improved services. Finally, the increase in average council tax levels in Scotland this year—4.9 per cent—is, as in recent years, below those in England and Wales, which are 6.4 per cent and 6 per cent respectively. I am happy to provide any further information that the committee would find helpful and I shall try to answer any questions.

The Convener: I shall kick the ball off—or whatever it is that footballers say. All the committees have been asked to consider the budget from the perspective of gender. Have you considered the need for gender weighting in the local government budget? The health budget has such a weighting, as does the education budget, because girls remain at school longer than boys. Given the fact that we are living longer and that women usually live longer than men, there might also be a case for weighting the community care budget. If you are not weighting that budget, do you think that there would be merit in doing so, in an attempt to simplify the formula, or would that make the formula more complex?

14:45

Angus MacKay: That was a bit of a show-stopper of a question. It would certainly make the formula more complex. Committee members will

no doubt be aware of what we have just been through in trying to rejig the distribution formula. In my view, the pursuit of the perfect distribution formula is a bit like the pursuit of the holy grail. Ultimately, it is not attainable, because people have many differing views about what a perfect distribution formula should look like.

Having said that, I do not have a philosophical objection to trying to take account of gender issues, or indeed some of the other related issues that people want to discuss in relation to how budgets are formed and how they impact on the ground. To that end, work is going on at the moment on a broader front, trying to take account of equalities issues in mainstream budgeting decisions. Work is being undertaken on our behalf at the moment to research how we have done that historically—in so far as we have any history in a two-year-old Parliament—in our budget development process.

That is important work, as much for what it may tell us about weaknesses as for what it may tell us about the positive mechanisms that we have in place at the moment. It is probably fair to say that the way in which we have been able to take account of gender, race or any other issues in budget decisions has, to date, been a bit ad hoc. The on-going study will give us much more substantive empirical information, so that we can make sensible judgments about the processes that we need to evolve to build in consideration of gender and other issues, not just at ministerial level, but at committee level and at spending department level. That way, ministers and department officials will be much more aware at the time when decisions are being shaped and framed of what the consequences are for various groups.

Mr Harding: One issue that is constantly cropping up, and which has been mentioned by practically everyone from whom we have taken evidence, is the imbalance between Government and local taxation accountability. Have you any ideas or suggestions for addressing the gearing factor?

Angus MacKay: Philosophically, I can understand the desire for a more equal balance in the burden of expenditure that local government incurs, between local taxation and central Government grant. However, articulating a sympathy for that view is different from getting us from where we are to arriving at that position. I cannot see any straightforward and pain-free ways of doing that, but that is not to say that my mind is closed to suggestions that may be made.

I am not entirely clear about whether the committee will be considering that as part of its review of local government finance, but I have made it clear since last October that I have an

open mind about a review of local government finance. We have attempted to go some way down that path with some of the changes that we have introduced. That may not be sufficient to satisfy the desire of members of the committee for a more root-and-branch reform of local government finance. I am therefore happy to give evidence on local government finance to the committee, if that is desired, and to listen to the committee's conclusions and recommendations.

Although I do not intend, as the COSLA submission suggests, to commit myself and the Administration to automatic implementation of whatever the committee recommends, I certainly commit myself to listening carefully to your recommendations and to entering into discussions with you about them. I shall not go any further down that path, in case I set any hares running.

Mr Harding: In the current climate, is your proposal to address the gearing factor to continue to expect councils to increase council tax well above the level of inflation?

Angus MacKay: Those are your words, not mine, and they do not accurately reflect my position.

Mr Harding: COSLA has estimated that, on the capital side, it needs about £2.8 billion over the next three years. The witnesses from Falkirk Council said that they have a backlog of repairs to schools of £40 million and to roads of £30 million to £35 million. The council receives a capital consent of £8 million, which has to address all other capital issues apart from roads and schools. Have you any proposals for addressing that problem in the forthcoming years?

Angus MacKay: There are three or four points that I would like to make in response to that. First, an investment deficit has accumulated over the past 18 years. Eighteen years is the figure that I want to use, rather than 19, 17 or 20 years.

Mr Harding: We should amend that to talk about the past 22 years, as the Labour Government has also incurred deficits.

The Convener: We shall have no political points. Please answer the question, Mr MacKay.

Angus MacKay: As I say, I have settled on 18 years in my own mind, but Keith Harding is at liberty to choose his own figures.

It will take a while to make up that deficit, but it is important that we have unanimous acceptance that there has been underinvestment over that period. We seek to bring a level of investment into local authorities that will meet expectations, but that will take time and cannot be done overnight.

A number of measures have been introduced. The changed regime on capital receipts should

provide additional flexibility to local authorities above and beyond the capital allocations that we have made. Beyond that, public-private partnerships and private finance initiatives have tremendous potential for allowing local authorities to bring in new investment in many areas. Some authorities—notably Falkirk Council and Glasgow City Council in relation to schools—have been successful in that regard.

We all come at the problems from differing perspectives. Falkirk Council or COSLA will have a different idea of the price of an adequate capital investment regime from the Minister for Finance and Local Government. It is true to say that we can never spend enough in revenue or capital terms in any area of public service delivery. We will always want to do more of something. We have to decide how to maximise the resources that we are bringing to bear on the areas that are at the forefront of our policy objectives and ensure that we deliver, over time, value-for-money public services that are adequate to meet the needs of the people who depend on them. We have just about got that balance right, but it will take time to pump in the volume of investment that we will need to get our public services back to that level.

Iain Smith: The issue of funding has been raised by one or two councils that are concerned that insufficient money has been allocated to them to allow them to meet the cost of the McCrone recommendations. How has the Executive dealt with the additional moneys for McCrone and what estimates do you have for what the additional costs to local authorities will be?

Angus MacKay: I can give you a shorthand version of what I understand to be the case following the negotiations that took place between Jack McConnell and COSLA. I understand that we allocated around £400 million more than was originally budgeted for in the McCrone recommendations.

Neil Rennick (Scottish Executive Development Department): The total price tag is £400 million.

Angus MacKay: Yes, we have gone £400 million beyond what was envisaged in the McCrone package. The funding for local authorities, either directly in the local government baseline or from other sources, was agreed between Jack McConnell and COSLA. Although individual councils will have concerns about where that money will come from, the package has been put in place not by ministerial diktat but by collective agreement between the minister and local authorities' collective representatives. I hope that each local authority will be able adequately to reflect that agreement and introduce a proper implementation package for the McCrone recommendations.

Iain Smith: What element of McCrone do you expect councils to fund?

Angus MacKay: I cannot give you that figure myself. Perhaps Neil Rennick can.

Neil Rennick: Councils are not expected to fund any of the additional costs arising from McCrone. They will have to meet some of the costs that they would have had to meet anyway. They would have contributed towards the cost of a teachers' pay settlement in any case and that will be included in the council tax element of the settlement.

Angus MacKay: That means that money that had been set aside for teachers' pay increases was put into the pot as part of the global figure for the McCrone settlement.

Mr Michael McMahon (Hamilton North and Bellshill) (Lab): In the evidence that we have taken, COSLA and individual authorities have expressed concern about additional burdens and elements that they cannot take account of but which they are required to fund. One example of that has been the combination of secure places and residential care for children. There is no way in which an authority can quantify what the demand will be if there is a spate of referrals from the children's panel. The local authority is obliged to meet that cost, but cannot plan for it in its budget.

Angus MacKay: I understand the difficulty that is being articulated. The difficulty exists not just for the local authority but for everyone. Just as the local authority cannot predict the level of demand that will be placed on it by a third party, neither can we. That will impact in a number of ways on different local authorities. In some local authorities, demand will be less than we had estimated, while in others it will be higher.

We expect that the position for any local authority should net itself off over the year across different services and levels of demand. In any event, the allocation for such expenditure is based on a formula that has been directly negotiated and agreed with COSLA. As a result, although particular areas might experience localised difficulties—which, for example, Dundee City Council seems to have experienced—local authorities should be able to equalise matters through other areas of their budget. That has been commonplace practice for many years in many local authorities.

Mr McMahon: Is there an argument for having a specific grant or central pool which councils could draw on for that purpose instead of having them wait another financial year to balance out the previous year's losses?

Angus MacKay: Such a specific grant sounds suspiciously like hypothecation, for which I have

been constantly criticised, despite my many vain attempts to reduce its use. If a council wishes to put its desire for hypothecation in black and white for us, we will obviously consider any innovative suggestions. However, I do not want to give a cast-iron undertaking to do so today, nor would I wish the rest of local government to think that we were planning to introduce hypothecation in that particular area for the whole of Scotland.

Neil Rennick: If we were restricting hypothecation to particular services, the same argument could be made for fairly expensive services such as those for adults with multiple disabilities and other unexpected costs.

Mr McMahon: You sort of saw through my question. However, by the same token, would not it be better to have a central fund that a local authority could draw on if required, instead of being allocated funding up front that was then hypothecated to meet a particular need? Perhaps it would be better to wait until the need was identified and then draw on that fund, which central Government would hold.

Angus MacKay: Although such a proposal is theoretically possible—nothing could prevent it from happening—it contains a number of pitfalls for which I can easily imagine we would be criticised. For example, such a circumstance does not arise only in this particular area of service delivery. If we were to set a precedent of establishing a centralised pot that was held by the Executive, we might end up doing the same in other areas of service delivery, which might then result in less money going directly to the local authorities. The authorities might have to bid for matched funding on an output rather than a planned basis, which might cause grief for certain authorities that from time to time benefit from underspending in some areas. The proposal is not as simple as it might at first appear; it carries many other implications with it. However, I have an open mind about any innovative proposals that councils might suggest, and I am happy to have that discussion with COSLA if the organisation would find it useful.

Mr McMahon: That was not COSLA's suggestion; it came from another source who is no longer at the meeting.

Angus MacKay: Does his name start with "Kenny" and end with "Gibson"?

Mr McMahon: That is the very one. I just thought that the idea might be worth investigating.

Neil Rennick: Councils have contingency funds to meet unexpected demands throughout the year and obviously benefit from that money if the costs do not arise.

Mr Paterson: In its submission to the spending

review, COSLA estimated a capital investment need of £2.8 billion over the next three years. The Executive has provided £1.6 billion through section 94 consents for non-housing capital expenditure. Does the minister think that COSLA's calculation is realistic; and if so, how much of the funding gap will be met by PFI or PPP?

Angus MacKay: We have already touched on that issue to some extent. I cannot sit here today and say exactly how much of the COSLA estimate is reasonable or unreasonable. As I was trying to point out earlier, the expectations of COSLA collectively, local government individually and the rest of the public sector will be higher *ad infinitum* than the actual resources that Government can provide. Our job is not only to maximise the level of funding that we can prudently and sensibly hand over to local government but to ensure that we get maximum value for money from that allocation. There are a number of different ways to do that. Although we can grant-assist and give consents to local government, it is equally important to consider other mechanisms. For example, we can give local authorities additional flexibility by allowing them more latitude in dealing with their non-housing capital receipts, so that they can prioritise some of their more pressing projects.

The other course of action is to encourage the maximum use of PPP and PFI, because they carry with them substantial benefits. They have the capacity to get capital projects off the ground outwith the restraints of the public sector borrowing requirement through which the Treasury's restraints are applied. I encourage local authorities to maximise the potential benefits of PPP because it provides tremendous opportunities, not only in areas where the project has been rolled out previously, but in new areas and without detriment to the quality of service delivery provided by the public sector.

15:00

Mr Paterson: The minister used words such as "sensible" and "prudent". We heard in the evidence from Falkirk Council that it has a massive PFI project that involves five schools. We were told that it will spend £350 million and, after 25 years, it will not own the asset. Falkirk will be placed in a precarious position, much worse than it is in now. Is such a policy sensible and prudent?

The witnesses told the committee that the authority cannot use the school facilities after school hours, so there must be an on-cost to Falkirk and other authorities that have used PFI. Obviously, if a community needs to use such a school, it will have to pay those who own it. Is that the way in which to proceed? If we are to continue with PFI, can the method be tightened up, so that a school becomes what it used to be—part of a

community, not just part of a community some of the time?

Angus MacKay: Any PPP or PFI project that goes ahead in the way that it has been remodelled under Gordon Brown and the Labour Government must develop and demonstrate value for money for the public sector. As for the whole cost assessment, it must be apparent that a PPP project provides better value than the traditional public sector procurement path. I have little qualms about comparing the headline cost of the traditional public sector option with the life cost of a PPP option. I am confident that it would demonstrate value for money.

As for the particular circumstances in Falkirk, if the education authority or the council does not have access to those schools after school hours, that must have been subject to the individual contract that was negotiated on the PPP or PFI project. I suggest that the council look closely at that matter. Most PPPs or PFIs have break clauses at various stages of the project, usually on a five-year basis, especially for matters such as technology upgrade. They would allow the contracting parties to renegotiate some of the terms of a particular PPP. Falkirk Council might have the opportunity to look at such matters.

The quality of individual PPP projects can vary, and the recent formation of Partnerships UK at the instigation of the Treasury might help to add some value and quality to what the public sector is getting out of the deals that it is negotiating with the private sector. We know from the efforts of Bruce Crawford, a colleague of Mr Paterson, that it is possible to negotiate high-quality PPP projects in councils throughout Scotland. If I remember correctly, Bruce Crawford's council negotiated a PPP on a council car park.

Mr Paterson: The minister is right. That was the only option open to the council. It could not do anything other than that. It had to have either a PFI or nothing.

The Convener: Is that a question?

Mr Paterson: I was about to ask a question. The minister asked a question, so surely it is right to answer him. There are only two steps that a council can take: face the electorate and give it no facilities, or play the Government's game and provide a PFI. My main concern is the value of such action. Surely it is the Government's responsibility to allow the community to own something. If PFIs are to be used in the future, that should be part and parcel of any consent that is given.

Angus MacKay: I am wary of an argument that advocates greater Government control and interference in how local authorities conduct their own affairs. That goes for the construction of PPP

agreements, too. If a local authority decides to construct and agree a PPP agreement whereby at the end of the 25-year term, it does not own the asset, that is up to the local authority. One might take a view about whether that is sensible, but it is a matter for the local authority, in my view.

Having said that, many PPP and PFI contracts result in an end contract position in which the asset reverts to the public sector. In most PPP contracts, it is difficult to get a circumstance in which the asset would have any net value to the private sector provider. I am not quite sure what benefit retaining an asset such as a 25-year-old school would bring to a PPP provider.

However, I do not know the specifics of the Falkirk case, so I am wary of treading on the detail of that ground.

The Convener: In addition to the £1.6 billion from section 94 consents, how much additional capital have you agreed for the next three years for PFI?

Angus MacKay: Off the top of my head, I do not know.

Neil Rennick: The value of projects that will commence in the next three years is just less than £500 million.

Donald Gorrie: Do you have any suggestions for ways in which the Parliament or its committees could be helpful on the subject of joined-up government, to which we all subscribe? I am thinking about instances in which subjects cut across departments. Are there ways in which the Parliament could assist the Executive if, for example, the relevant committees came to the conclusion that, if councils spent more on repairing their pavements, the national health service would save so much on accidents that it would be a net gain to the community, or if the committees felt that, if more were to be invested in sport and youth activities, we would save in due course on the police, drugs and social work budgets, which cut across departments? No doubt you are interested in such things.

Angus MacKay: That is a broad question. I find it slightly difficult to answer when thinking on my feet. I will answer it by referring to my experience of being Deputy Minister for Justice, when I had responsibility for drugs, and especially my experience of meeting and discussing issues with the 22 drug action teams in Scotland. Sitting round the table were all the key bodies that should have been capable of making a direct impact on our drugs problem—the police, local authorities, health boards, voluntary sector organisations and various other organisations besides and in between. The DAT in any area involved the budgets, the policy powers and the staff of those organisations.

Theoretically, the DATs should have been able to develop, articulate and implement a tailored drugs policy for their areas. One of the difficulties was that, unfortunately, the mentality of many people was to sit in their own departmental or organisational silos. Those artificial barriers needed to be broken down and there needed to be willingness to pool budgets and policy-making powers. Where that has happened, the system has worked extremely well. It offers a genuine chance of being a pathfinder for the development of community planning agreements and local economic forum initiatives.

I am not quite clear how the Parliament and its committees can help and play a role in such work, but I am absolutely clear that the possibility of using the synergy of that kind of work to add value, so that the whole is more than the sum of the parts, is immense. It is easier to describe that than it is to find the mechanisms to make it happen. I am afraid that I do not have any glib or easy answers.

Iain Smith: When Orkney Islands Council's representatives attended the committee last week, they expressed concerns about the delays in implementing the full proposals for the special islands needs allowance review. Have you any comments on that? What exactly is the Executive's position on SINA?

Angus MacKay: I am not aware of what the difficulty is that is causing delays in implementing the review. I am happy to defer to Neil Rennick on that in a moment and to ask him to examine the issue. I know that we had a bit of to-ing and fro-ing about SINA at the time of the local government settlement. The committee may be aware that the independent group that considered SINA recommended essentially that the allowance be frozen at 2000-01 levels, but that some of the mainland councils that include islands be included. In the event, we included those councils, but I need to ask Neil Rennick whether we froze SINA levels.

Neil Rennick: The recommendation from the independent panel was to reduce the allocations for the island councils. It was decided in agreement with COSLA to retain the current level of SINA for those three councils.

Angus MacKay: There is quite a difference between what we did and the recommendations. I recognise what SINA is intended to do and I recognise the issues behind it. They are real and need to be addressed. I hope that in future years there will be a consolidation of the SINA formula into the main local government settlement. I am for simplification of the distribution formula that we use, wherever possible.

Neil Rennick: The overhanging issue that was

carried forward from the review was that it concluded that issues of supersparsity, although they impacted on islands councils, were not unique to islands councils. They also impacted on mainland councils. That sparsity is already taken into account within the grant distribution formula.

The Convener: One of the committee's concerns is that there was a mismatch effect for councils when the reorganisation took place. I guess that you will accept that; Dundee and Glasgow were affected. They have given evidence to us; that is why I use them as an example. Subsequent to that effect of reorganisation, they have the highest levels of council tax. Understandably, they are trying to concentrate on restraining those council taxes. That is what they are saying to the committee. If they were doing that, it would be in direct contradiction to your position on investing in services. Do you agree with that notion? If you do, is there anything that you can do about it?

Professor Arthur Midwinter (Adviser): Their priority was to contain the council tax.

Angus MacKay: I am tempted to say something like, "They would say that, wouldn't they?" Those councils will always face what they regard as the conundrum that they have very high council tax levels, for reasons that we will discuss soon, and that the only way that they can address that is to consider policy decisions that might impact on service delivery. That assertion assumes that no other variables or factors might be taken into account.

I have just been given a note that will tell me that I have to be at a Cabinet meeting in 15 minutes, so I will try to speak clearly and quickly.

The assertion assumes that no other changes in service delivery might be imagined and that no other invest-to-save initiatives might be implemented. It assumes that there are no other options that might assist the local authority in managing down its cost, while continuing to deliver a proper level of service.

I certainly have some sympathy with issues about the council tax base, not only in those two local authorities. The issue is especially acute in Dundee and Glasgow, but the problem of how it can be resolved is a thorny one. If the local authorities that surround Dundee and Glasgow were sitting here today, they would be sitting nervously because they would wonder what I was going to say next, in case I was going to talk about major or minor surgery to the boundaries of those city authorities.

Policy decisions within local authorities have a substantial role to play. There are no easy answers. One of the arguments that was being articulated during the lead up to the local

government settlement announcement was that there should be a substantial net transfer away from all the other local authorities and into one—perhaps more than one—of the authorities that have been mentioned. That might have solved part of the problem for one authority, but only on a net transfer basis and not on a structural basis, so it seems that that would not be an enduring solution. In any event, it would have had the effect of substantially impoverishing many other local authorities, which would have been faced with the kind of decisions that, for understandable reasons, Glasgow and Dundee do not want to have to deal with.

I think that, in the longer term, the answer lies in imaginative thought about the way in which we bundle services, the way in which services should be delivered, what size of local authority they should be delivered across and—in some circumstances—whether those services should be delivered across several authorities. Many people have raised with me issues about the number of directors of social work, directors of education and duplicated services that now exist because we have moved to the 32-authority model. However, people who have the reorganisation from 1995 fresh in their minds know the level of cost and upheaval that was involved and the expertise and experience that was lost to local government as a result of the reorganisation. There are no quick and easy answers to the problem.

Equally, the problems that have been described will not go away overnight, notwithstanding what Dundee City Council did with its council tax level. I do not have any glib or easy answers on that either.

The Convener: Michael McMahon mentioned the extra cost of secure accommodation and residential care. Children's panels make referral decisions. Other councils have mentioned that when children's panels make a decision they must implement it. Given what the councils said, it must have been an interesting discussion if you got an agreement out of COSLA on that, because a substantial number of councils from which we have taken written or verbal evidence were very concerned about secure accommodation and residential care.

You clarified, to some extent, the points on PFI and PPP that we heard from Falkirk Council, about the individual contracts that councils should be getting into, about what happens to a school after 4 o'clock and whether the school will own the building.

From Donald Gorrie's point of view, I am glad that joined-up government works. I do not know how we get it to work completely, but we will certainly try as hard as we can.

I do not want to be responsible for the minister missing a Cabinet meeting—perhaps somebody will nick in and get some money that he was not very keen to give them. Thank you for coming along to the committee. I am sure that we will see you again.

15:15

Roddy McArthur, who is the director of finance of Perth and Kinross Council, and Harry Robertson, who is the chief executive, are now with the committee. Good afternoon, comrades. I am sorry that we are running a little late.

Harry Robertson (Perth and Kinross Council): Good afternoon. I am glad that we heard the end of Falkirk Council's evidence and the minister's responses. What we will say will not come as any surprise to the committee—it is very similar to the evidence that the committee has heard. I hope that physically and metaphorically we can add some weight to that evidence.

I will make some brief comments about the effect that the direction of resources towards specific Executive initiatives is having on key council services. The committee is aware of the theme. We believe strongly that ring-fencing of resources for specific projects has led to real cuts in core service delivery. I will give two examples before Mr McArthur deals with some of the detail of our submission.

Perth and Kinross Council has received additional capital allocations through the public transport fund to invest in cycle lanes and the development of a park-and-ride scheme. That investment is welcome—particularly in a tourism area—but it does not address the impact of years of underfunding on roads expenditure that is the result of limited mainstream capital consent and restrictions on revenue expenditure. Road dressing in our area, for example, is being undertaken on a 30-year cycle rather than the recommended seven-year cycle. That is very serious and is leading to the gradual deterioration of all our roads. By ring-fencing resources for new initiatives, the Executive has tied the council's hands in addressing the underlying problems in its road network.

Similarly, substantial new funding has been made available through the education excellence fund for investment in education initiatives such as after-school clubs and increased numbers of classroom assistants. The committee is well aware of the elements of the education excellence fund. Again, that money is welcome, but it sits very uneasily where there is a need to spend an estimated £14 million on the maintenance of our properties simply to bring them up to a reasonable standard.

The council strongly believes in the need for a healthy partnership between the Scottish Executive and local government in the delivery of key services. The essential element of any partnership is trust. We are asking the Executive to trust local authorities to deliver shared national priorities through the development of outcome agreements. The public is better served where councils that are accountable to their own electorates are entrusted to deliver services in a manner that both addresses national priorities and is responsive to local needs and circumstances.

Roddy McArthur (Perth and Kinross Council): I thank the committee for giving us the opportunity to submit evidence. I have no wish to repeat our submission, of which members have a copy, other than to draw it to members' attention that we have submitted primarily officers' views. Perth and Kinross councillors have addressed some of the issues before, but the current council has not been asked to consider issues such as the return of non-domestic rates to local control.

Members will be aware that all shades and hues of political opinion are present in Perth and Kinross's council chamber, so we cannot say whether what we have said about non-domestic rates would be the consensus, because the council has not been asked about that. Other than that, we believe that the present council would support all that we have said.

The Convener: Harry Robertson said that you had listened to earlier witnesses, so you will have heard the Minister for Finance and Local Government's answer about McCrone. Given that answer, are you more confident than you were 10 minutes ago that you can fund the McCrone recommendations?

Harry Robertson: I think that I heard the minister say that apart from the amount that local government had provided for the pay awards, the rest of the funding was in the settlement. I will not hold my breath waiting to check that, because we understand that there is a substantial difference between the settlement and the requirements of the conditions of service that McCrone will introduce, not just its financial requirements. We are nervous about that. In our submission, we identify the sum of money that we think is a shortfall.

Roddy McArthur: What we identify in our submission matches the funding that we believe will be available. However, we have problems—as I suspect other authorities have—in costing the full impact of McCrone. At this stage, we do not know the cost of continuing professional development for teachers or the eventual cost of teachers progressing to chartered teacher status, which allows them to progress through teaching pay scales. We do not know the cost of the winding-

down arrangements, which will allow teachers to leave the chalkface gradually. Those are unknowns. My concern is that those unknowns will be costly and have not been recognised in the sums that have been made available to us.

The Convener: So you will wait and see.

Mr Harding: Section 5 on page 3 of your submission concerns the provision that your budget makes for savings. Will some of the pressures that are mentioned in the second paragraph of that section have to be met? If so, where will you find that funding, or have you already identified savings?

Roddy McArthur: We have started to make progress on our budget for 2002-03 and the three-year period. We have allocated resources provisionally to each service. That provisional allocation builds on this year's budget and recognised pay awards, which we know. All the resources that are available to us have been allocated.

The next stage in the process is for those services to prepare their service plans, which will be submitted to the council in the autumn. At that stage, the requirement to make savings to meet those new burdens will come into sharp focus. At that point, a political decision will be taken about the savings that will be required and about how resources could be reallocated among services to address the worst of the savings that will have to be made. We are doing all that in the context of a service-planning process, but no savings have been identified yet.

Mr Harding: Your submission mentions the gearing factor. I am pleased to hear that councillors have not agreed to the position that the control of business rates should be returned to councils. Have you any other ideas on how that issue can be addressed? Every council—without exception—has raised the question of how to address the imbalance, as have other people who have given evidence.

Roddy McArthur: The easy way, of course, would be to return non-domestic rates to local control. That would halve the gearing effect immediately. Without looking into other domestic taxation options, it would be difficult to be precise about what other action could be taken.

As our submission says, Perth and Kinross Council is keen to consider the north American experience of business improvement districts and to examine how it could be brought into the equation to help fund local projects. We envisage such work being done on a project-by-project basis and in conjunction with the business community, to try to meet its needs and aspirations in the context of what the local authority can do for it.

Mr Harding: Would you support the holding of referendums, as has been done in Bristol, to see whether the public would agree to a tax increase?

Roddy McArthur: For the past few years, we have held extensive consultation each year on our budget. We have what we call budget roadshows, when we go to each part of our council area to present communities with our spending proposals and, inevitably, our proposals for savings and cuts. This past year has been the first in which we have not had Government expenditure guidelines imposed on us, which allows us more flexibility in setting council tax levels.

When we have explained the options in terms of savings and council tax increases, a substantial majority of people have indicated that they would be willing to accept a tax increase to avoid the worst of the savings options. I know that that view is not universal and that the people who turn up at such meetings tend to be people with a particular interest, or members of interest groups, who might feel threatened. The audience may not be typical, but everyone in the community is given the opportunity to attend. The meetings are advertised widely. We hope that we have got over the message about the options that are available.

Harry Robertson: I do not think that referendums would work without accompanying explanations. We have to get people to come to hear about the impact that changes in services will have. If you just go to the public with a referendum on tax increases, they will vote no. Over the past two or three years, we have been able to convince a substantial number of people that our taxation was not excessive in relation to the cuts in services that were the alternative. This year we had high turnouts at meetings and high percentages agreed with us that 7 or 8 per cent increases were acceptable. That is not as good as a referendum, but it is a good indication.

The Convener: Would you clarify what you said to Keith Harding about budget savings? Did your answer mean that your indicative council tax will be higher?

Roddy McArthur: No. We have worked within the resources that we expect to be available, based on the indicative tax increase for 2002-03 and 2003-04.

Iain Smith: At the bottom of page 2 of your submission, you refer to new burdens, saying:

"It would, however, be of considerable assistance if the Executive were to publish more details of the new burdens ... and the resources provided for meeting these burdens".

Then, in the middle of page 5, on the balance between council grants and local taxation, you say:

"The Council views with concern the increase in the level

of direction of expenditure by the Scottish Executive".

Is there an inconsistency between those two statements?

Roddy McArthur: Mr Robertson has spoken about the level of direction and described some of our concerns about the level of specific grants and the very detailed rules that we are given as to how we have to spend those grants.

15:30

Our budget was declared on 15 February, in line with those of most other councils, but we did not know what resources we were going to get for the McCrone settlement until 23 March, when we received details of the additional sums that were being invested by the Executive to fund the McCrone proposals. There is still some £30 million of excellence fund money undistributed this year, of which councils need to be notified. There will be another £45 million of that next year and some £50 million the year after. In the context of our three-year budgets and service plans, it would be helpful if we could be notified now of our share of that money and how we are expected to use it.

Additional money was put into the GAE for the current year for certain other issues—drug rehabilitation comes to mind. On 19 April, we, along with other authorities, received an e-mail telling us how much of that additional sum is for Perth and Kinross. I am pleased to say that the increase in the GAE in Perth and Kinross has been passed on to the social work department. It was indicated to us that the additional money was to be used for drug rehabilitation; we would not argue with that. Nevertheless, it is GAE general funding and I am concerned that there now seems to be an assumption that although additional money is built into general GAE and aggregate external finance, we will be directed in its use in addition to specific grants.

Iain Smith: Let us consider more widely GAE and the way it is made up. Are there any other areas that are of concern to Perth and Kinross Council? We heard evidence of concern earlier, in the debate about placements in residential care that are made by children's hearings. Do you have concerns about such areas?

Roddy McArthur: Yes, indeed. We are concerned about such areas. Last year, we identified an overspend of close on £500,000 early in our monitoring of expenditure, which related solely to children being placed in residential care. It is not an issue that we have much direction over because, as members will be aware, if the children's panel says that a young person has to go into residential care, they must do so. The number of young people entering residential care in Perth and Kinross has increased significantly

over the past few years, which is a matter of concern to us and has led to the council's carrying out a best value review of our services for such young people.

We are trying to establish a structure for giving more support early in the process, so that we can perhaps persuade the children's panel not to make residential placements. Putting that structure in place will cost more money initially, but we are considering it as a spend-to-save measure, in terms of our overall three-year budget. Although there might be an overspend in the current year, we expect it to be evened out by the end of year three. Because of the number of young people in our area who are going into residential care, GAE is always distributed on a catch-up basis, based on the average number of bed nights over the past three years. We have always been ahead of that, so our need to spend has not been recognised.

One of the other areas about which we are concerned is school transport. Our school transport budget is approximately double the GAE. Changes were made to the GAE for last year, which resulted in our losing around £700,000—once the damping is taken into account—over three years. That caused us some concern. It is inevitable that, given the large number of primary and secondary indicators, the GAE process will be complicated. We would certainly support any move that increased the transparency and reduced the complexity of the GAE process. I suspect that even the practitioners who are involved in the process—I am one of them—will from time to time have difficulty understanding the complexities and the statistical measures that are applied to it.

Mr Paterson: Your submission states:

"Perth & Kinross Council currently has no new PPP/PFI projects under development."

However, I know that Perth and Kinross Council has had experience of PFI projects in the past. Would you prefer to borrow money using section 94 consents rather than PFIs? Have you quantified what impact it would have if you chose differently?

Roddy McArthur: We have one PFI scheme—an office campus and car park—which was, I think, referred to earlier. That scheme stacked up as a PFI because of the level playing field support that we received through the funding mechanism, which recognised notional loan charges. Without that, the project may well have been very different.

We had a second PFI scheme that was primarily based around schools. We submitted it to the Executive in the second tranche of PFI schemes. Our application was not successful because, I suspect, other councils that were bringing forward schemes for the first time were higher up the list,

whereas we already had our office accommodation PFI scheme.

That second scheme could not have gone ahead under a PFI. We tend to find that we simply do not have the volume to make such schemes attractive to a PFI funding partner. The scheme was for new schools at Auchterarder and Abernethy. Ultimately, we decided that the costs for the schools would have to be met out of our section 94 consent. In 1999, the council committed itself to fund that project over five years within our capital financial plan. Needless to say, that has taken up a significant part of our available capital resources.

Mr Paterson: What would you do if you had the choice?

Roddy McArthur: If I had the choice, I would plump for conventional procurement.

Mr Paterson: Can you give us a notion why you would choose that? What impact does it have?

Roddy McArthur: At the end of the day, conventional procurement will be the cheaper option. I recognise the arguments that private sector expertise that is brought to bear can create some savings. Nevertheless, Perth and Kinross Council has a relatively small population that is spread over a wide area, so the opportunities for putting together any further PFIs or PPPs seem to be fairly limited. A number of years ago, we looked at the possibility of entering into a PPP arrangement for our leisure facilities—although it was not called PPP then—but that showed us that we simply do not have the volume to make the figures stack up for the private sector.

Mr Paterson: I have one small further question to ask. The representatives from Falkirk Council advised us of some negative impacts from the PFI. Have there been any negative impacts that you did not foresee with regard to your own car park and building project which then came back to bite you on the backside?

The Convener: Language!

Mr Paterson: What? "Backside"?

Professor Midwinter: No. "Bite". [*Laughter.*]

Harry Robertson: There have been no impacts of any significance. There are teething problems in any major building project. I think that they are exaggerated because of the separation of ownership from occupation. We are having some difficulties over aspects of the building but, in general, the project has gone well. The total net increase in the cost of both projects to the taxpayer is just over £100,000 a year. As Mr McArthur said, without the notional loan charges for grant aid being recognised, it would have been a much more expensive operation in comparison

to our current buildings. We would not have been able to do it. The total reimbursement of loan charges through the grant aid process is absolutely essential in order for PFI projects to work in our area.

Mr McMahon: I was interested in your mentioning the various criteria, including volume, and the justification of the decision on the basis of cost. The minister, when asked earlier about the benefits or otherwise of PPP/PFI, said that a number of criteria had to be taken into account. Do you not believe that it would be best to consider each proposal on a best-value basis rather than on an ideological or preferred option basis?

Roddy McArthur: As we have indicated, we would want to consider any proposals on a best-value basis. I was explaining our experience so far in the work that we have carried out. We would almost certainly want to ensure that, if we identified any other opportunities for PPP or PFI, they would not only achieve what the council wanted to achieve in service delivery—which is what we ultimately have to consider—but would be cost-effective. If we could establish some arrangement that met those criteria, we would want to pursue it.

Mr Paterson: Another thought has just gone through my head. When we add what the Government brings to the party and what the council brings to it, what is cheaper: PFI or section 94?

Neil Rennick: Section 94.

Mr Paterson: Thanks.

Donald Gorrie: Is it your perception that the quality of the services that you provide in what one could call the less glamorous departments, which do not get such high Government priority—including road repairs, cleansing and community education—has got worse in the past five or 10 years, and do they look like they will continue to get worse under the programme that we have been given?

Harry Robertson: Undoubtedly. The areas of activity that do not enjoy the support of the Executive at present, such as education, police and fire services, have been reducing in quality over the past five years. There is no doubt in my mind about that. We have gone from a first-class refuse collection service, with skip sites all over the community area, down to a very limited use of such facilities. We are still running a good service, but it is not as good as it was three or four years ago. We are not able—other than with special funding in some cases—to develop green waste, although we are very keen on that and are among the leading authorities in terms of the amount of recycling that we do. We cannot develop that to the extent that the council would like, because the

funding is not there.

The Convener: Thank you for that. We will note with interest what happens with McCrone. I was interested to ask you about that, because you had listened to the Minister for Finance and Local Government on the matter. I want to consider further your comments about the secure units and residential care, and about your link with the children's panel. I think that your position on that is interesting, and links with best value. It appeared not to be the view of other councils. They can perhaps learn from that.

Thank you very much for coming along. I apologise for holding you back. As I say to all witnesses, if we need you again, we will certainly call upon you. Thank you for coming today.

Harry Robertson: Thank you, convener. We welcome the opportunity.

Subordinate Legislation

The Convener: Right, comrades, we have the Teachers' Superannuation (Pension Sharing on Divorce) (Scotland) Regulations 2001 (SSI 2001/152) in front of us. The instrument was sent to members on 25 April, and I have received no comments on it.

The instrument has been considered by the Subordinate Legislation Committee, and an extract of its report is included in members' papers. The Subordinate Legislation Committee considered that the attention of the Parliament need not be drawn to the instrument.

No motions to annul have been lodged, and no other action can be taken on the instrument. Does anyone wish to comment on the instrument just now?

Mr Harding: Agreed.

The Convener: The answer is yes or no, not "Agreed". I take it that that was a no.

Do members agree that the committee has no recommendation to make on the regulations?

Members *indicated agreement.*

The Convener: I will dismiss the official reporters before we discuss the local government finance inquiry.

15:45

Meeting continued in public until 15:50.

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