

LOCAL GOVERNMENT COMMITTEE

Tuesday 6 November 2001
(*Afternoon*)

Session 1

£5.00

© Parliamentary copyright. Scottish Parliamentary Corporate Body 2001.

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

Produced and published in Scotland on behalf of the Scottish Parliamentary Corporate Body by The
Stationery Office Ltd.

Her Majesty's Stationery Office is independent of and separate from the company now
trading as The Stationery Office Ltd, which is responsible for printing and publishing
Scottish Parliamentary Corporate Body publications.

CONTENTS

Tuesday 6 November 2001

	Col.
ITEMS IN PRIVATE.....	2333
LOCAL GOVERNMENT FINANCE INQUIRY	2334

LOCAL GOVERNMENT COMMITTEE

28th Meeting 2001, Session 1

CONVENER

*Trish Godman (West Renfrewshire) (Lab)

DEPUTY CONVENER

*Dr Sylvia Jackson (Stirling) (Lab)

COMMITTEE MEMBERS

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

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

Tricia Marwick (Mid Scotland and Fife) (SNP)

Iain Smith (North-East Fife) (LD)

*Ms Sandra White (Glasgow) (SNP)

*attended

WITNESSES

Councillor Drew Edward (Convention of Scottish Local Authorities)

Councillor John Pentland (Convention of Scottish Local Authorities)

Albert Tait (Convention of Scottish Local Authorities)

Norie Williamson (Convention of Scottish Local Authorities)

CLERK TO THE COMMITTEE

Eugene Windsor

SENIOR ASSISTANT CLERK

Irene Fleming

ASSISTANT CLERK

Neil Stewart

LOCATION

The Chamber

Scottish Parliament

Local Government Committee

Tuesday 6 November 2001

(Afternoon)

[THE CONVENER *opened the meeting at 14:18*]

Items in Private

The Convener (Trish Godman): Comrades, before we continue with our independent review of local government finance, I must ask members whether they agree to take items 3 and 4 on today's agenda, which involve consideration of draft reports, in private. Do members agree to that?

Members *indicated agreement.*

Local Government Finance Inquiry

The Convener: We welcome again our adviser Rita Hale. Today we will hear from representatives of the Convention of Scottish Local Authorities, which has produced a full report for the inquiry. At today's meeting, we will consider parts 1 to 8 of the report. The witnesses are due to give further evidence on 20 November, when I am sure we will consider the rest of their report.

I introduce Councillor John Pentland, who is COSLA's finance spokesperson, and Councillor Drew Edward, who is chair of the capital task group. I also welcome Norie Williamson, who has given evidence to the committee before and is COSLA's director of finance; Brenda Campbell, who is COSLA's financial policy officer; and Albert Tait, who has also given evidence to the committee before and is COSLA's acting chief executive.

Most of you know the drill. You will give a presentation and then I shall open up the meeting to questions from members.

Councillor John Pentland (Convention of Scottish Local Authorities): There was great disappointment when the Executive rejected the McIntosh commission's recommendation that it undertake an inquiry into local government finance. COSLA has for a long time campaigned for such an inquiry and we welcome this opportunity to explain to the committee the evidence that we have gathered on the issue. As members will see from the size of the document that we have submitted, COSLA has collected a considerable amount of evidence. That evidence has been gathered on a fully inclusive basis from all local authorities and from elected members who were involved in task groups and officer working groups.

We ask that the evidence that has been submitted to the committee, unlike the McIntosh report, should be taken in its entirety and not cherry-picked. I say that because every item in the report has a complementary issue. The executive summary at the beginning of the report makes the point that local government is local—local councillors are elected by local people and are best placed to understand the needs of the communities that they represent. The partnership agreement must become a reality; it is not enough just to pay it lip service. We suggest that it is time for action, not just words.

In the section headed "Partnership and trust", we point out that the Executive needs local government to deliver on its priorities and that local government needs to be seen as an equal

partner—there needs to be parity of esteem. There also needs to be partnership in discussing at an early stage national and local priorities. Trust must be placed in local government to deliver on those priorities. Realistic and sustainable funding is needed to cover core services and new initiatives.

The next section of the executive summary is headed “Ring-fencing and central direction”. Thirty per cent of local authority money comes with strings attached. Because not enough money is available overall, the need to fund ring-fenced areas has resulted in cuts in core services. Ring fencing has become a challenge to funding and is overly bureaucratic. The Executive must recognise that one-size-fits-all solutions do not work. Local government needs flexibility to deliver local solutions in the right way for local people.

Revenue distribution must be simplified and made more open and transparent. For that to happen, it must be underpinned by stability. Political influences on the process need to be subject to proper political debate. A simplified basic system should be amended by special allowances or safety valves, to ensure that the specific and special needs of individual councils are recognised. Council tax arrangements must be refined and brought up to date through more sensitive banding arrangements and revaluation of properties.

I will now hand over to Drew Edward, who will take us through the last few items in the executive summary.

Councillor Drew Edward (Convention of Scottish Local Authorities): The next time that we appear before the committee, we will give a separate presentation on capital. However, all authorities are treating capital and revenue as an integrated stream. Capital flows through to revenue so, as John Pentland said, we must treat the evidence on those issues as an integrated whole. All authorities are dealing with capital and revenue on a common planning basis. We want to draw together all the threads from the different parts of the report and integrate them.

Housing receipt set-aside is a key issue. We will come to that in more detail when we deal with the rest of our paper on 20 November. The issue is close to everyone's heart. Again, capital is all about trust, partnership and agreed priorities so that we can address the needs of our residents and tackle the common priorities with the Executive.

The submission suggests several detailed technical changes. As John Pentland mentioned, we want to develop the sense of partnership and trust so that we can address common objectives and achieve the desired outcomes for the people

of Scotland. The submission is more than a simple statement; it is a scheme of what we all want to achieve.

The Convener: In part 1 of the report, you set out proposals for a new approach to the development of local government policy in Scotland. You outline how that approach would work at political and officer levels. How long would it take to set up the new system?

Councillor Edward: I do not know how long it would take. Rather than having breaks every year, the process would be on-going.

The Convener: Are you confident that everyone—councillors and officials—would sign up to what appears to be a radical proposal?

Councillor Pentland: We hope that everyone would sign up to it. One of the reasons why we are discussing it with the committee is that we are asking for a radical approach to be taken to finance and local authorities. Our report is totally inclusive of all authorities. Through their input into the report, they have all sent out the message that they are interested in signing up to it.

The Convener: Everyone in COSLA.

Councillor Pentland: That is the majority of local authorities.

Dr Sylvia Jackson (Stirling) (Lab): I gather that the move away from the development of policy on the departmental or service level towards a theme-based approach harks back to the local authority corporate planning experiments of the 1970s. I also gather that the best of those experiments produced good local government, but that the worst produced mountains of paper. How would you ensure that the theme groups envisaged in the COSLA paper focus on the big issues? Such issues might include how to address problems of educational underachievement in different parts of Scotland, how to assess the importance of reducing underachievement relative to, for example, reducing the level of child abuse, and how to assess the costs of tackling such problems. How would you ensure that the groups addressed those problems instead of degenerating into talking shops, which characterised some of the 1970s experiments, and debating at great length, for example, whether street lighting contributes to the theme of sustaining and enhancing the built and natural environment or to the public infrastructure theme?

Councillor Edward: It is always difficult to ensure that such initiatives do not develop into huge bureaucratic exercises. You can see from the size of our submission that these initiatives generate a lot of paper—the more evidence that we gather, the more paper is generated. If councils see the new approach as the route to

sustainable funding, there will be an incentive to make the system work; if the themes work by defining how councils get the money, councils will be pushed towards making the approach work.

Norie Williamson (Convention of Scottish Local Authorities): Perhaps I could develop that point, although, as an officer, I might be commenting against myself. Part of the problem is that, in the past, many of the issues have been considered to death at a technical level. There has been no forum or mechanism to consider issues at a strategic or policy level. We are proposing such a forum.

Although in the structure suggested in the paper the theme groups are identified as officer groups, we hope that they would be supported by similar groups at a political level. The spending review process might provide an opportunity to discuss at an early stage, as the convener mentioned, when we intend to start that. We want the process to kick in quickly. Next year's spending review will be on us before we know it. We need to have that policy discussion early in the next calendar year and to start thinking about the figures a couple of months or so after that. We want to take the proposals forward at a strategic level early in the process.

14:30

Albert Tait (Convention of Scottish Local Authorities): I have a supplementary point. I have been involved in the system for more than 20 years and the issues have been about the money that is in the system, not the policies, and what should be delivered for the funds. COSLA's approach is, "Let's discuss the cross-cutting issues, the strategies and the outcomes, which will give more focus on what is provided for the money." In the past, the approach has been, "This is the money that is available, and these are the segments over the various individual services." That has not been an invigorating or rewarding exercise, because it has been about one side saying, "We need more money," and the other side saying, "This is what is available." I hope that the structure will be able to focus on strategic issues and what the resources will be spent on.

Dr Jackson: My second question is on the same issue. In paragraph 20 on page 23, you say that the work of the theme groups will

"provide a context in which councils ... would develop their own ... plans for that theme."

Do you envisage that each council in Scotland would be required to produce a plan for each of the themes? If so, is COSLA in effect proposing that each council in Scotland should introduce the same corporate or financial planning system? How would the COSLA approach accommodate

differences in political control at local level and national level, or would every council, irrespective of its political control, have to develop its plans around the themes determined by the strategic policy forum?

Councillor Edward: The main point is that we are talking about outcomes. As someone who has come into local government fairly recently, I see that it abounds with strategies and plans. We seem to be good at developing those, but what we need is to put them into effect. The point is not about developing more and more documents; it is about achieving the outcomes. The themes are the guiding principles that authorities should use to allocate the resources to achieve those outcomes.

Dr Jackson: How much flexibility would there be in the system to tailor local outcomes for each of the councils?

Councillor Edward: If we are talking about nationally agreed priorities and nationally agreed outcomes, there will be almost complete flexibility, as long as the outcomes are achieved. That is the objective. The issue is not how things are done, but the objective at the end.

Dr Jackson: You say in paragraph 23 on page 24:

"By focusing on new funding distributed on a thematic basis, the risk of internal disparity can be avoided."

What do you mean by that? Do you mean that the theme groups would consider only the use of new or additional local government funding and the allocation of that new money between initiatives, which should contribute towards the delivery of each theme group's aims? Do you also mean that the existing level and distribution of spending between services would be accepted as a given and not adjusted to reflect, for example, changes in the size or age structure of Scotland's population, although the level could be reduced in line with efficiency targets to provide resources for reinvestment? If not, what do you mean by that statement?

Norie Williamson: That comes back to our comments about the link between policy and financial considerations. At the moment there is a division; separate consultation machinery considers those matters. The purpose of the theme groups is to put in place structures to develop local outcome agreements and to provide councils with flexibility to deliver the outcomes on the most appropriate basis at a local level. Initially, the task of the theme groups will be to feed into the 2002 spending review. We refer to the distribution of funding on a thematic basis and we see that approach spreading across all local government funding.

Later in the report, we deal with the grant

distribution process. We set out the principles of a grant distribution arrangement. Work on the detail behind those principles needs to start early. Again, that must be linked to the spending review. We cannot sit around next summer thinking about how we are going to distribute the money that we have announced for the following three years. That work needs to start now. It needs to cover all the resources to local government, not just the new resources.

The Convener: Before I bring in Michael McMahon, may I ask whether you have looked at other European Union countries? Is there a similar system anywhere else? If you have not pursued that issue, have you considered setting up a pilot project? You are trying to be more efficient and to save money, but are you absolutely convinced that you are not going to end up with disputes between councillors and departments?

Councillor Pentland: I have not examined the situation in other European countries, but I am quite sure that the officers will be investigating that. As to conflict between departments, we hope that, if the finances are right and proper, conflict will not arise. That is about meeting the priorities of the Scottish Parliament and the local authorities.

Norie Williamson: The part of the submission that deals with the balance of funding reports on how these matters are dealt with in European countries and refers to a PricewaterhouseCoopers study. We have examined what happens in other European countries. The different political and social characteristics have to be taken into account. The Department of the Environment, Transport and the Regions prepared a paper that included fairly detailed evidence on the matter. In some respects, that is the paper from which the idea of safety valves in relation to grant distribution jumped out at us. We developed that idea by examining the systems in other countries.

We are aware of the potential conflict between departments and councillors. We are open in recognising that there is a tendency within service areas to prefer ring fencing and the certainty of receiving the money. We are addressing that in local government, but the Scottish Executive also needs to address its position. We need a corporate and strategic approach to the outcomes if we are to work on a thematic basis.

Mr Michael McMahon (Hamilton North and Bellshill) (Lab): As John Pentland said, the submission is a substantial body of work. One of the larger elements of the report is part 8, on the revenue grant distribution. In order to get to the underlying principles, could you explain COSLA's proposals for grant-aided expenditure assessments? Perhaps you can give us a synopsis of that part of the submission.

Norie Williamson: I am happy to cover the technical aspects. We developed the idea with the idea of simplifying the system. There is always a conflict arising from the need to balance fairness and simplicity. In a grant arrangement, the fundamental difficulty is that there are not enough resources overall—councils are fighting over the crumbs of an inadequate cake. However, it is recognised that the scale of the formula is too large and needs to be rationalised; it has become unduly technical and open to challenge. Problems with data since reorganisation have resulted in inertia in the system. We want to break down those technicalities and open up a more transparent system that is linked to the planning framework process.

We would like GAE to be called something else, because grant-aided expenditure assessments tend to drive the spending targets of GAEs. Their prime purpose is as building blocks to arrive at one figure for driving the grant distribution calculations. Perhaps a change in title from GAE to something along the lines of distribution factors might help the move away from the spending target approach. We want to review the distribution arrangements to make them simpler. We want to consider the possibility of abandoning secondary indicators and rationalising small GAEs that distribute small sums of money—we recognise that, although they do not distribute much money in total, they are significant for individual councils.

The in-principle position that we have outlined needs to be backed up by a sensitivity analysis to establish how individual councils are affected. However, our report proposes that a core basic and simplified distribution system should be supplemented by special allowances or safety valves. Those would recognise the needs of individual local authorities and would represent a clear recognition by central Government of the resources that it is committing to tackle issues such as social inclusion.

Mr McMahon: A lot of the evidence that we have heard has touched on the complexity of the system. I think that I am right in saying that there are approximately 90 GAE assessments. Approximately how many separate assessments does COSLA consider would be appropriate? Would it be more or less than 50 or would the figure be as low as 20? Have you addressed that issue?

Norie Williamson: We thought about that early on but, at this stage, we felt that it would be inappropriate for us to put a figure on the number of indicators that should be put in place. What is right is what works and is sensitive enough to deliver the results that we want. We hope that an early review of the distribution system is

undertaken along the principles that we are suggesting. Following a sensitivity analysis, we can rationally consider the appropriate number of indicators that should be put in place.

Mr McMahon: Do you think that 90 is too many?

Norie Williamson: Far too many.

Councillor Edward: I agree. From being involved in the process, I have noticed how complex the system is, in revenue and capital terms. The purpose of the cycle of controls that developed over decades was to try to achieve oblique objectives, not just the direct distribution of money. Those controls are there to achieve other objectives and to push a local authority in a particular direction. Smart local government officers then find ways around those controls so that they can control the money and achieve their objectives. We come back to agreeing priorities and outcomes rather than using arcane finance distribution rules to direct and control local authorities in a particular way. Distribution controls are just another way of agreeing outcomes.

Albert Tait: Approximately 73 per cent of the grant distribution depends on four or five specific indicators that no one would dispute—for example, numbers of pupils, road lengths and population. The other 80-odd indicators probably distribute the remaining 25 per cent or so of grants and that is where the problems arise. We need to find a balance that determines the right fix for the areas of activity that we want to develop.

Mr McMahon: On a slightly different area, has COSLA undertaken any research into the development of non-expenditure-based GAE assessments? If so, how do you envisage those assessments being produced?

Norie Williamson: Our focus has been on those things that we could achieve, working with the bones of the client group approach, developing the good parts of the system and reviewing those areas that need to be addressed. Our focus has therefore been on the expenditure-based assessments, which do not filter out policy decisions of individual councils and distribute sizeable sums of money sensitively.

We have considered non-expenditure-based assessments, which are largely data driven. Since reorganisation, we have tried to improve the data that can underpin the distribution considerations. We have had some difficulties with that, although we want to continue working on it. I come back to Albert Tait's earlier comment—we are working as a double act—that only a few indicators drive a substantial part of the money. That is what we should focus on, not the margins. If the margins were tackled by special allowances or a safety valve, we could introduce a more acceptable system that would be more easily understood.

Dr Jackson: I have two quick questions. When we were talking about GAE assessments, Albert Tait mentioned indicators. Are they the same as GAE assessments, or are they different?

In section 7 on page 118 of your report, you refer to the need to obtain “robust and consistent data”, which has come up before, and you call for a feasibility study. Who should carry out that study?

14:45

Norie Williamson: The study should be carried out by the resources and outcomes committee that is to be set up to be in some respects an equivalent to the existing distribution committee. A lot of difficult exercises have been undertaken when we should perhaps have stepped back a bit before we started them. If we had done that, we would have seen that the data that we needed to deliver a result at the end of the process did not exist.

Although the distribution committee—if I may call it that at this stage—would be the mechanism through which a feasibility study could be carried out, given that it comprises the officer group that should oversee the study, certain other reviews are being undertaken through the political process; the deprivation review that was undertaken last year might be a prime example. Perhaps the feasibility study should have been undertaken before that exercise began, in order to see whether results could have been produced. That might have prevented some of the difficulties and lack of action that resulted from the deprivation review.

Dr Jackson: Will you answer my question about GAE assessments and indicators and whether they are the same?

Norie Williamson: They are mixed up in the same issue. There are 90-odd assessments for various elements of spend. For example, the spend on primary school pupils could be regarded as a GAE assessment. The indicator is the best basis that has been identified for driving an expenditure need. In other words, the indicator for an assessment of primary school teaching staff costs would be the number of primary school pupils. Therefore, there is a slight difference between them, in that there is a primary indicator, which is the main driver of need, and a secondary indicator, which is a refinement.

The Convener: You did not answer Sylvia Jackson's question about who should carry out the feasibility study.

Dr Jackson: Yes, he did.

The Convener: I was not listening. *[Laughter.]*

Mr McMahon: My question is on distribution, but it is probably more a policy or political question than a technical question. You say in your report that you are concerned that the existing funding balance damages local accountability and makes councils too dependent on central funding. However, you also express concern about the increases in council tax that have taken place since 1996-97 and about the disparity in council tax levels throughout Scotland. If COSLA could change the present arrangements, how would you change the balance between central and local funding?

Councillor Edward: The answer is that we do not yet know. That is a difficult political problem. There is no way that I am going to tell my constituents that I will double their council tax, but that is the implication. The other approach would be to consider non-domestic rates—we will come back to that point on 20 November—which could change the split to 57:43. It would be difficult to have local input into the decision-making process and give people ownership of local government funding without overloading them. It is not possible to transfer to local government funding matters that are funded by central Government—Westminster—taxation. We cannot change VAT or income tax, so we cannot change the fundamental split in general revenue taxation. If we were to double the taxes that are raised through council tax, we would not be able to balance that with a consequent reduction in other taxation. The problem is difficult to deal with.

Mr McMahon: Would anything that you could do take into account those additional burdens, such as VAT or taxes that impact indirectly on local authorities? How would it be possible to build that type of assessment into a funding structure?

Councillor Edward: I am not sure.

Mr McMahon: As an example, aggregate tax has an impact on those who build roads and it increases the costs for local authorities. COSLA has calculated that aggregate tax might cost £30 million to £40 million. How would you build something like that into the system?

Councillor Edward: Landfill tax is the same. There are compensatory arrangements with regard to national insurance contributions. There are a number of technical devices that we could develop.

Norie Williamson: We have tended to regard those issues as spending pressures on local government. Perhaps we should take a step back. We have tried to demonstrate in our report that through fairly non-transparent means, the spending needs of councils have gone up while the grant to support that increase has gone up by less. The burden of taxation has been transferred

indirectly to the local taxpayer. Over the past five years or so, council tax has increased by 31 per cent while spending has increased by only 12 per cent. The balance of funding is a political issue. This is about trying to get that message across to the public, who do not understand who is responsible for making cuts to services and who is responsible for council tax increases. We want to introduce transparency to the system. Balancing funding issues is not easy and there are no easy solutions.

Mr McMahon: How would you get the required information? What would be required to produce an assessment based on what you have just said?

Norie Williamson: Do you mean an assessment of the spending side of things?

Mr McMahon: Yes.

Norie Williamson: It comes back to the spending review. We are proposing, through the planning framework to which we referred earlier, a joint approach. So far, the case has tended to be that the Scottish Executive says one thing from one side of the table and we say something from the other side of the table, but we never quite meet in the middle. We are saying that there must be joint consideration, by which I mean realism rather than idealism.

We recognise that we must take into account councils' capacity to generate efficiency savings. However, independent commentators, such as Arthur Midwinter, suggest that the maximum on-going saving is something like 0.5 per cent, not the 2 per cent that is currently built into the best-value regime. We want to sit down with the Scottish Executive and decide policies and priorities, and how they can be financed realistically.

Ms Sandra White (Glasgow) (SNP): I want to address what Councillor Pentland said about ring fencing in his opening remarks, which was that ring fencing resulted in other local authorities' commitments suffering. Could you expand on that, and highlight the main problems that that causes to local authorities?

Councillor Pentland: Commentators have said that ring fencing applies only to about 10 per cent, but as the document shows, the amount is nearer 30 per cent. The problems that we have with ring fencing are that it weakens local accountability, results in great dependency on central Government, reduces the amount of general funding and erodes core services. There are many examples. On pages 42, 43 and 48 of the submission you will see good examples of where ring fencing does not work. The excellence fund is a key example of ring fencing; its administration is bureaucratic, it is inflexible, priorities are dictated, creativity is reduced and it is very time consuming.

There has also been a problem with annuality, as opposed to the three-year spending announcements that we now have. That means that local initiatives go unrewarded—if councils have been proactive and have put initiatives in place they are penalised, because they cannot then bid for money that might become available as part of a ring-fenced or centrally funded initiative. When the books are examined at the end of the year and it is found that two or three shillings are left in the coffers, councils are asked to spend that. That results in late notification and leaves all concerned with the difficulty of spending the money and of boarding up a project so that funding can be bid for. Most important, there is no guarantee of continuing funding. We could set up a project today, but next year money might not be available for it. The local authority would then have the task of winding up that project, which is an awkward consequence for everyone concerned.

We must have a joined-up approach. That means that we need to have a real partnership with the Parliament. Local authorities must again be trusted to deliver many of the services that are required. As I said, local authorities must be serious partners of the Parliament. Local government must be trusted and some of the restrictions that have been put in place must be removed. We are not merely administrators—we must be involved in decision making. There is no focus on local priorities; we always seem to be locked into national policies.

Councillor Edward: Ring fencing tends to drive people into considering elements of GAE as spending targets, when in fact GAE is a distribution formula. It is not about saying that £X million is available for a purpose and that it should all be spent on that purpose. For some elements within local government administration, such as the corporate and democratic core, there is no GAE element. Money is subtracted from every element of GAE to support the general administration of local government. Ring fencing does the same thing; it takes a big chunk out of funding, a percentage of which is no longer available to be spent on central support services. Money must be taken out of other budgets to fund those services. Ring fencing distorts priorities.

The Convener: Michael McMahon would like to come in on that point.

Mr McMahon: I would like clarification on a specific point. At the outset, John Pentland said that, according to the Scottish Executive, ring-fenced funds account for about 10 per cent of local authority funding. COSLA, on the other hand, argues that such funds account for about 30 per cent of funding. However, the first bullet point in paragraph 18 on page 49 of your report states:

“Ring-fencing accounts for an average 10.40% of AEF

funding”.

You arrive at a figure of 29.64 per cent—which is nearer to the 30 per cent for which COSLA argues—by adding ring-fenced funding to centrally directed funding. Are you arguing that there should be a mechanism for allocating centrally directed funding, which would mean that money that is provided to fire boards or police boards could be spent on something else?

Councillor Pentland: No. We are saying that the 10 per cent of funding that is ring-fenced is specific grant, and that added to that is another 20 per cent of funding that local authorities must bid for. If an authority has been forward thinking, it will find that it is unable to bid for that remaining 20 per cent funding. In effect, that means that 30 per cent of the money that comes from the Scottish Executive is ring-fenced.

Mr McMahon: If that funding were not centrally directed, local authorities would have the ability to spend it as they wished. That would mean that they could use funds that were aimed at police boards or fire boards for something else.

Councillor Edward: We are not saying that there should be no ring fencing, but that it should be reduced. There might be a case for retaining it for police and fire services, particularly where there are joint boards. At 30 per cent, ring fencing is far too high; we could probably live with 10 per cent.

Mr McMahon: However, in your figures ring fencing accounts for only 10 per cent.

Councillor Edward: Yes—it accounts for that amount of aggregate external finance. We are saying that to get a true assessment of the situation we must consider the bigger picture, not just specific grant. The 10 per cent relates to specific grant, but when we consider all the funds in which our spending is constrained, that is 30 per cent of the total.

15:00

Albert Tait: I want to clarify a point. There is a key issue about specific grant and ring fencing. We are in no doubt—the figures illustrate this—that specific grant is about 10 per cent of the total grant that we get from central Government. We are not disputing that figure. Our evidence indicates that a large proportion of the money that we get comes with strings; in other words, it is ring-fenced. That phrase is sometimes used loosely to mean specific grant, but we identify it as ring-fenced money. One of the problems with ring-fenced money is that, when an announcement is made that certain funds are to be spent on a certain service, in most instances that means that the money is not additional to the overall pot.

Therefore, our core services are constrained.

We said earlier, in relation to our budgetary process, that ring fencing allows implementation of national priorities at local level and tries to provide a one-fit-for-all solution. We say that ring fencing has a significant impact. Local government is hoping to have discussions with the Executive to come to agreements on outcomes, so that we are not forced into a specific box. We do not necessarily want to get into an argument with the Executive about 30 per cent or 10 per cent; what we must consider is that ring fencing significantly reduces local discretion and militates against providing what is required locally.

Ms White: Thank you for your explanation of whether the amount is 10 per cent or 30 per cent. My next question relates to that.

Would it be possible for the Executive to reduce the level of ring fencing, whether the amount is 10 per cent or—as COSLA said—30 per cent? If it could be reduced, does COSLA have a strategy for making up the difference? If the Executive stopped the ring fencing, where would the extra money be expected to come from? Would you expect it even to be 30 per cent or 10 per cent?

Councillor Edward: It is not necessarily a matter of extra money; it is about outcomes. If we want to achieve certain outcomes, such as on special educational needs, classroom assistants or nursery provision, we ring-fence the money. We say, "We will ring-fence the money—you have to spend it on that." However, rather than do that, it is better to agree on a partnership basis on an outcome and to say, for example, "We will achieve an outcome for special educational needs. The money is in the budget to achieve that." Some authorities might already be achieving that outcome, so they will not need to spend or bid for any extra money. Others might have to reallocate money within their budgets to do that. It is a matter of mutually agreed outcomes.

Ms White: Do you have a strategy to cope if the Executive withdraws ring-fenced funding?

Councillor Edward: It is not a matter of withdrawing funding, but of leaving funding and removing ring fencing.

Ms White: I understand completely. That would be your strategy—the Executive should not impose ring fencing.

Councillor Edward: Yes.

Ms White: The money would just stay there. That answers my question.

You have new funding on a themed basis—that was picked up on earlier. I read about the thematic basis. Could you explain how it differs from ring fencing? Paragraph 23 on page 24 of your

submission says:

"By focusing on new funding distributed on a thematic basis the risk of internal disparity can be avoided."

Can you explain the difference between that approach and ring fencing?

Norie Williamson: They are slightly different concepts. Two or three concepts are floating around here: themed-basis funding, outcome agreements and ring fencing. It might be useful to get a handle on those, because they are not mutually exclusive. The theme basis acknowledges the interrelationship between services—but not the service silos that perhaps existed in the past—where there is an education service, a social work service and so on.

We recognise the cross-cutting nature of service delivery and the interrelationship between services. We welcome the announcement that was made by the Minister for Education, Europe and External Affairs on 13 October about the need to join up education, social work and health services. Although he was commenting on vulnerable children, that concept needs to be developed. Essentially, the theme-based approach will not deal with matters at service level.

Outcome agreements determine what is delivered on the ground and do not focus on the resources that are put in. At the end of the day, what matters is what is delivered for people. Ring fencing sits somewhere beyond that issue because it is a mechanism for delivering money. The two are not mutually exclusive: a theme-based approach does not have to be ring-fenced—it could be, but we argue that ring fencing should not happen at all. A better way to deliver services is an outcome-based approach with a theme-based aspect. We recognise that a theme-based approach could go ahead with ring fencing, but that is not our argument.

Ms White: That has explained the matter.

Dr Jackson: Part 5 of your report suggests that a deprivation index might be used for purposes of grant distribution, but section 6 of part 8 suggests the possibility of abandoning the secondary indicators that are used in grant-aided expenditure calculations. Will you explain how you envisage deprivation being dealt with?

Councillor Pentland: There is a case for holding another review of that issue. You might complain about having another review, but the review in 2000 lacked a lot of data because of its short time scale. We must have transparency and find out what money is in the system for deprivation. Councils are being asked to tackle the social justice and inclusion agenda, but they have no idea what the budgets contain for deprivation.

Dr Jackson: Are you saying that there should

be a review of how deprivation is measured and how it is included in the GAE calculations?

Councillor Pentland: Yes. We want a budget for deprivation in GAE.

Dr Jackson: How would that be assessed?

Councillor Pentland: You mentioned a number of indicators, some of which could be used to assess that. To give a good example of how the indicators work, a council might qualify for money under the primary indicator, but the secondary indicator might take away some of that money. Councils are confused about the moneys that are available for deprivation in their budgets.

Dr Jackson: Do you envisage the moneys for the deprivation agenda being separate from those that go to local councils through GAE?

Councillor Pentland: Where there was an agreement, it would be a lot clearer than what happens now. Councils find it difficult to discover how much money is in their budgets for deprivation.

Norie Williamson: I will clarify that point. The concept of separate money for deprivation outwith GAE depends on one's interpretation of what GAE is. We are saying that there should be a simplified distribution system for grants on which people can agree.

We recognise that, as there are 32 councils, the system will never be refined enough to take account of urban, rural sparsity and deprivation factors. That is why we suggest that, over and above that simple system, there should be a special allowance or safety valve for issues such as deprivation and social inclusion. That would be a transparent recognition of the specific needs of individual councils and an acknowledgement of the Executive's commitment to tackling not only the symptoms but the causes of deprivation. That is perhaps a key feeling about previous reviews of deprivation that were undertaken. Those reviews were all done on a self-financing basis and examined the symptoms of deprivation within the GAE system. We have to open up our vision to identify the overall resources that are needed to tackle causes and symptoms.

Dr Jackson: How will the safety valve work and how will it fit in with your planning policy, which I talked about at the beginning? Will it also be discussed within your theme groups at the initial stages?

Norie Williamson: The safety valves that we have suggested are urbanity, rurality and deprivation indicators. Much work needs to be done to refine those, but they are cross-cutting issues that run across the themes. That needs to be taken into account as part of the outcome so that they will not be identified separately, but will

be part and parcel of issues such as children and families or community safety. Those are all interrelated issues.

The Convener: Section 1 of part 3 is about putting the "local" into local government. In that section, you talk about how the Executive develops policies for local government and particularly for local government finance.

In paragraph 25 on page 24, you talk about how under the new joint planning central Government would fully fund pay awards. That is a grand assumption on your part. Why do you think that you will get full funding? It is a dangerous assumption, but you might have the answer.

Norie Williamson: I come back to the comment that was made earlier about realism not idealism. Perhaps the wording that we used—

"full funding of pay awards"—

needs clarification. We are saying that there needs to be full recognition. We expect a normal inflationary movement in pay awards, which might be assessed at 3 per cent. Local government might decide, through the negotiation process with the unions, to offer 5 per cent. We are saying that the system would recognise only 3 per cent; we would not look for the 5 per cent and we can see that that would cause difficulties for the Executive and perhaps undermine the negotiation process that we have with unions.

We welcome the fact that there has been a partial recognition this year—for the first time in eight years—of the effects of pay awards. However, that is not the full 2.5 per cent retail prices index movement that we could expect. Only a percentage of that movement is included in the settlement. We are saying that the full RPI or average earning movement should be included.

The Convener: I move on to talk about pages 31 to 32, where you consider a three-year rolling financial plan and the three-year plans that have been produced under the spending review process. You seem to prefer the three-year rolling public spending plans to the three-year plans that were published under the spending review. Why did you not advocate a return to the rolling plans nationally?

Councillor Edward: That is because the plans are driven centrally. Ideally we would like to go back to the rolling plans nationally.

Norie Williamson: In many respects, and in theory, we would prefer a three-year rolling plan, which would link substantially with three-year rolling budgets that councils have in place. It would link significantly with the strategic planning process. That is a link between issues that are not just financially driven. Policy is interacting with the whole arrangement.

We acknowledge the fact that we are working in a scenario in which the overall totals are controlled by spending reviews, which are driven by Treasury time scales. We compare our position very favourably with the situation in England and Wales, where an annuality process is still largely in place. We welcome the moves that have been made this year. We are happy to stabilise where we are. We would like to pick up the debate on a rolling programme later; as that debate would not go far at the moment, we should concentrate our efforts on other matters.

Mr McMahon: Would you like our system to be brought in line with the Welsh system? Would you like the Welsh system to be examined and compared with your proposals?

Norie Williamson: In Wales, national totals for three years are announced, as they are here, but we have the advantage that individual councils have firm figures for three years ahead. That helps councils substantially with their financial planning and avoids the annuality process. We may be a step ahead of England and Wales.

Councillor Pentland: Our system also instils confidence in constituents and local authority staff, because they know what services councils will deliver for three years. They also know their council tax rises and rent increases for three years, so the system offers stability and gives them confidence.

15:15

The Convener: I thank the witnesses for their evidence. The committee has started to examine your report and you will return on 20 November. Sometimes in these circumstances, it is difficult for us to remember all the questions that we want to ask. We may want to clarify some points and allow witnesses to give the fullest answers, so we may write to ask you for clarification, if that is okay. We may write about anything that has cropped up today. You will have a bit more time to think about an answer.

I have been told that there are two more questions to be asked. I take back what I just said, but I will not repeat it later. We will write to the witnesses at some point. Does Sandra White wish to ask questions?

Ms White: Yes. I put up my hand to show that I wanted to ask questions.

The Convener: I am sorry; I did not look in your direction.

Ms White: My first question is on local outcome agreements. COSLA's submission is large and I know that COSLA worked with the Executive on strategic issues. Will you summarise briefly COSLA's attitude to local outcome agreements?

You have given them a favourable report, but will you outline any concerns that you have about them?

Councillor Edward: Local outcome agreements involve focusing on outputs, not inputs. They involve developing a partnership of shared priorities and agreement between the Executive and local government about the destination. That should give us flexibility to use resources most effectively and efficiently.

Such agreements have several benefits. Local flexibility is needed in delivering services, because no two local authorities are the same. Even in a local authority, no two areas are the same. The contrast in Fife between St Andrews and Abbeyview is dramatic.

Shared understanding is required. A concern exists that single-issue agreements are proliferating and will be a direct replacement for ring fencing. We do not want that to happen. We must develop agreements with other public bodies, such as the health board and East of Scotland Water or West of Scotland Water—which will both soon become part of Scottish Water. We must develop a shared agenda with other public bodies. Local government and the Scottish Parliament must develop the issue.

Mr McMahon: I am not obsessed by Wales and I do not think that it does things better than we do, but Wales has different models for local outcome agreements. You said that you are happy with our system. Do you prefer Welsh local outcome agreements to ours?

Norie Williamson: You beat me to the microphone—I was about to refer to our earlier discussion. We are prepared to learn from England and Wales on the matter. As Drew Edward said, we have some concerns about the proliferation of local outcome agreements that are very specific. In Wales, such agreements seem to be more strategic. Five or six main strategic themes have been identified there. That seems to be a favourable approach, which we want to investigate further.

Councillor Edward: That returns to my point about not having a plethora of plans. We do not want to spend all our time writing plans. We want to develop strategic themes and achieve the outcomes.

Albert Tait: We are willing to learn from other associations. Later this month, we have a meeting with the Local Government Association. One of the items on the agenda is local outcome agreements. As Drew Edward said, we do not want to replace specific grants or bureaucracy with a paper chase of documents. We are happy with outcome agreements, provided that they are strategic rather than used for every £5 million or

£10 million that comes our way.

Ms White: You prefer local outcome agreements to ring fencing. There will need to be many meetings between COSLA and the Executive. You seem quite positive that local outcome agreements are preferable. Do you expect any delay in the strategic plans if the Executive and local authorities have different priorities?

Councillor Pentland: No. We come back to the beginning of our discussion—it is all about partnership and trust. We hope that before any strategic plan that may have a knock-on effect on local authorities is put on the table, we will be part of the discussion as a true partner.

The submission contains some examples of ring fencing not working. One authority bid for the park-and-ride money, simply because it was there. If the Executive asked local authorities whether they would prefer that money to fix holes in the road, I am sure that all 32 local authorities would bid for it. It is important that a partnership approach is taken before any strategic plan is put on the table.

Dr Jackson: Perhaps COSLA could produce a short paper for us following the meeting with its English and Welsh counterpart—the LGA—tying up the planning process and the local outcome agreements.

Norie Williamson: Certainly.

The Convener: I apologise to Sandra White for not taking her question earlier. My excuse is that it is difficult to see when the witnesses are all to my left and the members are all to my right.

Thank you for coming to give evidence today. I am sure that we will be in touch and we will certainly see you on 20 November.

15:22

Meeting adjourned until 15:33 and thereafter continued in private until 16:16.

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

No proofs of the *Official Report* can be supplied. Members who want to suggest corrections for the archive edition should mark them clearly in the daily edition, and send it to the Official Report, 375 High Street, Edinburgh EH99 1SP. Suggested corrections in any other form cannot be accepted.

The deadline for corrections to this edition is:

Friday 16 November 2001

Members who want reprints of their speeches (within one month of the date of publication) may obtain request forms and further details from the Central Distribution Office, the Document Supply Centre or the Official Report.

PRICES AND SUBSCRIPTION RATES

DAILY EDITIONS

Single copies: £5

Meetings of the Parliament annual subscriptions: £500

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

WHAT'S HAPPENING IN THE SCOTTISH PARLIAMENT, compiled by the Scottish Parliament Information Centre, contains details of past and forthcoming business and of the work of committees and gives general information on legislation and other parliamentary activity.

Single copies: £3.75

Special issue price: £5

Annual subscriptions: £150.00

WRITTEN ANSWERS TO PARLIAMENTARY QUESTIONS weekly compilation

Single copies: £3.75

Annual subscriptions: £150.00

Standing orders will be accepted at the Document Supply Centre.

Published in Edinburgh by The Stationery Office Limited and available from:

The Stationery Office Bookshop
71 Lothian Road
Edinburgh EH3 9AZ
0131 228 4181 Fax 0131 622 7017

The Stationery Office Bookshops at:
123 Kingsway, London WC2B 6PQ
Tel 020 7242 6393 Fax 020 7242 6394
68-69 Bull Street, Birmingham B4 6AD
Tel 0121 236 9696 Fax 0121 236 9699
33 Wine Street, Bristol BS1 2BQ
Tel 01179 264306 Fax 01179 294515
9-21 Princess Street, Manchester M60 8AS
Tel 0161 834 7201 Fax 0161 833 0634
16 Arthur Street, Belfast BT1 4GD
Tel 028 9023 8451 Fax 028 9023 5401
The Stationery Office Oriel Bookshop,
18-19 High Street, Cardiff CF1 2BZ
Tel 029 2039 5548 Fax 029 2038 4347

The Stationery Office Scottish Parliament Documentation
Helpline may be able to assist with additional information
on publications of or about the Scottish Parliament,
their availability and cost:

Telephone orders and inquiries
0870 606 5566

Fax orders
0870 606 5588

The Scottish Parliament Shop
George IV Bridge
EH99 1SP
Telephone orders 0131 348 5412

sp.info@scottish.parliament.uk

www.scottish.parliament.uk

Accredited Agents
(see Yellow Pages)

and through good booksellers