

FINANCE COMMITTEE

Monday 10 December 2007

Session 3

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CONTENTS

Monday 10 December 2007

	Col.
BUDGET PROCESS 2008-09	203

FINANCE COMMITTEE **12th Meeting 2007, Session 3**

CONVENER

*Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

*Elaine Murray (Dumfries) (Lab)

COMMITTEE MEMBERS

*Derek Brownlee (South of Scotland) (Con)

*Joe FitzPatrick (Dundee West) (SNP)

*James Kelly (Glasgow Rutherglen) (Lab)

*Liam McArthur (Orkney) (LD)

Tom McCabe (Hamilton South) (Lab)

*Alex Neil (Central Scotland) (SNP)

COMMITTEE SUBSTITUTES

Roseanna Cunningham (Perth) (SNP)

Ross Finnie (West of Scotland) (LD)

Murdo Fraser (Mid Scotland and Fife) (Con)

Peter Peacock (Highlands and Islands) (Lab)

*attended

THE FOLLOWING GAVE EVIDENCE:

John Swinney (Cabinet Secretary for Finance and Sustainable Growth)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Mark Brough

ASSISTANT CLERK

Allan Campbell

LOCATION

Discovery Point, Dundee

Scottish Parliament

Finance Committee

Monday 10 December 2007

[THE CONVENER *opened the meeting at 12:00*]

Budget Process 2008-09

The Convener (Andrew Welsh): Good afternoon and welcome to the first section of the Finance Committee's 12th meeting in the Scottish Parliament's third session. We have received apologies from Tom McCabe. I ask everyone present to turn off any mobile phones or pagers.

If any of our guests from this morning's workshops does not have a ticket for this afternoon's session and wishes to stay for it, a few tickets are available, but we expect a large turnout. I ask anybody who wishes to have a ticket to contact Allan Campbell, who is one of the committee's clerks. He will identify himself.

I thank everyone who participated in the workshops that have just concluded. The Finance Committee is delighted to be in Dundee for its first meeting outside Edinburgh in the new parliamentary session. I thank Debbie Burton and the rest of the staff here at Discovery Point for all their hard work to organise the event for us.

The purpose of our visit is to continue our examination of the Scottish Government's expenditure proposals for the next year. We are at stage 2 of the process, which involves scrutinising the Government's draft budget. In doing so, we feel that it is beneficial to gauge the impact of spending plans on different areas and to see how engaged different parts of the country are in the national process.

In the first section of the meeting, committee members will report on the issues that were raised in the workshops that we held this morning. The workshops covered education and skills, economic development and waste management.

I ask Joe FitzPatrick to report on the education and skills workshop.

Joe FitzPatrick (Dundee West) (SNP): I hope that my notes are good enough to reflect the good discussion that we had about a range of matters.

The first topic that we discussed was the Government's intention to remove ring fencing from a large section of moneys. It was felt that that poses some threat—there is a danger that Dundee City Council's education department might not receive the money that it previously received—but that it also offers that department an opportunity.

We wondered how rigid the single outcome agreements will be. If they are not flexible, they will not be any better than the old ring-fenced system. A question still arises over the form of evaluation that will be used to ensure that outcomes are achieved.

We discussed the fact that most ring-fenced money will remain ring fenced. One of our big recommendations is that the Government could consider how to reduce the amount of reporting. When moneys remain ring fenced, can we reduce the reporting and auditing that are required? It was felt that reporting and auditing take resources away from the front-line delivery of what central Government and local government are trying to achieve.

The workshop asked whether there are still too many quangos and auditing bodies and whether some could be phased out. If we can slim the reporting process, we can deliver more front-line services, on which the money is meant to be spent.

There was general agreement that 2 per cent efficiency savings will be challenging. That sums up what was said on efficiency savings.

The higher education participants flagged up concerns about the implications of the potential removal of the cap on top-up fees in England and the impact that the possible divergence between funding available to Scottish universities and that available to English universities would have on Scottish universities. It was stressed that there is currently a United Kingdom salary set-up and that there is potential for any funding divergence to impact on research. Right now, Scotland punches well above its weight in research internationally, and any impact on that is something to consider. We must ensure that, if the cap is removed—that decision has not been taken yet—it does not have a negative impact on Scottish universities.

On the skills agenda, a question for the cabinet secretary is whether there is duplication of effort between colleges and Scottish Enterprise in skills training. There was a feeling that it might be better if the money for skills training is routed directly through colleges rather than through Scottish Enterprise first, to reduce duplication and ensure that we get more bang for the public buck.

There was a general welcome for "More Choices, More Chances: A Strategy to Reduce the Proportion of Young People not in Education, Employment or Training in Scotland", but it was felt that there has not been full geographical allocation of all the associated moneys and that Angus has perhaps missed out on some of the skills money that was rolled out—although Dundee has received the money and is using it. The fact that the determined to succeed money has remained ring fenced was also welcomed.

The further education representatives flagged up a potential issue with the sustainability of capital projects. It appears to them that a lot of the capital funding is for new build and that we need to keep our eye on the ball to ensure that there is no long-term problem with the maintenance of existing properties. If we keep building new buildings but do not look after the old ones, we will have a problem.

There was a feeling that there is an issue with the benefits system in that, if somebody wants to move from benefits into education, they lose their benefits. For people going into part-time, short-term education, the difficult process of coming off and going back on to benefit can be a barrier to moving into employment. That is not exactly an issue for the Scottish Parliament, but it is a matter to be addressed through joined-up government between the Scottish Government and the UK Government.

There was agreement among representatives from across the region—certainly the folk from Dundee and Angus—that we would still like to have more civil service jobs in Dundee. We believe that Dundee can provide better value than some other areas and that such jobs would help the skills mix in the city.

A problem with the recruitment of senior staff was flagged up. Money does not appear to be available to fund people who have knowledge to gain the leadership and management skills that would allow them to move into senior jobs.

There is cross-sector concern about where the money for English-language training is going and about the increasing cost of delivering training. However, if we do not provide it there are cost implications for other services. There is also a question about who is best placed to deliver it.

Finally—Derek Brownlee will come in if I have missed anything—I note that autism is an increasing pressure on education budgets.

The Convener: We have already seen the vast range of topics and expertise involved, which is the purpose of today's meeting.

I ask James Kelly to report on the economic development workshop.

James Kelly (Glasgow Rutherglen) (Lab): First, I thank everyone who participated in the workshop. We were fortunate to have a considerable level of expertise in a number of areas as there were participants from councils, the enterprise network, the private sector and the Scottish Trades Union Congress as well as a community-based representative. That led to a worthwhile and productive discussion, which was ably chaired by Alex Neil.

We identified some of the main themes and concerns about the budget before we examined some areas in more detail to establish how we can move forward and make a difference.

The first point that several speakers made was the importance of linking economic strategy to the budget and the importance of central and local government working together, particularly now that a concordat is in place. For that to work for local councils and central Government and to link in to economic growth, it is important that all the different sectors work together closely and understand where the others are coming from.

The small business rate proposal was welcomed, but the issue of what could be done for larger businesses to stimulate economic growth was also raised. The incentives for small businesses and what returns we will get for the cuts in small business rates were also queried.

Transport was a big area of concern. There were comments about the importance of community transport in Dundee and about the fact that where Dundee is placed in the overall economy means that connectivity is crucial.

The importance of tourism to the Dundee area and to the Scottish economy was discussed. In a linked discussion, some issues were raised about rural development. The feeling was that rural development has to be a priority in the wider Dundee area.

Economic strategy and growth are big issues. As with education and skills, there was concern about the impact that the removal of ring fencing will have on economic growth. It was suggested that the skills agenda is a priority and that it has to be moved forward to stimulate economic growth. Planning, which I will say more about shortly, was also highlighted as a potential obstacle to economic growth.

There is concern about how the tie-up with Scottish Enterprise and the transfer of powers and funds to local authorities will work. The priority that local authorities will give economic growth was questioned, and the potential for statutory targets to be passed to local authorities so that they are impelled to make economic growth their priority was mentioned. We discussed the importance of innovation and of research and development, particularly in the key areas of the economy.

A number of speakers thought that the potential disappearance of the cities growth fund would have an adverse impact on the Dundee area and the Dundee economy.

Those are the main areas that we considered. The workshop then examined some specific issues and discussed how the budget could be improved, or what steps could be taken, to

improve economic growth and development in Scotland. Transport links were a major priority for everyone. The importance of fast transport links to attract jobs to Dundee and to enable Dundee to interact not only with the rest of Scotland but with the UK was emphasised. The need for fast rail links, in particular, was mentioned.

A good road network, not just an external road network from Dundee to other places, but an internal road network, was felt to be important. The western gateway was an area with a lot of traffic jams, which is not good for visitors to the city or for attracting businesses to the city. As we look out the window we can see the importance of the waterfront, not just because of the lovely view it provides, but because businesses can be sited there, which will bring in jobs to the Dundee area. Overall, transport was a main area of discussion. The people at the workshop felt that it is important to have better rail links, connectivity and road networks within Dundee.

12:15

There was some concern that ring fencing has been taken away from 43 funds totalling £2 billion and that control over that spending has been passed to local authorities. There is concern that, by doing that, the Government is potentially giving up the levers of economic power, which might make it more difficult to meet the target of reaching UK economic growth levels by 2011.

Another issue that arose was the transfer of powers and finance from Scottish Enterprise to local authorities. The workshop group felt that it is important for the Government to make it clear to local authorities what the priorities are, not just through the concordat but by defining national outcomes to drive forward economic growth.

There was also a discussion about planning. Initially, people expressed concern about the impact that planning bureaucracy has in terms of hindering economic growth. Further discussion showed that that is not such a big issue in the Dundee area; it is perhaps more of an issue in Perth and Kinross. The group acknowledged the importance of having enough resources in planning to ensure that planning applications can be processed quickly and of taking a national view on planning to ensure that an appropriate infrastructure for the planning process is put in place.

It was said that Dundee punches below its weight in terms of economic growth. We want to see Dundee's economy expand over the coming years. The group discussed research and development and innovation, which will be a factor in that. It emphasised the importance of company building. Under the current process, there is a

funder of last resort for research and development. It was felt that R and D should be more of a priority and that there should be a funder of first resort. Perhaps we could take forward some of the examples of best practice from the proof of concept fund and from R and D plus. There was also general recognition that we require to take a longer-term view and that, if we do, businesses may be more proactive in investing in the longer term.

There was some discussion about companies and industries that are in decline and the importance of Scottish Enterprise offering support to help such companies reposition and rebuild themselves.

Finally, there was acknowledgement that we need to recognise priority industries and ensure that funding and assistance are given to such industries to help economic growth.

The discussion was useful. I thank everyone who took part in it. We identified not just areas of importance in the budget but potential solutions and ways forward.

The Convener: People will be able to tell from the detail of the first two reports that Parliament has been listening—that is what we are here for.

The final report, on waste management, will be from Elaine Murray.

Elaine Murray (Dumfries) (Lab): I thank everybody who took part in the workshop, which was interesting and raised issues of which I was unaware. It was also fairly impassioned at times.

We did not reach general agreement—differences of opinion arose over issues such as funding—but everybody agreed that it will be a lot more challenging to achieve further improvements in recycling than it was to get to the rate of 32 per cent or so that the three authorities in the area have already achieved. That raises several issues. Our attention was brought to the problems of increasing recycling in urban and city environments, such as Dundee, that have a lot of high-rise and tenement properties, which make it difficult to collect waste over a longer period. That led us on to the difficulties with kerbside recycling.

We heard about issues with the recovery and treatment of food waste, which contributes to about 30 per cent of waste output. If we are to expand the recycling of such waste, considerable investment will be required in vehicles, receptacles for collection, plant and other equipment. That is a big challenge for the future. It was pointed out that we also need a focus on waste prevention. The issue is not only about collecting the waste that is produced; it is about encouraging people to produce less waste. The voluntary sector makes a significant contribution to that through community

waste prevention and recycling initiatives. The national waste strategy involves contributions from voluntary organisations as well as from the public sector.

Dundee has a local recycling target of 40 per cent, which will be a significant challenge to achieve. We considered how the Government's concordat with local government can encourage councils to continue to invest in, or to lever in, funding, given that a significant proportion of funding has been de-ring fenced. In that regard, several indicators in the concordat were pointed out: on the social economy; on new housing and building; on reducing the carbon footprint; on generating 50 per cent of electricity from renewable sources; on reducing the amount of waste that goes to landfill, with a longer-term aim of zero waste going to landfill; and on improving the public perception of the services that are offered.

The concordat has several levers that could be used to persuade councils to continue to invest. Concerns arise that, when we cease to ring fence funds such as the strategic waste fund, many competing pressures will be put on councils from major service areas such as education, housing and social services. The issue is how councils will continue to get investment.

The strategic waste fund had £450 million over four years, but much of that has been de-ring fenced. The new zero waste fund, which will include some of that provision, amounts to about £41.1 million in the next financial year, £54.4 million in the following year and £58.7 million in the year after that. We discussed whether the funding is sufficient. We were advised that about £60 million per annum of the strategic waste fund has been allocated to councils and that the rest has gone back into the central unallocated provision—the CUP. That funding has been sufficient to achieve the current recycling target of about 32 per cent, but it would not be sufficient to achieve the required target of 40 per cent. Therefore, a significant proportion of the zero waste fund will have to be routed through councils, to enable them to get up to 40 per cent.

We heard about the DERL—Dundee Energy Recycling Ltd—project and were told that it ran into significant problems in the early stages because it was based on continental technology but recycling in Britain is less clean than it is on the continent. That caused considerable problems, and it ended up with the lenders writing off about £45 million. That experience is deterring the private sector from investing in such projects. There are only two waste energy power plants in Scotland—there is perhaps some sensitivity about investment because of what happened.

There was also some discussion about why we have less clean recycling in Scotland—and the UK as a whole—than do other parts of Europe. Some of the reasons relate to education, facilities and pre-treatment before the waste goes into the power and heat plants.

We were also advised that there seems to be a lack of connection between the targets in the concordat and the budget lines in the spending review. There is obviously some concern about how we can have a coherent strategy that brings everything together.

It was felt that we need to drive a single outcome agreement based on a number of factors, including the statutory obligations through the landfill targets, a commitment to recycling targets, engagement with communities, a focus on waste prevention, and efficiency in energy recovery. We were also advised that there is a need for investment now for the 2013 targets. The investment perhaps exists for the 2010 targets but, because it sometimes takes six or seven years to get planning applications through the system, there is a need for investment now to hit the targets in 2013. There is no identifiable funding for that in the 2007 spending review.

We also need to put funding in place for education on waste prevention. The countries of continental Europe seem to have a better record on that than the United Kingdom.

We had some discussion about whether the strategic waste fund should be re-ring fenced. There are arguments for and against: removing ring fencing gives councils more flexibility to work out how to address their local problems, but there is a strong argument in favour of ring fencing as it provides a national focus for the infrastructure. One example is the construction of pre-treatment centres. If we can get only so far with clean recycling on the kerbside, there is a need for investment in centres that will enable residual recycling and waste to go to power and heat generation. We felt that that is probably better done at a national level. It was also thought that planning for the construction of power and heat generation plants may need to be done at a national level rather than by local authorities.

We touched on the problems of recycling in the commercial sector. A lot of targets are municipal. There are problems for the national health service, even with recycling material such as cardboard, and it is not covered by the targets. There is a cost burden on the NHS in becoming involved in recycling, which takes funding away from its front-line services. That is a difficult call for the NHS. There is also a problem for large and small businesses. At the moment, recycling is a cost to them, so they have to take the decision whether to get involved. Additional thought perhaps needs to

be given to involving the commercial sector in targets, rather than just making them municipal.

The committee might want to consider those recommendations. The purpose of the Finance Committee is to propose possible alternatives to the Cabinet Secretary for Finance and Sustainable Growth. It might want to take some of those approaches up with the Scottish Government.

I give many thanks to the people who were involved for the insight they gave me into the management of waste and how it is being carried out in this area.

12:30

Liam McArthur (Orkney) (LD): I apologise to those who participated in the group for my absence. Unfortunately, I could not get down from Orkney in time.

Elaine Murray touched on the arguments for and against re-ring fencing. One of the strengths of the strategic waste fund at the outset was that it incentivised—indeed, forced—councils to operate on a more regional basis to avoid duplication in each local authority area. Was there any sense in the group that removing ring fencing would make that less likely?

Elaine Murray: There was a feeling that, without ring-fenced funding, councils would tend towards individual projects and solutions and move away from co-operation. It was felt that there might be a strength in that, as there would be local solutions for local problems, but equally it might detract from the motivation to invest in projects, such as pre-treatment centres, that could involve co-operative exercises among councils. There was definitely a flavour of what you suggest.

The Convener: Tayside is a national leader in waste management. I heard at first hand our contributors make waste management sound both dynamic and exciting, which is quite an achievement and very worth while. Now that each workshop has had a chance to report back to the committee, I once again express my thanks to everyone who contributed today. The reports have reflected the wide range of expert input and the concerns in Perthshire, Angus and Dundee, all of which is of considerable assistance to the committee's work.

I am sure that committee members will want to raise some of the issues that have been highlighted this morning with the Cabinet Secretary for Finance and Sustainable Growth when he appears before the committee this afternoon. The outcomes from this morning's sessions will feature in the Finance Committee's report on the draft budget, which will be published early in January.

I now suspend the meeting until 2 o'clock.

12:31

Meeting suspended.

14:02

On resuming—

The Convener: I offer a warm welcome to members of the public and to senior pupils of Menzieshill high school, Grove academy, Lawside academy and, in particular, Monifieth high school. I remind all members that this is not a public meeting but a formal meeting of the Finance Committee that is being held in public to allow committee members to question the Cabinet Secretary for Finance and Sustainable Growth.

I reconvene the 12th meeting this year of the Finance Committee. In the morning, we held some useful and informative workshop sessions with representatives of local organisations. I know that during this afternoon's evidence-taking session committee members are keen to refer to issues that were raised in the workshops.

This afternoon the committee will take evidence on the Scottish Government's draft budget. I formally welcome to the committee John Swinney, the Cabinet Secretary for Finance and Sustainable Growth. He is accompanied by two Scottish Government officials: Alyson Stafford, the director of finance; and Craig Russell, the head of efficient government delivery. I invite Mr Swinney to make an opening statement, if he wishes.

The Cabinet Secretary for Finance and Sustainable Growth (John Swinney): It is a pleasure to be here in Dundee, not terribly far from home. If I did not know it, convener, I would have guessed from your introduction that Monifieth high school is in your parliamentary constituency.

It is a pleasure to be here to give evidence on the Government's draft budget for 2008-09, which I published on 14 November. As the committee is aware, this year's budget process is in two stages, because of the election earlier this year. The draft budget provides the committee with its first opportunity to scrutinise the Scottish Government's proposed budget for 2008-09.

Members may find it helpful if I begin by highlighting the main changes that are included in this year's draft budget. The budget must be set within the context of the tightest spending review settlement since devolution. The settlement that we received from Her Majesty's Treasury allowed for a real-terms increase of only 0.5 per cent in the budget for the forthcoming financial year. We have increased the resources that are available to us by securing an unprecedented agreement with the United Kingdom Government to use in 2008-09 £300 million of end-year flexibility balances that

the Treasury holds. Those factors are built into the budget that was published in November. We have also provided additional capacity in the budget by a prudent level of overall allocation of £100 million in our spending plans.

Our budget sets out the Government's priorities and aligns expenditure to achieve our purposes and our five strategic objectives. The budget will enable us to build a greener Scotland by targeting investment to help us make more use of our substantial renewable energy resource and to improve Scotland's record on waste management and recycling.

We are determined to make our communities safer and stronger by, for example, ensuring that 1,000 more police officers are on Scotland's streets, and by investing in new prisons and an improved prison estate.

We will make Scotland smarter by improving the fabric of schools and nurseries and by developing and delivering the curriculum for excellence.

We are investing even more to achieve a healthier Scotland and to make the national health service more responsive to local needs, and we are targeting our spend on supporting people to lead healthier and longer lives that are economically productive.

By targeting our spending effectively to increase Scotland's competitiveness, we intend to make Scotland a more attractive place in which to live, work and invest. We aim to ensure that the benefits of a wealthier Scotland are shared fairly throughout the nation.

A key change in the draft budget document's structure is the presentation of budgets on the basis of the Scottish Government's new portfolio structure. To aid comparison with the previous portfolio structure, a table to reconcile the draft budget for 2007-08 with the new structure is provided at annex A, which is on page 145 of the budget document.

The biggest single change in the new structure is the inclusion of a new section on local government. The historic concordat that we signed with the Convention of Scottish Local Authorities is a key element of the process. It signals some of the steps that we are taking to prune unnecessary bureaucracy and heralds a new and more constructive relationship between central and local government. That relationship is based on mutual respect and on working in partnership. The Government believes that that will deliver significant benefits to the people of Scotland.

Under the concordat, we have an opportunity for national and local government to develop a cohesive agenda—an agenda of common purpose. We have agreed key national outcomes

that, taken together, underpin our strategic objectives. The outcomes are ambitious for Scotland but they are all important and can be delivered through the overall package that we have agreed with COSLA.

The arrangements for local government are set out in the document and include provision in relation to funding and relaxation of ring fencing, a focus on outcomes, and clarification and simplification of the scrutiny structure that applies to local government. We have recognised in the concordat the democratic legitimacy of local government and we wish to devolve more responsibility to councils to make decisions that more accurately reflect their local needs. As members will be aware, I will announce the local government finance settlement to Parliament on Thursday. That will set out the proposed distribution of the resources that we have made available to local authorities for the next three years.

The budget document also includes the Government's commitment to deliver 2 per cent efficiency savings as part of the overall budget programme.

I hope that that information assists the committee in its scrutiny of the draft budget. I am sure that members have a range of questions, which I look forward to answering.

The Convener: I will start with two questions on the proposed council tax freeze. The freeze that is proposed is, so far, only for year 1 of the three-year spending review period and the decision on whether to freeze council tax is for each local authority to make. What assessment has been made of the funds that will be required to be released to local government in years 2 and 3 of the spending review period?

John Swinney: As you know, I have set out in the spending review document a three-year assessment of the Government's expenditure plans. The first year is covered by the budget and years 2 and 3 are covered by our plans. In the budget, I have set out clearly the structure of funding that will be available for local government in each of the three financial years. I have made provision in the budget for a council tax freeze in all three years of the local government settlement. Clearly, local authorities have an obligation to take a decision annually on setting council tax levels, so I have put the resources in place to allow them to take that decision at each given point over the next three years.

The Convener: What are the implications for a council that opts not to freeze the council tax?

John Swinney: As I have said, this is a clearly defined Government initiative. We are putting cash into local authority budgets to pay for the council

tax freeze, which will ensure that local authorities avoid having to recoup money from council tax payers. The money is identifiable: it can be assessed in relation to the council tax freeze.

I have decided that I will, when I publish the local government finance order, keep £70 million in reserve. In effect, I will hold back that money from the local government settlement. Once authorities have decided in early February whether to freeze council tax—once their intention is clear—I will promote a subsequent order and lay it timeously. The order will enable additional resources to be made available to local authorities that are prepared to freeze their council tax. As I said, I have made a provision of £70 million for the council tax to be frozen. The local government finance order will be promoted minus £70 million, and a subsequent order will be laid before Parliament once local authorities have decided on their council tax levels.

Joe FitzPatrick: Last week, we heard from the Convention of Scottish Local Authorities that the council tax freeze will be worth £70 to the average family in Scotland. Clearly, the amount that families will save will differ: for example, the saving for an average family in Dundee is likely to be higher than £70. Surely the distribution of the £70 million will also differ across Scotland. How will the decision be taken on the amount that each council will receive?

John Swinney: Since I made the budget statement to Parliament on 14 November, my officials and I have had substantial discussions with COSLA on the distribution arrangements for the totality of local government spending. We are bringing forward a number of changes as part of the new arrangements.

The discussion on the distribution of the £70 million has reached agreement: I will illustrate it with an example. If a local authority raises 4 per cent of the total council tax that is raised in Scotland, it will get 4 per cent of the £70 million. In essence, we will make a calculation of the total council tax income that is raised in Scotland and the proportion that each local authority can reasonably be expected to generate. Each local authority will then be given that proportion of the £70 million to take account of its decision to freeze the council tax. We agreed the point with COSLA over the course of our discussions.

Joe FitzPatrick: Will the council tax freeze have an impact on Government targets?

14:15

John Swinney: Yes. The council tax freeze is designed to try to relieve many people of an element—although it is only one element—of the tax burden that has been applied over the years. Over the past 10 years, council tax has increased

by in excess of 60 per cent. The Government feels that action is required to temper the impact that the council tax has on individual households.

We can all think of examples, such as the pensioners who are living in the family home and are paying a formidable proportion of their income in council tax. The freeze will have an impact right across the board. It is clear from the evidence about the council tax that it demands a significant proportion of the income of low-income families. One of the effects of the freeze will be to reduce that burden on those families. The freeze is important for such reasons. It is the Government's attempt to temper the impact of the council tax.

The Burt review was set up under the previous Administration to assess the council tax. The review concluded that it could not recommend continuation of the council tax and that the tax could not be amended to the review body's satisfaction. This Government is committed to replacing the council tax with a local income tax. We believe that we can, using that measure, make dramatic interventions that will assist people on low incomes who currently pay a significant proportion of their income in local taxation.

James Kelly: One of the main objectives of the budget is economic growth. As you have outlined, freezing the council tax in the coming year will cost £70 million. The main beneficiaries of that in terms of the council tax payments that will not have to be made will be council tax payers in the upper band. How do you square the objective of economic growth with a policy that is aimed at benefiting those council tax payers?

John Swinney: We can all pick examples of where the impact will be felt. I dispute the suggestion that the council tax freeze will benefit only those in higher income groups. It will benefit people across the board in relation to their individual financial circumstances. I can think of a large number of cases of individuals on low incomes who are not eligible for council tax benefit but who pay much more in council tax as a proportion of their income than many high earners pay as a proportion of their income. Proportionality is significant in terms of the impact on individuals.

It is important to remember that in the past 10 years the council tax has increased by more than 60 per cent. I am not aware that many people in Scotland, across the income bands, have had a 60 per cent increase in their salaries over the past 10 years, which is why the Government's intervention chimes directly with the needs of individuals, particularly our more vulnerable pensioners.

My final point is on council tax benefit. I was told frequently by ministers in the previous Administration that my concerns about council tax were misplaced because council tax benefit

existed to protect people who were on low incomes, but I have received information that shows that in excess of 35 per cent of pensioners—probably in excess of 40 per cent—who are eligible for council tax benefit do not claim it. That is not a new situation: it has been going on for years. The more the Government can do to temper the effect of the council tax on such households, the better.

On the impact on economic growth, if we put resources back into individuals' pockets, they will have greater spending power within their communities and in their own interests. That will be the council tax freeze's impact in terms of benefits to the wider spending power of individuals.

Elaine Murray: On the subject of who benefits, one observation is that people on higher incomes tend to have more expensive properties, so freezing council tax will tend—in cash terms rather than as a percentage of their income—to give those people more in their back pocket than it will give other people.

On your choice to invest £70 million in freezing the council tax, you mentioned the problems of pensioners. Surely an alternative would have been to target that resource on assisting pensioners in particular. My party and the Conservative party have made various suggestions on how assistance could be targeted at pensioner households. What persuaded you to decide to help everybody by freezing the council tax rather than to target those on fixed incomes, such as pensioners, who we all recognise have the greatest difficulty with the council tax?

John Swinney: Despite generalised comments about the impact of different aspects of what we are discussing, I can think of many people on low fixed incomes who live in the family home, which they might have lived in for all their married lives. It offends me that people who cannot afford to pay the council tax because they do not have substantial incomes must consider dispensing with the family home, to which they can welcome their children and grandchildren. That is one of the motivations behind my decision to tackle this important issue.

As I pointed out in my responses to Mr Kelly and Mr FitzPatrick, the council tax has increased at a rate that has been much higher than inflation—and much higher than wage inflation, into the bargain. We have reached a point at which we need to put on the brakes, which is why the Government has decided that it is important to provide individuals across the board with some respite from the impact of the council tax.

Clearly, this is the Government's proposition and it was discussed widely during the election campaign. If we were to identify any issue that

predominated during the campaign, we would say that local taxation was given comprehensive coverage in all discussions. We advertised where we would come from on this policy position and we discussed it subsequently with COSLA as part of the concordat. We consider that it is important that the proposed benefit should apply to all categories of council tax payers because everyone has had to deal with the significant council tax increases that have taken place over the past 10 years.

Elaine Murray: If the concern is about pensioners, why not target the £70 million at those who are most affected, such as pensioners, rather than give it to everyone as a universal benefit?

John Swinney: I come back to the point that everyone has been affected by council tax increases over the past 10 years—the impact has been felt across the board. The Government has taken the view that this is a time to say to council tax payers that we recognise that they have paid significantly over the years. Council tax has taken up an increasingly larger proportion of income than either wage inflation or price inflation would have suggested. As a consequence, we believe that there should be some respite.

As I said in my answer to Mr FitzPatrick, freezing council tax is part of the Government's move to change to a system of local taxation that better reflects people's ability to pay. Without doubt, that new system will address Dr Murray's point about how some income groups are disproportionately severely affected by the impact of the council tax.

Liam McArthur: In your earlier response, you said that the £70 million will be distributed by a separate order. In your opening remarks, you made it clear that the agreement on council tax is for this year, although you pointed out that funding has been set aside for future years. I presume that individual councils face individual annual pressures, so allocating the money on the basis of the percentage of funding that councils have historically drawn from council tax might be absolutely fine for some councils but might leave other councils with tighter financial constraints. Have you explored that with COSLA? Are you satisfied that the policy will not create winners and losers among councils?

John Swinney: As I am finding now, the local government finance distribution formula and all that goes with it form a sensitive set of balances, so I do not underestimate the difficulty in finding a funding formula that is acceptable to everybody. I spent my summer going round local authorities discussing different issues, and members will not be surprised to hear that the distribution formula was a frequent topic of conversation. I could find nobody in Scotland who supported or agreed with it, but I could find even fewer people who wanted to change it, so I concede that it is a difficult topic.

I have discussed with COSLA the structure that I propose for the distribution arrangements. I understand that it is widely, if not universally, supported by local authorities—I think that one or two have questions about the proposed formula—but I assure the committee that the issue has been fully explored with COSLA to its satisfaction. The way that has been proposed is the fairest when we consider the revenue that could be raised and what proportion of the total that can be generated individual authorities will account for.

We are going to considerable lengths in a variety of different elements of the distribution arrangements for local authorities to guarantee that we maximise continuity for individuals and minimise disruption through changes in funding streams. That is to ensure that we protect authorities year by year and deliver stability in our general finances, of which local government finance is but one element.

Liam McArthur: Estimates of need are more robust the closer we are to the year in question. Are you satisfied that the funds that you have set aside for years 2 and 3 are robust or may they require to be revisited based on experience in the first year?

John Swinney: I am confident that they are robust estimates. If I was being arithmetically precise, I would not allocate as much as £70 million to the council tax freeze in year 1; the amount would be about £10 million or £11 million lower than that. There is adequate provision within the financial arrangements to make that possible and that is the case for the remainder of the parliamentary session.

Alex Neil (Central Scotland) (SNP): I will round off some of the points that Dr Murray made. Given that 50 per cent of low-income households are headed by people who are in work, is not it the case that, as well as pensioners, low-income households that are above the council tax benefit threshold will benefit substantially from the council tax freeze?

John Swinney: That will undoubtedly be the case, which is why I said that there would be financial benefits right across the board. The generalising in the debate often obscures the fact that there will be a beneficial impact on exactly the type of households to which Mr Neil refers. Many people who make representations to me are not entitled to any benefits, or are possibly only marginally so, but find the impact of paying the full council tax significant. That group will undoubtedly benefit.

Alex Neil: By the end of three years, the cumulative impact for them will be a saving of roughly £210 a year.

John Swinney: The impact of the council tax freeze will obviously be to lower the burden of local taxation on individuals and, over the course of the three-year spending review period, that will make a significant impact on the lives of individuals within Scotland.

14:30

Alex Neil: I want to clarify some points on the single outcome agreements with local authorities. You have already made it clear that we cannot necessarily expect all 32 local authorities to sign up to the single outcome agreement immediately. Do you have any indication of how many councils are likely to sign up for year 1? By when do you expect most or all of the councils to be signed up to the single outcome agreement?

John Swinney: I want to separate this discussion slightly from the discussion that we have just had on the council tax freeze. Local authorities have to determine whether they are going to freeze the council tax—I consider that to be a discrete decision for local authorities to make. What is not up for discussion is the question of a single outcome agreement. The Government wants to have a single outcome agreement with each local authority to govern the way in which we move forward. There are wider ramifications of the single outcome agreement than the implications of the council tax freeze.

I will work to ensure that we have single outcome agreements in place with every local authority by the start of the next financial year in April 2008. I am loth to say that if we cannot quite have them in place by April, we will have them in place in the early part of the year, because I want to maximise the pressure on the system to ensure that the agreements are in place for 1 April 2008. They are essential, because they begin to structure the nature of the relationship between central Government and local government in the delivery of priorities within the resource envelope that the Government is making available.

We are moving to a different system of monitoring and accountability as part of the budget settlement. We are moving towards a system that is much more about outcomes and indicators to measure progress towards those outcomes, and less about the tight ring fencing and controlling of inputs that have characterised some of the period before now. It is important that we have in place the replacement infrastructure to guide the way in which priorities are taken forward and to provide the assurance and confidence that communities and Parliament require about the way in which local authorities are participating in work with the Government to deliver on the shared agenda that is set out in the concordat.

Alex Neil: Some outcomes, such as those on class sizes and efficiency savings, will be universal to every council—if they are part of the single outcome agreement. I presume that each council might also have some unique outcome targets in its outcome agreement. Is that the situation?

John Swinney: In essence, the single outcome agreement has come about as a result of a recognition that one size does not fit all in Scotland. Some issues will be more significant and will have greater impact in some parts of the country than in others. However, the Government has a set of national outcomes that it is aiming to achieve right across the country and some authorities will contribute more to some outcomes than to others. The single outcome agreement must be tailored to suit the contribution and involvement of individual local authorities. The Government must be certain that, in the round of the outcome agreements that we sign with 32 local authorities, we have adequate participation and input to support the delivery of the Government's objectives and priorities. The outcome agreements will be tailored to reflect individual circumstances, but they must also add up to the right amount of capacity, impetus and direction to deliver right across the Government's priorities, which are set out in chapter 8 of the spending review document.

Alex Neil: Will the principle of outcome agreements be extended to bodies other than local authorities?

John Swinney: In the short term, my objective is to get in place outcome agreements with each of the 32 local authorities. There is a logical extension that outcome agreements could, ideally, be constructed and agreed with community planning partnerships, which would of course bring together a broader range of participants: health boards, local enterprise organisations and a variety of other players. Some community planning partnerships would be able to sign that outcome agreement today, because of the degree of cohesion and planning that there is at local authority level. Others are much further behind, as they lack the cohesive community planning that ministers want to see. That will be a work in progress. I suspect that the Government will be prepared to consider developing single outcome agreements with certain community planning partnerships during 2008-09. The provision will by no means be universal, as the community planning partnerships are at different stages of development.

James Kelly: As you rightly say, the outcome agreements are intended to help the Government to deliver on its national objectives. One of those key objectives is to increase the rate of economic growth to that of the United Kingdom by 2011.

One of the points that came out of the useful workshop sessions that we had this morning was a concern over the way in which ring-fenced money—perhaps £2 billion—was being rolled up and handed over to local government. It was felt that that might undermine the efforts of the Government to increase economic growth. What assurance can you give us that the outcome agreements will still drive towards economic growth, even after those funds have been handed over to local government?

John Swinney: I will address some of the general issues around the Government's decision to relax ring fencing in several areas, because that affects several policy questions and has been a subject of discussion in the meetings that other ministers have had with parliamentary committees.

The Government takes the view that ring fencing has been a pretty blunt tool in terms of delivering outcomes. Ring fencing has been successful in measuring inputs and in the construction of funds for which various organisations could bid. However, the Government questions whether ring fencing has led to a cohesive and integrated approach that delivers maximum value for money. The Government takes the view that ring fencing has often led to practices that have skewed the distribution of resources. It has created funds that everybody has bid for because they have wanted a slice of the money but which have not necessarily related to the needs and the circumstances in individual authority areas. We have taken the view that ring fencing does not satisfy our objectives in terms of providing cohesion to the way in which the agenda is taken forward at a local level.

The Government's answer to that is not to remove ring fencing and leave a vacuum; rather, it is to remove a proportion of ring fencing—leaving some ring fencing, as has been set out in the concordat—and work to ensure that local authorities and other organisations are co-operating on the Government's national outcomes and indicators through the single outcome agreements to which I referred in my answer to Mr Neil.

The objective of the outcomes approach, as set out in chapter 8 of the Government's spending review document, is to seize the opportunity, which has eluded Scottish public policy in the past 30 years, to align the work of national Government and the agencies that work directly on behalf of ministers at a national level and the work of local government to support some shared objectives, proposals and outcomes.

In the past six months, the Government has set out to the public our purpose of increasing sustainable economic growth. We have now put in place a performance framework that says how we

should be judged on our pursuit of that. We want to work with agencies that are responsible to Scottish ministers and with local authorities to focus on achieving our objectives. The Government has brought cohesion to policy making. The Government could not have put in place a more crystal-clear performance framework. We will be assessed on our performance. The framework is simple and, with the greatest respect, I say that it responds to issues relating to the myriad outcomes, indicators, targets and so on that I discussed and debated when I was on the other side of the table at Finance Committee meetings. We have put in place a tight and robust performance framework that provides the basis on which we can judge how the Government is working to achieve its objectives. Obviously, we will be assessed over time, and I am sure that I will be invited to appear before the committee to assess matters in due course.

The Convener: Liam McArthur wants to ask about single outcome agreements.

Liam McArthur: Local government and central Government certainly have many shared objectives, but there will be local priorities that will be uppermost in the minds of many local authorities, as I think you conceded. Where tension exists between local and national objectives, do you still see the role of ministers as being to trump those local objectives?

John Swinney: Ministers will want to engage in a spirit of negotiation, discussion and collaboration to achieve shared objectives. The process by which the concordat with local government was arrived at was not a flash-in-the-pan couple of weeks of discussion. I spent my summer talking to Scottish local authorities, trying to understand the issues that matter directly to them—indeed, my travels included a pleasant visit to Mr McArthur's constituency. From those discussions, we constructed a shared agenda on how local and national Government can work together for shared purposes. That has not happened in Scotland for most of the past 30 years. Authorities with different political complexions have taken different perspectives and, in general, there has not been a particularly cohesive framework. However, we now have an opportunity. I look forward to working with authorities to construct single outcome agreements and then to deliver on the expectations of people who have vested a great deal of hope in contributing to improving public services in Scotland.

The Convener: Elaine Murray will ask about the removal of ring fencing from some budgets.

Elaine Murray: I will preface that with a more general question. The cabinet secretary and the First Minister have said that this year's increase is

0.5 per cent but, according to our budget adviser and a Scottish Parliament information centre paper that was published on 22 November, total managed expenditure is up by 1.3 per cent in real terms and the Scottish departmental expenditure limit is up by 1.6 per cent. Why do you and the First Minister use the figure of 0.5 per cent, which is based, as far as I can see, on the "Public Expenditure Statistical Analysis" outturn figures without the expected adjustments to take into account the budget announcements in 2007 and the comprehensive spending review?

John Swinney: The First Minister and I have used the figure of 0.5 per cent because that is what we secured according to the letter from the Secretary of State for Scotland that conveyed the grim news from Her Majesty's Treasury about the comprehensive spending review announcement. For the sake of argument, I will put the figures on the record. In year 1, there will be a 0.5 per cent increase; in year 2, there will be a 1.6 per cent increase; in year 3, there will be a 2.3 per cent increase. The average annual real-terms increase is 1.4 per cent. The First Minister and I have already put those figures, which we received from the Treasury, on the record.

Obviously, total managed expenditure is a completely different matter, because it includes—as the core budget that the Government has published does—the resources that we have drawn down as a result of end-year flexibility, which are additional to the resources that we received from the Treasury in the settlement. Total managed expenditure also takes into account annually managed expenditure, pensions for some of our staff, non-domestic rate income and the prudent level of overallocation that the Government has made to the budget, which is part of my strategy to minimise the underspend that in recent years has been an habitual contributor to resources being held in the Treasury.

14:45

Elaine Murray: The Scottish DEL figure is 1.6 per cent, is it not?

John Swinney: I cited the figure of 0.5 per cent, which refers to the increase in resources that we received from the Treasury in year 1, as an uplift in our budget.

Elaine Murray: There is genuine argument about the veracity of that figure, but I will not continue to pursue the issue.

In your opening statement, you indicated that you expect efficiencies to arise from the lack of ring fencing, as councils will not have to duplicate reporting of materials. Am I right in assuming that you expect the removal of some ring fencing to

cause the profile of spending to change, so that it becomes different in different local authorities?

John Swinney: That is correct.

Elaine Murray: Last week, I was pleased to hear from COSLA that bid funds for flood protection, which is an issue in both our constituencies, will not be allocated on a per capita basis and that a mechanism will be devised to reflect different councils' needs. Can you say more about the discussions that are taking place about it?

John Swinney: There will be a number of instances in which allocations will be made on the basis of need. The flood prevention budget line is a good example of that. Work will be done in individual localities. Once that work is complete, money will no longer be needed there, so it can be reallocated to other areas. The issue forms part of the distribution discussions that we have undertaken with local authorities over the past few weeks, to determine how best to proceed. That information will be the substance of the statement that I will make to Parliament on Thursday.

Elaine Murray: This morning, I was fortunate enough to be in the waste management group, which turned out to be extremely interesting. We debated the effect of the removal of ring fencing from the majority of the strategic waste fund. Some members of the group thought that that would allow local authorities to provide local solutions to local problems, but a powerful argument against the policy was also made. It was suggested that the removal of ring fencing would take away the capacity to provide a national solution to waste management issues and would reduce the likelihood of councils working together to provide national strategic facilities such as pre-treatment works for residual recycling, which may be necessary to raise our recycling levels to the targets that have been set.

John Swinney: There is a debate about what is the right way forward. I am confident that in Scottish local authorities there is a mood—which percolates through all public policy in Scotland—to ensure that we succeed in meeting our objective of reducing levels of waste dramatically. Local authorities want to contribute to achieving the objectives that we have pursued through the strategic waste fund over the years. For the duration of the spending review period, the zero waste line will remain a national budget line in the budget of the Cabinet Secretary for Rural Affairs and the Environment.

Elaine Murray asked whether the removal of ring fencing will make local authorities more or less likely to co-operate with one another. There are many examples of ways in which local authorities have come together to devise projects that cross

boundaries and reflect the need to look at issues across the piece.

I detect from my discussions with local authorities that one of the big motivations on waste is their angst about the prospect of being fined for not satisfying European requirements in relation to landfill and other issues, so there is an impetus to ensure that progress is delivered. The scale of activity that is going on at local authority level is testament to the shared priority of the Government and local authorities to work together to make progress.

I started the day at a social enterprise recycling venture in Fallin, in Keith Brown's constituency. The provost of Stirling was there. That is a tremendous example of a local authority working with the social enterprise sector to undertake significant recycling activities locally, and it is an example of a local authority putting its money where its mouth is in relation to the development of a project. The shared focus arises from the various outcomes and indicators in the Government's budget document that refer to tackling waste. One indicator is to

"Reduce to 1.32 million tonnes of waste sent to landfill by 2010".

Local authorities will have to work with the Government to deliver on that—a clear framework is in place to achieve that goal.

Elaine Murray: I will ask about some of the other funds that have been rolled up. You will be aware that there is anxiety among groups representing vulnerable people that some of the previously ring-fenced funds for matters such as violence against women, supporting people and mental health will now be part of the general local authority budget. What are the implications if a local authority opts not to spend money on those issues? I mentioned the issue to Pat Watters at last week's meeting, because the First Minister gave assurances at First Minister's question time that the Government was determined to work with local authorities to continue to drive down instances of domestic violence. The response from Pat Watters was quite combative. He almost said that it was up to councils to spend the money on what they wanted and that central Government should butt out, because the funds were no longer ring fenced. How do we achieve a balance in continuing to defend the rights of vulnerable people?

John Swinney: We will achieve that balance by pursuing the outcomes and indicators in the performance framework, which the Government has set out in the spending review document. I am acutely aware of the sensitivity about the removal of ring fencing from funding for vulnerable groups. I have listened carefully to people's concerns and I took them into account when I constructed the

performance framework along with my Cabinet colleagues.

I read with interest the exchange with Councillor Watters on the issue at the Finance Committee last week. I find it hard to take the view that, now that ring fencing has been removed from certain funds, local authorities are rubbing their hands together and saying, "Thank goodness, we won't have to support vulnerable people any longer." That is not my view of local authorities. Over the years, some local authorities have habitually spent in excess of the budget allocations that the Government has made on supporting vulnerable people. As a member of the Finance Committee, I often listened to discussions about the fact that local authorities were spending in excess of what was considered to be the appropriate budget for supporting vulnerable people. One of the outcomes states:

"We have improved the life chances for children, young people and families at risk".

A variety of indicators in the performance framework protect people who are in vulnerable situations. I concede that we do not have an indicator for every category, but I am confident that our individual local authority and shared priorities guarantee that we will deliver on the expectations of vulnerable people. Of course, it is up to individual local authorities to decide on those matters.

If we move to a system of shared priorities and adopt a shared agenda, I think that local authorities will play their part in delivering on that agenda. In my experience, people who represent vulnerable groups are as effective at getting their message—which is about the need to ensure that appropriate and adequate support is in place for such groups—across to local authority members as they are at getting it across to ministers.

Elaine Murray: I am not suggesting that any local authority would act in this way but, in theory, if a local authority came under great pressure from members of the community about potholes and the general state of the roads and everyone was agitating for more to be spent on the roads, the local authority could decide to divert to roads some of the funding that it had received to support vulnerable groups. What can central Government do if it feels that a local authority is not helping targets to be met that it would like to be achieved in those areas?

John Swinney: I can do two things. First, I can do as much about such a situation as any previous Government could have done about the 80 per cent of local authority finance that was not ring fenced in the past, which local authorities were free to spend as they chose. The Government has de-ring fenced about 12 per cent of the total resources for local authorities, which means that

10 per cent of them will continue to be ring fenced; the other 78 per cent was always de-ring fenced.

Secondly, local authorities will have single outcome agreements, which will have to be compatible with the framework that we have agreed as part of the concordat. Those agreements will have to be negotiated with the Government and signed off, as I said to Liam McArthur. Every year, local authorities will have to report to Government on those outcome agreements. We have in place a mechanism to monitor progress on advancing the issues with which the concordat deals. It involves bi-monthly meetings between the Cabinet Secretary for Education and Lifelong Learning, the leadership of COSLA and me, the first of which I think will take place on Wednesday. There is plenty of opportunity for the Government to exercise its influence if it feels that sufficient progress is not being made on major priorities against the outcome framework, notwithstanding the local electoral and political pressure that can always be applied to local authorities if they are not delivering on the public's priorities.

The Convener: Alex Neil has a final question in this area.

Alex Neil: I have two quick questions. First, am I right in saying that any council that would have got ring-fenced money next year will still get that money and that it is simply the case that it will not be ring fenced?

John Swinney: Yes.

Alex Neil: In other words, councils will not lose that money.

Secondly, given that some of the ring-fenced money was for projects that had national budgets of as little as £3 million and which involved bureaucracies in Edinburgh and in each of the 32 council areas having to monitor small amounts of money, is it the case that significant savings can be made both nationally and locally now that those 43 ring-fenced budgets will not have to be monitored?

John Swinney: As we have discussed with COSLA, we will continue with the distribution arrangements for flood prevention resources, for example, which Dr Murray asked about. To guarantee continuity of application, we will distribute those resources as if they were still ring fenced, so there will be no loss to local authorities in that respect.

Your second point about bureaucracy is a fair one. Some of the ring-fenced funds might have been for less than £3 million. Given that 32 local authorities were involved in bidding for them, it might have been more efficient to send a postal order to the relevant authorities, for all the cash benefit that such an approach would yield.

Regarding the overall settlement, local authorities have recognised that the Government is taking cash resources, the relaxation of ring fencing, the simplification of the scrutiny infrastructure—which the committee will discuss again with me in due course, in relation to the Crerar review—and the administrative savings from all of that to create greater capacity for local authorities to fulfil their functions more effectively than they have done until now. That is why the concordat arrangement has been popular with them.

15:00

Joe FitzPatrick: I was going to ask about the cities growth fund but, given that the money is being rolled up into the money that cities will receive, my question has been answered.

It came up in the education workshop today that you have said that 10 per cent of the money that is given to local authorities will continue to be ring fenced. Will you be able to reduce the regulation and bureaucracy around that 10 per cent? Doing so—even en route to removing the ring fencing—might be helpful in terms of efficiency savings.

John Swinney: We might well remove ring fencing from more funds over the course of time. I can say with absolute certainty that the one area that ring fencing will not be removed from is the police grant. There is no appetite within COSLA for removing that ring fencing, as it makes for a much more convenient way of operating. There will undoubtedly be other opportunities. We should not underestimate the significance of realising efficiency savings by removing ring fencing, because it genuinely and significantly opens up avenues for local authorities to utilise their resources more effectively.

The Convener: We now turn to efficiency targets.

Liam McArthur: The Government has committed to an efficiency target of 2 per cent, details of which are due to be published in March. You will be aware of some of the controversy in this and other committees about the level of detail in the current budget document. Can you give any detail on the efficiency targets? Are we looking at efficiencies by department or across departments? Will the efficiencies be surrendered to the centre or will they reside in the departments that secure them?

John Swinney: The Government has set 2 per cent efficiency targets across the Administration. We came into office saying that we would sustain a programme of efficiency savings at the level of 1.5 per cent, but my judgment, in the context of the financial situation that we find ourselves in, is that we can reasonably stretch that to 2 per cent

efficiency savings and pursue them right across the Administration. As Mr McArthur correctly assumes, the Government will set out the plan to realise those efficiency savings in March 2008, and the nature and character of the efficiency savings will be taken forward, essentially to build on the programme that was pursued by the previous Administration over the past few years.

We will bring forward a programme of cash-releasing savings only, but within that context non-recurring savings will count. For example, if a one-off efficiency saving generates a capital receipt, it will be able to be counted as an efficiency saving—but, obviously, if it is for £10 million, the relevant portfolio will have to find £10 million to replace it in the subsequent financial year if it is not a revenue cash-releasing saving.

The work that we will bring forward will, I hope, clarify some of the data issues that have troubled the committee. We will try to make it as transparent as we possibly can. Within different portfolios, it might be possible to realise greater efficiencies in particular parts. Our approach will be designed to reflect that.

Liam McArthur: I appreciate that you cannot necessarily give a lot of detail at this stage but, in terms of savings, are we looking at 2 per cent, 4 per cent and then 6 per cent of DEL on the basis of 2007-08?

John Swinney: I suppose that that is one way of expressing it, but it is a relative measure, because budgets increase at the same time. In essence, that calculation could be applied.

Liam McArthur: You have made it clear that local government will be entitled to retain all of the 2 per cent efficiency savings, but other parts of the public sector will not. Have you assessed the impact of having different systems in the public sector?

John Swinney: Different systems were in place under the previous Administration, but the situation was the other way round: local authorities had their efficiency savings top sliced, while others did not. I have decided to enable all local authorities to retain their efficiency savings, which is a good incentive for ensuring that we have efficiency in a tight financial structure for local authorities. Other portfolios will be able to retain a significant proportion of their efficiency savings, and a smaller proportion of those savings will be redistributed as part of the general allocation of resources that the Government undertakes.

Liam McArthur: The Cabinet Secretary for Education and Lifelong Learning has indicated that although no resources have been set aside to meet the class size reduction target, some of the efficiency savings that councils achieve could be directed to bear down on class sizes. Does that not knock a bit of a hole through the aim of leaving

councils to direct money in the way that they choose?

John Swinney: The structure is contained in the concordat, page 2 of which draws together the

“various components of the package”.

Some of the components are Government commitments, for example the commitment not to undertake structural reform of local government. However, there is an acceptance that local authorities will agree to deliver a specified set of commitments from within the funding envelope that is provided. We go on to specify those commitments, one of which is to reduce class sizes to a maximum of 18 for primaries 1, 2 and 3.

Part of the beauty of the concordat is that we have brought together several elements, including the relaxation of ring fencing, the ability to retain efficiency savings at local authority level, the simplification of the scrutiny structure and the injection of more resources. We are saying to local authorities, “Here is a good amount of fresh resources, resources that have been reallocated from other priorities and a good amount of flexibility—now make progress on a variety of issues.” Local authorities can take that opportunity.

The Convener: Derek Brownlee has questions on business rates.

Derek Brownlee (South of Scotland) (Con): The cabinet secretary will be aware of the recent commentary on the possible implications of the business rates reduction. I want to be clear about where the Government is coming from in introducing the small business rates cuts. Are they being introduced because the Government has taken a strategic view that a reduction in business rates will enhance the level of growth?

John Swinney: I thought that there was an “or” coming. The answer is yes, the Government thinks that the reduction in small business rates will provide a competitive advantage for the thousands of small companies in communities in every part of Scotland. The Government believes firmly that providing that competitive advantage will contribute to economic growth.

Derek Brownlee: I am clear in my mind that, compared to what the money could be spent on, reducing business rates will have a positive impact on economic growth. However, not everyone will accept that, so is there objective evidence or research that the Government has conducted that demonstrates the impact that the business rates reduction might have on economic growth?

John Swinney: The Government has not commissioned any particular research or consultancy resource to identify whether the cut in business rates will be a factor in that growth. The

Government has, for many years, maintained that providing lower business taxation creates a competitive infrastructure within which businesses can prosper. My defence for not commissioning a piece of research or a consultancy report on the issue is that, on a number of occasions, other Governments—including the United Kingdom Government and the Scottish Executive in the past—have reduced business rates in the belief that that contributes to economic growth. The Scottish Government has taken the view that there is an opportunity to intensify that process.

Derek Brownlee: There are various means by which the Scottish Government will try to achieve the economic growth target that has been set for 2011. Other measures in the budget are aimed at improving the growth rate of the economy. Where do the business rates cuts fall, relative to those other measures, in their importance to delivering that target? Are they the main policy driver that is being used to achieve economic growth?

John Swinney: They are one of a number of measures that are being implemented. I will play in the discussion that I had with the Economy, Energy and Tourism Committee last week. That committee, quite rightly, asked me questions about the impact of the budget on Scottish Enterprise and Highlands and Islands Enterprise over the spending review period. I conceded that there are real-terms reductions in their budgets over the three years. The Government has, effectively, decided to invest directly in reducing the cost to business as a contributor to economic growth. So the resources that we will allocate to the small business bonus scheme over the three years of the spending review period—£37 million, £89 million and £139 million, assuming that the pattern of expenditure that is set out in the budget document is sustained and the amounts are not increased—are another measure that will contribute to economic growth.

The small business bonus scheme, our enterprise expenditure, our investment in higher and further education, our investment in transport infrastructure, our investment in some of the strategic waste projects and other measures that we have discussed are all contributors to the economic growth that the Government wants to happen. The business rates reduction is one of a number of measures that the Government believes can contribute significantly to changing the prospects of individual companies and, as a consequence, either increase employment in those companies or improve their general competitiveness.

Derek Brownlee: There is a suggestion in the budget that the total level of local authorities’ income will be guaranteed, regardless of fluctuations in non-domestic rates income. Can

you give us more detail about how that is intended to work both for individual authorities and overall?

John Swinney: I was surprised to read in the report from the committee's adviser that the Government is introducing

"a strange incentive structure, where the Scottish Government is effectively taking over all of the income risk associated with firms opening or closing in Scotland's local authorities."

The words "taking over" miss the point about how non-domestic rates income is distributed in Scotland. The Government assures local authorities every year about non-domestic rates income. It is a given in the budget. If I say to a local authority that it will receive 90 per cent of its funding in rates support grant and 10 per cent in non-domestic rates income, that is it. The Government is making no new provision in that respect. Non-domestic rates income is collected and distributed according to estimates for the distribution arrangements, which are pretty robust. Sometimes, more revenue is generated than was expected; at other times, it is not. The Government carries the risk on every occasion.

15:15

Derek Brownlee: Regardless of whether there is a change, the broader point is whether there is a way in which, in the spirit of the new relationship between national and local government, local authorities can be incentivised to have a specific bias towards bringing new jobs into local areas and creating economic growth. Anticipating your answer, I presume that you will say that that will be covered in the outcome agreements, but has any other work been done on how you might provide local authorities with a greater incentive to encourage economic growth actively with all the levers that they have?

John Swinney: That is an interesting issue and one to which I have given some thought. However, it is not one on which the Government has a position, so what I am about to say is my personal opinion, not one that the Cabinet has signed off. I say that before I am disowned.

There is a strong argument for saying to local authorities that they can charge a maximum level of business rates—which would be the level that we charge now—but allowing them to reduce their business rates. If, for example, Dundee City Council wanted to make the city of Dundee the most competitive place to do business because it had the lowest business rates, it would take not only the risk of reducing rates but the benefit of doing so. There is an argument about how we could properly incentivise local authorities within that context. I stress that that is not the Government's position, but it is worthy of consideration and we might need to consider it.

I return to the nature of the economic growth indicators that are in the spending review document. Everyone must play their part in achieving growth, and if a local authority came to me and said that it would like to create a hot spot through lower business costs, I would be prepared to consider the argument.

The Convener: I do not wish to curtail questioning, but I encourage shorter questions. James Kelly will ask about capital investment.

James Kelly: Okay, convener, I will try to be brief. I will ask about capital spending and departmental expenditure limits. I accept that capital spending, by its nature, fluctuates over time, but it is clearly key to boosting productivity. In real terms, there is a drop in capital spending from £3.329 billion in 2007-08 to £3.177 billion in 2008-09. What was the thinking behind the setting of the 2008-09 capital limit and how will it boost productivity?

John Swinney: The limit is largely a product of the resources that I have at my disposal. In the comprehensive spending review settlement that we received from the Treasury, there is a fall in our capital budget of 1.7 per cent from 2007-08 to 2008-09. The cut is explained by an input change in the resources that are at our disposal, and we simply have to manage the capital budget in as sustained a way as we can. It is often difficult to create a neat alignment of capital expenditure in each individual year but, over the three years, we should be able to get a neat flow of capital expenditure to provide stability to organisations, other projects and other plans. It will not be as neat as we would like it to be in individual years, but we will work to achieve a neat flow over the spending review period.

The Convener: We will now consider the national performance framework.

Alex Neil: I will make this quick, convener.

There has been a serious attempt to align the budget as far as possible with achieving the key economic objective of improving the Scottish economy's growth rate. What instruments does the Scottish Government have available to it to consider the potential impact of each of the spending options? In the workshop on economic development that I chaired this morning, the unanimous decision was that additional expenditure on transport—both road and rail—is the number 1 priority for boosting economic growth in the Tayside area. There is already an additional £215 million in the budget for trunk roads and motorways. Do you have access to a model that allows you to compare spending, for example, £100 million on roads and £100 million on the enterprise network, and to estimate where we will get the biggest bang for our buck?

John Swinney: I would be able to do that in relation to competing transport projects. For example, I could assess the relative economic impact of spending £100 million on a rail development associated with Dundee and a road development in Dundee. However, nothing is ever as simple as that, because we get into questions about strategic connectivity. One of the big themes of the national planning framework is improving internal and external connectivity in Scotland. If we ask which project will have the greatest impact on our economic performance, some gaps in strategic connection might not bubble to the surface. However, those gaps might have the biggest impact on our connectivity. We can analyse a project, but that is not the end of it—we have to judge whether it is the most appropriate project to take forward.

To continue the analogy of £100 million spent on roads or on the enterprise networks, that is a bit more difficult to assess, because we would be looking at a multiplicity of pieces of expenditure. However, I cite an example that has enthralled me in the past few months, which is the collaboration between different elements of the public sector, the local enterprise company, Lothian NHS Board and the University of Edinburgh in the construction of the centre for regenerative medicine at Little France. It has had a formidable effect in Edinburgh.

If you were to say to any independent observer that one of our health boards has been a key player in our economic development, they might consider that a strange proposition. Ten years ago, Dundee had severe economic difficulties. Much of its route to recovery lies in the collaboration of NHS Tayside, the University of Dundee, the University of Abertay Dundee and, to be fair, Dundee City Council, in a variety of ventures relating to the development of life sciences in the city.

We should not underestimate the significance of budget alignment in the public sector. That is the beauty of the Government's purpose, which is to focus government and public services on creating a more successful country by increasing sustainable economic growth. We are asking everybody in the public sector to focus their planning on what they can contribute towards economic growth. That is beginning to have an effect on the choices that people are making, and it has run through the thinking behind the strategic spending review.

Liam McArthur: The budget identifies an ambition for a greener Scotland. A target for reducing the amount of greenhouse gas emissions by 2011 will be forthcoming. What level of greenhouse gas emissions reduction is it expected will be achieved by the end of the spending review period?

John Swinney: We will work towards taking on board the UK Government's commitment to reduce emissions by 3 per cent per annum. We will aim to deliver those 3 per cent achievements year on year, over the course of the spending review period. Momentum needs to be established behind those targets and the steps that will deliver them, and it needs to be recognised that the route to reducing emissions is not a gentle and easy slope. For example, in 2005-06, emissions went the wrong way, because of power generation issues. There will be hiccups, but that is the general direction that the Government will try to take in the spending review period.

Liam McArthur: How far advanced is the Government in applying a carbon-account approach to decisions on policy options? There was some debate, because the economic strategy was not subject to strategic environmental assessment, but of more concern is carbon accounting, which will be needed in setting statutory targets to reduce emissions.

John Swinney: The best description for carbon accounting is that it is work in progress. A team under the director general environment's portfolio is examining the construction of such an assessment framework, as I reported last week to the Transport, Infrastructure and Climate Change Committee. Work is under way to put in place that system, which will be shared with Parliament when it is complete.

The Convener: We have reached the final group of questions, which are on measurability and reporting on indicators and targets.

James Kelly: I will ask about the national performance framework targets. To achieve your economic objectives, it is important to have buy-in from different groups in Scottish society. What consultation did you have with businesses and trade unions, for example, when drawing up the national performance framework?

John Swinney: If the question is whether we sat down and secured sign-off from all the different organisations, the answer is we did not. The roots of chapter 8 of the spending review document, which is on the national performance framework, were sown in the Government's earliest decision that our purpose would be to increase sustainable economic growth, through the prism of five strategic objectives. Once we decided in principle to structure our approach to policy making in that fashion, we translated that into a host of national outcomes and performance indicators that have a logical symmetry and that support the Government's overall purpose.

In developing the indicators over time, we have discussed them in different levels of detail with relevant organisations. Discussions took place

between officials—and sometimes ministers—and organisations that have an interest in the issues, to ensure that we captured indicators that gave us a realistic measure of performance that allowed us to determine what progress we were making towards achieving our outcomes.

We have published on the Government's website the detailed working papers that lie behind the indicators to show why each indicator was chosen, the basis of its measurement and how the Government will review progress. That information is publicly available and we will share reports on it with Parliament in due course.

James Kelly: To an extent, you have answered my next questions. Some targets and measures are specific, such as that to

"Reduce to 1.32 million tonnes of waste sent to landfill by 2010",

but others are less specific, such as that to

"Improve the quality of healthcare experience".

How will progress on the less specific targets be measured? Does the Government's website identify that?

15:30

John Swinney: I assure you that there is a great debate about whether targets should be specific and numeric or about direction of travel. A criticism of the previous Government—I cannot recall whether it was made by the Finance Committee in the previous session of the Parliament—was that there were too many targets, which often skewed performance. If people focused on meeting a target that was great for a particular area of the public sector, they might not meet a target in a different policy area. There is great debate among academics and management consultants about whether we should have hard, fixed targets or direction-of-travel targets.

If my memory serves me right, the target on landfill will ensure our compliance with a European regulation by 2010—if that is incorrect I will write to the committee. I am pretty sure that that is why there is such a hard target on landfill; if we do not meet it, fines will kick in. In other areas we are trying to make progress without setting targets that are so rigid that they skew performance. That is the judgment that has been applied, but the matter is open to debate. I have read and listened to both sides of the argument about whether Government needs to be driven by specific, hard targets, and I am persuaded that the fewer such targets the better, because such an approach tends to lead to more enlightened policy making locally, which delivers progress on the outcome. If we say, "I want you to reach this point in this fashion," we

prescribe how organisations and policy makers make their contribution.

James Kelly: How frequently will you report to the Parliament on progress against targets? What format will your reports take?

John Swinney: I am pretty sure that our assumption is to report annually to the Parliament on the indicators, but if the situation is different I will confirm that to the committee in writing shortly. In essence, we will take the working papers that are on the website and assess performance on the basis of the methodology that is set out there. A report will be published and I and ministerial colleagues will be happy to come to the Finance Committee or other committees to discuss performance in relation to targets. If we opt for a direction-of-travel target rather than a specific numeric target but go in the opposite direction in year 1, it is clear that questions will be asked about the strength of the policy making that underpins the Government's approach.

James Kelly: When will you produce the first annual report?

John Swinney: That depends on when data become available, and the nature of statistics is such that some data sets take a bit of time to surface, but it would be realistic to operate on the basis that we are likely to publish the first annual report in autumn 2009—we can adjust that accordingly.

Elaine Murray: Can you give a flavour of how you decide whether to set a SMART—specific, measurable, achievable, relevant and time-limited—target or a direction-of-travel target? One of your indicators is:

"60% of school children in primary 1 will have no signs of dental disease by 2010".

Another is:

"Reduce the rate of increase in the proportion of children with their Body Mass Index outwith a healthy range by 2018".

Both indicators are about health, but the former is specific, whereas the latter is much more about the direction of travel—you do not want kids to get fatter as fast as they are doing. Why did you set such different targets?

John Swinney: Because we can identify, resource and follow through a particular policy intervention on children's oral health, we can say whether Government intervention will enable us to meet the target. The issues to do with body mass index in children are much more comprehensive. We cannot just say, "This policy instrument will do us"; we must consider a much wider set of questions, some of which are about the messages that we put out. I visited a school in my constituency today and children asked me what

more the Government will do to ensure that they have healthier lives. I said that the Government's objective is to enable people to live healthier lives. Some of our interventions will not give us direct control over that objective, but we are confident that our intervention on oral health can have the impact that is sought.

Elaine Murray: If there is a SMART target, we should be able to identify the funding stream that is intended to achieve it.

John Swinney: That is a reasonable proposition.

The Convener: It has been proved again that finance is not easy, although it is essential for good government. I thank John Swinney, the Cabinet Secretary for Finance and Sustainable Growth, for his comprehensive and comprehensible answers to complex questions, and I thank Scottish Government officials Alyson Stafford and Craig Russell for coming. Thank you all for coming and for your contribution to the committee's work.

Meeting closed at 15:36.

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