

# **LOCAL GOVERNMENT AND TRANSPORT COMMITTEE**

Tuesday 27 April 2004  
(*Afternoon*)

Session 2

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# CONTENTS

Tuesday 27 April 2004

Col.

ITEMS IN PRIVATE.....	803
BUDGET PROCESS 2005-06.....	804

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## LOCAL GOVERNMENT AND TRANSPORT COMMITTEE

11<sup>th</sup> Meeting 2004, Session 2

### CONVENER

\*Bristow Muldoon (Livingston) (Lab)

### DEPUTY CONVENER

Mr Andrew Welsh (Angus) (SNP)

### COMMITTEE MEMBERS

\*Dr Sylvia Jackson (Stirling) (Lab)

\*Mr Bruce McFee (West of Scotland) (SNP)

Michael McMahon (Hamilton North and Bellshill) (Lab)

\*Paul Martin (Glasgow Springburn) (Lab)

David Mundell (South of Scotland) (Con)

Tommy Sheridan (Glasgow) (SSP)

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

### COMMITTEE SUBSTITUTES

Bill Butler (Glasgow Anniesland) (Lab)

Colin Fox (Lothians) (SSP)

Mr Kenny MacAskill (Lothians) (SNP)

\*Mr Brian Monteith (Mid Scotland and Fife) (Con)

John Farquhar Munro (Ross, Skye and Inverness West) (LD)

\*attended

### THE FOLLOWING GAVE EVIDENCE:

Brenda Campbell (Convention of Scottish Local Authorities)

Graham Owen (Scottish Executive Finance and Central Services Department)

Councillor John Pentland (Convention of Scottish Local Authorities)

Andrew Rushworth (Scottish Executive Finance and Central Services Department)

Tavish Scott (Deputy Minister for Finance and Public Services)

James Thomson (Convention of Scottish Local Authorities)

### CLERK TO THE COMMITTEE

Eugene Windsor

### SENIOR ASSISTANT CLERK

Alastair Macfie

### ASSISTANT CLERK

Euan Donald

### LOCATION

Committee Room 1



## Scottish Parliament

### Local Government and Transport Committee

Tuesday 27 April 2004

(Afternoon)

[THE CONVENER opened the meeting at 14:06]

#### Items in Private

**The Convener (Bristow Muldoon):** Good afternoon. I welcome members to the 11<sup>th</sup> meeting this year of the Local Government and Transport Committee. We have received apologies from Michael McMahon and Andrew Welsh.

The one item to be considered before the evidence-taking session is whether we agree to take item 3 on the agenda—consideration of the contents of our committee report on the budget process 2005-06—in private. Is that agreed?

**Members indicated agreement.**

**The Convener:** We also seek the agreement of the committee that any subsequent discussions on the report, prior to its publication, be taken in private. Is that agreed?

**Members indicated agreement.**

## Budget Process 2005-06

14:08

**The Convener:** Under agenda item 2, we will take evidence as part of our consideration of the budget process 2005-06. I welcome three representatives of the Convention of Scottish Local Authorities, who will give evidence today. They are Councillor John Pentland, Brenda Campbell and James Thomson. After Councillor Pentland has made some introductory remarks about the 2005-06 budget, the committee will follow up with questions.

**Councillor John Pentland (Convention of Scottish Local Authorities):** Thank you for that introduction, convener, and for giving us the opportunity to present evidence to the committee. The committee has received our written submission and I hope that we will have the opportunity to expand on it later in the meeting. Rather than go through what we have stated in our written evidence, I will take this opportunity to highlight some of the key issues.

COSLA has undertaken a radical review of its approach to the spending process: the key focus of its spending review is on a base budget. We are firmly of the view that we must agree and secure a base budget with the Executive. For a long time, we have pursued a local government budget with the Executive, but with no success. We believe that this is the time for such a change and we have presented a strong case for that.

We have also shifted from concentrating on the total resources required for local government, which was the focus in previous spending reviews, when we prepared a bid that was effectively the base budget plus additional bids for new initiatives. This time, we have focused on the base budget and then specifically identified three other areas—inflationary increases for pay and prices, funding for new initiatives and funding for areas that have been significantly underfunded from previous spending reviews. We believe that we have taken a realistic approach. Unlike with the other spending review process with which we are involved, we have engaged in great dialogue with the Executive and ensured that all portfolio ministers have been involved in our written evidence. COSLA acknowledges, but does not accept, that it is not a bidder in the spending review process. Nonetheless, we hope to answer any questions that committee members want to ask.

**The Convener:** Thank you for your introductory remarks. I invite Bruce McFee to ask the committee's first questions.

**Mr Bruce McFee (West of Scotland) (SNP):** I want to return to the thorny question of the base budget, which you have obviously identified as one of your key priorities. How does COSLA define the base budget and what should be in and what should be out? Do you take account of the different methods that local authorities use to deliver services?

**James Thomson (Convention of Scottish Local Authorities):** When we were defining the baseline, we started with the aggregate external finance figure, as per the Executive's February 2004 finance circular. Various additional sums of money were then taken into account, as a result of Executive announcements about on-going commitments relating to such things as "Determined to Succeed: A Review of Enterprise in Education", free personal care and the supporting people programme.

**Mr McFee:** So are you taking as your base the previous year's budget plus new services? We are not allowed to say "new burdens".

**James Thomson:** We have had discussions and there has been on-going work with the Executive. The AEF figure covers the core services. We then took account of commitments and announcements that have been made throughout the years for on-going work and for things that are now considered as core tasks of local government. The AEF figure has been built on so that we can plan and budget for on-going commitments and cover the three years of the spending review process.

**Mr McFee:** So you are saying that you have taken the 2004 AEF and considered the additional areas in which you are required to make expenditure. Have you taken account of moneys in the years beyond 2004? How have you extracted what were supposed to be the Executive's commitments to new expenditure?

**James Thomson:** The AEF figure that we have gone for is the 2005-06 AEF figure, so it looks towards future years. We have returned to announcements such as that made by the Minister for Education and Young People, Peter Peacock, who has outlined on-going commitments for education of £14 million, I think, for the three years of the spending review process. Therefore, we have considered commitments that the Executive has given for local government work in a forward-looking way rather than retrospectively.

**Brenda Campbell (Convention of Scottish Local Authorities):** Perhaps I should add that we have taken all the Executive's figures and its AEF announcement and built on those. The Executive has provided all those figures to local government. We are not simply identifying amounts and adding them back in—there are on-going commitments.

We have identified things in great detail. Things are there for the picking, if you like—they are open and transparent.

**Mr McFee:** Part of the argument that local authorities made all along is that the AEF was inadequate. Therefore, if the AEF is taken as a starting point and first principles are not returned to, there will be the same inadequacies in what you now call your base budget. Will the question of the actual sum of money that is required to provide a particular level of service throughout the country be addressed?

**Brenda Campbell:** To go back and carry out such an exercise would mean a completely radical review of the way in which local government is funded. In the timescales that we are talking about, it is clear that there will not be such an approach. In recent years, there has been a review of local government finance and we are looking forward to another independent review. However, it is not unreasonable for us to take the AEF, to consider the new initiatives as on-going commitments and to say what things cost or what resources we have to fund services. It is reasonable for us to do that and it represents a step forward from where we were previously.

14:15

**Mr McFee:** Perhaps I expected something more fundamental. What is the substantial difference between your figure and the Scottish Executive's figure for what is required to run services at an acceptable level, or even to keep services at the current level, plus the new commitments?

**Brenda Campbell:** Currently, we do not know what the difference is. We have provided a level of detail to the Executive and we are having discussions. It would be unfair of me to comment at this stage, because those discussions are on-going. Clearly there are differences. There is a substantial difference between the AEF figure that we have taken and the AEF figure in the annual evaluation report, for which there will be good reasons. For example, there will be further circulars and adjustments to AEF during the year and redeterminations will have been included, but we have to have the discussion and clarify the issues. However, I do not have a number for the difference between us.

**Mr McFee:** What else are you seeking to clarify? You say that some circulars or items may have been included by the Executive, of which you have no knowledge. Are there any other areas that you are seeking to clarify?

**Brenda Campbell:** Yes. We are seeking clarification on a number of areas of the AER. AEF is one of them. There are references to sums of money—for example £55 million for McCrone and

care home fees—that we want to be clarified, because they do not relate to the sums of money that we have identified. In addition, sums of money that have been included in the sections on ministers' portfolios relate to local government, which is misleading.

There is a big issue around capital. The AER gives a figure for local authority prudential borrowing for 2005-06, but there is no figure for 2004-05. We pursued that with the Executive, which indicated that there is no figure for 2004-05 because it is awaiting announcements from the Chancellor of the Exchequer in the autumn budget statement. I cannot fathom that. I do not understand why the Executive has to wait for an announcement when we are talking about local authority borrowing that is supported by local authorities under the prudential regime and I do not understand why there is no figure for 2004-05 when there is a specific figure for 2005-06. That requires clarification. It is also misleading, because the borrowing is part of the prudential regime and is therefore supported by local authorities, whereas from the AER it appears as if the Executive is supporting that borrowing. There are a number of areas about which we will have to sit down and have a frank discussion.

**Mr McFee:** Thank you. I particularly appreciate your last point, because a number of members have the same questions for the Executive.

**The Convener:** I know that Iain Smith wants to come back on the prudential regime, but Sylvia Jackson has a question on another issue.

**Dr Sylvia Jackson (Stirling) (Lab):** My question follows on from previous questions on the core budget. You mentioned how you are trying to get a grip on McCrone and various initiatives, but what about the long-standing issue of local roads, which the committee has discussed? We are waiting for information from the Society of Chief Officers of Transportation in Scotland survey, but have you been able to examine that issue and include it—I think from what you are saying that you have not—in your core budget? When will you revise what you are doing, so that it is based not so much on what the Scottish Executive says, as on what you know to be the core services that need to be supported by the local authorities?

**Brenda Campbell:** The important thing is to agree and secure the base budget. Our concern has always been that, as long as the base budget is not secured, some of it could be removed. That is our anxiety, so we need to secure the budget.

Part of our submission on the spending review examines new initiatives and initiatives that we believe are underfunded. The sum of money involved in that comes to around £400 million. We have detailed information on that, although we

have not brought it to the committee, because it still needs political approval within COSLA. Although the figures have been through a political process—we are not that late in the process—it would have been unfair of me to bring them along today. The committee will have the opportunity to see them when we publish our report.

That process has involved a great amount of detail, which has given us the opportunity to consider the underfunded part—the part that we say needs to be revised. We need to keep that work on-going; it cannot just happen as part of the spending review then drop off. That represents a shift on our side as well. As well as changing our approach to the spending review, we have recognised that, rather than focusing only on the spending review, ending that process and waiting for 18 months for it to pick up again, we have to keep the process on-going. We will try to do that in the coming months.

**Dr Jackson:** Do I understand from what you are saying that SCOTS has supplied you with the £1.5 billion backlog figure?

**Brenda Campbell:** We have not taken that figure into account, but we have engaged the professional associations as part of our exercise. All professional associations have contributed to our submission.

**Iain Smith (North East Fife) (LD):** I wonder whether you might be able to shed some light on the capital figures, which have bamboozled me. The figures in the AER do not seem to reflect the figures that were in the previous budget report. How do you understand the various AER figures for local government capital? For example, what is meant by “Supported Borrowing” and how does that compare with the “Single allocation” figure? Why do the figures for supported borrowing seem to be significantly lower than the single allocation figure? What is meant by “Local Authority Prudential Borrowing”? Table 11.02 in the AER mentions local government capital, but the figures do not seem to match up with any of the previous figures. Can you bring any clarity to the matter? We will ask the minister about it, but does COSLA have any idea about how much the figures in the AER suggest local government can spend on capital?

**Brenda Campbell:** I am not sure that I will be able to clarify all that, but I can certainly say what I understand is meant. The single allocation was, in effect, the loan charges and the capital support that the Executive provided. My understanding is that, with the advent of the prudential regime, that money now comes under the heading “Supported Borrowing”. To my mind, it should refer back to the note on how the Executive has taken some money out for capital grant. However, none of the figures refers back and I am in a similar position to you.

The heading “Local Authority Prudential Borrowing” refers to the implementation of the prudential regime. However, given that the regime was implemented on 1 April 2004, there should be a figure for 2004-05. The Executive mentioned a figure of about £306.6 million, but it says that it is waiting for the chancellor’s announcement in the autumn. If that announcement is so important, it is confusing that there is such a precise figure—£319.2 million—for 2005-06, before the announcement has been made.

The Executive’s big concern is about national limits. It is concerned about the possibility that councils may borrow extensively and the impact that that might have on the macroeconomic position. We understand that concern, but there is a danger that we could end up replicating what were effectively section 94 consents. I do not believe that any council has the capacity to borrow at a level that would affect the macroeconomic position. There is a danger that we will get bogged down in worrying about a national limit. The AER raises many issues, but that is my understanding of the position.

**Iain Smith:** My understanding of the prudential regime is that local authorities, following the guidance that is provided, fund the borrowing from their own resources. What, therefore, is the line in the Executive’s spending? Presumably the money does not come out of the Executive’s pocket. I am a bit confused by that. I do not understand why the figure is counted as Executive spending if it is being funded from revenue resources.

**Brenda Campbell:** I agree entirely—the figure is misleading. We have pointed that out to the Executive and an Executive official has agreed that it is misleading. There is confusion on the Executive’s side about how to present the information. You are correct that the money would be entirely funded and supported by local authorities.

We have some technical and background knowledge, so we can just pick up and read the report. What is more worrying is the fact that the report is extremely misleading for people who do not have that knowledge.

**Iain Smith:** MSPs, you mean.

**Brenda Campbell:** No, not at all.

**Iain Smith:** What do the figures on local government capital in table 11.02 mean? The narrative suggests that the figures represent grants from Executive departments to local government. Do they fit in with other figures? If so, how?

**Brenda Campbell:** You have described my understanding. Specific grants relate to subjects such as flood prevention. We were concerned that

they might be phased out because of the prudential regime, but we have been provisionally reassured that that will not happen. I understand that the grants cover such matters. However, the table is misleading, because it shows figures that are not all contained in local government—some are in other portfolios.

**Iain Smith:** To be fair, the Executive is trying to be helpful.

**Brenda Campbell:** I acknowledge that.

**Iain Smith:** Do you understand that one reason for the £56 million difference between the single allocation and supported borrowing is that some of that money has been transferred into grants?

**Brenda Campbell:** That is my understanding.

**The Convener:** Does Bruce McFee want to ask about the prudential regime?

**Mr McFee:** Not at the moment. My question would be best answered by the Executive.

**Paul Martin (Glasgow Springburn) (Lab):** I will ask about inflationary pressures. COSLA has argued several times that a realistic view of pay and price pressures should be built into the spending review. What is realistic? I appreciate that defining that is not an exact science.

**James Thomson:** Part of being realistic involves examining current conditions. Just as the Executive is concerned about macroeconomic conditions, we must consider those conditions when we want to take a realistic view on pay and prices. It is not necessarily correct just to take the percentage that was used in previous years. Just a look at the media shows the continuing pay and price issues in the public sector, of which we are aware. We must consider the other conditions that have an effect before we make a percentage assumption, which must be realistic for negotiations that will take place.

**Paul Martin:** You are talking about economic conditions. Is your main theme local economic conditions?

**James Thomson:** Yes. COSLA always acknowledges that if it negotiates a figure that is over the percentage that the Executive gives as the budget share for pay and prices, it will fully fund the difference. We are not saying that the higher the percentage is, the less we will fund. We just think that a realistic examination is needed of market conditions and of indicators such as the consumer prices index and the retail prices index, on which assumptions should be based.

**Paul Martin:** Have representations been made to the Executive about that? If so, what was its response?



**Councillor Pentland:** We will talk about that as part of our continuing dialogue. I re-emphasise that the Executive should not assume what pay increases or inflation rates will be without taking into account the conditions that James Thomson outlined.

**Paul Martin:** Your evidence makes no reference to efficiency or productivity improvement. Is COSLA's position that the best-value regime will liberate no resources? Should we consider productivity and efficiency improvements as a way of saving resources, perhaps for reallocation?

**Councillor Pentland:** You are absolutely right. Most authorities have been through the best-value regime and we are now as lean as we can be. That is why it is important for us to identify a base budget from which we can allow individual councils to offer the efficiency that would give them the opportunity to reinvest in their councils. If we take that stance as we go forward, both the Executive and local government will be in a win-win situation. We have been through the best-value regime and, until we can identify the base budget, we should not assume that there are further efficiencies to be made.

14:30

**Paul Martin:** Why did you not include that in your evidence?

**Councillor Pentland:** Throughout our submission, we make it clear that the base budget is of paramount importance. If we can agree to such a budget, individual councils will have the opportunity to identify efficiencies.

**Paul Martin:** We can put that point to the Executive—if it can identify the base budget, you can build efficiencies into your three-year review.

**Councillor Pentland:** Yes. Again, that would be a win-win situation for the Executive and local authorities.

**Brenda Campbell:** We want to agree and secure the base budget rather than apply a national assumption such as a percentage of the base budget. We do not want an efficiency level to be applied nationally. The responsibility should lie with individual councils, which should be able to engage a level of efficiency at department level. Perhaps they will go out to departments once a year as part of the budget process and say, "We are looking for 1 or 2 per cent efficiencies." They should then have the opportunity to reinvest locally in existing services or new initiatives. That is the point at which we want to start discussions on efficiencies with the Executive. We agree that there are efficiencies to be made in councils, but we believe that those efficiency savings should be reinvested locally.

**The Convener:** To pursue that point, in the Executive's budget, expenditure on local authorities accounts for about a third of the public purse. Is it a little unrealistic to presume that any savings that are made in local government should be spent on local priorities instead of, after discussion with the Executive, being invested in other public services, such as enterprise, higher education or the national health service?

**Brenda Campbell:** It is reasonable to say that, but we need to go through a period of operating to an agreed base budget to see where we are at. In recent years, we have not known what the base budget is—we have operated without that information. Efficiencies might have been made nationally that we are unaware of; the system has not been transparent enough. We need to go through a process in which we work to an agreed base budget and allow local investment. We can then open up the discussion with joint working across the health service, local government and the public sector in general. Local government would like to go down that road, but we need a period of stability first.

**The Convener:** It seems to me that, in establishing the base budget, we must identify what proportion of the budget is for statutory responsibilities. For example, a council's education budget is driven largely by the number of children in its area who are of school or nursery age. Other areas of expenditure are largely discretionary and the level of provision in those areas varies considerably between authorities. Do you want to be able to identify clearly which services are driven by statutory obligation and which services the budget has reached its current position on because of local priorities?

**Brenda Campbell:** We have not approached the matter in that way and I am not sure what we would gain from doing so, although I am not saying that we are completely opposed to the idea. It would be a big job to go back and do that work, because there are so many discretionary items within statutory obligations. For example, school transport is a statutory duty, but it has a discretionary element and the 32 councils differ in their provision. I think that what you suggest is a big exercise to go through and I am not sure what we or the Executive would gain from it. That might be a discussion that we need to have.

**The Convener:** It strikes me that, if there is a case to be made that local government services are underfunded, there might need to be a debate on whether discretionary expenditure is being spent in the right areas. For example, Sylvia Jackson mentioned that we have noticed from our work on roads expenditure that there are quite wide variations between local authorities, even between authorities in geographically similar

locations. That applies both to grant-aided expenditure and to expenditure per kilometre of road. It is sometimes difficult for the committee to pin down the justification behind the different levels of expenditure in some areas.

**Brenda Campbell:** The difficulty for us is that, in recent years, we have tried to move away from GAE. That creates a difficulty when returning to the measurable part of that input. We must hold up our hands and admit that we might need to go back to work on that.

**The Convener:** I accept your point about GAE, but when we compared neighbouring local authorities, which I presume had similar terrains and weather conditions, we found that the expenditure per kilometre of road often varied dramatically. That disparity was drawn out not only by GAE-based comparisons.

**Brenda Campbell:** I have to say that we have not approached the subject in that way. I can take the issue away and we can perhaps consider it. I take your point.

**Dr Jackson:** John Pentland might remember from previous discussions that we set great store by an outcome-based approach because it allows councils more flexibility in the methods that they use to achieve outcomes. How have you been developing your work on that in relation to the spending review proposals, and how have you been making progress on talking to the Executive when reaching strategic outcome agreements?

**James Thomson:** From the start, we have set out to ensure that our evidence has been based on an outcome-based approach. When we have gone to the professional organisations to ask them about what should be included and what the priorities should be, we have done so on an outcomes basis. When we have thought about costings, we have sought to cost the outcomes: we have tried very much to base our approach on outcomes. It has been one of our key aims to approach the spending review from that perspective.

At the meetings that we have had with ministers who have service portfolios, we have sought, by discussing our priorities and their priorities, to find shared priorities so that we can target key areas and approaches. When Nicol Stephen appeared before a committee—the Finance Committee, I think—he said that he had had discussions with COSLA about roads and that we were aware that the Executive wanted to improve road conditions throughout Scotland. He referred back to the SCOTS approach, which he said he would seek to support. He said that he would, in his service portfolio bid, make a submission that is based on achieving the outcome of improving the roads throughout Scotland.

**Dr Jackson:** I have one more question. For simple souls like me, can you give an example of an outcome proposal that allows councils the flexibility to tackle matters in different ways? How are the outcomes written so that they give councils the freedom to achieve outcomes in different ways?

**Brenda Campbell:** The outcomes are worked out at a national level. They are not specific in any way—they are generic. The issue is more about the bigger outcome of delivery on the ground. James Thomson will be able to provide an example. It is a question of looking at the outcomes in the bigger picture.

All we are saying is that although we do not expect all councils to deliver outcomes in the same way, those outcomes should, in effect, be the same. All 32 councils will deliver things differently because they have different skills bases, receive different resources, are different sizes, have different geographies and so on. Such factors will affect the delivery of a service. As a result, we are trying to shift the focus from the inputs to the outputs; that is, to what is being delivered to the public.

James Thomson can provide some examples of the initiatives that we have considered in order to focus our consideration of the matter.

**James Thomson:** I was hoping that Brenda Campbell would answer your first question so that I could provide some examples.

First, we can improve teaching standards in the 21<sup>st</sup> century partly by ensuring that all schools and pupils have access to broadband technology and by improving and maintaining the level of information and communication technology in schools. Secondly, with regard to looked-after children, we are committed to raising the standard of foster care, by meeting the Scottish Commission for the Regulation of Care's requirements and increasing the number of foster carers.

**Dr Jackson:** You have chosen an example that I know something about. At Aberfoyle, satellite technology is used because it is a more appropriate system. I can appreciate what you are saying now. How do you cost the outcomes nationally?

**Brenda Campbell:** There is no standard answer to that question, because the experience of all the initiatives has been different. For example, we have used information from professional associations that cost initiatives at individual council level based on particular inputs, and then gross that up to national level. There are many ways of costing such matters.

In general, we tend to consider what might be a reasonable input to deliver a service and, from that, we calculate a reasonable cost. If the cost is agreed with the Executive—which is an important element—we expect councils to deliver on that. That said, I cannot give a standard answer that we take X and multiply it by Y; the situation is different for each initiative.

I can tell the committee that costings are carried out on a well-evidenced basis that allows us to say how we did something. We share our information with the Executive. Although our discussions at ministerial level have been political, we have been able to share detail with Executive officers so that they are aware of our calculations. That ensures that we are not coming at things from an entirely different direction.

**Mr McFee:** In your response on outcomes, you mentioned providing broadband in schools. How much of that provision is more of an input than an outcome? Delivering broadband to every child and school is not necessarily an outcome in itself; surely the outcome is that every child in a school is able to use the facility properly. Are we in danger of confusing one set of inputs with another when, in fact, we need to develop a method of measuring positive outcomes at the end of the process? As I have said, the outcome is not to supply broadband technology but to ensure that people know how to use it.

**James Thomson:** I might have made a mistake in that respect. We want to ensure that all children in Scotland have access to broadband technology rather than have the situation in which a school has four computers that are locked up in the staff room and cannot be accessed by any children. Obviously, we are not seeking such an outcome; we are committed to giving all children access to this technology.

We need to be careful, but carrying out a costing is hard. It is very easy to say that all we have done is cost inputs; however, we have worked back from the outcome that we want to achieve in order to find out what it would cost.

**Mr McFee:** I am more reassured by that response. However, even if each child can access broadband technology, how would we measure the ability to use it? After all, that would be the outcome.

14:45

**Brenda Campbell:** We are probably at the stage at which we have tied the outcomes that we are talking about to the Executive's targets. You are probably right to say that we have completed the first stage, but the second stage has not been cleared yet. That is where we are in discussions with the Executive on outcome agreements. We

have certainly focused on tying in our outcomes with the Executive's targets—that link exists.

**The Convener:** On the prudential borrowing regime, I know that the local authority in the area that I represent certainly produced some assumptions about prudential borrowing in terms of its capital over the next three years. You have obviously noted that no figure is identified in the Executive's plans as being presumed against local authority prudential borrowing. Do you have a figure for the borrowing capacity that local authorities intend to utilise in the course of the current year?

**Brenda Campbell:** The figure that the Executive has given us is £306.6 million.

**The Convener:** Is that consistent with what local authorities are assuming in their budget planning?

**Brenda Campbell:** Yes—it is based on the returns that the local authorities provided.

**Dr Jackson:** I will ask a final question. Once we have discussed the base budget and identified priorities, outcome agreements and so on, how do we ensure that councils actually spend the money on those areas? Ring fencing is a sticky issue.

**Brenda Campbell:** You will know that the COSLA line is that we have always advocated that there should be no ring fencing and no initiative funding. We are not saying that we expect councils to spend on a line-by-line basis, as we identified at national level. We have always advocated councils' having flexibility; we have argued that for all sorts of reasons and we still argue that case.

With things such as ring fencing or initiative funding, there is always a danger that some councils may lose out. Some councils may introduce at local level an initiative that they have come up with at a discretionary level for spend. Suddenly, two years later, that may become a national initiative and new resources will become available. Those councils should not be penalised and denied additional resources just because they are already carrying out that initiative. They should be able to get the resources; as long as they spend money on the broad agenda and deliver services in that area, they should benefit from doing so. We are always concerned about the possibility that councils will lose out as soon as we go down the road of initiative funding and ring fencing. We would not advocate that in any way. I am not sure whether that addresses your point.

**Dr Jackson:** It does—it was a very clever answer. I just wanted to put the point in a slightly different way, to take us back to what Bruce McFee was saying about the importance of outcomes. Are you saying that if a council can show that it has achieved a certain outcome, but

that another outcome has not been achieved—for whatever reason—the money could go to unachieved outcomes?

**Brenda Campbell:** Yes. Councils should have the flexibility to make such decisions. It is almost a question of managing by results. If a council is delivering the outcomes, the inputs do not become irrelevant—they are clearly relevant—but the focus is not on inputs. The focus shifts.

**Dr Jackson:** Do you agree with Bruce McFee that how the outcomes are framed is important?

**Brenda Campbell:** Absolutely.

**The Convener:** Those are all the questions that my colleagues have, so I thank John Pentland, Brenda Campbell and James Thomson for their useful evidence.

I welcome our second panel of witnesses for this afternoon's evidence taking on the budget for 2005-06—Tavish Scott, the Deputy Minister for Finance and Public Services, and Graham Owenson and Andrew Rushworth from the Scottish Executive. We will give you an opportunity to make some introductory remarks on the budget and then, as usual, we will go into a question-and-answer session with committee members.

**The Deputy Minister for Finance and Public Services (Tavish Scott):** It is a pleasure to be here once again to consider the budget and to talk about stage 1 of the budget process—the “Annual Evaluation Report 2005-06”, which is a development of the way in which we seek to present financial information to Parliament.

On that theme, the Executive has been working with the Finance Committee and other committees and parties to find out how the budget process can be improved. The new-look annual evaluation report marks the first step towards a new process that provides the basis for a new approach to the first stage of the budget process. It came about, if I remember correctly, after the Finance Committee gave a lot of consideration to how we do such things.

The AER looks back on progress towards targets, which were agreed and then published in the draft budget 2004-05, and it sets out existing spending plans for 2005-06, which provide the baseline for the forthcoming spending review. It examines whether we have the right targets, whether those targets are realistic enough, whether they are outcome oriented and whether they provide enough information regarding what spending in Scotland will achieve.

Progress towards meeting targets in the finance and public services portfolio is generally good, as I hope members have seen. All targets have either been met or are on course for being met, with the

exception of one, which relates to broadband technology in the pathfinder areas in the South of Scotland and the Highlands and Islands. The Executive remains committed to delivering broadband to those areas under the pathfinder project, but I acknowledge that the project is not as far forward as we would have liked it to be at this stage. It is a complex and large project that has raised an immense number of technical and financial issues, which are being addressed now. We hope to take the matter forward in future weeks and months.

I will also deal with a number of issues in which the committee has been interested, not least of which is road maintenance. I read the evidence that the Minister for Transport gave only last week; I add merely that resources will be very tight in the spending review and that any increases in spending in one area will mean reductions in another. It is not enough to say that £X million more should be spent in an area; we need to prioritise and to find ways of getting more out of existing resources. We will consider that further in the context of the spending review—I will say a couple of words about that later—but I cannot pre-empt those decisions now with any promises of additional funds.

Nicol Stephen gave the committee some information on GAE allocations on roads and maintenance. In 2003-04, GAE on roads and maintenance was £147.3 million. This year it is £152.9 million—an increase of 3.8 per cent—and it will rise by a further 3.8 per cent in 2005-06.

I will also follow up some of the issues that have been the subject of correspondence between the committee and Andy Kerr, particularly the convener's letter of 12 February regarding a number of specific recommendations in the committee's report to the Finance Committee on the format of the local government budget and the information that is provided. There are four central points on that.

One of the committee's recommendations was that we should identify and quantify elements of budget growth that relate to new initiatives. That is an issue that we all watch with interest. We welcome the recommendation but there are, and always will be, timing and handling issues regarding the publication of budget documentation and announcement of settlements, which need to be considered. Lead times for the various budget publications and when decisions on new funding are taken will always be an issue. However, we believe that this year the AER includes details of significant changes to the budget that have been made since the publication last September of the draft budget for 2004-05. It is designed to give the committee as much information as possible.

The second recommendation was that we should provide an estimate of the investment level that is to be achieved by councils, as well as of the Executive's proposed spend on supporting investment. Andy Kerr's response was that the Scottish Executive has always published outturn data on total local authority capital spend, and that from 2004-05 there will, in addition, be three-year forward forecasts, which I hope will help the committee in consideration of these issues. The Executive is aware of the need to monitor both planning and outturn figures as the prudential regime develops. We are working with local authorities to ensure accurate and timely forecast and outturn information in the future for local government, for the Executive and, of course, for the Parliament. All authorities have shown themselves to be willing to provide three-year forward forecasts. We will continue to ask yearly for those returns alongside outturn data. Those data will feed into the budget documentation.

Thirdly, the committee requested that an analysis of general and sectoral pay and price pressures be included in the budget documentation in future years. That would have significant practical implications for the Executive. A more practical opportunity to discuss such issues arises in the context of the spending review, when discussions with COSLA and other parties will include consideration of pressures on pay and prices. However, we should remember that there may be difficulties in being explicit about pay assumptions because of the impact on local authority pay negotiations. I am sure that all colleagues will appreciate that point.

The committee's comments on the budget process are very welcome and will be taken into account when we consider making further changes in consultation with the Finance Committee. Many of the points that the Local Government and Transport Committee has made, such as the suggestions that the process should focus on progress towards outcomes, and that new commitments should be identified and clearly costed, are in line with our thinking and have been reflected in recent developments in the budget process. We will continue to consider how we can improve the information in those and other areas that the committee has noted.

I will mention briefly value for money and best value. In the future, councils will need to ensure that they have secured value for money, as part of councillors' duty to secure best value. We want to encourage local authorities to work across local authority boundaries. Before taking decisions, we need to be clear about what resources will buy and when. We want local authorities to produce clear and measurable benefits, to establish key milestones to monitor and to ensure that final delivery is achieved. We need to consider all the

opportunities for making best use of resources and for focusing them on effective front-line service delivery. The Executive will also consider the proposals of the Gershon efficiency review for UK departments. We want to see whether there are opportunities that can be pursued in Scotland and how best those can be pursued in the spending review 2004 period.

I heard briefly some of the evidence that the committee took from COSLA early this afternoon. I am very aware of COSLA's desire to establish a baseline budget. In that context, it may be useful to note that COSLA has approached the Executive with a baseline budget as a first step in the spending review. COSLA has outlined its view of funding for local authorities for 2005-06. The baseline included the aggregate external funding for 2005-06 that had already been indicated in finance circulars, as well as other sources of income from the Executive that COSLA believes are in addition to the AEF.

Andy Kerr and I spent much of our quarterly meeting with COSLA on 26 February discussing the baseline approach and the numbers that COSLA has proposed. I am sure that you have just discussed that matter with John Pentland and his colleagues. We are happy to sign up to the principle of a baseline budget for COSLA because we recognise that it would help local authorities to plan their spending effectively for the next few years. We cannot sign up to the baseline amounts on certain areas that were presented at the February meeting, but my officials—particularly Andrew Rushworth and Graham Owenson—have been in discussion with officials who deal with the relevant spending portfolios about the details of COSLA's baseline budget. Our response to COSLA, which is still outstanding, will of course consider those issues.

It would be incorrect for COSLA to assume that all general funding for an initiative would automatically come to local authorities; that will have to be borne in mind. We aim to reply to COSLA soon to highlight the areas for which decisions on future funding have not been made, and to comment on whether COSLA has identified the correct amount of funding for 2005-06. It will be important to ensure that COSLA has not been double-counting, given the nature of the figures and the nature of the presentation of those figures.

15:00

COSLA's baseline approach is sensible. However, because the spending review 2004 focuses on 2006-07 and 2007-08, changes may be made to the priorities between 2005-06—the baseline year—and 2006-07, to reflect realignment of resources to focus on new priority programmes. To assume that all funding for services that is

available in 2005-06 will be available in 2006-07 and 2007-08 would be to pre-empt the outcome of the spending review. Obviously we are not willing, nor are we in a position, to do that.

The spending review is about delivery of commitments that were made in the partnership agreement. I hope that the committee will acknowledge that budgets are at historically high levels. Big increases have been made in public expenditure in Scotland in the past two spending reviews. However, the SR2004 settlement is likely to be tight. The Treasury has given clear signals that no additional resources will be available in 2005-06. The spending review will focus only on 2006-07 and 2007-08.

It is extremely important to emphasise that SR2004 is not about cuts; it is about realigning resources. The focus will be on priority programmes and outcomes and on getting best value for every pound that is spent. Increases in an area of spending will mean reductions in others. We need to free up resources from lower priority areas and to consider phasing out low-priority programmes. Each spending minister will review his or her portfolio budgets and priorities.

I know that pay is of considerable interest to the committee. We must deliver constrained, affordable and sustainable public sector pay settlements. Public sector pay accounts for more than half the current expenditure of the Scottish budget. Pay should therefore be linked to service delivery objectives and performance improvements. That is a significant issue for us all.

On funding new initiatives, any potential new burdens on local authorities are discussed fully with COSLA—I want to emphasise that—as part of the statutory consultations that take place each year on the local government settlement. We have agreed with COSLA that any new initiatives should be fully costed and paid for in order to prevent local authorities from having to take on additional burdens.

I know that concerns exist about underfunding of existing initiatives. COSLA is fully involved in discussions during which the GAE total is agreed and then split between services. Those discussions are an opportunity for COSLA to influence spend in certain areas. In addition, during the discussions, COSLA engages with ministers to discuss spending pressures on local government within each portfolio. COSLA makes bids and provides evidence in support of those bids; ministers can then take that information into account in their spending review assessments.

I hope that my comments have been helpful. It is important to emphasise that, for the Executive, this is very much an exercise in listening to the committee's views on what we have got right—and

probably on one or two areas where we need to improve.

**The Convener:** Thank you for those remarks. I invite Bruce McFee to open up the questioning.

**Mr McFee:** An additional £55 million has been included in the AEF to cover things such as the McCrone settlement, care home fees and support for young people who are leaving care. How much of the additional money is going to each of those headings? What is the purpose of that additional money?

**Tavish Scott:** Graham Owenson can give a precise breakdown of the figures—I will have him do so in a moment. There will be a logical split. I am sure that Mr McFee appreciates that discussions continue between COSLA and the Scottish Executive on new initiatives and on ensuring that those initiatives are fully funded.

**Graham Owenson (Scottish Executive Finance and Central Services Department):** The £55 million figure is a net figure. It is made up of a number of changes in and out of the budget. Mr McFee mentioned care home fees. The figure for department help for those fees is £38.6 million. The other main figure is the figure for the McCrone settlement, which is £26 million. Those are two of the bigger items that have been picked out.

**Mr McFee:** I am sorry; I am not sure that I caught the figures. Did you say that the figure for care home fees was £38.6 million and that the figure for McCrone was £26 million?

**Graham Owenson:** Yes.

**Mr McFee:** I presume that there are some other outs.

**Graham Owenson:** There is a range of minor ins and outs on top of that.

**Mr McFee:** That seems to be £64 million out of the £55 million immediately. It might be useful if that information could be provided in writing.

**The Convener:** That would be helpful.

**Tavish Scott:** We can certainly provide that information. Many of those things get picked up, as Mr McFee will no doubt find with great relish, by subsequent revision orders when a lot of clarity comes through in relation to changes that we have to make. Mr Monteith knows all about the changes that we have to make during the course of the year.

**Mr McFee:** I would be obliged if that information could be provided.

When the contributions of the other portfolios to local government are taken together, the figures indicate that there will be an increase of about 5.6 per cent between 2004-05 and 2005-06. What

proportion of that increase is intended to meet inflationary pressures, new development and growth within the existing service? Is there a rough split?

**Tavish Scott:** Are you referring to portfolios across the whole of the Executive?

**Mr McFee:** Yes.

**Tavish Scott:** I am not sure that we can answer that question off the top of our heads without getting a precise breakdown of the figures for each of the portfolios. I am not on top of the figures for each portfolio in relation to that split. Unless Andrew Rushworth has precise figures, we can provide the information later.

**Andrew Rushworth (Scottish Executive Finance and Central Services Department):** I imagine that Mr McFee is looking at table 11.02, on the contributions from other budgets to local government spend.

**Mr McFee:** Yes. A higher rate of increase is implied.

**Andrew Rushworth:** The figures for 2005-06 are not yet the budget figures; that is a matter for the next stage of the budget process. The figures in the table are rolled forward from last year's budget statement and they in turn stem from the previous spending review, in 2002, in which the provision for pay in local government was 2.5 per cent, while for prices it was 1.25 per cent. Those figures are subject to review in the current spending review and the outcome of that process will be reflected in the final budget proposals for 2005-06.

**Mr McFee:** So it is another case in which we will need to wait and see, pending the outcome of the review.

**Andrew Rushworth:** We are conducting the spending review now, so we could not possibly anticipate the outcome. As I understand it, we produce the general evaluation report at this stage and we will produce our specific budget proposals at stage 2 of the process in September. I guess that the answer is yes—you will have to wait until then.

**Mr McFee:** Sure. Do you have a notional figure within the figures that you have presented today? For example, you estimate that following on from last year the provision for pay will be 2.5 per cent and for prices it will be 1.25 per cent. Can you break down what that would mean in terms of the overall 5.6 per cent increase, or would that require more of a paper exercise? I appreciate that it may be difficult to provide such information off the cuff.

**Tavish Scott:** If Mr McFee is referring to 2005-06, 2006-07 and 2007-08, it would be unhelpful—as I said in my opening remarks—and would not

achieve anything if we were to make public our assumptions, in relation to public pay policy in particular. Negotiations will go on through the period and will involve detailed consideration at spending review time. That detailed consideration will be open to scrutiny as the budget process continues through the year.

**Mr McFee:** I was talking about the difference between 2004-05 and 2005-06.

**Tavish Scott:** Again, that will become eminently clear as the budget process continues during the year.

**Iain Smith:** You may have heard my questions to COSLA, with which I was trying to clarify the local government capital lines within the budget. I am afraid that it is all rather confusing for us poor MSPs.

Could you go through the various parts of table 11.01 and explain the differences between the single allocation for 2003-04, supported borrowing and local authority prudential borrowing? What does the table mean and why is there no figure for the current year under the local authority prudential borrowing heading?

**Tavish Scott:** Mr Smith asks some important questions. It is important to recognise—as I am sure Iain Smith does—that under the prudential regime we are giving local authorities the flexibility to structure, manage, monitor and evaluate their own capital spending in a way that I would argue did not exist before. That system is new, so some refinements have been made to it in terms of the information that we receive and, therefore, the information that we can present to Parliament. Perhaps Andrew Rushworth can deal with the detail of Iain Smith's questions.

**Andrew Rushworth:** The single allocation is the single allocation of capital consent, which authorities used, largely, to borrow money and which fed through into the loan charges support calculations within the revenue support grant. As the committee is aware, that system came to an end on 31 March this year and was replaced by the supported borrowing line, which again will feed through into the loan charges support section of the revenue support grant. Part of that transition involved a transfer from section 94 consent to capital grant, so in some of the other portfolios' capital grant lines you will see an increase that explains the reduction between the single allocation last year and the supported borrowing figure for this year and provisionally for 2005-06.

Local government prudential borrowing is not funding from the Executive and is not part of our departmental expenditure limit, although it still has to be classified in the national accounts and we still have to show figures for it for the supported borrowing line. There is a technical reason for

there being no figure for 2004-05; the figure is £306 million or thereabouts, but it had not been passed through the Budget (Scotland) Bill for 2004-05 when the AER was being drawn up so, technically, we were not able to include it. The £306 million or thereabouts figure will be in the budget document in the autumn. The local government prudential borrowing line is included, in part, to be helpful to the committee and to Parliament. The committee has requested that there be some indication of total local authority investment. Given that the transition to the prudential regime will have a major impact on local authority investment, the Executive felt that it was right to include the figure even though it is not part of our central funding.

**The Convener:** The move from single allocation to supported borrowing would seem to imply a reduction of £56 million in that line, which, I accept, was balanced up partly by an increase in the local government capital allocations by department. However, the increase across all departments appears to be of the order of £26 million. Does that imply less support from central Government to local government capital?

**Andrew Rushworth:** The reason for that significant reduction is in the communities line of capital grant, in which there is a reduction between 2003-04 and 2004-05 in the aggregate level of support. The decisions on that, which were taken in the previous spending review, are now working their way through and will be revisited in this spending review for the forward period.

**The Convener:** Is the reduction related to the Glasgow housing stock transfer or anything of that nature?

**Andrew Rushworth:** I do not believe that it is. That is dealt with separately.

**The Convener:** On the more positive side, it would appear that there is a substantial jump in the overall level of local government capital expenditure as a result of the prudential borrowing regime. Did the Executive expect the sort of increase that is implied by the figures as a result of the prudential borrowing regime? What assumptions did you make about the contribution that the regime would make?

**Andrew Rushworth:** The figures that we have entered for prudential borrowing—£319 million for 2005-06 and £306 million for the current financial year—are based on local authorities' forecasting projections, which we were provided with at the turn of the year.

**The Convener:** Did the Executive have any indication of what the level would be? I accept that you did not have a figure down on paper, because it was not the right part of the budget process, but I presume there was some expectation of what level of borrowing would take place.

**Andrew Rushworth:** I cannot really say. It is clear that there was an expectation that prudential borrowing would be used, but the extent to which it would be used was not clear until the local authorities first gave us provisional forecasts last autumn. Those forecasts were broadly confirmed in the update that we received at the turn of the year.

15:15

**Tavish Scott:** It is important to reflect that local authorities will have a considerable financial responsibility on themselves in relation to their capital programmes and that there are checks and balances in the system. I suspect that those checks and balances will be reflected not only in the Executive and the committee's observations on authorities' spending plans but—dare I say it—in local taxpayers' observations on those plans.

**Iain Smith:** I appreciate that the Executive is trying to be helpful by providing additional information, but it is slightly confusing that table 11.01 in the AER contains a line for local authority prudential borrowing; in effect, that is not Executive spending because it is, by definition, supported by local authorities. Compare that with the revenue figures in the table, which contain a line for the revenue support grant but no line for the amount of revenue that local authorities actually spend, which would obviously include council tax-funded spending. Could the figures be presented differently, to make clearer the areas in which the Executive provides direct support in terms of capital expenditure? An indicative figure for the expected additional capital from the local government prudential scheme could be given somewhere in the budget line.

It might also be useful for the committee to see indicative figures of what the Executive expects local authorities to spend in total on a year-by-year basis, rather than just the figures for the revenue support grant.

**Tavish Scott:** I have no problem with that suggestion, which makes eminent sense. The AER is a new mechanism—the prudential scheme is also new—for informing the Parliament and discussing with it the expenditure of large amounts of public money. I will be happy to look closely at how we might better identify and badge the components of local government capital spending.

**Dr Jackson:** We asked COSLA how the outcome agreements were framed and we were told that the agreements were closely linked with the Executive's targets. To what extent have outcome agreements been incorporated into the spending review? If they have not been incorporated, does that undermine the budget strategy of linking finance to the delivery of outcomes?



**Tavish Scott:** Sylvia Jackson asks an important question about how we ensure that the expenditure for which we are responsible to the Parliament is aligned with our priorities and with the delivery of outcomes. Pilots are in place, but there is an awful lot more to do in the area. I think that ministers across all portfolios would like that work to develop—work with COSLA is on-going, but perhaps more slowly than we would have liked. I assure Sylvia Jackson that the issue will be addressed vigorously, to ensure that in 2006-07 and 2007-08, which are of course the financial years that we are discussing in the context of the spending review, those outcomes can be clear, demonstrable and transparent for the Parliament. We have quite a lot of work to do to ensure that we achieve what we and, I suspect, the committee want.

**Dr Jackson:** How outcomes are framed is important. When Peter Peacock was Deputy Minister for Finance and Public Services, I think that there was an expectation that he would allow councils the flexibility to achieve outcomes in different ways or, if they had achieved certain outcomes, to consider other outcomes that they might not have addressed as much as they could have done. What are your views on the importance of that rationale?

We have talked about the importance of base budgets and about how we would like all councils to deal with important priority areas. Will we use the outcomes in a way that will guarantee that those areas are addressed? I raise the question of ring fencing in that context.

**Tavish Scott:** Agreed outcomes—it is important to stress the word “agreed”—between local government and central Government can provide for scrutiny by local people, who see how local services are provided. They can also provide for what I might loosely describe as the audit trail back through local government and central Government to Parliament, which scrutinises the use of considerable amounts of public money. We can do more on that.

Sylvia Jackson raises the philosophical issue about local flexibility to achieve outcomes as opposed to central Government’s desire for priorities to be delivered. We need agreed targets or outcomes that balance central Government’s desire to use public money in certain ways with local government’s desire for flexibility. The best that we can strive to do with each authority, and in an overarching sense with COSLA, is to achieve that balance to the best of our ability. I am not saying that we will always do so. The natural dynamic between local government and central Government is that they do not agree on everything. However, using the outcome mechanism, we can move a long way towards

delivering improved services for local people by providing the flexibility that local government wants as well as the financial accountability that we need.

**Dr Jackson:** I am a little worried by how you phrased that. I suppose that my hope was that in producing a base budget, we would have agreement with COSLA about priorities in all local authority areas and that the outcome mechanism would ensure that those priorities were adopted. However, the system should not be prescriptive about how councils achieve outcomes and it should recognise that some outcomes might already have been achieved. For some authorities, education is a big priority, whereas others have other priorities—that just happens. Can we reach a position in which all authorities are at least at a baseline level, but do so without being too prescriptive about how they get there?

**Tavish Scott:** That is an important public policy issue. The Finance Committee is also concerned about the issue and asked me about it last September when we discussed the autumn revision order. In stark terms, the matter hinges on an agreement with COSLA about baseline figures and the way in which we and local government seek to deliver priorities, which we were elected to do. As I say, there will always be a balance. I cannot envisage circumstances in which local government and central Government do not achieve a balance and agree the need to deliver outcomes, because it is demonstrably in the interests of both tiers of government to have a transparent agreement for which they are entirely accountable.

We will develop the process further, particularly through the spending review, because there is a lot to build on. We discussed COSLA’s and the Executive’s desire to have agreed baseline figures and policy priorities that are based on the figures. Our desire is to achieve the best balance possible.

**Paul Martin:** Target 5 for your portfolio refers to the need for public organisations to improve their coterminosity and joint working. What is the latest position on that? How is the review proceeding?

**Tavish Scott:** The Executive is determined, in the context of the spending review, to encourage joint working between local authorities to consider ways in which moneys can be saved and reinvested in priorities. We believe that much work can be done on the issue.

Andy Kerr has opened up a strong dialogue with COSLA and we believe that a lot can be done on, for example, back-office functions. I guess that that is not the sexier end of local government expenditure, but it is important. If we can make some savings in that area and provide good back-office services to groups of local authorities, either

locally or in a wider context, money can be saved. We believe that the way to make progress is to grow the joint working within services that the public do not see—those that provide payroll or human resources to local government, but which are not on the front line. There is a strong desire for such initiatives to be taken forward, starting the route map at that point. Where that process will lead to is up to local government to consider, from the perspective of how it can benefit from the process, but it strikes me as important to start from that point.

**Paul Martin:** What you are saying sounds good and the glossy document looks good, but are we not failing to deliver in practice? I appreciate that the community planning process is a serious and complex piece of work, but where are we with it? We are setting out an agenda in the nice document, but where are we delivering on the target?

**Tavish Scott:** There are two strands to that, although they are interrelated. The first is the consideration of, and potential for, savings in back-office functions and therefore reinvestment in front-line priorities within groups of local authorities. The second issue, which is related, is community planning per se, how effective it is and whether it provides a structure in which local authorities and other public sector agencies can work together towards agreed outcomes, looking clearly at priorities in local areas.

I would be happy to take any evidence that Paul Martin might want to present to the Executive on specific circumstances in which there is a view that community planning is not as effective as it can be. Broadly speaking, ministers are receiving feedback that community planning is considered to be a strong element of developing agreed working relationships and agreed outcomes between different elements of local government and with other public agencies. We will be happy to examine any evidence of that process not being as good as it should be.

**Paul Martin:** Target 6 contains a commitment to conduct an independent review of local government finance after consultation with COSLA. That target has been there for two years, and the committee has taken significant evidence on the issue, so why do you continue with the target? Is it not time to move forward with the agenda?

**Tavish Scott:** I could not agree more, and I am doing my best to get rid of that target by meeting it. I have made a commitment to the Parliament that, by the summer recess, we will have announced the independent review. I hold to that.

**The Convener:** In your introduction, you indicated a wish for progress towards a core or

base budget to be agreed with COSLA. How would you define such a budget? You might have heard, in some of my questions to the COSLA witnesses, that I feel that it would help us to understand that core or base budget if there were some recognition of the statutory functions that local authorities provide, the budget that is required for those functions and the element of the local authority budget that is discretionary. That would help not only the committee but members of the public to understand the flexibility within which local authorities operate. How do you feel about that?

**Tavish Scott:** You have put the matter in context by expressing it in terms of such splits. My recollection of the normal quarterly ministerial meeting with COSLA in February—Andrew Rushworth has been involved in the official discussion on the matter and can also comment on it—is that the figures that COSLA presented were the existing expenditure figures across the range of local government expenditure. I am not sure that they were based on the split between normal statutory functions and discretionary spend that you have just described. We may wish to reflect further on that issue. Andrew Rushworth will correct me if I am wrong, but I do not recollect that COSLA and the Scottish Executive's current disagreement over some of those figures reflects that kind of split. Nevertheless, the point about the transparency of figures is important.

15:30

**Andrew Rushworth:** That is right. We have made a lot of progress with COSLA since we started the discussions at the turn of the year, and we have reached a large measure of agreement. The base budget, as we see it, comprises the core budget of AEF—revenue support grant, rates income and on-going specific grants—and those additional grants, whether capital or revenue, that are awarded and paid out with the AEF envelope. Some of those grants are temporary and have short life duration and some of them are pump-priming grants. We have reached a large measure of agreement on rolling forward the existing allocations for the previous financial year and for the current financial year into 2005-06.

However, there is a handful of grants with which we still have difficulty, for two main reasons. First, there are grants for initiatives on which no decision has been made whether they will be continued in 2005-06, so we cannot specify a base budget figure for the year. The second set includes grants for initiatives that may continue into 2005-06 but which are perhaps not directed entirely to local authorities. Education maintenance allowances, for example, may be directed to further education colleges as well. Setting a base budget involves

prediction and speculation on what share of the initiative local authorities would receive in 2005-06. Those are the areas to which we have narrowed down our discussions with COSLA.

**The Convener:** There are areas in which local authority departments have indicated there is underspend in terms of actual need; roads, which you mentioned in your introduction, are an example of that. If you are trying to get to a true base budget, I presume that you are trying to get to a budget that is satisfactory to meet those needs and not one that is insufficient to meet those needs.

**Tavish Scott:** That raises some interesting questions about GAE as a principle of share-out of local government finance, because it is up to each local authority whether it spends below, up to, or more than its GAE. I am sure the local authority in your area does that; I know that mine does. If we were to be prescriptive about GAE, that would be a significant change—a huge change—to the manner in which local government finance is structured and allocated. That is an interesting and very wide question.

**The Convener:** I am not necessarily suggesting that you nationalise local government. I was driving more at the fact that, if you are trying to agree a base budget and you manage to do so, you cannot then say, "But we haven't got enough money in this base budget for X, Y and Z."

**Tavish Scott:** I take your point.

**The Convener:** There are no further questions, so I think that you have got off remarkably lightly.

**Tavish Scott:** It did not feel like that from this end.

**The Convener:** Thank you for your contribution. I also thank the Scottish Executive officials, Graham Owenson and Andrew Rushworth.

15:34

*Meeting continued in private until 16:17.*



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