

# **LOCAL GOVERNMENT COMMITTEE**

Tuesday 2 October 2001  
(*Afternoon*)

Session 1

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## LOCAL GOVERNMENT COMMITTEE

25<sup>th</sup> Meeting 2001, Session 1

### CONVENER

\*Trish Godman (West Renfrew shire) (Lab)

### DEPUTY CONVENER

\*Dr Sylvia Jackson (Stirling) (Lab)

### COMMITTEE MEMBERS

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

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

\*Tricia Marwick (Mid Scotland and Fife) (SNP)

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

\*Ms Sandra White (Glasgow) (SNP)

\*attended

### WITNESSES

Angus MacKay (Minister for Finance and Local Government)

Neil Rennick (Scottish Executive Finance and Central Services Department)

Christie Smith (Scottish Executive Finance and Central Services Department)

### CLERK TO THE COMMITTEE

Eugene Windsor

### SENIOR ASSISTANT CLERK

Irene Fleming

### ASSISTANT CLERK

Neil Stewart

### LOCATION

Committee Room 1



## Scottish Parliament

### Local Government Committee

*Tuesday 2 October 2001*

*(Afternoon)*

[THE CONVENER *opened the meeting at 14:01*]

### Items in Private

**The Convener (Trish Godman):** Okay comrades, let us begin. Agenda item 1 requires us to consider whether to take items 3 and 4 in private after we have cross-examined Angus MacKay.

Under item 3, we will discuss the merits of proposed witnesses. We would not wish to be disrespectful to witnesses by discussing in public their relative pros and cons.

Under item 4, we will consider proposals for a civic participation event. The proposals have still to be submitted to the conveners liaison group. I would rather that the CLG did not know what I was going to say before I got there, so I would like us to discuss that item in private.

After we have taken evidence from the minister and his officials, I will ask the committee to clarify and suggest some things to our adviser, Arthur Midwinter—and vice versa—on the budget process and where we go from here. Is that agreed?

**Members** *indicated agreement.*

## Budget Process 2002-03

**The Convener:** Members will remember that we considered the budget at stage 1 and responded to the Finance Committee in May. The minister's reply is included in the committee papers.

We welcome Professor Arthur Midwinter who is adviser to the committee for the budget process. We also welcome the Minister for Finance and Local Government and his officials: Neil Rennick is head of the local authority expenditure and council tax branch of the Scottish Executive and Christie Smith is head of the finance and performance division. We know you well and you know the drill.

**The Minister for Finance and Local Government (Angus MacKay):** I thank the committee for giving me the opportunity to provide evidence for stage 2 of the budget process. You will be relieved to hear that I do not have many opening remarks. We had a full discussion of the general principles and some specific matters in May. That was reflected in the committee's report to the Finance Committee. My letter of 10 September set out my response to the issues that were raised.

There has not been any significant change to the local government sections of the budget since stage 1 other than to confirm the additional provision to meet our commitments in funding the McCrone settlement for teachers' pay and education matters.

As the committee will be aware, since the publication of the stage 2 budget document we have announced additional resources of £125 million to be allocated through local authorities next year, to fund the Executive's commitment to free personal and nursing care for older people.

We are discussing with the Convention of Scottish Local Authorities a number of other transfers of resources into the local government settlement, on top of the existing three-year allocations. I plan to announce the increased settlement totals in early December. That is the background. I am happy to provide further clarification on the current local government budget plans.

**The Convener:** I will kick off by asking about the funding gap. COSLA has identified a £440 million gap that is fully funded by council tax payers. What is your view of the acceptability of the additional council tax burden that arises from that funding gap? Can you assure us that the excess expenditure does not endanger the Scottish block grant? What do you know about funding gaps south of the border? Can we learn anything from the English experience?

**Angus MacKay:** I will turn to my officials in a moment and ask whether they can shed some light on the position south of the border.

I do not believe that the funding gap implies any future difficulties for the Scottish block. It is recognised clearly in the devolution settlement that there is a systematised approach to the funding of Scotland. Within that context, the Executive and the Parliament are entitled to make strategic policy decisions that best suit the needs and purposes of the people of Scotland, whether or not there is any variation between what we do in Scotland and what happens in the rest of the UK. Were that not the case, there would be precious little point in having the Scottish Parliament. I do not think that the funding gap, as you label it, presents a particular problem in that regard.

In respect of the £440 million figure that you mentioned—the gap between grant-aided expenditure and local authority expenditure—there is a misconception. It is important to stress that GAE is simply a distribution mechanism; it is a way of trying to measure what is broadly appropriate for service provision across the full range of local government services. It would be quite straightforward to change the prescribed level of GAE, but that would not of itself produce any additional grant or support for councils. It must also be remembered that changing GAE and allocations would mean slicing up the same cake differently. When there is a disputation among local authorities about how money is distributed, it must be remembered that we are talking about shifting money from one part of the settlement to another.

Having said that, there is an issue, which the convener raised, about council tax and how services are funded. People from many strands of political opinion in local government, and indeed people with no party allegiance, have long argued that there should be scope for differences to materialise between the approaches of political parties in individual administrations. It has been argued that a core element of that is the capacity for local authorities not to be capped and for them to set their own council tax levels, which would lead to real choices between the political parties. We have sought to augment that position with the stability of the three-year funding settlement and by removing the guidelines that have traditionally been in place for local government, so that councils are freer to set their own budgets according to the priorities of their areas and to set council tax levels accordingly.

We said that, in exchange for a stable three-year funding package, we would expect councils to levy reasonable levels of council tax during the three years. We wanted local authorities to give us clear indicative levels and, broadly, that has happened. I

am not sure that we can go too far down the path of bemoaning a gap between GAE and local authority expenditure while reconciling that with local government's legitimate argument that it should be allowed the maximum amount of freedom possible to make spending and policy decisions.

**The Convener:** Can an official answer the question about the situation south of the border?

**Christie Smith (Scottish Executive Finance and Central Services Department):** As the minister said, we do not regard this as a funding gap, but there is a difference between GAE and total local authority expenditure in Scotland. There is a similar difference between what are called total standard spending assessments and local authority expenditure in England. I think that the gap is proportionately slightly smaller in England, but it is of a similar order.

**The Convener:** Will local taxation contribute to the costs of funding free personal care?

**Angus MacKay:** No. The Executive will fund the package in full.

**The Convener:** Thank you.

**Tricia Marwick (Mid Scotland and Fife) (SNP):** If one of the objectives of grant support is to reduce the burden on council tax payers for the costs of service provision, is not your attitude to the funding gap complacent?

**Angus MacKay:** No. I dispute the assertion that one of the purposes of grant support is to reduce the burden on council tax payers. Grant support assists local government in the provision of services. Local government, in its various guises in the 32 authorities in Scotland, quite rightly seeks to make its own policy decisions about what services it wants to provide and at what level.

Statutory requirements exist on what local authorities must provide and to what extent, but it is not right to say that grant support exists to intervene in respect of the overall council tax level. Grant aid exists to support the delivery of services. Council tax gives local authorities a degree of discretion about the level of funding that they feel needs to be put in place to support the level of funding that local populations want to deliver key services.

**Tricia Marwick:** Is the minister satisfied that the gap is caused by political decisions to provide additional services, or are local authorities raising the level of council tax to make up for what were inadequate funding packages in the first place?

**Angus MacKay:** Inadequate funding packages? It is hard to see that position being argued with a straight face in the context of the three-year funding settlement. I see that Tricia Marwick is

smiling, and I hope that that means she agrees with me. The three-year funding package has put in place real-terms increases, year on year, for every local authority in Scotland. The context that we are discussing has changed dramatically. Individual local authorities throughout the country are making a wide range of policy choices in different service areas. Those choices increase or decrease the consequent burden that falls on the authorities' finances.

Let us pick an example from a subject that the committee may want to move on to, which is the share-out of resources from the McCrone settlement. Some local authorities will argue that the settlement is not fair because they have more teachers than other authorities have. Those authorities could argue that they are not getting a funding share that is based on the number of teachers. That is true: they are getting a funding share that is based on the GAE figures of the number of schoolchildren in their area. That is the formula that the Executive and COSLA agreed for the way that funding should be rolled out.

If the funding package for McCrone reflected the number of teachers, that would mean that local authorities that had taken policy decisions to employ more teachers would be rewarded by central Government grant. How can an equitable distribution mechanism work if distribution is made on that basis? Some objective mechanism has to be used, and that is GAE. Local authorities must have the discretion to exercise policy choices about employing more or fewer teachers. They can decide to set a council tax that supports, trims or increases other service areas. That is what political and policy choice in the 32 Scottish local authorities is about.

If Tricia Marwick was to make the same argument in relation to the relationship between the Scottish Parliament and Westminster, I think that several members would jump up and down heavily about that.

**Tricia Marwick:** The minister wrongly interpreted my question. I am not surprised that he did so. I was smiling because he seems to be seriously arguing that the only reason for the funding gap is that individual local authorities' policy choices have caused that funding gap.

**Angus MacKay:** No—I did not say that. I am saying that there is a range of reasons why what one might call a difference of opinion exists between COSLA and the Executive about what is an appropriate level of funding for Scottish local government. One of those reasons is that there is no such thing as enough money for council services or for any public services in Scotland. One can always spend more. It is always possible to find sensible ways to invest more money. It is not possible to say, "This is enough".

The stability of the three-year settlement brings to bear real-terms increases for each of the 32 Scottish local authorities in each of the three years of the settlement. I do not see how anyone can argue that there is not enough money. However, we must consider how the money is spent, what the priorities are, what policy decisions are taken, the reshaping of services in the internal structure of the local authorities over the three-year period and what else the Executive is doing to support and augment the work of local government and other public sector agencies. Through the modernising government fund and the agenda for modernising government in the 21<sup>st</sup> century, we are aiming to increase the quality of public service that is given by public sector organisations. It is far too simplistic to assert that GAE is one figure, expenditure is another figure, there is a difference between the two figures and that local government is therefore underfunded—the picture is far more complicated than that.

14:15

**Mr Keith Harding (Mid Scotland and Fife (Con):** I want to change the subject. In our report, we identified the mismatch issue as a problem. You appear to be saying that it is not a problem because five of the six authorities receive above-average grant allocations. It was clear from the evidence that we took that mismatch remains a problem as mismatch authorities spend above GAE. Will you expand on your answer? You did not seem to answer the question.

**Angus MacKay:** You wanted to change the subject, but mismatch is related to what we were discussing. Mismatch is a distribution issue. The cake will not get any bigger simply because we talk about mismatch—the cake will be the same size. Local authorities may think that they have not had a fair settlement in their share of resources following local government reorganisation, but a reallocation of resources can come only from other parts of local government. A magic wand cannot be waved. Reallocation would place constraints on the funding of other local authorities.

Grant distribution arrangements have been the subject of fairly detailed review with COSLA. There was much soul-searching and angst on all sides when the distribution mechanism was discussed in the run-up to the three-year settlement announcement. I understand that COSLA is no stranger to discussions on the grant distribution mechanism. The experience of that process and of many processes before suggests that further reviews are not likely to produce significant changes to the existing distributions. That is not to say that reviews will not be undertaken again, but we seem to be talking about the pursuit of the holy grail. There will never be a

distribution mechanism that suits everyone. Whenever we enter into discussions about a different distribution mechanism, part of the problem is that everybody thinks that they will get a better result. If one organisation gets a better result, another organisation, or other organisations, must perforce get a poorer result. At the end of the day, one must try to find a reasonably objective mechanism for distributing between local authorities and then focus on some of the other important issues concerning quality of service delivery.

I would not argue that the local authorities that say to the committee or to the Executive that they have problems with mismatch do not have problems left over from local government reorganisation. Most committee members would agree that local government reorganisation was not well handled or well structured in respect of the prime motivating force behind it. On the other hand, complicating factors go beyond simply mismatch—take, for instance, individual councils' policy decisions. The picture is sophisticated and difficult. I am not unamenable to listening to arguments about how we can more fairly reflect on the funding that is in place and the challenges that are faced by individual local authorities. However, I would be more persuaded by the arguments if local authorities were able to achieve an agreed position. As Keith Harding knows, such agreement is unlikely ever to be found.

**Mr Harding:** Are discussions continuing with COSLA about mismatch? Have you determined that it is not a problem?

**Angus MacKay:** I had a meeting last week, I think, with COSLA officials and a councillor, at which a number of issues were raised. I think that we touched briefly on mismatch in the passing. I said that I do not want us to set our face against any issue that is of concern to COSLA as the representative body for local government. Equally, we have a limited amount of available cash and human time to direct our energies to the problems and challenges that are faced by local government. I want our energies to be directed to where they would be most fruitful. I am not entirely convinced that revisiting the grant distribution argument at this stage would be the most fruitful use of our time.

**Mr Harding:** According to a report by COSLA that appeared yesterday, ring fencing, hypothecation and specific allocations now amount to 30 per cent of funding. Is there provision in the budget for showing exactly what money the Executive allocates for specific purposes?

**Angus MacKay:** I hope that COSLA will give us the opportunity to examine closely how it arrived at the astonishing figure of 30 per cent. It must be

counting many interesting things as local government expenditure. For example, we fund 51 per cent of policing expenditure and local authorities are expected to provide the remaining 49 per cent. COSLA has counted that in its figure of 30 per cent. Nobody could seriously argue that that is ring fencing that impacts on local government and makes it difficult for local government to do its job—unless COSLA is saying that it wants to revisit the funding mechanism for police and fire boards, which I imagine local government would be extremely hesitant to do.

Arguing that 30 per cent of expenditure is ring-fenced does not help the case that COSLA is seeking to make, or the relationship between local government, the rest of the public sector in Scotland and the Executive. That figure is completely unsustainable. We estimate that the figure is closer to 10 per cent. I have told COSLA that we want to go through the figures with a fine-toothed comb. The best way for us to do business with COSLA and local government is to agree on the factual information. We can then argue about what should happen next. When our figures are so wildly at variance, there is a problem. I hope that COSLA will recognise that.

**Mr Harding:** I anticipated your reply, minister. Would not this problem be overcome by having the budget include a figure showing how much expenditure is hypothecated or ring-fenced?

**Angus MacKay:** Table 9.2 on page 189 of the draft budget for 2002-03 lists the specific grants in cash terms for 2001-02 through to 2003-04. The information that the member seeks is included in the budget.

**Neil Rennick (Scottish Executive Finance and Central Services Department):** Specific grants amount to about 10 per cent of the total expenditure figure.

**Iain Smith (North-East Fife) (LD):** I want to ask about issues relating to the capital budget. In your response to the committee's stage 1 report on the budget process, you indicated that you were considering giving local authorities additional flexibility to manage their capital programmes, including allowing money to be carried forward between years. How does that square with the decision on end-year flexibility? Of the £28.6 million underspend on capital borrowing consents for local government, only £11.6 million was allowed to be carried forward.

**Angus MacKay:** I am not sure whether we are talking about the same figures, but I understand that the figures that we accounted for in the EYF announcement did not relate to money that was with local government. Local government retained everything that it received. We have not clawed anything back from local government. Money was



retained in the Executive's central line. That might best be described as a contingency fund. Local government has benefited substantially from the EYF settlement. For example, EYF from other areas has been invested in education. That means that money will go straight to the schools for which local government is responsible.

I know that there has been a great deal of debate about section 94 and the way in which we regulate capital expenditure by local authorities. As we promised the committee last year, we have entered into dialogue with COSLA about that issue. We have done some work with the Chartered Institute of Public Finance and Accountancy, in which COSLA has been involved. We are considering closely how we may free up the regulations in this area to allow local government more flexibility on the capital side.

**Iain Smith:** I welcome that and your assurance that local government borrowing consents have not been clawed back. However, local authorities would have liked the £28.6 million that I mentioned to have been allocated to them in the first place, so that they could have spent it.

I want to move on to public-private partnerships, which are a matter of considerable public interest and debate. It is difficult for some local authorities—especially smaller rural authorities—to take advantage of the PPP option. They cannot put together packages that are large enough to attract the private sector; it is estimated that a scheme must be worth £10 million or £15 million before the private sector will be interested in the expensive process of going into a PPP. Is the Executive considering ways of ensuring that those smaller authorities are not disadvantaged because they cannot use the PPP option for capital schemes in the way that larger authorities can?

**Angus MacKay:** I am not sure that I accept the argument that rural authorities are unable to access PPPs. In my reply to the committee's stage 1 budget report, I set out some PPP projects that had taken place in Highland, Aberdeenshire and Argyll and Bute. Those projects demonstrate that PPP can work in rural authorities. The question that Iain Smith rightly raises is whether PPPs have to rise above a certain scale threshold before they can work. That may well be an issue. I suspect, however, that it is just as much of an issue in urban authorities as it is in rural authorities. In my local authority area—Edinburgh—I know that a number of potential PPPs have fallen by the wayside because of their scale.

If we are considering both PPPs and traditional methods of funding capital projects, and if we want to choose the best-value option, we need to ask whether rural authorities have the same opportunities as urban authorities to take advantage of either option. I feel that they do

indeed have the same opportunities, but I retain an open mind. I will consider carefully any representations from rural authorities on difficulties that they have encountered, because I would want to know whether there was a level playing field, with the difficulties being common to all local authorities, or whether the problems specifically affected rural authorities. I will be happy to listen to problems and try to find a way around them.

**The Convener:** There seem to be conflicting views on PPPs and private finance initiatives. Have you discussed with COSLA and the Treasury whether there are other options? Does the Executive intend to examine thoroughly the efficiency of PPPs, by comparing and contrasting them with other forms of funding?

**Angus MacKay:** The issues that are raised by those two questions are bound together. The Executive is considering some of the issues that arose from the recent report by the Institute for Public Policy Research. The IPPR asked a variety of interesting questions and considered value for money. It asked whether the public sector was getting the best deal possible in each case in which a PPP had gone ahead.

We want to satisfy ourselves that such issues are being addressed properly. Current work by the finance department is about ensuring that, where PPPs go ahead, they do so on the basis of maximising the value to the public sector. Such schemes cannot go ahead unless the whole-life cost of a project is cheaper than a traditional public sector option, but that does not mean that the local authority—or the health trust or whatever part of the public sector is involved—will maximise the contractual deal. For example, there is a difference between, on the one hand, a PPP deal for a school that guarantees a new school with facilities built in for 20 years and, on the other hand, the same deal but with contractual breaks built in for technology upgrades every five years. Such things may not happen as of right when deals go ahead.

We have to give all parts of the public sector access to the best of what has been achieved in individual PPP deals. There is a role for someone to do that. Partnership UK is a relatively new organisation that is sponsored by the Treasury; it is intended that it will address part of that agenda. Our own finance review is considering the role that the Executive and other organisations may have to play. It is also trying to ensure that there is better focus on the ways in which we can maximise the value that we get from PPP when it is appropriate to use it.

**Ms Sandra White (Glasgow) (SNP):** Minister, you said that you were going to start a rolling programme to determine the value of PPPs. Might it not have been more prudent to start that before

councils were forced—I use that word because that is the word that councils have used before this committee—into PPP schemes? What happens to councils that have entered into PPP contracts? They cannot get out of them. That suggests that it is a bit late now to consider the pros and cons of PPP.

14:30

**Angus MacKay:** It is strange to suggest that the Scottish Executive is responsible for PPP arrangements that were entered into before the Scottish Parliament existed.

In every part of public policy, not only in relation to PPPs, we are obliged to maximise the quality of what we are doing. It is wrong to say that nothing of this sort has taken place so far and it is also wrong to say that councils and other public sector organisations have been forced to go for PPPs. There are clear and non-negotiable rules about where and how PPPs can be used. A PPP can be used only where it represents better value in terms of the whole-life cost of the contract than the traditional public sector procurement mechanism. That hurdle must be negotiated in every instance in order for the PPP to go ahead—if it is not, the option cannot be taken. It is not true to say that no degree of testing is already in place.

I am talking about the public sector having the opportunity to share its experience of PPPs. PPP is a relatively new approach and, as with everything new, there are success stories and less successful stories. We have to make sure that lessons are learned from the success stories and are rolled out to the rest of the public sector.

**Ms White:** When the Scottish Parliament came into existence, it could have had a moratorium on PPPs without engaging in a consultation process. Would you deny that the Executive basically told councils that, if they wished their schools to improve, they would have to enter into PPP contracts? That is what councils have told me.

**The Convener:** I believe that you have answered that question, minister, but you may reply if you wish.

**Angus MacKay:** I repeat the point that I have made. A PPP cannot go ahead unless it can be demonstrated that it is a cheaper option—over the whole life of the project—than the traditional public sector procurement method. If we decided to be politically pure and not take the PPP option, we would not make the savings that would otherwise be made and that could be reinvested in other areas of the public sector. That would be a bad deal for people who are dependent on those public services and would represent the following of political dogma, rather than an attempt to determine how to best deliver quality public

services to those who depend on them.

**Mr Michael McMahon (Hamilton North and Bellshill) (Lab):** Much of the discussion so far has been about the accuracy or otherwise of statistics and the way in which statistics are used to substantiate differing arguments. That seems to have been an on-going problem, as you implied when you suggested that we should find a way of agreeing criteria for using the statistics. Would you be prepared to provide a detailed strategy statement for local government in next year's annual expenditure report, so that any scrutiny of the statistics can be made on the basis of agreed statistics?

**Angus MacKay:** I understand the appeal of that, but it is an option that is fraught with dangers that we must think about carefully before coming to a decision. We might be seen to be prescribing what local government must do with the cash that we supply. The substance of the debate about local government involves the need for hypothecation and a call from local government to be given the money and allowed to get on with the job. There must be a constructive middle way and that is what our attempt to make progress on local outcome agreements is about.

We have broad, strategic national objectives that we want to achieve and local government delivers the overwhelming majority of those, as well as tailoring those services to local needs. We must find a way to engage the sets of interests without having one side or the other being pushed down byways that it does not want to go down. There is a tremendous opportunity to do that with local outcome agreements. Some work has already begun between health boards and local authorities. I hope that the money that we put in place for personal nursing care, which at the moment is hypothecated, will be de-hypothecated quickly when we reach local outcome agreements. That probably represents a better way of ensuring that national and local objectives match.

I think that you are talking about a related, but different, issue—whether we can find a strategic way to measure what we say we want local government to do and to set that alongside our budget proposals. The current process, which involves a huge amount of information, is already enormously detailed. I am wary, first, of the additional level of bureaucracy and paperwork. Secondly, we need to discuss with local government what its reaction would be to being given the money by us and being told—by the way—the things that it has to do. There might be some sensitivity about that. That is not to say that it would be unworkable or impossible. I would keep an open mind on that.

**Mr McMahon:** There is another argument. In some instances, local authorities might be under

the impression that they are in receipt, or will be in receipt, of certain sums of money. Although it might transpire that they are not in receipt of those moneys, that does not necessarily mean that the overall figures are wrong. To illustrate, the reduction of £7 million in the revenue support grant—RSG—for local authorities, which was announced in the draft budget records, could lead local authorities to say that they are losing £7 million. That is not the case, however, because there is a £7 million increase in non-domestic rate income—NDRI—so the overall budget is the same.

If a statement came out in advance, any basis for disagreement about the overall levels would be removed. The scrutiny of the statistics would become much easier.

**Angus MacKay:** It seems that you are talking about transparency. There is no difficulty with driving further forward on that front. We are more than happy to engage with that issue to ensure the availability of an understandable and sensible set of information and statistics. That would mean that when we have debates such as this, or when we engage with local government, we all consider the same bits of information and agree or disagree about what we should do. I am comfortable about that. I would be more wary about announcing political direction, as it were, at the same time.

**Neil Rennick:** In a sense, we have already been transparent with the three-year settlements. Local authorities know what their guaranteed allocations will be for the three-year period of the spending review.

**Mr McMahon:** Local authorities have said to me that they thought that they were going to get X amount of money to deal with such-and-such. Following another announcement by the Executive about policy direction, the authorities asked whether they would get more money to deal with that and the Executive said, "No, sorry. You've already got that in your allocation this year." The local authorities did not expect that to be the case, but the Scottish Executive said that it was.

If there was a clearer strategy statement at the outset, perhaps the local authorities would not be under those misapprehensions.

**Angus MacKay:** We can think about that. It would be difficult to address all of that, particularly with in-year announcements. If we make specific announcements about new policy initiatives, as an Administration we have a commitment that all such initiatives that impact on local government will be fully funded by the Executive. That is a starting assumption that we would seek to honour.

We can examine the clarity with which we give out information when we make announcements. However, it might be that in some of the

circumstances that you have described we need to examine matters on a case-by-case basis—the information might not have been presented in a sensible format or might have been misinterpreted for some reason. We could analyse some of those examples to find out what they throw up.

**The Convener:** I refer to your letter of 10 September. I am interested in your comments on children's panels. Perth and Kinross Council and Orkney Islands Council said that the panels caused an unpredictability when they were doing their budgets. The councils expressed concern about the amount of money that had to be put aside for children's panels, which would make a decision that would be outwith the councils' control.

The other issue on which budgeting is outwith the control of the council—certainly in Glasgow—is asylum seekers and refugees, not all of the funding for whom comes from the Home Office. Those aspects—I need to look because I cannot always remember—are community facilities, transport and the reconciliation programmes. I know that certain money has gone to Sighthill for those purposes. However, other authorities are beginning to say that they will seriously consider taking asylum seekers and refugees in the long term. Not all of that money comes from the Home Office, and it is anyway received in retrospect; the Home Office does not give the money up front. That is my recollection, although the situation may have changed.

Do you think that councils have been a bit slow in considering such unpredictability in parts of their budgets? Is there a case for a review over five years, to determine councils' efficiency in managing that unpredictability? It can be quite serious for small councils. For example, Perth and Kinross Council and Orkney Islands Council were keen to tell us about it, as it causes them significant problems. It could cause problems for councils that accept asylum seekers.

**Angus MacKay:** The issues surrounding the taking of asylum seekers on the current scale in Glasgow reflect the fact that it is a relatively new experience. We will have to consider the funding of that and see what lessons we can learn, especially if other local authorities are going to face those issues. We must ensure that, whatever else happens, the provision of facilities is not an issue. We will wait to see what comes out of that initiative.

On the wider issue of demand-led budgets—children's panel referrals being a specific example—I would not blame local authorities. I would not say that they have been lax in that regard. Essentially, they are dealing with a circumstance that is outwith their control. The Executive faces the same problem in its legal aid

budget and in regional selective assistance for inward investment. It happens that, in the two examples that I gave, we are below the projected level of spending for the past year, because uptake was not as high as predicted. Next year, however, the situation could be different and we could be spending above the projected level. We would then have to find concomitant in-year savings elsewhere in the budget to switch money across, or we would have to decide how best to use any additional resources.

Councils face a similar problem. The difficulty is that some councils face substantial changes, which can have a disproportionate effect on their budgets. I have asked Executive officials to discuss that issue with COSLA, to determine what the longer-term solution to the problem might be. I do not know what option the local authorities favour. More money is not necessarily the answer, as there might still be in-year variation. It may be that the funding of these things needs to lie somewhere else, so that it does not have a disproportionate impact on local authority budgets. We must wait to see what emerges from the discussions with COSLA and the individual local authorities before we act, but we recognise the issue.

**The Convener:** I just wanted to establish the fact that those discussions are taking place.

**Ms White:** You announced a £7 million reduction in the revenue support grant, although there is a £7 million increase in NDRI. Obviously, if it was the opposite way about, the announcement would be opposite. We have talked about clarity and unpredictability regarding council budgets. Why does that £7 million—be it an increase or a decrease—not appear anywhere else, in any other format? It is not mentioned in any other papers. Why has it just appeared all of a sudden? You are talking about councils' budgeting for three years and grant-aided expenditure. How can councils possibly budget when, all of a sudden, you come up with £7 million taken away from the revenue support grant?

I mention £7 million specifically because that is the figure that was announced. Is that £7 million being used for Government initiatives in health and education—in other words, Government policy? For too long, local government priorities—and you seem keen on the word “priorities”—have been overlooked in favour of Government priorities. When the Government puts forward a priority, local government is left to carry the can for Percy without extra moneys. We are talking about clarity. If the £7 million, or more or less of that money, appears again in the form of a decrease or an increase, will the Executive clarify where it has come from? Could that be written into reports, so that local councils, the Local Government

Committee and the Executive can know exactly how much money is going into local government coffers?

**Angus MacKay:** I am not quite sure where to begin answering that question. My understanding is that the £7 million that you are referring to is a technical adjustment in the tables—I will ask my colleagues to speak about that in a moment.

14:45

**Ms White:** I am always more interested in money than in technicalities, but I am sure that you will explain.

**Angus MacKay:** I may be reading wrongly between the lines of what you are saying, but your question seems to be whether central Government has walked off with the £7 million to invest in its own priorities when that money should have been left with local government.

**Ms White:** You said it. I will wait for you to answer. If the question was not suitable, I can ask it again.

**Angus MacKay:** If that were the case, it would show terrible paucity of ambition for us to be walking off with £7 million. The local government budget for the current year is somewhere in the region of—if my figures are right—£6 billion. The idea that we pirated £7 million to somehow fund some major central Government initiative is stretching credulity.

The issue is minor, but I will ask Neil Rennick to speak on it.

**Neil Rennick:** The total grant that we provide to local government includes elements of the revenue support grant that you mentioned and non-domestic rates that are collected from councils and pooled together.

The non-domestic rate figure is an estimate, because councils collect the money in-year and there are appeals. The figures for non-domestic rates are always adjusting; they are never stable. The RSG balances against that, so that we can say to councils that we can guarantee them the £6 billion. If NDRI drops, the RSG will increase to cover that. Similarly, if NDRI is more than we anticipated, RSG is reduced to balance that, so that we can guarantee the councils the same amount of money. Although the £7 million was identified as a saving, it has no impact on the amount of money that local government gets in total—it gets the same amount of money.

**The Convener:** If NDRI was £7 million less, how would the Scottish Executive balance that?

**Angus MacKay:** If the NDRI take was less than had been predicted, we would have to supplement it from within the Scottish Executive budget

through a rates support grant.

**Iain Smith:** The budget is for 2002-03, but also looks ahead to future years. How far ahead are the Scottish Executive and COSLA looking at possible future burdens on local government? I particularly draw your attention to the issue that was raised during the consideration of stage 1 of the Police and Fire Services (Finance) (Scotland) Bill about a pensions time bomb in the fire service and, to a lesser extent, in the police. Are you looking now to identify the likely impact of that on the local government budget to ensure that the resources will be there to meet it?

**Angus MacKay:** There are three points to make in response to that important question. We are about to go to the comprehensive spending review 2002, which will set the spending proposals for the three years following the current CSR period.

We touched on the subject at the meeting with COSLA last week and discussed the way in which COSLA can input into our considerations and deliberations. We are thinking about that. Certainly COSLA had an input last time round. During the previous budget round it had the opportunity to make representations about what it saw as the key issues, the strategic shape of investment required and some of the spending pressures. That will be taken on board.

We are considering, as part of the way in which we are informing ourselves for the CSR 2002 process, the spending pressures that the Administration faces from any and all quarters over the next few years. That is in order that we do not simply have a budget process that is about saying how much extra we got from the Treasury and deciding what we spend it on. That is absolutely not the way in which the process will be conducted. We will be doing priority-based budgeting, which means that we will be asking departments to tell us what their priorities are, not just for new spend, but for current spend.

We will be looking to see where, within our existing resources, there are things that we could do differently and better or where money might be realigned in order to meet more pressing priorities or new priorities. We will certainly be looking to see which of the spending pressures dictated by external trends in different services—whether demographics or pension time bombs, real or imagined—impact on the period of the CSR 2002.

We are taking a broad snapshot as a first step. We will then use that information to better inform us as to what key issues we need to take cognisance of in our budget decision-making process. We will probably drill down more closely into some that we think are more substantive. We want to be sure that we set a spending line for the three years that is sustainable, fundable and

delivers our policy priorities. We believe that we are doing that year on year at the moment and we will look to do that over the three-year period of CSR 2002.

**Tricia Marwick:** I want to return to the question that Sandra White asked about NDRI. We are agreed that there is a reduction of £7 million in the revenue support grant because of an expected £7 million increase in NDRI.

**Angus MacKay:** No. The point that Neil Rennick was trying to explain was that we set out at the start of the year an amount that local government will have to fund its services. The mechanism is designed to avoid precisely what Tricia Marwick suggests; it is designed to ensure that local government gets that initial figure, come what may. If the NDRI take is lower than anticipated, central Government will top up that money to ensure that the local government budget remains intact.

**Neil Rennick:** The position in relation to non-domestic rates is always fluctuating.

**Tricia Marwick:** However, where there is a surplus, the Executive will remove it from local government.

**Angus MacKay:** It does not matter whether it goes above or below the line, local government is guaranteed to get what we promised at the beginning of the year.

**Tricia Marwick:** If there is an expected increase in NDRI, would it not make more sense to leave that with the local authorities and to allow the funding gap to be narrowed to some extent?

**Angus MacKay:** That depends on one's political priorities. One might argue that it would make more sense to invest it in the health service or to deal with any one of a number of competing spending pressures. It is a matter of looking at the menu and taking one's pick.

**Neil Rennick:** The argument can work the other way. If there were a loss in non-domestic rate income, should councils lose money?

**The Convener:** We have time for one more question—please make it a question, Sandra.

**Ms White:** It will be a very quick question. Minister, can you tell me whether the money for Glasgow that has been announced by Jackie Baillie will have a knock-on effect on any other moneys that Glasgow is being given in grants and so on, and will it have a knock-on effect on other councils—will they be receiving the equivalent?

**Angus MacKay:** I do not think that it will have a knock-on effect on any other funding streams for Glasgow. As far as I am aware it is a discrete package that will not impact elsewhere.

Jackie Baillie would be better placed to answer the question in respect of other local authorities, but my understanding is that, as and when stock transfers take place in other local authorities, there will be an opportunity to negotiate similar deals through the social justice budget. However, that is out of my territory and would be more appropriate for Jackie Baillie.

**The Convener:** Thank you. You have been let off lightly, minister. I am sure that we will see you again.

14:52

*Meeting adjourned until 14:58 and thereafter continued in private until 15:25.*

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