

LOCAL GOVERNMENT COMMITTEE

Tuesday 16 April 2002
(*Afternoon*)

Session 1

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LOCAL GOVERNMENT COMMITTEE

10th Meeting 2002, Session 1

CONVENER

*Trish Godman (West Renfrewshire) (Lab)

DEPUTY CONVENER

*Dr Sylvia Jackson (Stirling) (Lab)

COMMITTEE MEMBERS

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

Tricia Marwick (Mid Scotland and Fife) (SNP)

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

*Elaine Thomson (Aberdeen North) (Lab)

Ms Sandra White (Glasgow) (SNP)

*attended

WITNESSES

Mr Andy Kerr (Minister for Finance and Public Services)

Neil Rennick (Scottish Executive Finance and Central Services Department)

CLERK TO THE COMMITTEE

Eugene Windsor

SENIOR ASSISTANT CLERK

Irene Fleming

ASSISTANT CLERK

Neil Stewart

LOCATION

The Hub

Scottish Parliament

Local Government Committee

Tuesday 16 April 2002

(Afternoon)

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

Items in Private

The Convener (Trish Godman): Okay comrades, we will start. Does the committee agree to take agenda items 3 and 4 in private? Item 3 is consideration of witnesses in relation to the "Renewing Local Democracy: The Next Steps" white paper. Item 4 is a paper on the School Meals (Scotland) Bill.

Members *indicated agreement.*

Budget Process 2003-04

The Convener: I welcome Ken McKay, who is our adviser on the budget process. I also welcome Andy Kerr, who is the Minister for Finance and Public Services, and Neil Rennick, who is head of the Scottish Executive's local government expenditure and council tax branch. I always have to say that mouthful when Neil attends a meeting.

Welcome to this rather nice place for a meeting. I wanted to sit on the platform behind me, but people would not have been able to hear me. The usual procedure will be followed. I understand that Andy Kerr will speak for a couple of minutes, after which I will open the meeting to the committee for questions.

The Minister for Finance and Public Services (Mr Andy Kerr): I have just a few opening remarks. I like your gaff, as they say. It is a pleasant place to give evidence.

I thank the committee for the opportunity to discuss stage 1 of the 2003-04 budget process. I know that the committee will focus on the aggregate local government totals for that period. I hope that my written submission was of some use.

As the committee knows, 2003-04 is the final year of the current spending review period and the first year of the next three-year period, following on from this year's spending review. I have met the Convention of Scottish Local Authorities several times. When I met representatives last month, we talked about, among other things, our arrangements for discussing the spending review process. We agreed to develop our discussions on priorities and on how we can ensure that we focus on the delivery of high-quality, high-standard public services, which is what we are all about.

The questions that the committee sent me used interesting terminology. I will tackle some of that. The phrase

"new burdens facing local government"

is language that we should be careful about. I am concerned about the practice of describing additional funding, which the Executive provides to local government for national initiatives, not as additional investment, but as new burdens on local authorities.

Those additional resources include £405 million for modernising the teaching profession through the McCrone settlement; £148 million for free personal and nursing care and service enhancements; £48 million for better home care services; £45 million for enhanced concessionary fares schemes; and £40 million for the better neighbourhood services fund, which many members have seen the benefit of. Those are

substantial additional moneys and the term "burden" is inappropriate.

The real additional resources that we are allocating to local authorities support our aim of revitalising local government services and improving the lives of the citizens whom local government and we seek jointly to serve. I am not aware that any local authority has argued against some of the new initiatives and during the usual process of discussion with COSLA, we have had interesting discussions about the way in which we have allocated resources. That is the approach that I want to take to partnership, working through the spending review process with local authorities. As the committee knows, we will announce the outcome of that process in September and confirm the next three-year settlement allocations for each local authority in December.

On the capital side, the committee will be aware that we have now published our consultation paper, called "Renewing Local Democracy", which announces our proposals to replace the existing system of capital controls with the new prudential framework. Much good stuff is going on in that area, and subject to the passage of the forthcoming local government bill, we aim to introduce the new arrangements for 2004-05.

I hope that those remarks cover some other issues by way of setting the context. I am happy to take questions from members on areas in which we have a common interest.

The Convener: Thank you. You have already answered some of the questions that I raised with you in writing some time ago, particularly my question about the service outcomes that the Executive wishes to achieve from the proposed budget. Do you expect the proposed aggregate external finance budget to lead to clear improvements across the full range of services?

Mr Kerr: Yes. That said, the Executive would expect the same from all that it does. We will give the same guidance to local authorities as we give to ministers on the spending review, which is that we want the focus to be on outcomes, not inputs. We are having a very good and constructive dialogue with COSLA on those matters. Although activity will be focused on the five key priorities of education, health, transport, crime and jobs, there is no such thing in local government as a cinderella service—which is a phrase that I have heard being used.

We are clearly focused on certain areas, but we accept that services such as refuse collection, street cleaning, grass cutting and the maintenance of street lighting are very important services for our communities. We want to work with local authorities on outputs and performance, and are doing so, for example through the better

neighbourhood services fund, which is linked to local outcome agreements. Work is also being carried out on assessment and performance in relation to the national priorities for education.

The innovation of community planning adds a new dimension to the assessment of performance. It will be possible for us to have greater influence on developing targets in local government, and working across sectors will perhaps lead to more meaningful performance indicators—whether formal or informal—for service delivery. We will work to support that agenda.

The other issue that relates to your question is best value, and in particular performance criteria and the audit process that will be set out in the forthcoming local government bill. Again, we will focus on the arguably more important area of local authorities' performance, not on inputs.

I am absolutely certain that we have a common agenda. No doubt we will discuss ring fencing. One route out of ring fencing—and one of the areas where we share common ground with our local government colleagues—is the introduction of local outcome agreements that contain service standards to which we can all sign up. Such agreements will deliver better services and will not involve simply ticking a box on a bit of paper about how we deliver services. That approach, which will mean working in concert with local government, will result in improved, high-quality public services.

We are taking a number of steps in different areas. Although we are seeking improved performance, we will do so with local authorities and without taking a big-brother approach.

Iain Smith (North-East Fife) (LD): One of the concerns that my local government colleagues have raised with me is that, although the figures might look generous on the surface—for example, there will be a 6.6 per cent increase over 2002-03—by the time the money for new opportunities, or what some call new burdens, and the transferred moneys from other departments are removed, the actual amount available to local government for services is not that great. As it is quite difficult to identify the exact amount from the figures that you have produced, will you tell us how much the real increase for local government will be?

Mr Kerr: The 51 per cent of additional funding for the police service in the settlement is ring fenced through the police grant. We sometimes get hung up about this issue, but I have not yet met a local authority politician, or indeed a police officer, who would argue about the police grant, which is a major aspect of what people refer to as the ring-fenced resource.

None of the other additional resources that I mentioned in my written response to question 4 is

ring fenced. We expect outcomes for the activities that I have listed. The McCrone settlement has been implemented through grant-aided expenditure, and other aspects of funding and resources for other activities—such as the better neighbourhood services fund and the provision of free off-peak travel for older people and others—are also provided through GAE. Money is going into local authorities' coffers.

The Executive needs to ensure that the services that are required to meet its objectives and priorities are delivered. Those fall within GAE, and additional resources are going to local authorities through general pay and price inflation and through income from fees, charges and council tax increases.

In my current dialogue with COSLA on the spending review, I want to ensure that we create local flexibility. Although the Executive, quite legitimately, has its priorities for policy commitments, we want to create as wide as possible a scope for resources to be spent on local initiatives. I also want to ensure a greater degree of buy-in to what the Executive sees as its priorities in the context of the spending review and the work carried out by local authorities. I would like there to be more of a blend between how we see the priorities developing and local authorities' views of their priorities. I do not think that there is much disagreement about the agenda; I think that it is now a matter of getting down to implementing it.

Iain Smith: I am not necessarily disputing what you say, but you have not really answered the question. A large part of the overall increase in the aggregate Exchequer finance from the current year to next year relates to funding for the additional burdens that are being placed on authorities. I accept that that goes into GAE and is not ring fenced, but teachers' pay and concessionary fares will still have to be paid for, so local authorities do not view that funding as free money. It is, in a sense, tied up.

Authorities often tell us that, in order to meet their budgets and to take into account all the additional burdens, they have to make cuts to some of the services that are not subject to those burdens. I would like an indication of whether next year's budget contains real growth for those other services, or whether that real growth applies only when we take account of the additional moneys that are coming in to cover the additional burdens.

Mr Kerr: I have just been checking with my official about our precise information on actual local authority budgets. The figure that we have entered for pay and price inflation—1.9 per cent a year—is real, new money, which is going to local authorities. The absolute amount of resource that is going in varies between authorities, but I do not

have an exact response about how much money authorities are left to play with.

What I can say is that the amount of money going to local authorities is increasing dramatically over the piece. The resources being allocated to them are quite substantial, in both cash and real terms. I do not have an absolute calculation for what authorities are left to play with locally from what you would call additional burdens and what I would call new moneys for priorities. Since local authority reorganisation, and following the first comprehensive spending review, pay and price inflation is now in effect becoming part of the resources that we put into local government, which I hope will be welcomed by many people.

Neil Rennick (Scottish Executive Finance and Central Services Department): The decisions that local authorities take about council tax levels will be a factor. The settlement makes no presumption about funding from council tax going towards national priorities. That money is available for local authorities to fund their local priorities alongside whatever has been allocated under the settlement for pay and inflation—plus whatever efficiency savings councils are able to make.

Iain Smith: Would it be possible for you to provide the committee with a breakdown of the figures that you have included in your written response to question 4? I am not asking for this right away, but could you perhaps inform us in a follow-up letter how much of the full additional amounts is additional in next year's allocation rather than already included in this year's allocation? For example, some of the £405 million to cover the McCrone settlement is already in this year's allocation. How much additional funding is in next year's allocation for each of the new burdens? With that information, we could calculate how much of the £438 million allocation is intended to meet those burdens and how much of it is for other things.

Mr Kerr: We can provide that breakdown.

Mr Keith Harding (Mid Scotland and Fife) (Con): Good afternoon. I want to pursue that matter a bit further. I do not want to appear negative, because I think that things are improving and that the budget system is becoming a bit clearer, but there is still a need for greater transparency about the real increases in the budget settlement. You mentioned police funding, so I will use that as an example. I believe that it was 1997 when Crown immunity was removed from police forces for the payment of business rates. That was fully funded by a settlement to councils to pay those rates, but the figure of £10 million or more was announced as an increase in police expenditure. Where is the transparency there? The money did not represent an increase in

police expenditure; it was paid to councils to cover business rates that they formerly did not pay.

14:15

Mr Kerr: The point is that if you know about that, it is clear that the information is in the public domain. On the changing of Crown immunity and moneys going to local authorities because of that, that is just what happened at the time.

Mr Harding: We only know the reason for the increase in police expenditure because we asked parliamentary questions. At the time, it was announced as a big increase in settlements for the police force.

Mr Kerr: That is what dogs discussions about resources for our services. I am in dialogue with the Convention of Scottish Local Authorities about that matter in particular, but the point applies equally to other services. The COSLA submission may be raised today. We must get out of the trenches of arguing about large resource figures. We must get beyond discussing those sorts of high-level hits so that we can have the kind of meaningful discussions that I am having with COSLA. We must move away from focusing on the size of the figure and concentrate on what happens to the money, how effectively it is spent and what outcomes COSLA and we expect from it.

I want to move the discussion on to what happens after the announcement of a resource allocation. I share some of your concerns about resource announcements. Over the years, the issue has drawn down politicians to the lowest common denominator of discussion. Hence, I am spending much time with my colleagues in local government discussing how we get over the hurdle of how we talk about resource allocation. It does nobody any good if I appear on television to say that an announcement is great, but two minutes later somebody says that it is dreadful. I want to get beyond all that.

We see evidence of such movement in announcements by COSLA spokespersons about the development of our relationship with COSLA. I am encouraged by COSLA's announcements about its joint working with the Executive. I take on board Mr Harding's point about how announcements are made and the impact that that has on service delivery. However, we will continue our discussions with COSLA to ensure that we move beyond that fairly cheap level of discussion.

Mr Harding: I am not being critical.

Mr Kerr: I appreciate that.

Mr Harding: I, too, am trying to move the agenda forward to prevent conflicts from arising. You cannot answer the question now, but it would be interesting to know what percentage of the

increase in police expenditure for the four years in question was accounted for by the business rates allocation.

Mr Kerr: We will come back to you on that one, if you do not mind.

Dr Sylvia Jackson (Stirling) (Lab): I have a couple of points to make. The first is in relation to your answer to question 4, in which you listed the new burdens. For example, you mentioned the on-going McCrone settlement. Why was the on-going issue of bridges not mentioned? Bridges seem to be a considerable burden on many councils.

My second point relates to COSLA and the funding or spending gap of £440 million, which was in our report on the 2002-03 budget process. That is what we are getting at in trying to clarify what extra increase is available. I take your point about flexibility and the ring-fencing question and how local outcome agreements might help the situation. However, our point concerns the size of the slices of the cake. We are continually told that a considerable gap needs to be addressed in relation to the backlog in non-trunk roads and other infrastructure problems and front-line services.

Mr Kerr: I will answer your first question first. The general non-housing capital allocations have received an additional £70 million for local transport infrastructure, which includes bridges. The additional moneys that we announced are not listed in the answer that we provided to question 4 because those moneys were not provided for any "new burdens", which is the terminology that was used in the question, or for new "initiatives", which is the terminology that was used in my answer. The extra £70 million is additional investment in the local road network. That allocation did not exist previously but will now be in the system. As you are probably aware, we also recently announced an extra £20 million for roads.

I accept that we have a problem with bridges and the weights of vehicles. The local authority in my constituency has lobbied me closely on that. We are providing as much resource as we can. Arguably, the additional £90 million that has been provided over the past year is pretty good going.

Sorry, will you repeat your second question?

Dr Jackson: My second question arose from the committee's report, which said that there was a funding gap of about £440 million. That figure came from the COSLA report. The feedback that we have received is that there is a backlog. The issue is not simply that local authorities are trying to keep pace with non-trunk road repairs and other infrastructure problems, but that they have a backlog of something like 18 years. That needs to be addressed. We want some clarity about what increase will be available to go beyond covering

the things that need to be done so that local authorities can address the backlog. We have been told that front-line services are not at the same stage as they were a few years ago.

Mr Kerr: I look forward to discussing that document with COSLA. A COSLA spokesperson said that the document was a starting point for discussion and I view the document in that way too. The resources going into local government have increased, both as a share of the Scottish Executive budget and in real terms. A substantial amount of money is going into local government. As you are aware, the total will be more than £7 billion next year.

I look forward to discussing with COSLA the numbers that it has used, but that is what the process of the spending review is about. COSLA has made an initial statement on what resources are needed to fill what it thinks is a black hole or gap. However, given the fact that local authorities' share of the Scottish Executive budget is increasing, I need to balance that portfolio against health and other spending areas.

COSLA has made its views known to us, but COSLA's document needs to be fleshed out. We want to get behind some of the high-level numbers that are contained in that document. We will seek to work jointly with COSLA on the spending review process. In the future, we will perhaps come back to the committee with a greater understanding of COSLA's starting point and of the level of resources with which we should end up. At the moment, I will not endorse the figures in that COSLA report, because I want to discuss them with COSLA directly.

Mr Harding: My question concerns the share of the cake for local government and how we can assess the priority that the Executive has given to local government as compared with, for example, health. What percentage of the total assigned budget for 2003-04 has been allocated to the local government budget? How does that compare with the figure for 2002-03?

Mr Kerr: The figure for 2001-02 was 33 per cent and the proportion will go up to 34.5 per cent in 2003-04. I do not have the intermediate figure, but Neil Rennick advises me that it is roughly the same as the figure for 2001-02. I apologise that I do not have all the detail.

Given the fact that the Scottish block has grown from £16 billion to £22 billion and given the fact that resources for some other priorities such as health have grown, it is arguable—to put it bluntly—that there is not much validity in discussing the share of the assigned budget that is given to local government. The fact that local authorities have received real money increases is more significant than their share of the Scottish block.

As I said in my opening remarks, this is about service delivery. The more money that goes in, the more services that get delivered. Although the graph shows a trend of an increasing share of the budget for local government, I am not sure that that is the best vehicle by which to measure our performance on local authority funding.

Expenditure on health, for example, is growing. That has an effect on the share of the budget for local authority spend. The numbers do not reflect everything that we do in relation to local government. Money that we spend through other mechanisms, such as social inclusion partnerships, finds its way to local authorities. Some money that has come out of local authority budgets is still available for services. Money for the Strathclyde Passenger Transport Authority, for example, goes in through a different budget. We can mix and match the numbers. I want to get down to service delivery issues, such as outcomes. It is satisfying that local government shares that agenda with me.

The direct answer to Keith Harding's question is that the figure is 33 per cent in 2001-02 and 34.5 per cent in 2003-04.

The Convener: Question 6 is basically about ring fencing, which you said that we would get round to. You answered that the Executive and COSLA are jointly reviewing the potential to mainstream general grant elements, such as the education excellence fund specific grant. Will you provide an update of that review? If you cannot do that now, perhaps you could write to us. Will you comment on the prospect of all—or a significant proportion—of the excellence fund specific grant being mainstreamed in the 2003-04 budget? Does the Executive have plans to mainstream any other specific grant?

Mr Kerr: I think that I said on my first appearance before the committee that my desire would always be to de-ring fence, or to remove that control, where possible. That is the starting position from which we work back. We have not concluded our discussions with COSLA on some of the movement within the excellence fund, so it would be inappropriate to go any further on that issue. Once discussions have been concluded, we will provide the committee with the information.

We discussed the issue with COSLA for a significant length of time and we will meet COSLA again. We are co-operating on how we resolve the disagreement about the high-level figure. It is debatable whether the high-level figure is worth arguing about, because we want to move to the same principle and the more beneficial approach of local outcome agreements. We are doing that with the better neighbourhood services fund and, with the rough sleepers initiative, we have said what we expect the outcomes to be, instead of

ring fencing the money. Adult literacy is another area in which we have de-ring fenced the money—we have injected it through normal means and have sought to ensure that it is well spent.

The excellence fund contains several key Executive priorities. Through our discussions with COSLA, we want to ensure that we do not lose social inclusion aspects such as class-size support in schools and new community schools, which are becoming well established and well received in the community. Money is being provided for other issues such as Gaelic, social work training and mental illness. We can discuss all those issues. I intend to reduce ring fencing to a minimum. We should bear in mind the fact that we have undertaken a dialogue with COSLA. There is a better understanding that the Executive has its priorities.

The priority is to avoid ring fencing. Ring fencing is being reduced from 10 per cent to 9 per cent and we hope to continue to reduce it. As soon as discussions on the excellence fund have been concluded, I will inform the committee. My intention is to reduce ring fencing as much as possible.

The Convener: No member of the committee would disagree that local outcome agreements offer the best way of checking that money is being well spent. Do the outcome results come to you every year or every three years? Will the outcomes be examined in three years on the basis that the budget covers a three-year period, or will there be a yearly analysis?

Mr Kerr: Given the huge variety of local government services, we cannot prescribe how we look at outcomes. We must consider matters on a per service basis. With social work services, the outcomes are much longer than three years. We must enter a territory where individual service areas have commonsense solutions. There is no point in arguing that we want illiteracy reduced by 10 per cent next year. Such educational values must be considered over time. One of the problems that all politicians have with spending for the long term is that thinking beyond four years and beyond elections does not provide short-term gain.

In some services with which I have been involved in the past, such as refuse collection, street cleaning and housing—I refer to the use of void properties—it may be possible to have a greater turnover. However, in other service areas I think we should set local authorities milestones to keep an eye on but make clear that outcomes will be measured over, say, two sessions of the Scottish Parliament, rather than the 12-month period of a budget.

The Convener: That is right. In the examples that you gave, results can be seen more quickly than in social work, education and so on.

Mr Kerr: I invest a lot of time in community planning, where we can move across sectors to set targets that are much more meaningful, particularly in health, care of the elderly and services for young people with special needs. Cross-sectorally, better results may be achieved by setting targets for a period longer than 12 months. Those are the areas that we are discussing at the moment, both as part of our regular dialogue with COSLA and others and through the spending review process. That is much more fruitful than saying that we want to see results within 12 months. If that is not reasonable, it is not reasonable.

14:30

Elaine Thomson (Aberdeen North) (Lab): Good afternoon. I apologise for my late arrival.

I want to ask about capital expenditure. Many local authorities—including Aberdeen City Council, which the minister has met—have difficulties with capital expenditure. They have a large number of capital projects outstanding that need to be tackled. The capital allocation has increased considerably, by 12.8 per cent. Given that there is a great deal of work outstanding, is the minister satisfied that the proposed capital budget will be sufficient to fund fully the work that needs to be done by local authorities?

There is now a proposal for the new prudential framework. Do you think that that will assist local authorities to deal with the backlog in capital works?

Mr Kerr: I will deal with the second question first. I hope that the prudential framework will have an impact. I return to the point that I made about ring fencing. Our philosophy is that decisions should be made locally, where possible, and that local authorities should be trusted to take responsibility for those. We want to remove ring fencing. Equally, we want to remove the controls that currently exist on the capital side. We want to replace the current regime with the prudential code.

Local authorities could spend every pound of the Scottish block within their communities. However, that luxury is not open to us, because there are competing demands on resources. What we do on the capital side will not solve all the problems—there are always good things that can be done with money. As the member recognised, we have increased substantially—well in excess of the inflation rate or other indicators—the capital resource for local government. However, we will never reach the point at which we are all satisfied

with that. We can all see things in our local communities that could be done or that could be done better.

The new scheme on which we are now consulting has the potential to allow us to move away from the current centralised system and to give local authorities their head. It will not suit every authority, but there are different financial circumstances in each authority. However, in those authorities that can make progress and whose local resources and spending profiles are suited to the regime we may see the increase in capital spend to which the member referred.

The prudential scheme is exactly what its title suggests—it is prudential, which means that authorities must be prudent. Although the scheme would devolve control to local authorities, it would also devolve responsibility for assessing the impact of capital spending on revenue budgets elsewhere in those authorities.

Mr Harding: In answer to question 7, you state:

“No assumptions have been made about council tax increases in setting the settlement totals”.

Do you not need to provide the UK Government with an estimate of the level of local authority self-financed expenditure in Scotland for public expenditure control purposes?

Mr Kerr: I am sorry Keith, but I lost you at the end of your question.

Mr Harding: Do you not have to provide the UK Government with an estimate of the level of local authority self-financed expenditure in Scotland for public expenditure control purposes?

Mr Kerr: As you are probably aware, we now have a three-year budgeting system, and we use the information from that process, which projects forward on a three-year cycle. That produces the figure that we use for projected spend and that we feed into the Treasury.

Mr Harding: You said that no assumption is made, but you are making an assumption if you give the Treasury that figure.

Neil Rennick: The councils themselves set those figures.

Mr Kerr: That is precisely the point. We give councils the three-year budget, they determine what their council tax level will be, and we use that figure. We do not determine our budget based on what their council tax will be—or did I pick up your question wrongly?

Mr Harding: If the council tax increase is greater than expected—you expected 4 per cent, but in fact it is, say, 10 per cent—what will your reaction be?

Mr Kerr: I will say that local authorities make

their own decisions locally. That is what local government is about.

Mr Harding: Would Gordon Brown not be on your tail?

Mr Kerr: Not that I have noticed.

Mr Harding: You would have to finance a much greater level of council tax benefit.

Neil Rennick: There are special adjustments in the devolution agreement, so that if the council tax goes up by a higher level in Scotland, a contribution will be paid from the assigned budget to England for the council tax benefit cost. That situation has not arisen in the devolution period so far.

Mr Harding: But if the council tax rose to that level, you would be concerned, because you would have to pay that money to the Chancellor of the Exchequer.

Mr Kerr: If it rose to a level where it began to influence those calculations, the answer would be yes, but you are looking at the bizarre scenario where local authorities had increased their council tax to levels that—to put it bluntly—most responsible council leaders would not accept.

Neil Rennick: There are special council tax benefit subsidy arrangements that require that if councils increase their council tax above agreed thresholds they contribute a part of the benefit cost, but that does not provide a guideline for how much they should raise their council tax by; it is just an agreed system for them to contribute to the benefit costs.

Mr Harding: I find it remarkable that no assumption is made by the Executive. Thank you.

Dr Jackson: What are your views on the balance of funding for revenue and capital expenditure?

Mr Kerr: Could you expand on that, Sylvia?

Dr Jackson: What do you think the balance should be? We have talked about how there is going to be an increase in capital expenditure, so what is your view on the balance between the two.

Mr Kerr: I am checking with Neil Rennick. We do not have any maximals attached to that. This goes back to the idea of prudence and prudential schemes, whereby the balance between the two parts of the budget must be at a level at which debts are serviced and revenue costs are not affected. I am not aware of a limit that we set. The prudential scheme is not a one-size-fits-all policy but is individual to each local authority. Each council must ensure that its revenue and capital remain in balance, so that neither aspect of the budget is affected and, in particular, so that the revenue side is not affected by capital spending

getting out of control.

The Convener: We said in our report on the budget last year that we hoped that, in future, local government would receive more equitable treatment than it did the year before in the end-year flexibility allocations. What prospect is there of local government receiving additional resources for the current year through the EYF allocations?

We also said in our report that we were disappointed about the content of the annual expenditure report, and that we hoped that the Executive would continue to develop

“a more systematic and robust approach to objectives and targets in the”

AER. What plans does the Executive have to develop the AER further, in particular with regard to the quantification of service outputs from the revenue and capital budgets and with regard to the council tax implications of the revenue settlement for Scotland as a whole?

Mr Kerr: I maintain that EYF is a good thing, as it stops people making bad decisions just because they are at the end of the financial year. Local authorities have benefited from EYF because resources have been put back into them. Some EYF comes directly from local authority underspends that come back on to the Executive's budget lines.

To ensure fair and equitable treatment, the Executive considers all the priorities before determining how to allocate EYF. Peter Peacock and I do a lot of work on that. Much so-called underspend should be called flexibility. Local authorities often end up with underspends when large capital projects go off-beam—perhaps because of planning issues or consultants' reports. I cannot remember its name, but recently a road was not built because the contractors could not get on to the land because of foot-and-mouth.

I continue to discuss with COSLA what I would consider the responsible management of EYF resources. To put it bluntly, there is a to-do about it every time. In my local authority and others, the underspend—although I am not sure whether they call it underspend and I cannot remember the word that they use—

Neil Rennick: The balance.

Mr Kerr: The balance is in excess of the balance that the Executive has in its overall budget. What is sauce for the goose is sauce for the gander. Local authorities bid for allocations from a central pool. There will be competing priorities and decisions on allocations will be taken in the normal manner through the Cabinet.

To answer the second part of your question, convener, we continuously seek to ensure that

outcomes are measurable. We consider what we can do to measure what we have received for the resources that we have given to local government. Consideration of our targets for how money is spent is done through the usual channels—we get reports from the Accounts Commission for Scotland and from other organisations. I will ask Neil Rennick to respond because of his experience with the committee's previous reports.

Neil Rennick: Local government has more certainty in its budgets than have other areas. We announce in advance what local government's allocations will be, which allows local authorities to plan their expenditure. The way in which effective use is made of EYF resources that arise—because of projects not going ahead or for any other reason—is a separate issue from the issue of local government getting its fair share of allocations. The latter is done through the spending review process.

The Convener: In our review of local government finance, one of the recommendations was that we should get a bigger slice of the cake.

Mr Kerr: You personally? The committee?

The Convener: I will leave you with that thought. Thank you for coming. You said that you would keep us informed about your discussions with COSLA on the review of specific grants and that you would write to us in answer to Iain Smith's question. As there are no more questions, I thank you for coming along.

Mr Kerr: Thank you. I look forward to seeing you again soon.

14:45

Meeting suspended until 14:50 and thereafter continued in private until 15:01.

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