LOCAL GOVERNMENT COMMITTEE

Tuesday 30 April 2002
(*Afternoon*)

Session 1

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LOCAL GOVERNMENT COMMITTEE
12th 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

THE FOLLOWING ALSO ATTENDED:

Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD)

WITNESSES

Peter Peacock (Deputy 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

Committee Room 2

Scottish Parliament

Local Government Committee

Tuesday 30 April 2002

(*Afternoon*)

[THE CONVENER *opened the meeting at 14:02*]

The Convener (Trish Godman): Okay, comrades, we can start.

First, I welcome Fiona Burns, who is a policy adviser with Saltire Public Affairs within the firm of Shepherd and Wedderburn WS. She is shadowing Elaine Thomson this week as part of the Parliament's business exchange programme and will be an observer at the meeting. The programme, for members who are unaware of it, exists to provide and develop opportunities to promote mutual understanding between members of the Scottish Parliament and business-related communities in Scotland. A similar programme has been up and running for a long time in Westminster; some of the things that the Westminster Parliament does are not bad and we can follow its example with this programme.

Items in Private

The Convener: Item 3 is to consider our conclusions on the budget process and item 4 is to consider proposals for our approach to phase 2 considerations of a white paper. Do members agree to discuss items 3 and 4 in private?

Members *indicated agreement*.

Budget Process 2003-04

The Convener: We move to the budget process. I welcome Ken McKay, our adviser on the budget process, who must declare an interest because he knew Peter Peacock in a past life. We also welcome the Deputy Minister for Finance and Public Services, Peter Peacock, and Neil Rennick, who is head of the Executive's local government expenditure and council tax branch.

The committee will recall that we wrote to the Minister for Finance and Public Services last week. His reply is attached to members' papers. Procedure is as usual: the deputy minister will speak for a few minutes, after which I will open up the meeting for members' questions.

The Deputy Minister for Finance and Public Services (Peter Peacock): It is intimidating to see Ken McKay sitting on the convener's right-hand side because he was the gamekeeper when I was a local authority poacher. Our roles are almost reversed now. I trust that he has not given you too many clever questions—we will find out as events unfold.

I know that the committee is close to the end of stage 1 consideration of the 2003-04 budget and that you took evidence from Andy Kerr a couple of weeks ago. As the convener said, he followed up that evidence with a letter, which I hope was helpful.

I do not have much to say by way of opening remarks, but it might be worth my re-emphasising a few headline points. As Andy Kerr said, we are providing record levels of support for local government in this and next year's budgets. The vast majority of that support, including support for new initiatives, goes to local authorities in the form of unhypothecated grant. We are making progress on ring fencing of specific grants, to which members might want to come back later. Our deliberate policy is to reduce the proportion of specific grants that are ring fenced. We think that the proportion, which was 10 per cent in the past year, is down to just over 8 per cent for 2003-04.

Another feature of the budget is that, given that the settlements now run for three years, there is the great innovation of much more certainty—for planning purposes—in the grant settlements than was the case in many previous years. Local authorities also have flexibility at the year end, because of the certainty over where their income will come from and because of their financial systems, because they will be able to carry over money between financial years. That all helps local authorities to plan more effectively for the future.

I am thankful that we have also been able to give local authorities more freedom about how they set council tax. We have removed spending guidelines and pushed capping practices into the background of the powers that ministers have in that arena. The additional income that local authorities may choose to raise through council tax increases can be used for the local priorities that they set.

On capital spending, members are aware that we are seeking to replace section 94 controls with a new prudential regime, subject to the consultation that is being conducted through the white paper. I know that the committee will consider the proposals in some detail in the weeks to come. In the forthcoming local government bill, we plan to give local authorities new freedoms over fees and charges and to remove some of the constraints that have existed. Therefore, at the headline level, we are giving local authorities more freedoms, more cash and more discretion over how they raise council tax.

I will look slightly further ahead. We are working closely on the spending review with the Convention of Scottish Local Authorities, the Society of Local Authority Chief Executives and Senior Managers and others. This morning, officials were engaged in discussions with COSLA, SOLACE and others about local authority funding requirements in the coming three-year period. In those discussions, we are re-examining funding in 2003-04, which is the subject of this meeting, and the two subsequent years. We are considering new initiatives, how to continue to fund existing activities and investment in improved infrastructure in the local authority sector.

As part of the spending review, we are also entering into a lot of discussion with local authorities and Executive departments on how we can become much more focused on the outcomes from expenditure, and on how we can become much less focused on inputs per se.

I said that I would be brief, convener, so that is all I want to say. I am more than happy to try to answer any questions that members wish to ask.

The Convener: Before we move on to questions, I welcome Mr Jamie Stone, who is the reporter from the Finance Committee.

Mr Keith Harding (Mid Scotland and Fife) (Con): Good afternoon, minister.

What is your reaction to the claim that is made by local government bodies that there is a gap of no less than £1.5 billion between the Executive's plans for local authority revenue expenditure and the amount that councils believe they need to spend next year? There is an even bigger gap of £4 billion in capital expenditure.

Peter Peacock: I will deal first with capital expenditure. Local authorities have a widely held view about the lack of investment that has taken place over a considerable number of years. That view principally manifests itself in relation to the schools estate—which people feel has been badly neglected over a long period—road maintenance and services such as old people's homes.

Members are aware that we are in the process of evaluating the first round of bids for public-private partnership improvements to the schools estate. It is no secret that the bids that we have received have an enormous value of billions of pounds. That indicates the poor condition of the schools estate and local authorities' desire—on our invitation—to improve maintenance in the schools estate far into the future. Because of the way in which PPP operates, maintenance is guaranteed for the 30-year period of the contract. Therefore, maintenance expenditure cannot be varied as local authorities used to vary it in the short term to try to fund other priorities. That has been put on a much better footing. A consequence of that is that there is less flexibility in local authorities' long-term funding stream once they have made those commitments, because maintenance costs are, in effect, built into the contract price.

I think that Andy Kerr referred in recent evidence to the fact that we are putting more resources into transport as part of the settlement. I think that £70 million was built in to reflect the fact that we understand that the stock of roads and bridges has decayed. I know from a question that Sylvia Jackson asked at a previous meeting that she has an interest in bridges. More money is going into that. An additional £20 million was put into the roads system in the last few weeks of the previous financial year. Therefore, I hope that we are making a lot of progress on the capital front. Depending on how we can respond to PPP—we are currently exploring that challenge within the Executive—a significant part of the £4 billion backlog is beginning to be eaten into. I am sure that the committee realises that it is not possible to overtake a capital backlog of that sort within a short time. Apart from anything else, releasing that amount of public works into the marketplace in Scotland would create problems for our capacity, as a society, to cope with the building work that would be required. We are deliberately trying to improve the infrastructure as part of our targets.

We are in discussions with COSLA about how it has arrived at its suggested £1.5 billion figure for the revenue gap. COSLA is clear that that figure is a starting point for discussions as part of the spending review. It is interesting that COSLA says that £1.5 billion is required to continue the existing service while the existing service is being provided. That raises questions as to what precisely that money would be going in to do, if it would inflate the system to provide the same outcomes as we get currently. We must explore that territory with COSLA, but a very helpful dialogue has been established, and we must see how we progress.

Our focus in the spending review is on the improved and additional outcomes that we will get for additional money, rather than how much additional money is required to maintain the status quo. The status quo is where we are and we must move forward from that. We will hammer that home within the Executive as well as with the local authority community. We must examine what more we will get out of the system for the extra cash. The £1.5 billion figure is a starting point for discussions. We will see where we get to on that.

Mr Harding: I look forward to the outcome of the discussions.

The committee has been told that the increase in employers' national insurance contributions, which the Chancellor of the Exchequer announced in the budget, will add £40 million to Scottish local authority costs. Does the Executive plan to fund fully that additional cost?

Peter Peacock: We are conscious of that issue. It is not only an issue for local authorities; it is an issue within the Executive and other parts of the public sector. The figure of £40 million was a very early estimate. We believe, and the local authority world believes, that the cost will be less than that. It will probably be nearer £30 million, but we will have to do detailed calculations to establish a precise figure. The great advantage for our planning is that the measure does not kick in for another year. It kicks in for the year that the committee is now examining. We will consider the matter within the spending review and see how we want to approach the issue.

Mr Harding: We have been told that if the increase in employers' national insurance contributions is not fully funded, that will mean cutting core services or increasing the council tax by 2 per cent next year. What would the Executive's reaction be if, to try to protect the level of expenditure on core services, councils decided to increase council tax levels next year by 2 per cent more than they have projected?

Peter Peacock: I do not suppose that anybody at any time welcomes tax increases for their own sake, but where there is just cause for increases, that is something that we all have to live with. That is not to be read as a signal that we are encouraging councils to increase council tax to cover the cost of the increase in employers' national insurance contributions. We have still to discuss that with councils and I want to do that with them fully. In any given year, the world changes in the local authority context. Like any other organisation that works on a fixed budget—such as the Executive, a private business or a household—councils have to cope with the changing environment in which we operate.

To a significant extent, we have to adjust our priorities to suit. In domestic circumstances, if your mortgage increases or interest rates rise, you must change your plans. The same is true in local authorities. If an authority's pension fund is revalued in a particular year, it must respond to that as it would to inflation increases or to a variety of other variable circumstances. Variable circumstances are not unusual in local authorities, which are good at coping with a lot of change in their systems and plans. That said, we are conscious that rising council tax levels is a particular issue and we want to consider it with COSLA and with colleagues, as part of the spending review.

14:15

Mr Harding: Surely if you do not fund the increase in employers' national insurance contributions, that will be a double whammy on the taxpayer. People are already paying national insurance and you are going to ask them to pay it again. Is that another stealth tax?

Peter Peacock: I detected a soundbite in that question. I would be interested to see a copy of the press release as we leave the meeting.

Mr Harding: You do not know me very well. I do not do that sort of thing.

Peter Peacock: In fairness, you do not, although I suspect that that might find its way into certain journals. We shall wait and see.

The fact is that the nation has chosen to increase investment in the health service. That is a correct decision and we understand all the reasons for it. We hear people talking constantly about the need to improve the health service. Expenditure on the public sector cannot be improved without the total income stream to the chancellor being affected at some point. The Treasury will take all that into account in deciding by how much it will inflate health spending. Health spending will grow dramatically. Within that dramatic increase, there is accommodation for national insurance in the health service. There are consequential effects on other parts of the public sector and we have to consider how to manage that. The money is for a good purpose and it is important to improve our health services.

Mr Harding: Thank you. And thank you for suggesting a press release—I had not thought of that.

Iain Smith (North-East Fife) (LD): I am tempted to continue with the same line of questioning, but we have quite a bit to get through so I will move on to consideration of the various figures that were presented by Andy Kerr in his letter of response to the first evidence session.

I thank the minister for providing a breakdown of the amount in the increased aggregate external finance for new initiatives and transfers. That is helpful when trying to clarify some of the issues that were raised last week by those who gave evidence.

Of a total increase in AEF of £438.1 million, £291.1 million is for new initiatives and transfers. That leaves only a £147 million increase in the local government budget. One of the concerns that the local government community has expressed is that, year on year, the amount that it receives in additional support for new initiatives means that local government ends up having to cut core services to fund new initiatives. Will sufficient money go into the local government settlement this year to allow the new initiatives to be funded without local authorities having to cut core services?

Peter Peacock: The new initiatives—such as the McCrone settlement, free personal care, concessionary fare schemes and so on—are matters that both local authorities and the Executive want to see advanced. All that money is therefore going into improvement in services that are delivered by local authorities, often at the request of local authorities. The Executive and local authorities share those priorities. In that context, the full £438 million will go into improving services or maintaining existing services. It is important to keep that in mind.

However, Iain Smith is right. There is a phenomenon at work in the way in which the Executive's relationship with local authorities has been changing gradually over time. The Parliament is a strong new democratic institution in Scotland. There is no doubt that local authorities, as the principal agents of delivery, are making demands for new expenditure from an Executive that has priorities and manifesto commitments that were made when it sought election. It is therefore inevitable that a lot of Executive initiatives—which, as I said, are shared with local authorities—will impact upon the freedoms that local authorities would otherwise have if we just put £438 million into the system without saying what it was intended for.

There is therefore an inevitable tension between central Government and local government, not only in Scotland, but around the globe. It is a well-known phenomenon. The important thing is that we sit down with local authorities and agree on shared priorities. We must have a better understanding about that issue. The local authorities must provide more input earlier on what they can deliver locally and so help shape our priorities. In that context, I suspect that settlements will have similar elements in them over time. I do not want to hide from that.

It is not only our grant system, however, that supports local expenditure. Local authorities also get income from fees and charges. Many local authorities generate income that allows them to spend on local priorities. I pointed out earlier that local authorities can also increase council tax to cover expenditure on local priorities. There is greater freedom to do that now and some local authorities are taking advantage of that freedom. In addition, local authorities can—and do—drive efficiencies from their systems. They can use that cash to help meet their priorities and to re-prioritise within their budgets. Local authorities, therefore, can use a variety of available devices; it is not just about the grant.

The £147 million that Iain Smith identified as not being attached to anything includes recognition of pay and prices, which was not previously recognised in the grant system. Local authorities do not therefore have to make efficiency savings to cover all their pay and price inflation, which means that those savings are available for other purposes.

The truth is that local authorities, like the Executive or any organisation, must make choices about priorities. They must, within their available resources, decide on the relative importance of items. Councils do that successfully. Some councils also set themselves annual internal efficiency targets with which they try to squeeze efficiency from the system so that they can re-prioritise their spending. We have a local authority community that is delivering, within available resources, high-quality services that are continually improving.

Local governments will always argue that more cash could be available and that there could be more freedoms. However, we all must work within fixed budgets and find the right balance. There will be tension, but there is no evidence that local authorities throughout Scotland are not continuing to deliver successfully high-quality services.

Iain Smith: Thank you for that answer. However, it did not address my point, which is whether the £147 million is sufficient to prevent local authorities from cutting further their core services. Local authorities would argue that the allocated £291 million does not cover all the new burdens or initiatives that are being imposed on them and which they must meet over the next year. The national insurance burden has since been added. There are also the costs of superannuation, the disposal of refrigerators, and roads and bridge maintenance, which was mentioned earlier.

Local authorities could come up with a huge list of issues that are outwith their control and on which they must spend. They do not have a choice about whether to spend on such issues or something else. They must cut spending on something else to meet those obligations, or increase council tax to an unacceptable level. Have you sat down with COSLA to consider whether there is sufficient money in the system to prevent further cuts in core services? Even if one takes the lower end of COSLA's estimate of the underfunding, one is probably talking about an additional £300 million being needed to prevent further cuts in local government services. Have you seriously considered that with COSLA?

Peter Peacock: The answer is yes. We consider such matters with COSLA. We are trying to deepen and strengthen our relationship with COSLA to ensure that we address such questions earlier. That is partly why we have had one good meeting, in this round, about the spending review for this year and for future years. From that, officials have been trying to get a common understanding of our starting point.

We must work with fixed budgets. Once we have seen evidence from all the sectors that we help, influence or manage directly, the Executive must make judgments about its priorities and about the amount of cash that is available for each sector. Those judgments were reached in the previous spending review and those are our global totals.

As I said, we have tried to provide more flexibility in the system to allow people to accommodate local pressures more effectively. We should remember that heavy penalty regimes used to apply if spending was 1p above the guideline. An authority's budget could have been capped, or, under previous regimes, grant could have been clawed back and penalties could have been imposed.

All that has been pushed to the side to try to create space locally for people to make accommodations. There will always be a debate about whether the figure is right or wrong, but I see no evidence of a catastrophic failure in local authority services because of the cash that is going out. We will always have continuing discussions with COSLA to find as much agreement as we can. It is partly COSLA's job—it may be principally COSLA's job—to do the best that it can for its sector in advancing arguments. Equally, we must manage a fixed budget. We must make our political choices, which is what we have done.

Iain Smith talked about sudden pressures, such as that relating to refrigerators. The Executive has tried to respond to such pressures with additional streams of funding that are separate from the grant settlement. When a case exists for such funding, we will try to provide it. We appreciate that such sudden pressure can knock a council off-stream. We respond to those pressures and others.

In preparation for this meeting, I picked up from the committee's previous meetings a criticism in part of the annual expenditure report's structure, which is that it tends to deal with the grant settlement and not with all the other money that goes to local authorities. Notwithstanding the fact that that information is not part of the AER at present, it may help if we provide some of that information. We have information on how much each local authority is receiving, apart from the grant settlement. It may help to see some of that. If that would help, we would be happy to consider how we can provide that information.

The Convener: Thank you.

Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD): I thank the convener for the opportunity to question the minister, as I am not a member of the committee. My questions will come as no surprise to the minister, given our previous incarnations. I will focus on Keith Harding's point about the capital side of the equation. The committee took evidence that capital from current revenue was somewhat in decline as a method of topping up capital. What thoughts does the Executive have on that matter? The minister referred to flexibility to increase council tax for some projects. Would that cover CFCR? Will the Executive issue any guidance to local authorities?

Many local authorities sit on a portfolio of property that is not strictly needed for their day-to-day operation. Many local authorities have land banks in surprising accounts, such as social work. Does the Executive intend to encourage local authorities to maximise capital receipts by helping with capital programmes? What guidance or assistance for local authorities might the Executive consider?

Peter Peacock: I have been involved in public finance as a councillor or as a member of the Executive for more years than I care to remember. For many years, CFCR counted against guideline calculations, slipped outside the system and then returned. I forget the present point in the cycle. However, that no longer matters for penalty purposes, as we have pushed guidelines out of the road.

Several councils have raised their council tax. The authority of which Jamie Stone and I were members agreed recently to add 1 per cent to its council tax to fund capital improvements in its housing stock. The short answer is that the freedom to do that exists. Increasing tax for a specific purpose is a perfectly legitimate local choice. At that level, local authorities are hypothecating increased revenue for a specific purpose in a short time. Choosing to do that remains legitimate.

What is interesting about the coming changes to section 94 and the move to a prudential regime is that the distinction between CFCR and capital consents in the old sense will largely disappear. Local authorities will have simply to make a judgment about the consequences for their revenue accounts of their capital expenditure, whether by CFCR or more traditional routes.

That technical judgment between capital consents—the section 94 route—or CFCR will largely be a thing of the past when the new regime is in place. However, the council tax issue will remain; local authorities will still have to make a council tax judgment about how much capital improvement they can fund. That is the essence of the prudential regime—it is about making a local choice and being accountable for it.

14:30

On capital receipts and property portfolios, the circumstances have changed over a period of years. The way in which capital allocations were calculated took account of an assumption about capital receipts. A kind of redistribution operated in Scotland. Neil Rennick may be able to fill us in on the detail.

As we move to the prudential regime, one of the factors that we have to consider is what assumptions, if any, we make about capital receipts. On the face of it, we have moved to a situation where the incentives for local authorities will become immediate and real if they are able to dispose of unutilised capital assets. They would not be trading off assets against benefits to other local authorities, because such action would become part of the package of considering what they can afford. That all has to be worked through in fine detail.

It is important to ensure that there are incentives in the system. We feel that there may not be sufficient incentives for councils to get rid of surplus capital assets to help to fund the renewal of existing stock, but the situation is changing.

Neil Rennick (Scottish Executive Finance and Central Services Department): I confirm what the minister said. Previously, capital receipts were taken into account in the formula that was used to calculate the capital allocations for each authority. That is no longer the case, and local authorities can use the receipts for local investment, which in itself provides an incentive for local authorities to maximise their capital stock.

Dr Sylvia Jackson (Stirling) (Lab): First, I am sure that the committee welcomes the minister's comments on the long-term strategy for schools infrastructure and what needs to be done. I know that I always go on about this, but is it correct that we have a long-term strategy for road maintenance and bridges? Could the minister tell us about that?

Secondly, linked to that are the comments that the minister made about the moneys that are going to local government from sources outwith the settlement. Transport is one such source, as is certain aspects of education. It would be helpful if the minister could comment on that.

I have two further questions, the first of which refers to joint planning arrangements. COSLA and two other organisations that we met recently said that more joint planning arrangements could be made. Could that be done within the time scale of the 2003-04 budget, or will we have to leave this issue until later? There was a feeling that we could engage more with the joint planning approach.

Finally, at the end of our previous meeting we felt that we were hampered in reaching a view on the adequacy or otherwise of the proposed local government budget for 2003-04 by the lack of any information on service outcomes. It was impossible to assess whether the proposed budget would buy, for example, more or fewer teachers, more or fewer home helps, more or fewer residential care home places, or more or fewer kilometres of road. Does the minister have any plans to include those service outcomes in the AER in the future? That would help attempts to examine long-term strategies.

Peter Peacock: I will try to answer those questions in the order in which they were asked. I am acutely conscious from my involvement in Highland Council, and from representing the Highlands and Islands, that bridges are fundamental to keeping communities in contact with one another, because of the nature of the area's geography. Freedom of movement without weight restrictions on certain bridges is fundamental to fish farming in that part of the country, because it allows feed stocks to come in and get back out. Forestry raises problems around the strength of bridges.

Many of our bridges date back to the century before last and there is widespread acknowledgement among engineers that they are in poor condition. That is a consequence of the general lack of investment in public infrastructure over far too many years.

Sylvia Jackson asked whether there should be a long-term strategy for our road maintenance and bridges. There probably should be such a strategy, and people are working on how to assess more effectively the condition of the local road network and how to respond to it. My colleagues in transport, including Lewis Macdonald, are considering how to get a longer-term view and how to attach priorities to what has to be done in order to secure the required local infrastructure. More work has to be done on that.

We also have to give further consideration to other funding streams. I am not making a case for this, but we have to ask whether the maintenance of bridges opens up possibilities for PPP—I hasten to add that the possibilities are nothing like the Skye bridge example. We can consider new ways of funding. I do not know whether using PPP stacks up as a possibility. Many of the bridges are dispersed and distant from one another and it would not make economic sense to construct them in such a way. However, there is an acknowledgement that we have to continue to consider the issue. That is partly why the £90 million that I talked about has been put in to improve the infrastructure.

Sylvia Jackson said that she would welcome information about what is happening outwith the settlement and we are happy to provide that. We had a useful meeting with COSLA a few weeks ago about how to improve our relationship and our joint planning for the spending review. That relationship is not just between the local government division of the Executive and COSLA, but involves colleagues in transport, enterprise and health using a different forum to make progress.

COSLA was quite keen to have a formal process and talked about a partnership forum with the Executive. After discussion, we all concluded that overly formalising the process would be unhelpful and that the important thing was for us to facilitate dialogue at the right time with the right people. We agreed to work more co-operatively and allow access to information much earlier in the cycle of making decisions about the spending review. We are engaged in that with COSLA and others, and we intend to see it through to the end of the process. We are making progress.

The committee will be aware that the First Minister and Andy Kerr made specific commitments at the recent COSLA annual conference to working more closely with the convention than they have done before.

It is intriguing to consider outcomes from where we are now in our thinking about how to structure budgets and focus on expenditure and outcomes. Once one makes the mental leap to thinking in terms of outcomes, one wonders why one did not make it 15 years previously, or why nobody else did. I am afraid that a feature of most public budgeting—I am talking not about the Scottish Office, the Scottish Executive or local authorities, but about all forms of public authority throughout the world—is that people tend to focus on inputs rather than on outcomes. There is, therefore, not a lot of international experience in defining outcome statements effectively in order to be clear about what precisely one gets for the cash that one puts in. We are wrestling with that now and are making progress on it.

There has been a lot of political judgment about that. The manifestos of all the parties tend to talk about employing more teachers, more doctors and more nurses, but they do not define what the punter will get as a consequence. We need to focus more on outcomes.

The AER that members are considering covers the last year of the previous spending review. To be blunt, our thinking was not as sophisticated then as it is now. The current Executive spending review—involving all the executive agencies and the local authorities—is based on outcomes. We are asking people to be specific and say what service improvements the money that they seek will buy. It is probable that the AER for the coming period will focus much more on outputs than before.

We are all learning and the language that we use will become more sophisticated. There is not yet a common vocabulary to describe outcomes in the public sector. We are getting there, but it will take a wee while. I hope that everybody will be interested not just in the input, but in the output that is sought from the input.

Ms Sandra White (Glasgow) (SNP): I have a further question on the joint planning arrangements that Sylvia Jackson mentioned. You mentioned meeting COSLA and I was glad to hear that you had discussed the spending and funding needs of councils. I would like to hear more about what COSLA said. I am sure that it would have put the same argument to you as it did to us at last week's committee meeting. Do you accept that argument—that there should be a bottom-up approach to councils' funding and spending, rather than the top-down approach of late?

Peter Peacock: We had a very productive meeting with COSLA about how we conduct our relationship. As part of arriving at the settlement each year, we are required by statute to consult the association of local authorities. That is a good discipline. However, the weakness of the system has been that we tend to concentrate purely on finance and to hold a series of defined meetings—some of which become quite meaningless towards the end, because the process is pretty much set in stone after a certain point. However, as I say, that is a statutory requirement.

We feel, and COSLA feels too, that we want to widen the relationship to make it more meaningful. Our discussions should be about the right things at the right time. They should not be about only finance, but about policy issues, about the outcomes that we jointly seek, and about ways of working better in health, education and transport—all the areas in which we are both interested. We look forward to the relationship developing over time.

The relationship with COSLA, or with any individual local authority, will always have bumpy moments. That is the nature of the relationship. We will not always agree. However, we want to eliminate as much disagreement as we can and come to an understanding about our shared priorities and how to finance them. We are making progress.

You asked about a bottom-up approach and a top-down approach. I suppose that we will meet somewhere in the middle. Having a bottom-up approach is important, in that we have to understand the demands and to understand what is changing in schools, in social work, in bridges and roads and so on. We have to know what it is that we have to respond to, and the only people who can tell us are the people who deliver the services. They know the pressures, the changes and the faults, and they know where things break down. There is, therefore, a requirement for a bottom-up approach. That happens within individual councils when people working in individual services tell their corporate and finance sections what they require. That information is fed into COSLA and then to the Executive.

At the same time, we have to manage the macro-position. Within the next three months or so, we will know how much money we have in the system for the next three-year period. We will have to judge how to manage that money. We will have to consider all the demands coming up from the bottom, from all parts of the public sector, and then consider how to manage them. We will have to judge how much to give to health, to education, to social care and so on. We will have to judge what we can afford and how we can divide the cake. Part of that, but not all of it, will be in response to information that comes from taking the bottom-up approach; but, from the top, we will have to decide on the priorities. I hope that the bottom-up approach and the top-down approach will meet somewhere in the middle and find a common accord.

Ms White: I am glad to hear that. I am sure that COSLA and the councils will be glad to hear it too because the issue is not only about finances and how they are managed but about local councils' priorities. If the minister says that the two will meet somewhere in the middle, that will go a long way to—

Peter Peacock: I did not necessarily imply that that was related to money. I was talking about the territory that we occupy.

14:45

Ms White: I hope that you will meet somewhere in the middle. I am glad that you are listening to local councils.

You mentioned health. Gordon Brown's budget statement has been mentioned. The Parliament and the committees do not often have a chance to talk about reserved matters. Will any of the moneys that have been announced for the health service go to local government? For example, if the School Meals (Scotland) Bill were passed, would moneys be available for it? Will any of Gordon Brown's budget moneys for health go to local councils for that type of initiative?

Peter Peacock: I will not be drawn on school meals, because that is being taken care of elsewhere, but I take the general point. For the purpose of allocating the extra resources, the Executive has a fairly broad definition of health. The demands of the health service per se are large; clearly, it will get a substantial part of the resources. However, local authorities made the point at the meeting to which I referred earlier that they regard themselves as a health service because they help to improve health through their actions in relation to community schools and health-promoting schools. Councils also make a contribution to health through sport and recreation, action on drugs and a range of other economic actions. At some point, the Executive will have to consider whether—or which of—those actions represent real value in improving the nation's health.

As members know, the health service and local authorities work together more closely than they did before. The joint future programme is beginning to bring together health and social work for a range of delivery issues that are related to community care. Some of the distinctions are blurred. We must consider what local authorities can contribute to the overall health improvement agenda. Undoubtedly, local authorities contribute to the improvement of certain aspects of health. We will consider that in the fullness of time. However, members should be clear that the health service per se will have first call on that resource.

Ms White: Can I say that local councils will receive some of the £224 million? Can you say that?

Peter Peacock: I cannot go into that territory, because the decisions have not been made. I am making the general policy point that local authorities, among others such as the voluntary sector, have a contribution to make towards improving the nation's health. Local authorities will continue to make that point to us. Over the period of the spending review—health money has been announced for a five-year period—as part of the package, we will consider what aspects of local authority work contribute to the health improvement agenda and to the response to ill health. I do not want to get drawn into specific allocations.

The Convener: When we cross-examine witnesses from local authorities or local authority organisations, one theme that emerges is new initiatives that are announced by the Executive but that will be delivered by local government. Please note that I said “initiatives” and not “burdens”. Although the witnesses said “burdens”, Andy Kerr thinks that the term is “initiatives” and I guess that the deputy minister does too. The witnesses asked the Executive to make it clear where the responsibility lies for such initiatives and precisely how they will be funded. Councils are anxious to clear up the question whether new initiatives will be funded by genuinely new money, from within councils’ existing funding, or by a combination of both.

Peter Peacock: An interesting change in the recent past has been that local authorities now ask for 100 per cent funding for virtually all new initiatives. That has become a consistent part of the picture. In the past, central Government would announce new initiatives and expect the council tax payer to pay for part of them. In that sense, local authorities had discretion over how to deliver the services.

Increasingly, local authorities are asking us for 100 per cent funding. The McCrone settlement, concessionary fares and free personal care are instances in which 100 per cent funding was sought. In the long term, that has implications for the share of resources and the balance between central and local government. It is difficult to reconcile the fact that local authorities are seeking 100 per cent funding for all new activity with the fact that, at the same time, they are expecting to have a bigger share of the cake. We are where we are with that—local authorities consistently make the point that you have raised.

Where the Executive is saying that we want something delivered as part of our commitment to the people who elected us—concessionary travel is a good example of that—we try to provide 100 per cent of the funding. We did that with McCrone; we have provided 100 per cent of the funding that is additional to the funding that local authorities would have expected to contribute. We are doing the same with free personal care.

No doubt there will always be a debate as to whether the figure is right. However, we try to sign off the figures with the local authorities. On McCrone, an agreement was reached and a specific sum of money was literally signed off by both parties. Recently, we have had discussions with COSLA about the concessionary fares system and we have come to an agreement about what constitutes sufficient resources for that purpose. We are trying to clarify the rules.

However, there is scope for debate on each issue as to whether a local authority’s estimate of the cost, which will be an estimate in the same way that ours is an estimate, matches exactly the sums that are required. Where the estimates do not match, we agree with local authorities that, if the evidence shows that we have got the amounts wrong, we will revisit the question. Our intention is to fund 100 per cent of the new activity that we are requiring local authorities to deliver for us.

The Convener: SOLACE suggested that a 0.5 per cent saving could be achieved annually before local authorities had to cut back core services. Beyond 0.5 per cent, local authorities would be in the business of cutting core service provision. Do you agree with that figure?

Peter Peacock: I am not sure that it is wise to alight on a particular figure. For our own internal purposes, we have not made an assumption about efficiency gains in the system. The practice in local authorities varies considerably. One local authority, which I am sure is not alone, sets an annual target of a 2 per cent efficiency saving. Its purpose in doing so is to recognise new priorities as they appear in the system. It is clear that some local authorities are exceeding 0.5 per cent.

These things are best decided at the local level, where local people know where they are, what improvements they have made in previous years and what improvements are still to be made. The rate of adoption of new technologies, for example, has an impact on whether local authorities can make a 0.5 per cent or 3 per cent saving in a particular year. I am not sure that it would be helpful for us to set a target. For the record, a number of local authorities are making savings that exceed 0.5 per cent, which means that there is no logic in applying that figure to all authorities.

The Convener: Ring fencing has come up time and again. There is a dispute between the Executive and COSLA about the percentage of moneys to be ring fenced. To what extent does ring fencing encourage long-term planning? It appears from evidence that we received last week that councils are reluctant to commit beyond the period that is covered by the ring-fenced funding. Ring fencing raises the expectations and hopes of communities in cases where an issue has been addressed. What happens when money for particular services is no longer ring fenced and councils have to decide whether to continue to provide the services? The councils did not make the original decision and that puts them in a difficult position.

Peter Peacock: The convener rightly says that there is debate about the level of ring fencing and that we could debate the level for ever. We believe that the figure is 8 per cent, but COSLA started off with a figure of 30 per cent. I understand where some of that figure came from and we agree that 8 per cent is ring fenced.

For its purposes, COSLA included all police specific grant and its contribution against that. We could debate the matter endlessly. The important thing is that there is a mature understanding between COSLA and the Executive about the things that we want to see delivered to meet our political commitments and in which local authorities have a role, and the things that do not necessarily fall into that category. We need a clear understanding of that—whether the proportion that is ring fenced is 8 per cent or 9 per cent is less important.

We are committed to trying to reduce the amount of ring fencing—we want to give greater latitude and freedom locally. We are moving to outcome agreements because they allow us to say that, provided that the local authority meets certain outcomes, how it does so is a matter for it and we will not interfere. As part of the process of refining our thinking, it has become clear that some of the funds that we have ring fenced—the excellence fund is a good example—were designed to deliver change in the way in which services are delivered. Once that change has occurred, it is less clear why it is necessary to hypothecate funding. Pre-school education is another good example. The Executive and the Labour Government from 1997 were committed to delivering improvement in pre-school education. That improvement has been delivered, so we have un-hypothecated that funding stream. We need to identify what the outcome of the process of change is and when we can remove the hypothecation. We need to consider those issues more closely, because experience suggests that where we are seeking change, ring fencing is a legitimate tool to use. However, that is a matter that we will discuss further with COSLA.

There are two points in relation to continuity. As some of our funds are potentially available only for short periods, I see the point that you make about a local authority being unwilling to commit beyond the period for which there is certainty of funding. The excellence fund had such elements. There is another situation in which we remove the hypothecation of the fund. For example, we have removed hypothecation from pre-school education funding, but few authorities would want to spend the money on anything else. They agree that they want to provide that service, but they also have latitude. If they can find ways in which to spend the money more effectively and release money for other purposes, they are free to do so, provided that the basic service continues to be delivered.

I am not sure that there is any absolute truth about such matters—I cannot suggest a scientific law. Different hypothecated funds will perform in different ways and for different purposes. It is not helpful to classify them as the same when that is clearly not the case. Over time, we must find the right balance between those things that we fund using hypothecation in order to bring about change and those things that are targeted at the delivery of particular services for certain communities. Gaelic specific grants are a good example, because it is difficult to see how we might provide the money differently—we could not really put it into normal grant.

There will always be a role for some hypothecation. We want to minimise that and get a clear understanding of whether we are dealing with a change fund, with a clear time horizon, or a continuous fund. That will require much more discussion with COSLA and others.

Elaine Thomson (Aberdeen North) (Lab): I want to ask about capital investment. Last week, we heard that COSLA would like an extra £4 billion for capital expenditure and I know that you are introducing the new prudential framework. Will the new prudential regime allow local authorities to increase significantly the amount of money that they put into capital investment and tackle some of the backlog that they believe exists? COSLA also seems to be saying that it will require extra revenue support to service that prudential borrowing. What is your view on that? Finally, is there any possibility of introducing the new prudential framework in an earlier financial year—in 2003 rather than 2004?

15:00

Peter Peacock: On the final question, I think that primary legislation is required for the prudential regime and enough planning time would have to be found before the start of the next financial year. With the best will in the world, it therefore looks virtually impossible to introduce the new prudential regime in 2003-04, and 2004-05 is probably the earliest year. At present, we do not have powers and we will have to take those powers. Even by using legislative vehicles that may be available to us at the end of this year, there will not be enough planning time in the system before the start of the next financial year.

The details of the prudential regime must still be worked out. A lot of thought has gone into the regime so far, but much more work needs to be done. The prudential regime itself will not overtake a £4 billion backlog in capital building, as the prudential regime must be funded in a prudential way. Suddenly to fund £4 billion would create all kinds of pressures in the system. However, there is no doubt that the prudential regime will give more flexibility to local authorities to make priority choices between revenue growth and capital growth. There can be interplay in a way that has never happened before; previously, an authority might have chosen to spend money that was available in its revenue account on capital investment but could not do that because of capital spending limits. That system will go and there will be complete flexibility to make choices.

One reason why the prudential regime will take a while to work out is that we are considering how to provide grant support in the system. Members are aware that there is already loans fund support to cover the costs of local authority borrowing under section 94 and we need to consider how that resource will be used in the future. There will be some requirement in the system to help to support local authorities' borrowing under the prudential regime. The issue is technically and financially complicated and we are considering it. There is no doubt that there will be scope for increased investment, if a local authority chooses to make such investment.

Elaine Thomson: If I understand you correctly, it appears that local authorities will have complex choices to make about how to finance some of their capital investment. There are possibilities in public-private partnerships, existing section 94 arrangements and new prudential borrowing. It was also mentioned that there is a possibility that councils can use their capital assets to create new investment companies, which has been done in Edinburgh. In time, will you simplify those choices, perhaps simply by allowing section 94 to be superseded?

Peter Peacock: The prudential regime will help to supersede much of that. The point that Jamie Stone made about CFCR, for example, becomes redundant under the new regime. Capital receipts ought to be freed up. They are more freed up than they were in that local authorities can make decisions about them but, within the prudential regime, they also ought to make a contribution.

You have raised an interesting point about PPP and the prudential regime. That point is one reason why we are thinking through the whole equation carefully. We need to work out fully the relationship between long-term commitments to PPP projects that in part renew the capital estate—although that is still a small part of the overall picture—and the grant support systems that would help to support the prudential regime. That will take a lot of working through and a lot of guidance will have to be issued to ensure that everybody is clear as to the rules and flexibilities to give people real choice. We will be happy to give the committee more detailed evidence on that issue when we know precisely how we want to handle it. A good deal of work must be done.

Elaine Thomson: Does the Scottish Executive have any views on the maximum proportions of local authorities' revenue budgets that can be used to service debts of one sort or another, whether in respect of the prudential regime or otherwise? Do you have a view on what proportion of the overall revenue budget should be allocated to that sort of thing?

Peter Peacock: We do not have a view on the maxima. If councils started to reduce investment in capital projects, we would have to form a view on that, but that is not the case at the moment. There is pressure to increase investment considerably.

Partly as a result of thinking about PPP and the long-term commitments that that involves, and partly because of the lessons that we have learned from PPP about what we could do better within the public sector, the Executive will have to approach traditional procurement of buildings on the basis of whole-life costing. There are important lessons for us to learn. Whole-life costing means the Executive or local authorities committing a significant part of their budgets to projects for 30 years or so. The Executive may have to reach a view on what it can do on that basis. Whole-life costing involves certainty, rather than flexibility, of expenditure. Unlike previous Governments, we cannot vary the proportion of the budget that is set aside to fund the projects concerned in order to deal with short-term management issues.

At the moment, there is a desire for greater investment in capital infrastructure projects—for all the reasons that we have touched on at this meeting and on other occasions. The prudential regime will contribute towards that. That is why we want to remove what has become an artificial boundary between capital and revenue in local authorities.

Mr Harding: You mentioned the discussions that take place with COSLA during the budget process. Do you have similar meetings with the councils that are not members of COSLA?

Peter Peacock: We do not meet councils that are not members of COSLA to discuss our collective judgment on the system. If a local authority that is not a member of COSLA wants to speak to us about a matter that is particular to that authority, we will meet it, as we would any organisation that wanted to meet the Executive. However, we discuss matters that are common to the local government community with COSLA alone. COSLA represents the clear majority of the local authority community, and it is important for us to get a view on what the local authority community is thinking about certain issues. COSLA is best able to give us that view. It is also important for local authorities that we hear what they have to say.

Mr Harding: But individual authorities are not excluded from speaking to you. Is the Executive required by statute to meet COSLA as part of the budget process?

Peter Peacock: I think that the relevant statute refers to “associations”. Ken McKay is nodding, so I must be right.

Neil Rennick: The non-COSLA councils are members of other agencies, such as SOLACE and the Chartered Institute of Public Finance and Accountancy, so there are routes by which they can feed in their views.

The Convener: We have exhausted all the questions that we had.

Peter Peacock: You have exhausted the minister.

The Convener: I was interested in your answer to Sandra White’s question. One of the most direct ways in which you can involve the health service with local authorities is through community care, given that community care is not always provided through residential homes or nursing homes. Many local authority residential homes are closing because of changes to registration, inspection and the law. At the same time, many private homes are closing, which is “threatening” elderly people in those homes. If more residential homes were run by local authorities, that difficulty could be resolved.

You mentioned that more direct input is being made to dealing with poverty, which will link into the health budget. I am sure that you and the Minister for Finance and Public Services will not be the only two ministers arguing for some of the money that has been made available for health, but we are sure that you will fight our corner.

Thank you for coming. We look forward to seeing you again.

Peter Peacock: Thank you.

The Convener: Before we move into private session, we will have a five-minute comfort break.

15:09

Meeting suspended until 15:18 and thereafter continued in private until 16:14.

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