FINANCE COMMITTEE

AGENDA

11th Meeting, 2005 (Session 2)

Tuesday 19 April 2005

The Committee will meet at 10.00 am in Committee Room 1 to consider the following agenda items:

1. **Infrastructure Investment Plan:** The Committee will take evidence on the Infrastructure Investment Plan from –

   Tom McCabe, MSP, Minister for Finance and Public Service Reform;
   Sandy Rosie, Director, Financial Partnerships Unit, Scottish Executive;
   Alison Ferguson, Senior Policy Manager, Financial Partnerships Unit, Scottish Executive; and
   Richard Dennis, Finance Co-ordination Team Leader, Scottish Executive Finance and Central Services Department.

2. **Environmental Assessment (Scotland) Bill:** The Committee will take evidence on the Financial Memorandum from –

   Sandy Cameron, Deputy Director, Sustainable Development Directorate, Environment Group, Scottish Executive;
   Jon Rathjen, Environmental Assessment (Scotland) Bill, Team Leader, Scottish Executive; and
   Janet Brunton, Environmental Assessment (Scotland) Bill, Deputy Team Leader, Scottish Executive.

3. **Cross-cutting Inquiry into Deprivation:** The Committee will consider a paper from its Budget Adviser.

4. **Item in private:** The Committee will decide whether to consider its draft report on the Financial Memorandum of the Management of Offenders etc (Scotland) Bill in private at its next meeting.

Susan Duffy
Clerk to the Committee
The papers for this meeting are:

**Agenda Item 1**

Infrastructure Investment Plan 2005: Report by the Budget Adviser

Building a Better Scotland - Infrastructure Investment Plan: Investing in the Future of Scotland available online (previously circulated to members):

*Building a Better Scotland - Infrastructure Investment Plan: Investing in the Future of Scotland*

PRIVATE PAPER

**Agenda Item 2**

Written submissions on the Environmental Assessment (Scotland) Bill from:

- SNH
- SEPA

Additional written submissions on the Environmental Assessment (Scotland) Bill from:

- Historic Scotland
- COSLA

Environmental Assessment (Scotland) Bill and associated documents available online (previously circulated to members):

*Environmental Assessment (Scotland) Bill*

PRIVATE PAPER

**Agenda Item 3**

Cross-cutting Inquiry into Deprivation Spend: Review by the Adviser
Finance Committee
11th Meeting 2005, Tuesday 19 April 2005

Infrastructure Investment Plan 2005: Report by the Budget Adviser

Introduction
1. The publication of the Executive's "Infrastructure Investment Plan" (IIP) is a welcome development, as it places their capital spending plans within a strategic framework, which should facilitate better targeting of resources on priorities and greater transparency in reporting performance against targets. It also permits more detailed exposition of the key objectives and capital projects than is possible in the Draft Budget, and is evidence of the greater importance being attached to capital expenditure since devolution.

2. This paper provides an assessment of the extent to which the Plan reflects the expenditure priorities and performance targets endorsed by Parliament and also provides commentary for members on the transparency of the information. It concludes by highlighting a number of issues for members’ consideration with a view to improving capital planning and monitoring.

Capital Spending and Economic Growth
3. Last year the Committee recommended that the Executive should give greater priority to capital spending in the 2004 Spending Review to assist in growing the economy. The importance of public investment in infrastructure as a means of improving productivity and thus promoting growth is recognised in the UK Government’s report on “Productivity in the UK”. A recent paper by the Institute of Fiscal Studies (IFS) shows that the UK traditionally has had a relatively low rate of public investment and indeed “It spends less of its national income on public investment than all other EC countries apart from Belgium” (Clark, Elsby and Love, 2002, p314). This gap was addressed in Spending Review 2000, with plans to double capital spending by 2004.

4. In Scotland, whilst the data analysis was constrained by the introduction of resource accounting, the report which I wrote for the committee in 2004 on trends in capital spending showed real growth in capital spending of around 3.8%; growth in the Scottish share of identifiable capital expenditure in the UK; and growth in the proportion of the Scottish budget allocated to capital from 1999-00 to 2002-03; then there was a modest decline.

5. That report also raised the need for strategic targets for capital spending and in SR 2004, a target of 5% real terms annual increase in net public investment was set. This is repeated in the IIP as “a target that will lock in for the longer term the improvement in infrastructure we need to secure the growing economy” (page 3).
6. The figures set out on page 7 of the IIP show an increase in cash terms of over 10% from £2290m to £3013m from 2004-05 to 2007-08 – an annual real increase of around 7%. This clearly exceeds the 5% target. From a strategic perspective, however, it would be helpful to examine the relative priority which has been given to capital spending. This is set out below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital</th>
<th>Total DEL</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>£2290m</td>
<td>£21421m</td>
<td>10.7</td>
</tr>
<tr>
<td>2005-06</td>
<td>£2500m</td>
<td>£22933m</td>
<td>10.9</td>
</tr>
<tr>
<td>2006-07</td>
<td>£2824m</td>
<td>£24608m</td>
<td>11.5</td>
</tr>
<tr>
<td>2007-08</td>
<td>£3013m</td>
<td>£25964m</td>
<td>11.6</td>
</tr>
</tbody>
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7. Table 1 shows that net capital investment’s share of the Scottish Departmental Expenditure Limit (DEL) is planned to grow over the period from 10.7% to 11.7%. This reflects an annual growth rate of double the real growth in the Scottish DEL (7% compared to 3.5%). This will go some way to meeting the Executive’s objectives.

8. I have however two caveats to make. First, my previous report on the recent trends in capital spending showed that there is a much higher rate of underspending, accounting for between 26% and 43% of EYF monies over the SR2000 cycle. The Committee needs to monitor outturn figures as well as budgets.

9. Secondly, whilst we can see what progress is being made within the Scottish Budget, this does not tell us what progress is being made relative to other countries. Whilst there is a target of improving productivity levels relative to OECD competitors (and capital investment should assist this both by increasing employment in construction and related industries and by improving economic efficiency) no target for increasing new public infrastructure investment relative to competitors is set and such a target would be needed to ensure that Executive objectives and priorities in this context are delivered.

**Capital Spending and Closing the Opportunity Gap**

10. The IIP states the “Chapter 2 highlights the planned infrastructure investment within each Ministerial portfolio over the next ten years” and that “it also describes the activities across portfolios to regenerate communities” (page 8).

11. The Executive’s approach to monitoring its performance in community regeneration compares employment, crime, education levels etc in the most deprived neighbourhoods with the Scottish average and seeks to close the gap between them. Whilst the portfolio sections in Chapter Two set out key objectives, priorities and targets, this is largely on a functional basis, though cross-cutting references to community
regeneration are contained in a special section on regeneration on pages 14 and 15.

12. In paragraph 2.12, the Executive restates its commitment ‘to take every opportunity to regenerate our communities, securing extra value from all our investment and infrastructure programmes in order to tackle poverty and close the opportunity gap’, and this will be achieved by ‘ensuring that the potential contribution to area regeneration is considered as a critical factor in major investment decisions’

13. Whilst there is a general discussion of the need for a comprehensive approach to tackle the range of economic, social, physical and environmental problems in disadvantaged areas, the list of relevant activities targeted on community regeneration consists mainly of general statements that such action will regenerate communities rather than clearly demonstrating that the resources will be targeted on the most disadvantaged areas. Good examples of area based targeting include the funding of new and improved homes in disadvantaged areas (communities); and use of ESF funding for infrastructure development in deprived areas (Enterprise and Lifelong learning)

14. By contrast other portfolios continue to assume that simply fulfilling their functional activities will promote regeneration – although the Executive’s strategy is to provide additional resources to such areas. Examples include:

‘Ensuring all communities have appropriate school facilities’ (Education and Young People)

Promoting economic and sustainable development through repair and regeneration of historic buildings in regeneration areas (Tourism, Culture and Sport); and

Scottish Water promotes regeneration when investing in water and sewerage infrastructure (Environment and Rural Affairs).

None of these demonstrate that the most deprived neighbourhoods are being given priority in capital investment.

15. The IIP therefore does not show what additional resources will be targeted on such areas. The growth strategy assumes it will be achieved through increasing employment and productivity, particularly in disadvantaged areas, yet there is no modelling of the expected scale and direction of employment the growth in investment will create as there is with Regional Selective Assistance. In addition, one of the key characteristics of deprived communities – both urban and rural – is population decline, and regeneration strategy seeks to reverse such decline through additional public spending and investment. A number of programmes imply that population decline is taken into account in rationalising the pattern of provision of facilities such as schools (p38)
and police stations (p40). This could exacerbate deprivation and decline.

**Capital Spending and Efficient Government**

16. The IIP notes the Executive’s strategy for the disposal of surplus assets (p63) and highlights the costs attributed to this in RAB, and also that the Crown Office and Procurator Fiscal Service (COPFS) ‘is contributing to efficient government by rationalising the estate in Edinburgh to bring staff together in fewer buildings thereby saving costs’. Efficient Government is the Executive’s mechanism for improving efficiency by altering the ratio of inputs to outputs, and releasing resources from administrative costs to service delivery. In financial management terms, this is clearly beneficial. In economic growth terms, ironically, this benefit will not have any impact as the present treatment of public sector output equates input costs with output costs, and as the budget remains fixed, then this will be unchanged. This is a serious constraint on the Committee’s capacity to monitor the impact of infrastructure investment, as comparisons of economic growth in terms of GDP will be influenced strongly by public spending totals.

17. As Scotland’s public sector accounts for a higher proportion of GDP than the UK average, and the block element of the Scottish budget delivers a lower percentage of spending growth than the UK average, it will be difficult to make realistic and accurate comparisons of growth performance with other countries, yet this is essential to scrutinise the effectiveness of the Executive’s budget strategy.

**Conclusions**

18. The IIP is a welcome innovation in budget documentation which will enhance the scrutiny process. It records a significant growth in capital spending, both in real terms and as a proportion of the departmental expenditure limit, and this is consistent with its underlying assumption that there is a vital association been growth in capital investment and economic growth overall.

19. Its main weakness is the lack of information regarding the efficient targeting of resources on the most disadvantaged communities, and the effectiveness of the pattern of investment on economic growth. In the absence of strategic targets, it is difficult to monitor its impact on employment regeneration and growth. In short it is more a statement of intent than a framework for action.

20. It would be helpful therefore to initiate discussions with the Executive over the need for performance reporting of the outcomes of the IIP, this could include analysis and comparison of outturn expenditure against estimates; comparisons of net public investment with competitor countries; capital spending targeted on the most disadvantaged communities and estimated impact on employment. As capital expenditure has a long lead time, such a report would not be possible
until after 2008. That would permit the gathering of actual expenditure
data from delivery bodies such as local government or universities,
whose capital funding is indicative rather than controlled directly by the
Executive. It would also be sensible to obtain subject committee views
on their respective portfolios, as this report concentrates on strategic
issues.

21. The Committee’s guidance as to the merit of entering discussion with
the Executive to develop a performance reporting mechanism for the
IIP is requested. The problems of measuring economic growth
accurately will need to be discussed in relation to the development of
appropriate economic targets.

Professor Arthur Midwinter
Budget Adviser
Finance Committee

11th Meeting 2005 – Tuesday, 19 April 2005

Environmental Assessment (Scotland) Bill: Written Evidence Submissions

Background
1. Members will take evidence today from the Bill Team responsible for the Environmental Assessment (Scotland) Bill. Requests for written evidence in the form of the Committee’s standard questionnaire on financial memoranda were sent to COSLA, Historic Scotland, the Scottish Environmental Protection Agency (SEPA) and Scottish Natural Heritage (SNH).

2. Written responses were received from:
   - SNH
   - SEPA

3. These responses are attached.

Recommendation
4. Members are invited to consider the responses received to inform their questioning of the Bill Team.

Susan Duffy
Clerk to the Committee
SUBMISSION FROM SCOTTISH NATURAL HERITAGE (SNH)

ENVIRONMENTAL ASSESSMENT (SCOTLAND) BILL – FINANCIAL MEMORANDUM

Thank you for the opportunity to provide evidence for the Finance Committee’s consideration of the Financial Memorandum that accompanies the Environmental Assessment (Scotland) Bill. Attached, as requested, is the completed questionnaire.

If you require further information on any of our comments, please contact Veronica Burbridge at our Battleby office: SNH, Battleby, Redgorton, Perth PH1 3EW, (Tel: 01738 458621; email: veronica.burbridge@snh.gov.uk).

Ian Jardine
Response by Scottish Natural Heritage to the consultation by the Scottish Parliament Finance Committee on the Environmental Assessment (Scotland) Bill – Financial Memorandum

Responses by Scottish Natural Heritage to the Questionnaire on the Financial Memorandum for the Environmental Assessment (Scotland) Bill

Consultation

1. Did you take part in the consultation exercise for the Bill, if applicable, and if so did you comment on the financial assumptions made?

SNH responded to consultations by the Scottish Executive on the implementation of both the Environmental Assessment of Plans and Programmes (Scotland) Regulations 2004 and the Environmental Assessment (Scotland) Bill 2005. In responding to these consultations SNH welcomed the considerable benefits that it saw arising from the introduction of SEA, which include “downstream” resource savings arising from the proper consideration of environmental factors at the plan-making and programme design stages. We did, however, draw attention to the fact that the effective implementation of the proposals would place significant new demands on the consultation bodies. The measures would represent a significant step-change in our current involvement in strategy, plan and programme making, for which we would have to find additional resources.

Provisional estimates of the scale of the effort likely to be required to implement both the Regulations and the Environmental Assessment (Scotland) Bill suggest that to meet its new obligations, SNH will, at a minimum, require the equivalent of four members of staff at an approximate cost of £173,096 per annum (assuming one E and three D grades). Although we have not sought to allocate this resource between the Regulations and the Bill, we have no doubt the greater part of this new need will arise from the Bill, which will bring us in contact with a far wider range of strategies, plans and programmes than hitherto.

As indicated, we would hope that this additional resource requirement would be to a greater or lesser degree offset by savings arising as the more environmentally sensitive plans and programmes that should result from SEA generate fewer problematic projects. But our involvement in SEA would in the short-term be an addition to our overall workload and it is difficult to predict just how soon the offsetting savings will be realised.

We recognised that a number of factors will influence the level of total resources required to undertake Strategic Environmental Assessment (SEA). These include the volume of strategies, plans and programmes submitted to us; the relative proportion that will be pre-screened out or which will only require screening; the additional information requirements
generated; and whether or not we are currently involved in developing or commenting on the preparation of the strategy, plan or programme.

In relation to the wider costs of implementing the SEA proposals, SNH considered that the creation of a freestanding administrative body would incur considerably greater costs. We preferred proposals for central administration of SEA, supported by strong working relations with the consultation authorities and central access to sources of information, advice and guidance on approaches to SEA perhaps through a dedicated website. We considered that this approach would provide the most effective and efficient mechanism for the implementation of SEA in Scotland.

2. Do you believe your comments on the financial assumptions have been accurately reflected in the Financial Memorandum?

As one of the three designated consultation authorities for SEA in Scotland, SNH has worked closely with the SE Bill Team and was consulted by them on the financial implications of the legislation. We consider that our comments on financial assumptions have been accurately reflected in the Financial Memorandum.

3. Did you have sufficient time to contribute to the consultation exercise?

SNH considers that sufficient time was given to the consultation exercise on the Bill, especially as this consultation followed on from extensive consultation on the implementation of the Environmental Assessment of Plans and Programmes (Scotland) Regulations 2004.

Costs

4. If the Bill has any financial implications for your organisation, do you believe that these have been accurately reflected in the Financial Memorandum? If not, please provide details.

SNH considers that the financial implications for the organisation have been accurately reflected in the Financial Memorandum, which clearly identifies the uncertainties and possible variances in the complexity of SEA and their relevance to each Consultation Authority. We agree with the statement in paragraph 82 of the Financial Memorandum that the exact number and grades of staff required by Consultation Authorities will not be entirely clear until we have more experience of the SEA procedures in operation.

5. Are you content that your organisation can meet the financial costs associated with the Bill? If not, how do you think these costs should be met?

In the short term, SNH will ensure that it prioritises work so that it meets its responsibilities under the Bill. As to the future we would hope that the
Scottish Executive, in allocating funds to SNH, would recognise the additional resources that will be required for ongoing delivery of these responsibilities. We would welcome a review of this situation once we have experience of the demands placed on us under the new legislation.

6. *Does the Financial Memorandum accurately reflect the margins of uncertainty associated with the estimates and the timescales over which such costs would be expected to arise?*

SNH considers that the Financial Memorandum reflects the margins of uncertainty associated with the implementation of the Bill.

**Wider Issues**

7. *If the Bill is part of a wider policy initiative, do you believe that these associated costs are accurately reflected in the Financial Memorandum?*

The implementation of SEA is closely related to the Government’s programmes for sustainable development, open government and freedom of information. We agree with the statement in paragraph 57 of the Financial Memorandum that an increase in requests for data/advice is likely to become part and parcel of the evolution of new information provision regimes developed in response to the Freedom of Information (Scotland) Act 2002 and the Environmental Information (Scotland) Regulations 2004.

8. *Do you believe that there may be future costs associated with the Bill, for example through subordinate legislation or more developed guidance? If so. Is it possible to quantify these costs?*

The preparation of guidance and the introduction of monitoring regimes for SEA may well give rise to future costs. At this stage we do not believe it possible to quantify these costs.

Scottish Natural Heritage
March 2005
SUBMISSION FROM SCOTTISH ENVIRONMENTAL PROTECTION AGENCY (SEPA)

Dear Ms Mitchell

ENVIRONMENTAL ASSESSMENT (SCOTLAND) BILL – FINANCIAL MEMORANDUM

Thank you for your letter of 9 March 2004 inviting SEPA to provide its view to the Committee on the financial issues raised within the Environmental Assessment (Scotland) Bill.

Under the existing Environmental Assessment of Plans and Programmes (Scotland) Regulations 2004, SEPA is identified as a Consultation Authority, giving the Agency new statutory duties\(^1\) to provide guidance and information at key stages in the strategic environmental assessment (SEA) process. The Bill also identifies SEPA as a Consultation Authority and confers similar statutory duties. In addition to these duties, SEPA will also require to act as a Responsible Authority when undertaking SEA for its own plans, programmes and strategies that fall within the scope of the Bill.

The purpose of the Bill is to extend the scope of SEA to account of a broader range of public plans programmes and strategies, beyond that required by the EC Directive and the consequent 2004 Regulations. SEPA strongly supports the Bill and very much welcomes the desire of Ministers to bring environmental considerations into the heart of Scottish plan-making. The effect of the Bill will significantly increase SEPA’s SEA activities as both a Consultation Authority and a Responsible Authority and, accordingly, there are resource implications for the Agency.

SEPA’s response to the specific questions detailed in your letter are set out below:

1. *Did you take part in the consultation exercise for the Bill, if applicable, and if so did you comment on the financial assumptions made?*

SEPA responded to the draft Bill and made extensive comments regarding the resource impact that it would be likely to have on the Agency. At the draft Bill stage, there was only basic information about the financial implications upon which to comment.

2. *Do you believe your comments on the financial assumptions have been accurately reflected in the Financial Memorandum?*

The Financial Memorandum now includes much more detailed assumptions regarding the costs of the Bill. Many of the assumptions regarding cost and number of SEAs per year were derived from research commissioned by SEPA (undertaken by Babtie Group) to inform our own resource planning
activities. We are concerned that the interpretation of this work set out in the figures in paragraph 84 and table 2 may be light (see Question 4 below).

3. Did you have sufficient time to contribute to the consultation exercise?
Yes.

4. If the Bill has any financial implications for your organisation, do you believe that these have been accurately reflected in the Financial Memorandum? If not, please provide details.

As noted above, SEPA commissioned Babtie Group in January 2004 to provide an assessment of the likely number of plans and programmes that would be subject to SEA, under both the Regulations and the Bill. This assessment was then used to estimate the likely cost for SEPA in fulfilling its Consultation Authority and Responsible Authority duties, in order that it could effectively resource plan.

From this work, SEPA estimated that the total cost to the Agency for statutory activities proposed in the Bill would be around £1.25m (+/- 25%) per annum. When factors such as diminishing costs over time, efficiency gains and taking account of similar work already undertaken (eg planning liaison) were accounted for, it was estimated that the additional cost to SEPA would be around £0.9m (+/- 25%) per annum. This figure accounts only for statutory duties set out in the Bill and it has been SEPA’s experience, thus far with SEA, that we are generally expected to provide much wider support to Responsible Authorities beyond the statutory SEA stages.

Para 84 states that the total annual cost for Consultation Authorities may be up to £1.65m (+/- 25%) of which £675,000 is attributable to SEPA. This is rather less than SEPA’s own £0.9m estimate of total cost, which was derived from the same work.

With respect to duties as a Responsible Authority, the Memorandum states that the cost of preparing an Environmental Report may be £20k - £60k. SEPA considers that this is probably a reasonable range, although it would be useful to keep this figure under review since there are examples that have cost considerably beyond the upper figure. Given the complex nature of many of the SEPA plans which will qualify under the Bill (eg River Basin Management Plans, National and Area Waste Plans), it is anticipated that the cost to SEPA of its duties as a Responsible Authority will often be within the most expensive 10% of plans cited in para 61.

Paras 86 - 91 set out the miscellaneous and administrative costs to the Scottish Executive. The Finance Committee should note that such costs will similarly apply (albeit to a lesser extent) to SEPA and the other Consultation Authorities. Like the Executive, each Consultation Authority operates a gateway to administer the consultations and to provide a one stop shop for the Responsible Authorities. In addition, there are other miscellaneous tasks for consultation authorities, such as staff guidance to ensure consistent and
quality-assured responses, awareness raising/capacity building within SEPA and partner organisations, and the development of SEA policy and procedures.

In summary, SEPA considers that the estimated costs provided in the Financial Memorandum do not fully reflect the estimated costs projected by SEPA. The committee should note that the actual confirmed allocation of funding for SEPA’s SEA duties over the next three years falls well short both of SEPA’s projected cost and the lesser figure given in the Financial Memorandum (see Question 5).

5. Are you content that your organisation can meet the financial costs associated with the Bill? If not, how do you think these costs should be met?

As part of SEPA’s 2004 spending review settlement £187,000 (2005/06), £266,000 (2006/07) and £377,000 (2007/08) was allocated to resource SEA activities. While welcome, this is clearly short of both SEPA’s estimate of total resource need and the estimate set out in the Financial Memorandum. Accordingly, SEPA resources to meet SEA duties under the Bill will be considerably stretched. While experience will provide a clearer signpost to actual resource requirements, it is possible that SEPA will have to prioritise its Consultation Authority activities to match available resources. This may include:

- prioritising consultation resources to those plans and programmes most closely aligned to SEPA’s core business or greatest environmental risk;
- adoption of “do minimum statutory requirement” in some cases or when casework loads dictate – this has already had to be adopted in the early stages of SEA when no resource was available;
- greater utilisation of standard letters and standing advice; and
- limiting or prioritising wider non-statutory duties.

From experience to date, it is clear that Responsible Authorities are very keen to involve the Consultation Authorities at very many stages in the SEA process. While this is very positive and enables closer working with partner agencies, the resource constraints upon us may mean SEPA is not able to maintain the level of service both we and our Responsible Authority partners aspire to in this regard.

SEPA would reassert the point made in its response to the draft Bill, that if the Ministers’ objective of making Scotland a world leader on SEA is to be achieved, then appropriate resources will need to be put in place. Recognising the high degree of uncertainty about the level of resources required to implement the Bill, SEPA considers that it would be prudent to undertake a thorough review as experience develops over the first year or two of the Bill coming into force. If it is found that SEA practice is compromised due to resource constraints then it should be incumbent upon the Executive to
make available appropriate resources. The proposed SEA pathfinder project involving CoSLA, the Scottish Executive and the Consultation Authorities will assist greatly in this regard.

6. Does the Financial Memorandum accurately reflect the margins of uncertainty associated with the estimates and the timescales over which such costs would be expected to arise?

There is considerable uncertainty regarding the estimates. This is reflected in the +/- 25% uncertainty figure attributed to both the volume of SEAs and the likely costs. SEPA considers such an error margin is sensible. SEPA does not, however, consider there is great uncertainty regarding timescale – it is clear that the volume of plans and programmes to which SEA will apply will increase markedly pretty much as soon as the Bill is enacted and in force.

8. Do you believe that there may be future costs associated with the Bill, for example through subordinate legislation or more developed guidance? If so, is it possible to quantify these costs?

As noted above, SEPA considers that a review of costs should be undertaken as experience develops in order to ensure that the right resources are available to the right authorities at the right time.

Specific Issues

Para 53 – The term “lesser costs” is used to describe those attributable to other public bodies such as SEPA. As noted above, SEPA considers that its Responsible Authority duties will be significant – SEPA may have a substantial number of plans and programmes that may fall under the Bill: eg National Waste Plan and Area Waste Plans (14), River Basin Management Plans (2), Sub Basin Plans (9 or 10 and potentially more) and strategy documents and policy frameworks (10-20).

Para 57 – This section identifies the likely increase in requests for data and advice as a result of the increase in SEA activity brought forward by the Bill. It suggests that such additional work is likely to become integrated into the wider context of the Freedom of Information (Scotland) Act 2002 and the Environmental Information (Scotland) Regulations 2004. While this is true for data requests, it is less so for the provision of advice. As noted above, experience suggests the Consultations Authorities are expected to engage in non-statutory activities connected with preparation of screening reports, scoping reports and environmental reports and these, when multiplied by the volume of plans, programmes and strategies under the Bill, represent a considerable body of work. While SEPA understands that the Financial Memorandum only relates to the statutory provisions of the Bill, it would wish to assert to the committee that the success of SEA will, in part, depend upon these wider areas of work.

Table 1 – It is surprising to note that the projected additional Bill provisions applicable to the Scottish Executive amount only to 4 plans. SEPA would
question this figure given the wider range of qualifying plans, programmes and strategies prescribed by the Bill.

Para 90 – 92 - As noted above, such administrative and miscellaneous costs also apply, albeit to lesser degree, to the Consultation Authorities for SEA administration, capacity building, guidance preparation and research work.

I hope that these comments are helpful to the Committee in their consideration of the financial implications of the Environmental Assessment (Scotland) Bill. I would reassert SEPA’s strong support for the Bill and the very positive benefits it will bring for protecting and enhancing the environment in Scotland. For SEA in Scotland to realise its true potential, however, there are resource issues which do need to be fully assessed and addressed. If you have any queries regarding this letter, please do not hesitate to contact Neil Deasley on 01786 452431 in the first instance.

Yours sincerely

Dr Campbell Gemmell
Chief Executive

1 SEPA’s statutory duties are:
- **Screening** – SEPA must within 28 days reply to a screening consultation advising its view on whether a plan or programme will have significant environmental effects
- **Scoping** – SEPA must within 35 days reply to a scoping consultation advising on the scope and level of detail that Responsible Authorities should include within Environmental Reports
- **Environmental Report** – SEPA must be consulted on all Environmental Reports and the plan to which they relate and has the opportunity to comment on them within the timescale agreed at the Scoping stage.
- **Data Provision** – This is statutory under other legislation (Freedom of Information (Scotland) Act and the Environmental Information (Scotland) Regulations) however the Bill will likely increase the number of requests.
- **Responsible Authority** – Undertaking SEA for all of its qualifying plans, programmes and strategies

Wider Non Statutory activities include:
- Pre-SEA meetings, discussions and advice
- Assistance in preparing documents such as Scoping Reports
- Attending stakeholder meetings to agree SEA approach and methodology
- Requests from Responsible Authorities to assist development of SEA method and contribute to assessment
- Assistance with “spin off” work such as State of the Environment Reports
- Administration/tracking of SEA casework, internal policy, guidance, research etc
Finance Committee

11th Meeting 2005 – Tuesday, 19 April 2005

Environmental Assessment (Scotland) Bill: Written Evidence Additional Submissions

1. In addition to the written submissions from SNH and SEPA, we have now received written responses from Historic Scotland and COSLA.

2. These responses are attached.

Recommendation

3. Members are invited to consider the responses received to inform their questioning of the Bill Team.

Susan Duffy
Clerk to the Committee
SUBMISSION FROM HISTORIC SCOTLAND

ENVIRONMENTAL ASSESSMENT (SCOTLAND) BILL – FINANCIAL MEMORANDUM

Thank you for your letter of 9 March 2005. I am pleased to enclose the completed questionnaire.

Please do not hesitate to contact me if I can be of further assistance.

John Graham
Response by Historic Scotland to the consultation by the Scottish Parliament Finance Committee on the Environmental Assessment (Scotland) Bill – Financial Memorandum

Historic Scotland

As in the SEA Regulations, the Scottish Ministers are identified as one of the Consultation Authorities under the SEA Bill, and have designated Historic Scotland to represent their interests in matters relating to the historic environment. Historic Scotland is an Executive Agency within the Scottish Executive’s Education Department and is directly responsible to the Scottish Ministers for safeguarding the nation’s built heritage and promoting its understanding and enjoyment.

Consultation

1. Did you take part in the consultation exercise for the Bill, if applicable, and if so did you comment on the financial assumptions made?

Two consultation exercises have asked for views on the Bill. The first (2003/31), in Autumn 2003, considered Bill principles and the second (2004/12), in Autumn 2004, considered the details of the Bill. Historic Scotland has responded to both consultations. A copy of each of our responses is attached.

2. Do you believe your comments on the financial assumptions have been accurately reflected in the Financial Memorandum?

Please see the response to Question 4.

3. Did you have sufficient time to contribute to the consultation exercise?

A response period of approximately 6 weeks was allowed from the date of publication (15 September - 29 October 2004). After agreement from the SEA Team, Historic Scotland responded on 5 November 2004.

Costs

4. If the Bill has any financial implications for your organisation, do you believe that these have been accurately reflected in the Financial Memorandum? If not, please provide details.

Historic Scotland will have two roles in the SEA regime, as a Responsible Authority and as a Consultation Authority. As a Responsible Authority we anticipate Historic Scotland’s plans/programmes will be subject to SEA, the costs of which can be absorbed into the cost of plan/programme preparation.
As a Consultation Authority, additional costs will accrue to Historic Scotland. These have been identified to the Scottish Executive’s SEA Team, and we are satisfied that these are reflected in the Financial Memorandum.

5. Are you content that your organisation can meet the financial costs associated with the Bill? If not, how do you think these costs should be met?

As an Executive Agency, Historic Scotland’s budget is allocated by Scottish Ministers.

6. Does the Financial Memorandum accurately reflect the margins of uncertainty associated with the estimates and the timescales over which such costs would be expected to arise?

Yes.

**Wider Issues**

7. If the Bill is part of a wider policy initiative, do you believe that these associated costs are accurately reflected in the Financial Memorandum?

The Bill is part of the wider Sustainable Development initiative being taken forward by Environment Group. HS’s understanding is that the other costs associated with this initiative are not part of this Financial Memorandum.

8. Do you believe that there may be future costs associated with the Bill, for example through subordinate legislation or more developed guidance? If so. Is it possible to quantify these costs?

No.

Historic Scotland
March 2005
SEA Bill Consultation
Sustainable Development Directorate (SEA Bill Team)

Strategic Environmental Assessment A Consultation On The Proposed Environmental Assessment (Scotland) Bill (Paper 2004/12)

Herewith please find Historic Scotland’s response to the above consultation. This is provided on a question-by-question basis and reflects our historic environment interests and role both as a Consultation Authority and a potential Responsible Authority for certain of our own strategies, plans and programmes under the proposed Bill.

Definitions

In addition to the ten questions posed by the consultation paper, there is an issue about the definition of “plans”, “programmes” and “strategies”. HS’s response to consultation 2003/31 has already raised concerns regarding the definition of plans and programmes, and the need for additional guidance on the interpretation of these terms. HS’s concern about definitions in the Bill is that the widening of the scope of SEA to include “strategies” (as set out in the Partnership Agreement) is not reflected in the wording of the Bill. It is not made clear to Responsible Authorities that the requirements of the Bill also capture “strategies” and “policies”. HS would therefore seek additional definition and/or clarification within the Bill regarding “strategies” and “policies”, as well as guidance on interpretation. Our original request for guidance on the interpretation of “plans” and “programmes” is also reiterated.

Q1. Should we have pre-screening?

It is possible that the need for SEA of some plans/programmes will not be recognised due to a misunderstanding of their potential environmental impact. The work undertaken on SEPA’s behalf by Babtie Group asked Local Authorities to identify which of their plans/programmes would be captured by the Bill. Examples of those which could benefit from pre-screening include strategies on drugs, plans for women’s equality, children’s services and literacy and numeracy. However, some plans/programmes identified as unlikely to be subject to SEA may indeed have environmental impacts e.g. winter gritting and/or winter maintenance plans, and strategies for replacement and disposal of computer equipment.

HS therefore consider that a reporting mechanism should be introduced to the pre-screening process to resolve this potential difficulty. This could involve notification by the Responsible Authority to the SE SEA Gateway that a plans/programme is deemed not to have significant environmental effects. After consultation with the Consultation Authorities, SE could then consider whether it would be necessary to direct that SEA be undertaken of any of the identified plans/programmes.
It seems that one of the purposes behind pre-screening is to avoid an unnecessary administrative burden on both the Responsible Authorities and the Consultation Authorities. It is worth noting that another way of so doing would be to amend the requirement that a screening report for all plans/programmes screened be prepared and sent to the Consultation Authorities. For plans/programmes deemed to require SEA, this requirement could be removed to allow the Responsible and Consultation Authorities to move straight to the scoping stage. Thus the Consultation Authorities would only need to be concerned about screening issues for those plans/programmes which were deemed not to require SEA, or where there was some doubt over its requirement.

Guidance on the proposed pre-screening process will be helpful.

**Q2. How should we administer screening and other elements of the SEA system?**

HS supports the continuing of Option 1, particularly in the interests of maintaining continuity between the Regulations and the Bill.

Option 2 is a free standing administrative body. It is not clear how this would work when most of the issues arising from SEA are of a professional and subject-specific rather than an administrative nature. There would be no clear benefits over the current system.

HS agrees with the consultation paper discussion on the disbenefits of Option 3 in terms of poorer tracking of cases, and lack of clarity/consistency in administrative processes.

We do not see a role for HS in Option 4 and would not support it.

Option 5 would not be cost-effective or workable. It implies a loss of staff from HS who deal not only with SEA but other issues. It would militate against a consistency of approach between consultation on the SEA and on the plan itself, and would result in much duplication of effort. HS could not afford to lose staff in this way and we suspect that would also apply to the other Consultation Authorities. In addition, it is unclear what standing or authority such a specialist team would have: only HS can speak for matters relating to Ministers’ role over the historic environment, and we expect SEPA and SNH would say the same for their areas of interest.

**Q3. What plans etc should be subject to screening?**

HS support the proposed approach of screening on a case-by-case basis, whilst at the same time building up an indicative list of plans/programmes which will require screening. We believe that the combination of these two approaches will prove most effective.

**Q4. Should there be a timescale for screening?**
HS agree that a timescale should be set for this. Whether or not 28 days proves feasible will depend on the number of screening reports submitted to the Consultation Authorities and the resources available to deal with them.

**Q5. Should Scottish Ministers determine in cases of dispute?**

HS agree that Scottish Ministers are best placed to exercise the function of determination in the case of disagreement between the Responsible and Consultation Authorities on whether full SEA is required.

**Q6. What should be in environmental reports?**

HS agree that scoping will assist in achieving high quality reports. As in our previous consultation response, we suggest that advice on Annex I be included in the Bill Guidance. Guidance should include information on scoping, as well as setting out what the Consultation Authorities will expect from the Responsible Authorities in the way of a scoping report.

In theory the adoption of a standard set of environmental indicators for the SEA process may be useful in achieving a consistency of approach across the different sectors, and be of assistance to some ResponsibleAuthorities. However, given that indicators are a means of measuring progress towards the achievement of objectives, this implies a standard set of environmental objectives to be used by all the public bodies. The objectives used by the Responsible Authorities will relate to the individual plan/programme under review and the characteristics of the geographical area affected. HS therefore takes the view that the Responsible Authorities should develop their own objectives and indicators, with assistance provided in the Bill guidance including examples such as those provided in the extant Interim Planning Advice.

If the view is that a standard set of indicators should be established, HS considers that a consultation exercise would be required as part of this process to identify both environmental objectives and indicators, and gain some agreement. Adoption of the Scottish Sustainable Development Indicators as they currently stand would not provide the environmental focus required by the SEA process.

**Q7. Should environmental reports also include social and economic information?**

HS agrees with the position set out in the consultation document that environmental reports should not include social and economic factors. It is our view that inclusion of these factors will place an undue burden on the Consultation Authorities in trying to “tease out” the environmental issues from the social and economic issues.
The purpose of SEA is to identify the environmental implications of certain courses of action, so that this information can be considered in the decision-making process. Inclusion of social and economic factors may cloud the issue, and work against fulfilling the requirements of the Directive. However, on occasion, SEA is confused with Sustainability Appraisal and HS consider that advice on the role of SEA should be provided in the Bill guidance to provide clarification.

Q8. What should be the arrangements for monitoring?

HS concur that the provision of information on monitoring data and contingency measures to the Consultation Authorities and the public would be useful, particularly as a means of identifying unforeseen impacts and ensuring that those identified are being addressed. However, reliance on the Environmental Information Regulations may not be the most appropriate vehicle. HS consider clear requirements for information provision should be included in the Bill.

We note that the SEA Directive makes monitoring the responsibility of Member States, as well as the identification of unforeseen adverse effects, and being able to undertake appropriate remedial action. Whilst this responsibility has legitimately been passed to the Responsible Authorities, we are of the view that Scottish Ministers should be in a position to provide information on monitoring to the European Commission as and when necessary, to fulfil the requirements of the Directive. Inclusion of requirements for passing such information to the Scottish Executive and the Consultation Authorities in the Bill would secure this position.

In terms of administrative arrangements, HS is of the view that information should be provided to the SE SEA Gateway and then circulated to the Consultation Authorities.

Q9. Should we have additional exemptions?

HS would find it difficult to identify additional exemptions at this time. However, we take the view that a list of plans/programmes to be exempt from SEA could be prepared at the same time as the list of plans/programmes to be subject to screening, to assist in pre-screening.

Q10. How can we improve the administration and operation of SEA?

As noted in preceding answers, HS is of the view that guidance on the Bill is essential.

We consider that the Bill should set out clearly its requirements of the Responsible Authorities, the Consultation Authorities and the Scottish Ministers. The “non-statutory” administrative arrangements can be included in the Bill guidance. As experience is gained of undertaking
and administering SEA, the guidance can be changed if this is considered necessary.

Amanda Chisholm
Strategic Environmental Assessment Team Leader
Historic Scotland
5 November 2004
Strategic Environmental Assessment
Scottish Executive Consultation Document 2003/31
Comments From Historic Scotland

Historic Scotland (HS) has the following comments to offer on this consultation document which cover our potential dual role in the SEA process as both a responsible authority and a consultation authority. We wish to highlight two principle points, and append more detailed comments below on some of the specific questions raised in the consultation paper. In this we have not attempted to provide an answer to every question, but only to those where we felt we had a contribution to offer.

Principle Issues

HS Role as a Responsible Authority
We simply accept that that will be the case, though we currently have some difficulty in determining precisely how many, and which, of our plans and programmes might be caught by the proposed Regulations, and additionally, strategies under the proposed Bill. We suspect that numbers in the former category are likely to be extremely small, and might not extend much beyond our Corporate Plan, though any major management and development plans for significant regional groups of monuments in State Care might also fall within this category. The widening out of the SEA remit under the proposed Bill to also include strategies, and the very broad definition currently offered for that term suggests that considerably more of our output might be caught. We have highlighted our difficulties in interpreting the various terms in our more detailed comments below, and would in general welcome more guidance. However whatever the final outcome, we would wish to be seen to be adopting best practise in that role.

HS Role as a Consultation Authority
We welcome, in principle, the identification of HS, through Scottish Ministers, as a consultation authority for the purposes of SEA. We see this as a positive opportunity to mainstream historic environment issues into the work carried out by the public sector. However we must also record our very real concerns about the resource implications for the Agency of the significant levels of new work which would arise from this role under both the proposed Regulations and Bill. We very much doubt that we would be able to engage fully with the process under current staffing levels.

Detailed Comments

The Proposed Regulations

Definition of Plans and Programmes
Q3. As a potential producer of SEAs we do have some difficulty in applying the definitions to our own work and in determining clearly which potential plans/programmes might be subject to SEA. That may be a problem wider than HS, and might suggest
that the screening process might, at least initially, be overwhelmed by submissions from responsible authorities who are simply uncertain but wish to err on the side of caution. We do not necessarily see any clear answer to this, or any way in which the definition offered could be made clearer, given the terms set out in the Directive. This is perhaps an issue which the proposed further guidance might help clarify: alternatively it might settle down in due course, and in the light of further experience. However we feel that at present it adds to the uncertainties of the resource implications which lie at the heart of our concerns, wearing our other hat, as a potential consultation body. The potential problem as we see it is not the potential for authorities to contrive through a potential loophole to fall outside the scope of the SEA process, but that it has the potential to draw in too much. We also feel that this problem will be exacerbated by the introduction of "strategies" within the Bill - see answer to Q 34-36

The Screening process

Q6. As noted above, for the screening process to be “largely driven by the responsible authority” (para 4.12) we feel that further guidance is required on the nature of plans and programmes, outside the obvious contenders covered by the issues discussed in para 4.11. We are concerned that the screening process may, at least initially, be overwhelmed.

We welcome the proposition that cases sent for screening must be accompanied by a short report prepared by the Responsible Authority.

As discussed at an earlier meeting on this issue, we do not believe it should be necessary, or that it will necessarily be possible, for the consultation authorities to reach agreement or a collective decision over the need for SEA. SNH, SEPA and HS (and any other identified body) will be dealing with very different environmental concerns, and all will not necessarily be significant in all potential SEA cases. It should be sufficient for one of those authorities to determine that there will be significant environmental effects for an SEA to go ahead (subject to appeal to Scottish Ministers).

Q7. We have had the benefit of sight of SNH draft comments on this paper, and should indicate that we support their position on the need for a secretariat within SE to act as a single gateway for all cases, to co-ordinate the views of the consultation bodies, and to notify that decision to the responsible authority. We also think that such a unit should be responsible for bringing in other organisations as necessary, beyond the consultation bodies identified in section 3. Taking our own area as an example, as noted in HS response to Q24/25 below, although in principle
(and putting aside our resource concerns) we welcome the opportunity for historic environment issues to be at the forefront of the SEA process, we recognise that our statutory remit only covers part of the wider term “cultural heritage” used in both the Directive and the draft Regulations. For certain types of SEA it may well be necessary to seek views from other consultation bodies to cover gaps not dealt with by the 3 identified consultation authorities.

Q9. HS has yet to give this detailed consideration. Much depends on how the resource implications are to be met. In principle we envisage that at least a specialised gateway will need to be set up to develop the necessary expertise and co-ordinate HS corporate response.

Q10. To address some of the potential problems we have identified in our answers to Q3 above, we believe that a combination of both approaches outlined in para 4.16 may be necessary, rather than simply relying on a case-by-case approach.

Q11. Our concerns about the likely impact of solely relying on a case-by-case approach are set out in our answer to Q3: - uncertainty amongst responsible authorities, and overwhelming consultation bodies at the screening stage.

Q13. We agree that a timescale should be set for this. Whether or not 28 days proves feasible will depend on the number of screening reports submitted to the consultation authorities and the resources available to deal with them.

Q14. If factors do change substantially within any intervening period, them in principle further screening should be required. It is not clear what measure or process would determine whether there have been substantial changes. That would not necessarily relate closely to any specific lapsed period of time. Significant change could occur within a very short time scale if the nature of the plan changed within that period. Self assessment may need to be relied upon.

Environmental Assessment

Q16. In order to avoid uncertainty about the precise nature of the items of information to be provided, additional guidance will almost certainly be required on the information set out in annex 1.

Q17. On analogy with the EIA process, the scoping requirement set out in draft Regulation 13(5) is likely to be a particularly significant procedure for ensuring that the final report meets the requirements of the process as a whole, and in preventing abortive work on an unacceptable report. We suggest that
further guidance is required to highlight the importance of this step. As with the screening procedures we would recommend that a request for a scoping opinion (and it is unclear whether that will be mandatory) should be accompanied by a Scoping Report prepared by the responsible authority.

Q18. The EIA Regulations require the provision of further information to make good any uncertainties or failings of any submitted ES. That might be an issue which requires to be considered here.

Q21. We consider that the avoidance of duplication of assessment is a key issue in ensuring that best use is made of what may prove to be limited resources. We are also concerned that SEA should be meaningful and add value, and not simply be carried out for forms sake. In this regard there will be a level at which there is insufficient information or certainty to carry out any meaningful SEA. Thus a less detailed SEA at a very strategic level might add nothing if the same subject matter is to be subject to SEA at another level.

Q22. For the same reasons set out in our answer to Q14, we do not believe that setting a fixed time limit will be meaningful.

Q23. We do not believe that the introduction of such provisions would be feasible: they would simply add to the bureaucracy. We consider that the consultation mechanisms in place should be able to address this.

Consultations and Decision Making

Q24 - Q25. We agree with the proposition in para 4.39 that Historic Scotland, as the primary body dealing with the area defined in both the Directive and draft Regulations as the “cultural heritage including the architectural and archaeological heritage” should be identified, through Scottish Ministers, as a consultation authority. We also welcome in principle the opportunity this presents to ensure that historic environment issues are fully integrated into the work carried out by the public sector. However we do have two caveats.

1. The most significant is the resource implications of undertaking this work. Clearly the resources required will ultimately depend upon the number of potential plans/programmes under the Regulations, and strategies under the Bill which will require SEA, and the work required to undertake the necessary scrutiny at the points identified in para 4.35. Initial indications are that the additional work load is likely to be considerable, and that seems to be born out by the findings of the research commissioned from Babtie by SEPA. On this basis we must conclude that HS will be unable to engage meaningful with the
SEA process on the basis of current staff resources. As already indicated this is a significant concern to the Agency.

2. The definition used in Annex I of the Directive, and Schedule 2 of the draft regulations - “cultural heritage, including architectural and archaeological heritage” – whilst subsuming our statutory interests, also goes beyond them into other areas which we do not cover – see for example, the wider definition which attaches to the term “cultural heritage” in the National Cultural Strategy, and the definition included in the National Parks Act. In general HS will deal with those issues which comprise the historic environment – a term defined in National Planning Policy Guideline 18 Planning and the Historic Environment, para 1. HS remit also overlaps into the other Annex 1 criterion of “landscape”, where our remit covers the historic dimension of the landscape. I have already set this issue out at greater length in a response to a query from Charles Gorman specifically on HS remit. The implications of this is that whilst HS might be the primary body, we are not the only body which covers cultural and wider built heritage issues, including modern architecture and design. There may thus be a need to undertake consultation in addition with other bodies should those areas outwith our specific remit be significant factors in any proposed SEA.

Q26. From our experiences of EIA we do not believe it is possible to select which consultation bodies need to be consulted in individual cases. Whilst it will be the case that some SEAs will only affect some interests, that is often difficult to predict or pre-select without detailed knowledge of the consultees’ subject areas, and the nature of the submitted SEA. Current practise in the case of EIA is that HS is consulted, through Scottish Ministers, in every case, and it is for us to determine whether our interests are affected. We see no way of avoiding this in the case of SEA.

The Proposed Bill

Q30 - Q35. As indicated in our answer to Q2 we have had some difficulty within HS in understanding how these various terms might apply to own strategic documents. The potentially very wide scope of the term “strategy” and the removal of the qualification that they set the framework for future development consents of projects compounds that difficulty and suggests that potentially most strategic documents could be caught. Without fully
understanding the intentions behind this proposal within the Partnership Document we find it difficult to offer any guidance on how the term “strategy” should be defined. However without further refinement we are concerned that this has a very real potential to overwhelm the screening process.

Q36. We do not foresee any need to modify the criteria in Annex II

Q37. We do not see any need to modify the screening process adopted for the regulations in the case of the Bill, though we do have some problems with the detail of that screening process: comments on that are already set out in comments above.

Q38. We have some concerns about the additional burden on the consultation authorities of a pre-screening process, whilst recognising the problem it is intended to address. That problem is inherent in the very wide definition of “strategy” and perhaps could, in part, be tackled though its tighter definition, and the provision of further guidance on the types of strategy which are unlikely to require SEA, and those which are not.

Q39. We would not wish to see a separate regime in operation for plans and programmes under the Directive and strategies, plans and programmes under the Bill, and that perhaps confirms our view that a pre-screening process in the case of the Bill is undesirable.

Q43. We support the approach set out in para 4.66 that the SEA report should only contain environmental factors.

Q47-Q50. We have no meaningful information to provide, either in our role as a responsible authority or as a consultation authority. As already noted we have had considerable difficulty in determining how many, and which of our strategies, plans and programmes are likely to require SEA under the current definitions and there has been some split in opinion within the Agency. As a potential consultation authority we have just received a copy of the Babtie Report for SEPA and have no reason to depart from its findings.

Lily Linge
11 March 04
Response by COSLA to the consultation by the Scottish Parliament Finance Committee on the Environmental Assessment (Scotland) Bill – Financial Memorandum

COSLA

1. Did you take part in the consultation exercise for the Bill, if applicable, and if so did you comment on the financial assumptions made?

COSLA did take part in the consultation exercise, commenting on both the financial assumptions made and the resource implications in terms of staff time. COSLA has made direct representations to the Minister for the Environment and Rural Affairs on the implementation in Scotland of the European Directive on SEA, as well as the Minister’s ambitions under primary legislation to extend the scope of the SEA process beyond that envisaged by the Directive.

2. Do you believe your comments on the financial assumptions have been accurately reflected in the Financial Memorandum?

COSLA does not believe that the assumptions made accurately reflect the cost to responsible authorities, specifically local authorities. It is demonstrably difficult for local authorities to anticipate the likely costs involved, since these will change on a case by case basis and will depend inter alia, on the ability to resource the purchase of relevant datasets, as well as a level of knowledge on the delivery of the SEA process, as yet to be achieved in many council departments and services, other than in development planning. Councils have been unable to plan for this process in terms of staff time and associated resource requirements because there has not been enough clarity as to the types of plans and programmes that might be subject to the SEA process.

However, given the scope of the legislation, and our suggestion as to the scale of the resources likely to be required, we believe that the financial assumptions are unrealistic.

3. Did you have sufficient time to contribute to the consultation exercise?

Frankly, given the nature of the Minister’s ambitions to put Scotland forward as a ‘world leader’ on this matter, and given the confusion already occurring as to what requires SEA scrutiny, COSLA would suggest that far more time should have been spent working with local authorities and others affected by this proposed legislation, to determine what can realistically be achieved within current resources. Had such action been undertaken, the proposals for primary legislation would have been better informed and more positively accepted.
COSLA welcomes the principles behind SEA and believes in the longer term that this will become a useful tool to support the environment. We do feel though that taken together with all of the other environmental initiatives thrust as a duty on local authorities, as for example Core Path Planning; to extend the scope of SEA beyond that prescribed by the European Directive so as to encompass ‘all new strategies, plans and programmes’ is not, in COSLA’s view going to achieve sufficient added value to the environment, and will be resource intensive for council departments already under pressure to deliver more for less.

**Costs**

4. *If the Bill has any financial implications for your organisation, do you believe that these have been accurately reflected in the Financial Memorandum? If not, please provide details.*

The Scotland wide costs will be determined by the total number of SEAs conducted. Research carried out by the Scottish Executive estimates that approximately 94 to 156 assessments per year are likely. However, these figures are subject to an error of 25%, which could lead to between 66 and 195 annual assessments. This is a very large discrepancy and makes any quantification of the costs difficult.

Based on this research the total costs for all assessments in Scotland would range from £3.3 million to £5.5 million (+/- 25%). Since there is an assumption, which has yet to be countered, that all local authorities will prepare a similar number of assessable plans, then this cost will be divided equally between all 32 councils. It is considered likely that due to the frequency of plan preparations a figure to the higher end of the range will a reasonable approximation. This could lead to a figure of £172,000 (+/- 25%) for each Local Authority, and is largely independent of council size and geography. This would therefore have a disproportionate effect on smaller councils.

There is also an issue of staff time. Local authority staff will have to be moved from other responsibilities, at least temporarily, to deal with SEA. Councils have very limited staff capacity and any movement of staff may be to the detriment of other essential work, and may require additional ‘back filling’ of vacated posts.

Given that all local authority projects and plans will be subject to SEA, it is the belief of COSLA, as stated in answer to question 2, that the above figures are likely to be an underestimate and do not reflect the real costs for councils.

For example the Scottish Executive figures suggest that on average, local authorities can expect to conduct around 5 SEAs per year. A response from one council suggests that the true figure may be even double this number i.e. 10 SEAs per year. This could lead to a figure of £344,000 (+/- 25%). COSLA would suggest that even this larger estimate
may be an underestimate, as despite best efforts, there is still a lack of understanding of the full implications of this Bill across the public sector.

There is sufficient uncertainty to warrant increased research, and time for comprehensive pilot projects. To rush into extending SEA beyond the regulations is likely to strain all responsible authorities considerably, where a more measured approach will, in the long run, deliver the same environmental benefits but allow all those affected to adapt.

COSLA in meetings with the Minister voluntarily offered to trial SEA across council services in two or three local authorities. We believe that this would help quantify the resource implications of the Bill. Regrettably, we still await the start of this pilot.

The true costs must be quantified before passing any primary legislation. Local Government recognises the importance of protecting the environment, and COSLA was extremely positive during the passage of the recent Nature Conservation (Scotland) 2004 Act through Parliament. However, the uncertainty of cost and resource implications of this legislation puts Local Government in a difficult position. Local authorities want to protect the environment and deliver on sustainable development, but are being asked on the extension of SEA to take a leap into the unknown.

COSLA therefore recommends taking time to consider the full implications of this Bill, before going beyond the regulations. This will ensure that Scotland can become a ‘World Leader’ in Strategic Environmental Assessment, but in a measured and steady way.

5. Are you content that your organisation can meet the financial costs associated with the Bill? If not, how do you think these costs should be met?

For member councils it will be a significant burden, at the very least in the short to medium term. COSLA acknowledges that, in time, skills will be acquired and economies of scale achieved in the delivery of SEA. However, to ask local authorities, from a standing start in services/departments (apart from development planning) to undertake this process, without specific financial support, is asking for a delay in delivering programmes and strategies, at a time when councils are being pressed on all sides to deliver more efficiently and with greater speed.

In addition the full costs must be met by the Scottish Executive.

6. Does the Financial Memorandum accurately reflect the margins of uncertainty associated with the estimates and the timescales over which such costs would be expected to arise?

As stated above, since COSLA does not believe that the burden on councils can be accurately identified at this stage, the margins of
uncertainty offer little or no comfort especially since there can have been no anticipation on the part of local authorities, in the recent spending round, as to the need to allocate significant resources to the SEA process. We also believe that the Scottish Executive itself is hugely underestimating the scale of SEA.

Wider Issues

7. If the Bill is part of a wider policy initiative, do you believe that these associated costs are accurately reflected in the Financial Memorandum?

COSLA has already stated its support for the principles of environmental protection and sustainability. COSLA supports the principles of renewable energy and is working with its member councils to support local actions. But these councils have to be given the resources to support this work – nothing is going to be gained by placing greater burdens, especially those that may not achieve the environmental benefits that were originally envisaged by the European Directive. Thus, if environmental improvements or protection measures emerge as necessary from the SEA process, then these should be able to be reflected in the Financial Memorandum with the same degree of accuracy as those produced by the consultants regarding the SEA process itself.

8. Do you believe that there may be future costs associated with the Bill, for example through subordinate legislation or more developed guidance? If so, is it possible to quantify these costs?

Should the Scottish Executive determine in future that further types of plans and strategies on additional themes with potential environmental impact be required to be subject to SEA, the cost implications, if relevant to councils will have to be borne by them. At this stage, it is not possible for COSLA accurately quantify future costs, as the full scale of the financial implications will only become apparent when SEA begins to be rolled out.

For further information contact:

Kathy Cameron
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COSLA
Finance Committee

11th meeting 2005, Tuesday 19 April 2005

Cross-cutting Inquiry into Deprivation Spend:
Review by the Adviser

Introduction
1. This paper is divided into two parts. Part One gives an overview of deprivation policy and strategy, and Part Two analyses current Executive spend on deprivation. The paper ends with a series of questions to be raised with the Executive.

PART ONE: OVERVIEW OF DEPRIVATION POLICY AND STRATEGY

Background

2. Tackling deprivation is a key element of the Executive’s social justice strategy. The most recent spending document on the topic, ‘Closing the Opportunity Gap: Scottish Budget for 2003-06’, stated that:

“Social justice underpins the whole range of Executive policies. It is entirely concerned with closing the opportunity gap faced by deprived communities and disadvantaged groups.”

3. One of the problems of appraising the impact of spending programmes on deprivation is the lack of consistency in the public discourse on the topic, when closely related concepts such as poverty and inequality, disadvantage and deprivation are often used imprecisely either simultaneously or interchangeably. There is a need for conceptual clarity in evaluating such spending programmes, particularly with the arguments about poverty, which is treated as a policy problem in its own right but is also a central factor in deprivation policy.

4. Moreover, the analysis is further complicated by the Executive’s inclusion of deprivation as an element of its economic development strategy. In the refreshed Framework for Economic Development in Scotland (FEDS), it is reported that:

“The Executive is addressing area regeneration needs across all of Scotland’s most disadvantaged communities. People in these areas are being supported so that they can benefit from employment opportunities, including those created by major regeneration projects. Raising economic activity rates in these areas can contribute to the productive potential of the economy as a whole. Closing the

opportunity gap in this way can make a real contribution to economic growth." ²

5. However, governments have had deprivation policies since the 60s. One of the original programmes, ‘Urban Aid’, was focussed on local authorities, to help them in combating problems in urban areas of special social need. Such expenditure was permitted under local government grants legislation, as an earmarked proportion of rate support grants. The programme was subsequently reviewed and widened in scope, with a greater emphasis on economic development and on attracting private sector investment in such areas.

6. The local government focus was retained as the government considered it important that local authorities where the incidence of multiple deprivation is higher than average should receive more resources to cope with this problem.

7. In policy terms, therefore, deprivation was seen mainly as an area-based problem, caused by a concentration of social problems in urban areas. ³

8. Research undertaken for the government some 25 years ago defined deprivation in this way:

“A household may be said to be deprived when its welfare falls below some generally agreed standards. The concept goes beyond the single notion of financial poverty ie insufficient income in terms of some standard of need, to encompass other aspects of welfare observed from or influenced by the activities of the state, eg the provision health care, education, housing and recreational provision.” ⁴

9. The argument is basically that deprived households suffer from low income, but that deprivation can be modified by the availability of public services. In urban Scotland, deprived households tend to be concentrated in areas facing economic and population decline, with high proportions of elderly households. This social homogeneity does not hold in rural Scotland, where small areas tend to contain a wide range of social characteristics.

10. A review of the impact of deprivation in Grant Aided Expenditure (GAE) assessments for local authorities provided a useful summary of how deprivation influences local government expenditure. This showed that

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³ FINANCE COMMITTEE (2003). 2nd Report 2003 (Session 2) Report on Cross-Cutting Expenditure in relation to Children in Poverty. Edinburgh: Scottish Parliament. NB: This report was undertaken by the Finance Committee in Session 1 and was adopted and published by the Finance Committee at the beginning of Session 2.
people are deprived relative to the normal standards of society. It saw the link between poverty and deprivation as a key consideration, and stated that poverty is compounded by additional disadvantages which flow from low purchasing power. As a result:

“Poverty is an underlying, base condition… and … deprivation can be described metaphorically as its superstructure. There appears to be an interaction or a circularity, in that symptoms of poverty such as poor housing, health and the ability of children from deprived households to take full advantage of educational opportunities, all tend to perpetuate the underlying condition of impoverishment.”

11. Further this report argued that in urban areas large numbers of deprived households are concentrated in poor housing, which contributes to the circularity of deprivation and poverty through: poor health; high energy costs; stigmatisation; and problems of access to employment. Low levels of educational attainment results in low pay, in a cycle of deprivation between generations.

12. For around forty years, as a result, deprivation spending has been targeted in areas of deprivation – which have a high concentration of deprived households – to seek to reverse the cycle of decline, through economic, social and physical regeneration. This was further observed in a major research report, which neatly summarises the problem as ‘a concentration of the poor in disproportionate numbers in poor quality urban housing’.

13. The area-based approach developed prior to devolution was a source of division between urban and rural authorities, simulating rural authorities to argue for a rural equivalent of the urban programme. In addition, there were recurring arguments over the use of the area-deprivation measure within GAE.

14. This division stems, apart from the obvious conflict of financial interest, from the original conceptualisation of the problem of deprivation as an urban phenomenon, in which the concentration of deprived households in small urban areas was seen as compounding the intensity of such problems. Historically, the Scottish Office had developed measures of both household and area deprivation. By definition, only people can be deprived, and therefore what area deprivation measures examine is the extent to which multiply-deprived households are spatially

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concentrated, and thus require area-based rather than client-based policies and programmes. Household deprivation measured the incidence of deprivation characteristics (eg unemployment, overcrowding, low income etc).

15. In particular households, whilst area deprivation measures the extent to which these are spatially concentrated, the Scottish Office study referred to earlier compares the Scotland wide results of these alternatives. This revealed that rural authorities contained 14% of deprived households, but only 4% of the worst deprived areas\(^9\) (although the measurement of deprivation has changed since then; for example, multiply deprived households must score on only three of six factors in 1981, compared with five from ten in 1971 – even so, the pattern of results remains similar, with area deprivation concentrated in the Clydeside conurbation, but household deprivation more widespread across urban and rural Scotland.)

16. From this analysis a standard critique emerged: that area deprivation only identified the worst manifestation of multiple deprivation and its use in the Urban Aid programme concentrated resources on a minority of deprived households, ignoring rural deprivation.

17. As more recent work confirmed, area deprivation was an appropriate measure for targeting resources through the urban programme (and its successors) on the most disadvantaged communities\(^10\). The area deprivation measure was created precisely for this purpose, to provide additional funding to urban areas to tackle spatial problems in a more holistic way than was possible through functional local government programmes.

18. When area deprivation came under consideration as a new factor in GAE, it became more problematic to defend, as the grant system seeks to assess the look of providing a standard service, whilst deprivation focuses on the need for additional services. DTZ Pieda’s report was required to…

"identify the most appropriate combination of adjustment within the existing grant distribution system, to take account of the additional costs of delivering local authority services from the effects of poverty and deprivation"\(^11\)

19. As this occurred post-devolution, it shall be considered in more detail later. The key point is that in the main, multiple deprivation has greater relevance for area-based policies than household-based policies.

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\(^9\) *Multiply-deprived Households in Scotland, op cit*


\(^11\) *Review of the Treatment of Deprivation in Local Government Finance, op cit*
20. This problem has been addressed in the 1997 review, which stressed the requirement to reach judgements about whether particular services were delivered to people or households, and of course, the distinction is not always clear-cut.

21. This was stimulated by research findings on the scale of rural deprivation\textsuperscript{12} – described as widespread – and its distinctive pattern, with distinctive dimensions including remoteness, cost of living, low earnings and accessibility to services\textsuperscript{13}. Common factors in both urban and rural deprivation are economic, population and public service decline.

The Post-Devolution Strategy

22. The Executive’s approach to promoting social justice recognised the limits to its own powers and committed itself to working partnership with the UK government at national level. The Executive introduced a number of programmes in Scotland which were designed to assist people into work or further or higher education, such as childcare and Education Maintenance Allowances.

23. At the national level there are a number of UK-wide policy initiatives to tackle poverty, including the National Minimum Wage, increased benefits and tax credits and the New Deal for young unemployed people.

24. Such programme are universally available to all who are eligible for them and they made a significant impact on poverty levels in Scotland between 1997 and 2003 as shown below:

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children living in workless households</td>
<td>19%</td>
<td>16%</td>
</tr>
<tr>
<td>Proportion of children living in low income households</td>
<td>34%</td>
<td>16%</td>
</tr>
<tr>
<td>Proportion of unemployed working-age people</td>
<td>8.6%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Proportion of working age people in low-income households</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>Proportion of low-income pensioners</td>
<td>29%</td>
<td>8%</td>
</tr>
</tbody>
</table>

\textit{Data taken from Social Justice Milestones}

25. These mark important progress from 1996-97 and should be recognised as such. Deprivation policy, however, compared deprived households’ living conditions with the standard of society as a whole, that is in terms of relative poverty or inequality – using median income of the year in question as the basis of comparison. Because above median incomes were rising faster than benefits or low incomes, progress in reducing inequality is less marked in terms of working-age

\textsuperscript{12} ibid
\textsuperscript{13} Area Deprivation in Scotland: A new assessment, \textit{op cit}
people, but more significant for low income pensioners and for children (see also recent Social Justice statistics).

26. A recent review summed up the situation well:

“To be poor was to live at a point below incomes at large. The benchmark could not be average income – a superior measure was median income, the midway point above which half the population earned more and below which half earned less. To be officially poor was to live on less than 60% of median income – the median income measure of policy would shift as incomes in general rose.”

27. The Executive has adopted a similar approach to measuring progress in terms of multiple deprivation, comparing the position of the most disadvantaged communities with the average for Scotland. This reflects the definition of the problem as a concentration of linked problems such as high unemployment, poor health, inadequate housing and high crime levels in disadvantaged communities.

28. In addition, the Executive stressed the need to ‘bend’ the core budgets in favour of disadvantaged areas, as well as targeting such areas through ring fenced funding. That was necessary because:

“Even when the direct spending on regeneration initiatives is significant, it is only a small part of the overall actions that shape the quality of places and the lives of those who live there. We know that mainstream programme expenditures, such as education, social security and health provisions, may often be the key government influences on localised wellbeing”

29. The report stressed the importance of “poverty proofing”, ensuring that departments prioritise disadvantaged individuals and areas. This approach was reemphasised in the Social Justice Annual Report of 2002. The Executive tackles equality through a focus on people and groups, and community regeneration through a focus on areas. The strategy was to ensure that local regeneration takes place within the wider strategic context of community planning so that core services and core budgets of public bodies are working together to Close the Opportunity Gap for disadvantaged communities, but also through targeting of funds at a geographic level.

30. In Spending Review 2002, this was addressed in a supplementary report on Closing the Opportunity Gap and identified a range of targets across portfolios. Bending mainstream spending, however, is not

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easy to achieve and some portfolio statements assert rather than demonstrate priorities. From Health, for example, it was claimed that investments of £40m over three years to improve coronary heart disease and stroke treatment, care and prevention would benefit deprived areas as “much of the disease burden is centred around disadvantaged communities”\(^\text{17}\). This assumption may hold in practice, but it is also the case that access to and use of health services increases with social class relative to need. In short, such statements need verification in practice.

31. The Environment and Rural Affairs portfolio argues that similar challenges exist in rural Scotland, with distinctive constraints such as remoteness; gaps in service provision; and difficulties in accessing services, therefore there was a need for “gap filling” projects to help Close the Opportunity Gap in these communities.

32. The Executive also emphasised the need to effectively develop community planning to encourage corporate working to tackle the causes and consequences of deprivation.

33. The most recent development of the Executive’s approach is in its Community Regeneration Statement. Despite early emphasis on distinctive dimensions of urban and rural deprivation, it now states that “poverty and deprivation in Scotland tend to be concentrated in particular urban and rural areas, more so than in the rest of the UK.”\(^\text{18}\)

34. The strategy set out in the Statement was focused on core public services, targeted regeneration initiatives, and outcome measurement. Targeted initiatives are means to “fill the gaps “and “top-up” mainstream services. The strategic aim remained to tackle the inequalities between communities by narrowing the gap between the disadvantaged and society as a whole. Funding core public services would improve local outcomes in health, education, transport, crime and jobs, whilst other services such as housing, social work and childcare support these objectives. Targeted local initiatives would supplement mainstream services, and community planning will improve coordination in delivery. However, conventional mainstreaming of expenditure in social inclusion partnerships (SIPs) would depend on

“Ministers and communities having confidence that services and outcomes in deprived areas will be improved and that the resources would not be taken away from the vulnerable communities that rely on them.”\(^\text{19}\)

\(^{17}\) ibid
\(^{18}\) ibid
\(^{19}\) ibid
PART TWO: ANALYSIS OF EXECUTIVE SPENDING

35. In Part Two, I consider how this strategy is reflected in Executive spending.

Key Spending Programmes

36. We have seen that the Executive’s Strategy involves a two-dimensional approach whereby multiple deprivation is tackled through funding streams which target the most disadvantaged communities directly, and through bending mainstream programmes to give priority to deprivation factors. In this section, I review the approach adopted to resource allocation and performance review in a number of these programmes.

37. It is necessary however, to make the caveat that conceptual clarity does not always materialise and departments on occasion use the term “deprivation” in a broad rather than a precise way. In our discussion with Executive Officials in the current exercise, for example, in trying to distinguish these categories for the Committee, we were advised that ‘Sure Start Scotland’ was an education programme, not a deprivation or regeneration programme. Yet in 2002, the Committee was advised by the relevant minister in its inquiry into child poverty, that Sure Start Scotland “Aims to break the cycle of deprivation by working with the most vulnerable families with children 0–3 years.”

38. In public finance, it is important to clarify such confusing statements to promote transparency and accountability. The Executive requires each Minister to identify how the portfolio contributes to its “closing the opportunity gap” objective, and that can result in some fairly general claims that particular programmes promote or support the strategy. The Committee’s concern is with spending which directly tackles multiple deprivation, either by area based targeting, or bending mainstream programmes. The information in the public domain does not permit these programmes to be clearly distinguished, and the Committee will need to seek clarification from a number of portfolios. We deal with the Communities portfolio first as the Minister has responsibility for co-ordinating delivery on deprivation across the Executive.

Communities

39. The Community Regeneration Fund is the main source of funding for regenerating the most disadvantaged neighbourhoods. It succeeds the Social Inclusion Partnerships Fund and the Better Neighbourhood Services Fund. The budget provision for 2005-06 is £108.7M. Eligibility for funding is determined through the Scottish Index of

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20 Figures and targets in this section taken from SCOTTISH EXECUTIVE (2004). Draft Budget 2005-06. Edinburgh: Scottish Executive

21 Letter to Tom McCabe MSP, then Convener of the Finance Committee, from Cathy Jamieson MSP, then Minister for Education and Young People, December 2002 (published as Annexe F to the Finance Committee report in Children in Poverty)
Multiple Deprivation (SIMD), which identifies areas of greatest deprivation based on 36 indicators which are contained within 5 domains of deprivation: income, employment, health and disability, employment, skills and training, and geographical access to services (including broadband).\(^\text{22}\) The Committee is receiving independent advice as to the merits of the approach in a separate paper, but it is important to realise there is no single perfect deprivation measure and judgement is necessary. Unlike previous area deprivation measures, it is not regarded as an ‘urban’ measure, but one which is applicable across Scotland.

40. In addition to the Community Regeneration Fund, there are two programmes where the SIMD is used to allocate resources along with other factors. The Anti-Social Behaviour Initiatives programme (£32.6m) is allocated on the basis of the SIMD and crime levels. Higher rates of crime are a facet of urban deprivation and there is a strong correlation between crime and deprivation. Secondly, 20% of the Supporting People Fund (£80.1m) is allocated through the SIMD. There are a few other deprivation related programmes, such as Vacant and Derelict Land (£12.0m) and Urban Regeneration Companies (£11m) where resources may be committed in the most disadvantaged areas, although not precisely targeted as above. This needs to be clarified in the evidence sessions.

41. In 2002, the previous Finance Committee received evidence from Communities Scotland that targeted housing investment in disadvantaged areas supports community regeneration\(^\text{23}\). Communities Scotland’s housing investment programmes provide new and improve housing for low income households. In recent years, 50% of allocation have been made in areas of urban deprivation, and a further element (around 5%) to remote rural areas in poor households. Around 45% of the programme was spent in SIP areas. The resource allocation formula for urban deprivation is based on poverty, unemployment, housing stock and disadvantaged groups (pensioners, lone parents). Rural deprivation is measured through poverty and remoteness. In 2005-06 with an investment programme of £415m, then at least £225m will be targeted on areas of multiple deprivation, with the remainder benefiting poor households. Other departmental functional programmes which benefit deprived households are Warm Deal (£58m) and Homelessness (£20m), but these are not primarily anti-deprivation measures. This formula remains in use by Communities Scotland, with some minor adjustments to deal with programme pressures on the need for more affordable housing. The agency is in the early stages of review of the formula which could result in changes to indicators. Whilst SIMD is not used for resource allocation, there is

\(^{22}\) Further information is contained in SPICe briefing \textbf{SB 04/50 Scottish Index of Multiple Deprivation 2004}. The SIMD itself is available on the Executive website at: \href{http://www.scotland.gov.uk/stats/simd2004/map.asp}{http://www.scotland.gov.uk/stats/simd2004/map.asp}

\(^{23}\) \textit{Report on Cross-Cutting Expenditure in relation to Children in Poverty}, \textit{op cit}
a strong correlation with the indicators used by the agency. It could provide spending data for the worst 15% areas if requested.

Health

42. Poor health is both a cause and a consequence of deprivation. Since 1999, the Parliament has endorsed a strategy of reducing inequalities in health, and a major Executive review of the situation stressed the responsibility of the NHS in Scotland in tackling this problem and ‘Ensuring equity of provision and access to services for different groups in society according to need.’

43. Equal access in practice is difficult to operationalise, with the major socio-economic differences in urban and remote Scotland, and the increasing preference in health care to develop centres of excellent covering broad catchment areas.

44. A major difference in health expenditure in contrast with housing expenditure is that the programme is available to all in need of health care, not only low income households. The growth in the Health Improvement Fund post-devolution, with its focus on diet, lifestyle, and homelessness, clearly has relevance to deprived households, although it is not targeted on the most disadvantaged communities specifically.

45. The health chapter in the new Scottish budget however sets a number of targets for reducing health inequalities in the most deprived communities. From a finance perspective, the key problem is one of monitoring resource allocation to such communities, as the budget does not show this in detail. Rather, resources are allocated at broad level, and targeted on areas of multiple deprivation through the boards’ involvement in the Community Planning process. The bulk of the Health Budget (£8bn) is spent by NHS boards and Special Boards, who have to reflect national priorities but can tailor their expenditure to local circumstances.

46. The distribution of resources to boards is now driven by the Arbuthnott formula, which is largely population based, but with adjustments which reflect the particular needs of deprived and rural areas. Arbuthnott’s approach to deprivation is region-wide, using four indicators which are combined into a single deprivation index. These indicators are:

- standardised mortality rates of people under 65;
- unemployment rate;
- proportion of elderly people who claim income support;
- multiply deprived households (2 or more indicators)

47. This gives additional resources to the five health board areas which are above average levels of deprivation. These are (where Scotland as a whole is 1.000):

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• Argyll and Clyde (1.040)
• Ayrshire and Arran (1.053)
• Greater Glasgow (1.133)
• Lanarkshire (1.049)
• Western Isles (1.098)

This £222m funding is not ring fenced, but available to these boards to allocate according to local need.

48. Arbuthnott was also concerned, however, that its methodology of equality need with utilisation of the NHS would underestimate deprivation effects. Regression analysis requires a dependent variable for testing potential need indicators, and the adjustments reflect the degree of variance explained in allocation rates between boards. The problem is that poor households may underuse the NHS relative to need, and this is well recognised in deprivation research.

“Health service utilisation data are also subject to criticisms such as that there is systematic underutilisation and overutilisation by class, and that utilisation reflects provision.”

49. This concern led the Executive to allocate £15m for unmet need pilot studies over two years to the three NHS boards with the highest concentration of deprivation, to focus on tackling inequality of access to and use of primary and secondary healthcare services. These allocations were:
• Argyll and Clyde (£4.5m)
• Tayside (£1.78m)
• Greater Glasgow (£11.72m)

50. Members will note that on an area-based measure, Tayside attracts additional funding, which it did not on the broader definition of deprivation in the Arbuthnott index. Deprivation was measured by the Carstairs Index. It is composed of four indicators:
• overcrowding
• male unemployment
• social class 4 or 5
• households without a car

51. The latter two indicators are not particularly good proxies for poverty and deprivation, and the data is drawn from the census. Consideration is being given to shifting to the SIMD in future.

52. The pilot studies are intended to address inequality in access to health care by deprived communities and the findings may also influence the next review of deprivation adjustments in Arbuthnott. The results are expected in 2006-07.

25 Area Deprivation in Scotland: A new assessment, op cit p1540
53. When the Finance Committee undertook a cross-cutting review of expenditure on children in poverty in 2002-03, it expressed 'doubts over the efficiency of deprivation payments to doctors and dentists, as these influence remuneration levels rather than health care.'\(^{26}\) Those were under review in the recent reviews of salaries and will need to be covered in this review.

**Local Government**

54. Responsibility for local government funding is mainly left with the Finance and Public Sector Reform portfolio, and in the Draft Budget the portfolio contribution states that:

“Our planning and central monitoring role in relation to the delivery of services by local government, the NHS and other public bodies will contribute to the Executive’s cross-cutting priority of closing the opportunity gap by:

- delivering the greatest benefit to those most dependent on public services;
- ensuring that services to disadvantaged communities are not lower quality than those to other communities;
- ensuring that services are responsive to the needs of all Scotland’s communities; and
- promoting an improved quality of life for everyone in local communities by building on the Quality of Life initiatives already undertaken by local authorities (£170m over the next three years).”

55. Three of these activities, however, relate to the portfolio as a whole, and it is difficult to see how they will provide additional resources to the most disadvantaged communities to tackle inequality of access to services. Nevertheless, the chapter does emphasise the importance of both neighbourhood statistics and the SIMD in terms of measuring the opportunity gap and targeting the most disadvantaged neighbourhoods. It also reports that:

“The Scottish Index of Multiple Deprivation (SIMD) is being used to allocate the Community Regeneration Fund to Community Planning Partnerships with a particular focus on the most deprived 15% of areas. The SIMD is also being promoted across the Scottish Executive to define deprived areas in order that baselines can be calculated and the change in the gap monitored over time.”

56. The overall framework of local authority funding is known as Aggregate External Finance (AEF) and which is comprised of Revenue Support Grant (RSG), Non-Domestic Rates Income (NDRI) and Specific Grants. RSG is a block grant, based on the Executive’s assessment of

\(^{26}\) Report on Cross-Cutting Expenditure in relation to Children in Poverty, op cit
authorities’ spending needs, calculated through the client group method. In principle, this operates in a similar way to the Arbuthnott formula, based mainly on population but with statistically validated adjustors for poverty, deprivation, scarcity, and other secondary factors. It uses past expenditure as a dependent variable in the way that Arbuthnott uses utilisation data, and is therefore vulnerable to the same criticism that it ignores unmet need.

57. In the Committee’s report on Children in Poverty, it was shown that only around 1.53% of block grant funding was allocated on the basis of poverty and deprivation – around £100m in 2001-02. The current equivalent would be around £120m. However, although the evidence the previous Committee received then described a number of the funding streams as having adjustments for deprivation in fact most of the allocations were based on poverty indicators such as income support recipients and free school meals. In fact, only around £6m, an adjustment in the street cleaning Grant Aided Expenditure, was allocated using an area deprivation measure. Whilst authorities with high levels of poverty also tend to have high levels of deprivation, these adjustments are not concentrated in the most disadvantaged areas in the current formula.²⁷

58. When the small amounts of funding for poverty and deprivation were raised with the Minister, at around 1% of GAE, he replied that this is not really surprising as GAE supports universal services for which poverty and deprivation are not the main determinants of provision.

59. However, this also appears to question the emphasis in previous arguments that the grant system needed ‘to take account of the additional costs of delivering local authority services from the effects of poverty and deprivation’²⁸ or the need to bend mainstream funding towards such communities²⁹, when only 0.09% of GAE is targeted on area deprivation.

Enterprise and Lifelong Learning

60. The ELL portfolio highlights a number of its programmes which are relevant to Closing the Opportunity Gap, including Education Maintenance Allowances and the Beattie Inclusiveness programmes, but these are targeted on specific individuals and groups. It also highlights targeted support on disadvantaged areas, such as Regional Selective Assistance (£48m) and European Structural Funds (£161m), both of which are targeted on an area basis, to assisted or declining areas. These will use alternative measures of disadvantage as the objectives are to support employment and training, not deprivation per se. This needs clarification.

²⁷ Report on Cross-Cutting Expenditure in relation to Children in Poverty, op cit, pp13 and 14
²⁸ Review of the Treatment of Deprivation in Local Government Finance, op cit
Transport

61. In the Draft Budget, the Transport portfolio reports its public transport funding ensures that “the significant proportion of the Scottish population for which public transport is the main or sole mode of transport are not excluded from jobs or services.” Such expenditure will provide some benefit to disadvantaged communities, but the concessionary fares schemes (£96m) for the elderly disabled and young people are targeted on groups, not areas. The Rural Transport Schemes (£9m) are similarly supportive of deprived rural communities, rather than targeted directly on them.

Environment and Rural Development

62. This portfolio identifies the Scottish Rural Partnership Fund (£5m) as its specific programme for addressing the aims of Closing the Opportunity Gap, whilst other projects such as Greenspace for Communities, local Nature Reserves and Community Recycling projects are beneficial to urban areas and disadvantaged communities and groups. We are unable to identify precisely how much is allocated to disadvantaged areas from the budget.

Conclusions

63. This review has shown that the Executive has given high profile to breaking the cycle of deprivation in disadvantaged communities. In terms of funding, the Executive has a number of programmes which directly target the worst 15% of disadvantaged areas using the SIMD. They also filter resources to delivery bodies by the use of deprivation indicators, or simply by policy guidance to, for example, Community Planning Partnerships to bend core budgets in favour of such areas.

64. The central assumption is that by concentrating additional resources on the most disadvantaged areas, the Executive can Close the Opportunity Gap with the Scottish average in terms of employment, education, health, access to local services etc. Unlike poverty, where there have been problems of reducing inequality as earnings have risen faster than benefits, the prospects for progress are better if the underlying distinctions are valid. This review, however, raises two related problems of measuring progress, in terms of tracking funding and monitoring performance.

Tracking Funding

65. In its recent Community Regeneration Statement, the Executive highlighted these problems. For example, it states that whilst individual communities have benefited, programmes have often overlooked the connections between deprived and other areas, eg transport to work. Also whilst targeted grants have been important, mainstream budgets – which could have significantly more effect – have not been redirected to tackle deprivation. The need for a twin focus – on core funding

and targeted funding to top up the gaps – is realisable, if it can be properly monitored and its impact assessed.

66. In budgetary terms, targeted funding is easiest to track, and we have been able to highlight the following as programmes which directly target deprived areas:

- Community Regeneration Fund £109m
- Anti-Social Behaviour Fund £33m
- Supporting People Fund £80m
- Housing Investment £225m
- Health Unmet Need pilots £15m
- **TOTAL** £462m

67. Secondly, we have considered the block grants to health boards and local authorities. Whilst both formulae contain weightings for poverty and disadvantage, in both cases they allocate few resources on the basis of area deprivation. Of the £227m allocated for ‘deprivation’ in Health, and the £120m allocated for ‘poverty and deprivation’ in Local Government RSG, only £6m is targeted on deprived areas. This means that the policy is dependent on efficient targeting at local level through Community Planning which aims to co-ordinate delivery programmes in communities. Together, these block grants account for around £16bn of expenditure, but we cannot identify how core spending on health and local government in the worst 15% areas compares with the Scottish average.

68. Thirdly, we have programmes which are targeted on disadvantaged areas which differ from deprived areas including assisted areas (Regional Strategic Assistance of £48m); declining areas (£161m of European Structural Funds) and rural areas (Transport measures of £9m and Scottish Rural Partnership Fund of £5m). In total these account for £223m, but we need further information to clarify whether these should really be considered as deprivation funding in the strict sense of the word.

**Monitoring performance**

69. The Draft Budget 2005-06 contains several targets which monitor whether additional funding does result in closing the opportunity gap. In the case of Health, a range of indicators have been selected to monitor progress in the most deprived communities, initially using the Carstairs Index, but moving to SIMD. These are:

- coronary heart disease mortality
- cancer mortality
- adult smoking
- smoking during pregnancy
- teenage pregnancies
- suicides
70. The targets are to deliver reductions in the rate of the most deprived 15% of communities, although these do not appear to be being compared with the national average.

71. In Communities, the key target relates to promoting regeneration in the most deprived neighbourhoods (identified by the SIMD) in terms of employability, education, health, access to local services and quality of the environment, relative to the Scottish average.

72. In Enterprise and Lifelong Learning, the relevant target is to close the gap in unemployment rates between the most deprived 10% of areas and the Scottish average using the Office of National Statistics ward data.

73. Environment and Rural Development sets a target to improve access to and quality of key public services in remote and disadvantaged rural areas, using SIMD. Five other mainstream departments, and the Finance and Public Services department, have not set area-based multiple-deprivation targets at all.

74. This creates problems of monitoring. **At the moment three different area-based targets are in use, and a further area-based formula is applied in housing. This should be standardised to ensure consistency in the use of SIMD.**

75. In addition, although there is a strong emphasis on joined-up working in the documentation, the targets are largely for specific functions. **There is no strategic target which monitors progress for the most deprived 15% communities as a whole,** using the same range of indicators which is used to identify the most deprived neighbourhoods in the first place.

76. As the Executive's Statistical Adviser notes:

   "users are strongly advised against selecting individual indicators and drawing conclusions about area deprivation. The indicators chosen represent specific sub-groups within the population and it is only when combined with the other indicators in a domain that a measure of deprivation allowing comparison across different areas can be made."  

77. This argument is clearly also relevant to performance targets, otherwise we are determining eligibility for funding on a combined index whilst measuring the impact of such additional funding on a narrower functional basis.

78. It is clear, however, that the information available in the public domain in budget documents is not adequate to provide a comprehensive

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picture of how much additional funding is provided to deprived areas to tackle inequality, nor how effectively it is used. The Committee should therefore obtain written evidence from departments regarding:

1) which programmes/funding streams it would regard as specifically targeting areas of multiple deprivation;

2) how it allocates such funding to delivery bodies and measures its use by them; and

3) how it measures performance in terms of tackling multiple deprivation and Closing the Opportunity Gap.

79. The Committee requires explicit identification of funding streams, allocations and targets, not general commentaries which describe the approach rather than analyse it rigorously.