

FINANCE COMMITTEE

Tuesday 14 December 1999
(*Morning*)

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CONTENTS

Tuesday 14 December 1999

	Col.
INQUIRY TOPICS	213
EXPENDITURE PLANS (2000-01)	219

FINANCE COMMITTEE 10th Meeting

CONVENER :

*Mike Watson (Glasgow Cathcart) (Lab)

COMMITTEE MEMBERS :

*Mr David Davidson (North-East Scotland) (Con)

*Rhoda Grant (Highlands and Islands) (Lab)

Mr Adam Ingram (South of Scotland) (SNP)

George Lyon (Argyll and Bute) (LD)

*Mr Kenneth Macintosh (Eastwood) (Lab)

*Mr Keith Raffan (Mid Scotland and Fife) (LD)

*Dr Richard Simpson (Ochil) (Lab)

Mr John Swinney (North Tayside) (SNP)

*Elaine Thomson (Aberdeen North) (Lab)

*Andrew Wilson (Central Scotland) (SNP)

*attended

THE FOLLOWING MEMBER ALSO ATTENDED:

Malcolm Chisholm (Edinburgh North and Leith) (Lab)

WITNESS:

Mr Jack McConnell (The Minister for Finance)

COMMITTEE CLERK:

Sarah Davidson

SENIOR ASSISTANT CLERK:

Callum Thomson

ASSISTANT CLERK:

Mark MacPherson

Scottish Parliament

Finance Committee

Tuesday 14 December 1999

(Morning)

[THE CONVENER *opened the meeting at 09:48*]

The Convener (Mike Watson): Good morning. I call the 10th meeting of the Finance Committee to order. I remind members to switch off their mobile phones and set their pagers to vibrate. I have received apologies from Adam Ingram and John Swinney.

There are four items on the agenda. I suggest that it would be appropriate to hold agenda item 2—consideration of possible lines of questioning for the Minister for Finance—in private session. Are we agreed?

Members indicated agreement.

The Convener: I suggest that item 4—consideration of our draft report—also be held in private. Are we agreed?

Members indicated agreement.

The Convener: As members will be aware, the minister will be here at 11.30 this morning, after the cabinet meeting. If we have completed items 1 and 2, we will have a short adjournment before 11.30.

Inquiry Topics

The Convener: Item 1 is consideration of possible topics for our first inquiry. The clerks have circulated a paper outlining a number of proposals. We can consider other topics, and if anyone has any suggestions, they should make them as soon as possible in the discussion so that we know the range of topics from which we can choose. I note that Keith Raffan and Andrew Wilson have suggestions.

Let us look briefly at the topics suggested in the document, before considering the other suggestions. Do members have any comments on the general text about timing and the criteria that apply? It is fairly straightforward.

We welcome the fact that our proposed change to standing orders, extending the remit of this committee, has been accepted and is soon to be implemented. We sought that change and we have achieved it.

There are three suggested topics in the document: tax-varying powers; quangos; and

Treasury functions. The areas that could be covered under those headings are also listed. Are there any comments on those topics? I have a personal preference, but we can come to that in due course.

Andrew Wilson (Central Scotland) (SNP): Our agenda has been tight so far and we should not overburden ourselves, so planning ahead beyond this year would be useful. I therefore suggest that an inquiry into tax-varying powers is one that can wait. The Executive's current position is quite clear, so it would be premature to discuss it at this stage.

Of the three topics listed here, the most attractive is the structural issue of Treasury functions. With proper evidence, that inquiry could be done reasonably quickly. I am not sure that it would be our role to investigate quangos, although it is a tempting topic in many ways. I would not oppose such an inquiry, but I think that we have other priorities under our financial remit.

Mr David Davidson (North-East Scotland) (Con): I have some sympathy with Andrew Wilson's point of view. We have had a clear declaration from the minister on tax-varying powers, and that is something that we could consider in year 3 or year 4. By then, having had a couple of goes at normal budget procedure, we should have a better idea of what is happening.

The quango and Treasury suggestions are interesting. We do not have time to do both inquiries this year. I suspect that we will have to look at quangos during the coming year, but that is something that we may be able to do during the next session. This year, we should stick with the Treasury functions to get a handle on what is happening in that department.

Mr Kenneth Macintosh (Eastwood) (Lab): I would like Andrew Wilson and Keith Raffan to tell us what other ideas they have. I agree with what has been said so far—that tax-varying powers are not a priority—but I would like to hear the full range of suggested topics.

The Convener: I agree with that. I invite Keith and Andrew to outline their suggestions.

Mr Keith Raffan (Mid Scotland and Fife) (LD): One area has cropped up continually in my meetings with health boards and police authorities: efficiency savings and their impact on budgets.

Health boards are being asked to make efficiency savings every year, which means that they are now moving away from non-clinical savings to clinical savings. That is ominous, because it basically amounts to rationing. Yesterday, I visited Fife constabulary, a very impressive police force, 86 per cent of whose budget is spent on manpower. It is now being

asked to make savings over the next three years—1 per cent this year, 1.7 per cent next year and 2.5 the year after that—on the remaining 14 per cent of its budget.

The demand for efficiency savings is being made right across the public sector. In trying to get to grips with budgetary matters working up to April and May, I do not agree with Sarah Davidson that the subject committees should consider things first. This committee will have to get a feel for the budget. It would be helpful to conduct a budget-related inquiry over the next few months. Efficiency savings and their impact on public services fall under our remit, although they could also come under the remit of the Audit Committee.

Andrew Wilson: I raised a few matters at our first committee meeting before we fully appreciated the burden of work that we now have to shoulder. We can tie Keith Raffan's suggestion into the wider area of the structure of the funding mechanism. He was right to highlight the point about efficiency savings. The guesstimate is that 50 per cent of the block is spent on wages and salaries. The block increase next year will be 0.5 per cent and average earnings are increasing at 4 per cent, which raises the possibility of severe job losses or a decline in service provision. That is something that the Finance Committee must consider.

Academics as well as politicians are asking questions about the effect on the block of the Barnett formula and the allocation mechanism. An inquiry would give us scope for a rigorous investigation of what is going on. We could use select committee work that has been done at Westminster as a starting point. The Parliament must form a view about that, because some people are developing somewhat ill-informed views about the impact that the Barnett formula is having on the budget, and that is not healthy. Cross-party interests converge on that point, because it is not a question of party politics.

As the convener will be aware, the European Committee will be considering European additionality. Given the reform of structural funding that is currently under way, additionality is a live issue and one that I have mentioned before. That is something that we should consider.

The final issue that I want to raise is the private finance initiative. An inquiry would expose how bad or how good PFI is, would provide a platform for discussing whether reforms could be made and would allow us to question everything from appropriate discount rates to the structure of the deals themselves. The Audit Committee is already asking those questions about one deal, and that has been illuminating. Once that report comes out, the Finance Committee may want to consider some similar questions.

Mr Macintosh: I am glad that I have heard those ideas. We should look at how the Barnett formula works and at the whole context of public sector finances.

Mr Raffan: I was going to mention the Barnett formula as my second point. Unless we could break it down into a series of reports on different elements, it would be a fairly major inquiry. Sooner or later we will have to consider it, if only because of the convergence in terms of spending per head in Scotland and in England. That will put pressures on the Scottish block and the Scottish budget. Whether we like it or not, that is not an issue that we can evade, however much it stirs up public opinion down south. I refrained from mentioning it, however, because I thought that we would be working to a tight schedule between January and Easter. Until we get into our stride, I think that it would be better to concentrate on something else.

Andrew Wilson: The question of Treasury functions is a structural question that we could look at quite quickly. There is a wealth of work out there for us to tap into, so it should not take too long. The question of the Barnett formula and structural funding is one that we can take our time with, over a period of several months, before writing a final report.

Politically—from the Parliament's perspective and forgetting party—we should put on record the negative influence that the Barnett formula is having on our budget. There is massive misunderstanding about that. There is no argument about relative levels of spending in one or two areas, but there is an argument about where it is going. It would be useful for us to take charge of that argument and the way in which it is informed, because there is a risk that the Barnett formula will be used to beat the Parliament over the head. That is of no use to anyone. I suggest that we take our time with bigger inquiries, such as that on PFI, and deal with others, such as that on Treasury functions, more quickly.

10:00

The Convener: We do not have to bring the inquiries to a conclusion before we get into the meat of next year's budget. Andrew's suggestion—that we opt for a short sharp inquiry that we can complete before then, but set the wheels in motion on one that may take us through the summer and into next year—is a good one.

Andrew Wilson: As experienced Westminster operators, convener, can you and Keith Raffan offer some guidance on how long such inquiries take there?

The Convener: They tend to be short and sharp, taking place over a period of about three months.

Mr Raffan: Some notorious inquiries have gone on for 12 to 18 months, so that by the time people come to draft the report, they have forgotten the evidence that they originally took. There are a number of advantages, particularly until the committee settles down, in doing a short, sharp inquiry as a practice run. It would need to be on something that was not too complex and on which we could produce a solid piece of work.

Mr Davidson: These are all topics of interest. If we want to have a short, sharp inquiry to start with, Treasury functions would be an appropriate subject. The topic that is labelled here as quangos relates to creative modelling, which, no doubt, the finance department will want to do over the next year. There will be a lot of pressures as to how things are delivered, and there will be debates about enterprise systems and so on. Our second inquiry might, therefore, be on quangos. We could conduct the PFI inquiry in parallel with consideration of the budget next year.

The Convener: There seems to be general consensus that Treasury functions would be a good starting point.

Mr Raffan: I want to make a brief point about quangos. The Minister for Finance has announced that the Executive will be going out to consultation on quangos—he talked about it on “Newsnight Scotland”. If we were to carry out an inquiry on that topic, it would be appropriate to wait until the consultation process had been completed.

The Convener: We should ask the clerks to get moving on Treasury functions, as we would look to complete that inquiry in the first quarter, before the budget reaches us.

Andrew Wilson: In addition, could we have a longer-term timetable indicating where the other issues will fit in? Perhaps we could discuss that at our first meeting in the new year.

The Convener: We could identify a topic for the longer term now and invite the clerks to do some preliminary work and report back to us after the recess. A number of topics have been proposed: efficiency savings, European additionality, PFI and the Barnett formula. All four are substantial subjects, particularly the last three.

The clerk is suggesting that, rather than our making a decision now, the clerks could supply us with suggested headings for topics, as they have in the paper that we are considering today. We could give the matter some thought and make a decision at an early meeting after the festive recess.

Rhoda Grant (Highlands and Islands) (Lab): I suggest that we select a topic to be dealt with first and, perhaps, the next topic for an inquiry. To pin ourselves down on all the inquiries that we intend

to carry out over the next two years might not be sensible.

The Convener: I was not suggesting that. I was simply seeking to identify the next topic for an inquiry. We have two or three choices. There may not be any great benefit in making that decision today, if we can have more information on which to base the decision at our first or second meeting after the recess. Is that acceptable?

Mr Raffan: I have one brief point. It is important that we do consecutive inquiries. I sit on another committee, in which we are conducting parallel inquiries. I do not think that that is a good method of working. Supposedly, we are doing a briefing on one issue and an inquiry on another, but I find it very confusing to be switching from subject to subject from week to week.

The Convener: I am on the same committee, so I know what you are talking about. I agree that we should avoid that, if possible.

Dr Richard Simpson (Ochil) (Lab): I wonder whether any of the topics would lend themselves to a rapporteur, rather than an inquiry. Could we not at least begin a preliminary investigation on, for example, European additionality, by appointing a rapporteur?

The Convener: That is a particularly appropriate subject for a rapporteur, given the history of the post. Again, we can take suggestions and further information from the clerks when we meet again after the recess.

Dr Simpson: I am sure that we will have a volunteer.

The Convener: I am not sure that we are allowed to discuss that today, given that British MEPs are boycotting the opening of the new Strasbourg Parliament.

Andrew Wilson: Not all of them.

The Convener: The major parties are.

If there are no further comments on item 1, we will move to item 2. I remind the press and public that we have decided that this part of the agenda will be dealt with in private session. However, we undertake to give people fair warning of the minister's appearance, which cannot, in any case, take place before 11.30 am. If you would not mind leaving us now, we will consider the lines of questioning that we want to pursue. The outcome of our deliberations will be fully available to you in due course.

10:06

Meeting continued in private.

11:31

The meeting resumed in public.

Expenditure Plans (2000-01)

The Convener: I reconvene the 10th meeting of the Finance Committee by welcoming the Minister for Finance, Jack McConnell, who will give evidence this morning on the budget expenditure plans.

Minister, your letter dated 9 November said that the committee would receive further detailed explanation of the figures before this meeting. We have not yet received such an explanation, although it might emanate from your responses this morning. I just wanted to note that point.

As you would expect, minister, we want to raise a number of points with you. However, I do not have a registered batting order for committee members. Do you wish to make an opening statement?

The Minister for Finance (Mr Jack McConnell): Yes. I apologise if there has been any misunderstanding. I understood that committee members had received the consultation document "Spending Plans for Scotland", which was what we meant by the further detailed information mentioned in the letter. However, I had also intended to make two things clear. First, I hope that, in future, the committee will receive detailed level 2 figures in real terms and an explanation of what elements of public expenditure and general provision are covered by each of the headings. That information will be provided either in the form of a revised consultation document or in another form that we can discuss as part of the process outlined in the written agreements. As we develop the process, such information will allow informed discussion both in this committee and in others.

Secondly, the committee might have questions that, because of level of detail or other reasons, I will not be able to answer on the spot. I hope to provide the committee with answers to such questions by close of play today, as I am aware that the debate on these figures takes place tomorrow morning and I want committee members to have as many answers to their questions as possible in advance of that debate.

Thank you very much for the invitation to attend the meeting. I have several introductory comments. Today's Finance Committee meeting is an important part of the budgetary process—it is all the more important because of the short time scale to which we have been operating in this transitional year. However, it is worth noting that, despite that time scale and the short time that the

Parliament has existed, there has probably been more scrutiny of the Parliament's financial arrangements in the past six months than there would have been in six years in the House of Commons. That represents a progressive move on which we can build in years to come.

The focus of today's meeting is different from that of 9 November, which was on the autumn supplementaries. On that day, we discussed the detail of the changes that we are making in the current year. Today's focus is the budget for 2000-01, as set out in the level 2 figures, which I have provided for the committee and which are contained in the consultation document, "Spending Plans for Scotland", which was published on 17 November.

The published level 2 figures also extend to 2001-02, but I propose to concentrate on 2000-01 today, although committee members may wish to ask about other numbers. There will be a full budgetary cycle, starting next March, in which to discuss the 2001-02 figures. At this stage, they have the status of initial planning assumptions only.

The proposed figures for next year will be the core of the Parliament's first budget bill. That bill will be introduced in January; we hope that it will complete its passage by 14 February. The committee's comments will inform the contents of the bill, so I hope that we have a good dialogue today and a good debate tomorrow.

In "Spending Plans for Scotland", we consulted more widely on our plans. Despite the expected limited response, given the short time available for consultation, and as this is the first time that we have gone through this process, this has been an important first attempt to inform and involve people. Those who respond will have their views considered before the budget bill is introduced.

End-year flexibility has been a public issue. It is not a quick fix that we dreamed up this year, but a result of the new innovative approach to public expenditure. It seeks to move the focus away from annual short-termism to a longer-term view of the fundamental needs and priorities. It was not that long ago that public expenditure was crippled by annuality, which created perverse incentives to spend because money was available. People developed a use-it-or-lose-it attitude that led to end-of-year spends, which benefited only the few.

The comprehensive spending review produces three-year spending plans. It is sensible, in a three-year envelope, that underspends in any one year should be rolled forward and used in subsequent years. In my view, that is about prudent budgeting and creating the right incentives for good management.

It is essential that we overcome the problems of

annuality and the idiocies that it created through the annual scramble to spend budget at the end of the financial year. A more measured system will be created that will focus on priorities and that rolls any unused spending forward to ensure that future priorities are met.

The total budget for 2000-01 is £16.7 billion. Of that total, we allocate roughly £6 billion to local authorities and £5.2 billion to the health service. A further £2.2 billion goes to education and enterprise and £0.5 billion goes to communities, rural affairs, justice, transport and the environment.

Within local authority expenditure, the grant-aided expenditure figures for 2000-01, which give only a guideline for what local authorities spend, indicate that they might spend a further £2.7 billion on education, £1.1 billion on social work, £0.7 billion on police and £0.2 billion on the fire service.

Those spending plans reflect the importance that we attach both to the health of the nation and to the future success of the nation, as encouraged and developed by education. Our spending priorities for 2000-01 not only demonstrate our commitment to education and health but tackle the serious problems of housing and social exclusion and the decay in transport systems. They also help to sustain our environment—one of our key national assets.

The plans include extra money for education as agreed in "Partnership for Scotland" and, as agreed among ministers, for roads and for tackling drugs and domestic abuse. They build on the comprehensive spending review and the additional resources that it provided for education, health, local government and roads.

Our key priority in the new Scotland is social justice. We must make a start on delivering the kind of country that we want, where everyone, especially old people, can feel safe, where our children can achieve their full potential through a world-class education system, where creativity is not stifled and where enterprise is encouraged.

We cannot do all that we want to do at once. None the less, this budget moves us on from the start that was represented by the autumn supplementaries and it provides the resources to tackle some of the serious issues facing Scotland. I will be happy to answer any questions about the expenditure plans.

The Convener: Thank you, minister. I know that the committee wishes to put a number of questions to you.

I would like to ask the first one, on the level 2 sub-programme figures that you have submitted. There is a widespread feeling that the fact that those figures are given in cash terms, not in real

terms, makes it much more difficult to come to sensible judgments, particularly as, in future, the subject committees will need to examine the detail before reporting to this committee. Do you not feel that it would be more appropriate to provide real-terms figures? Will you give an undertaking to do so when we enter the first full budgetary cycle next year?

Mr McConnell: Yes. There is absolutely no doubt about that. We will be happy to do so.

The Convener: Thank you very much.

Dr Simpson: You propose using deflators, but there are different deflators for different areas of the budget. In the area that is of particular interest to me—health—it is generally recognised that, apart from normal inflation, the problem of changes in population mean that an estimated one point something per cent has to be added to the annual budget to maintain the same services. The annual inflation for general pharmaceutical services—a sub-programme under the portfolio of health—is reckoned to be usually 6 per cent or perhaps more. Will you undertake to specify the particular deflators that you are using for particular budgets, rather than just the general deflator?

Mr McConnell: We use the same deflator—the gross domestic product deflator—in all budgets and estimates. Your question, Dr Simpson, perhaps points more to the future, and to whether that should remain the case.

The GDP deflator is a better estimate of increasing costs than the retail prices index, which measures consumption by households, would be. Use of the GDP deflator across all services gives a more accurate picture. I imagine that, in the years to come, the committee will want to discuss how to reflect real costs across public services.

Dr Simpson: It is particularly important, if we are genuinely to involve the subject committees and the public in rational discussions about real figures, for us to begin to consider individual deflators under the different budget headings, difficult as that may be.

Mr McConnell: The reason for using the GDP deflator is that it is the most wide-ranging deflator that can be used to be consistent across all figures. Clearly, within departments and divisions, managers and ministers will examine the impact of increasing costs in different areas. If we start from the creation of an overall budget, based on one consistent deflator, managers and ministers have the opportunity, under individual budget headings, to reallocate cash to reflect the fact that costs are increasing more in one area than in another.

That does not work across departments, and it is where the spending review process should apply. To move away from a consistent deflator would be

a radical step—although not one that we should not discuss—but it is more important in the short term that, in our spending review process, we assess the effect of increased costs and consider whether the deflators that we use actually represent the increased cash cost. That should be reflected in our estimates.

11:45

Mr Raffan: Following on from Richard Simpson's point, I believe that the use of a uniform deflator is hugely simplistic. Dr Simpson mentioned the pharmaceutical budget; I am sure that you have read the most recent edition of *Public Finance* magazine and have considered the significance of inflation for the pharmaceutical budget in the past year and how that has hit health authorities—Fife is £1 million over budget, as is Tayside. I have yet to see where ministers anticipated that happening. You have said that it is up to ministers to reallocate within budgets and that they will be sensitive to the problem and anticipate it, yet they have not.

Mr McConnell: Setting out the estimates in the budgets is a complex process. It is not based on taking the figures from the previous year and simply adding a percentage to every budget heading. We make judgments about the pressures in particular budgets and the priorities between budgets—if necessary, we allocate resources as a result of that process. The increase in the cost of drugs, which you mentioned, is one of the many reasons why there is such a hefty increase in the overall health provision in the comprehensive spending review period. We need to ensure not only that those costs are met, but that they improve the service.

Those judgments must be as transparent as possible; the indicators that are used to estimate increased costs across budgets as a whole must add to transparency, not reduce it. That should be our objective. Currently, we think that a consistent deflator helps to achieve that. We use the spending review process to increase resources to make up for any deficiencies.

Mr Raffan: I am still not convinced. There are problems with a general deflator. The use of specific head deflators, particularly in areas where we know that there is significant inflation, would be helpful both to ministers and to the committee.

Mr McConnell: At the beginning of my evidence, I mentioned a desire to include in future years more explanation of figures and of some of the underlying issues. To have an informed discussion—not just in this committee, but following your example, in the Health and Community Care Committee—the assumptions that the department has to make about increased

costs must be built into the budget. That will allow committee members to assess whether the resources that have been made available are at the right level of priority for that particular service.

Andrew Wilson: What was the thinking behind the decision to publish the budget in cash terms rather than in real terms?

Mr McConnell: That was a consistent pattern. It was felt that that provided the immediate information that would be most relevant in terms of choices and priorities. More important than the figures themselves are the explanations of what they substantiate. Our challenge is to try to find a way of explaining figures publicly, allowing people outside the Parliament—as well as those inside—fully to engage and understand the decisions that we make and the priorities that we set. We must face that challenge in the spring and autumn of next year.

Andrew Wilson: Can we take it from the comments that you made a moment ago that next year, £16.7 billion in cash terms is to be spent, whereas the figure in real terms is only £15.8 billion? That is a difference of some £900 million. It is not particularly illuminating for members of the general public to consider a cash-terms increase as substantial, when that is not the case in real terms.

Richard Simpson made a useful point. I accept that when one publishes a general budget, one would use a consistent deflator, so that it is clear across the budget. Keith Raffan and Richard Simpson have said that it would be useful to have an indication of how the budget meets increased volume needs. For example, when one uses a GDP deflator in the health budget, what appears to be an increase in cash terms amounts to a volume decrease in real terms, if one takes account of higher costs for pharmaceuticals. It is important that people understand that.

I would also like the minister to consider wage inflation. Next year, the overall budget is increasing by 0.5 per cent in real terms, which is not a large increase. However, average earnings are increasing at 4 per cent. When one takes account of those facts, it is clear that one of three things—or a bit of them all—is happening: public sector pay is not keeping pace with average earnings; jobs are being lost; or the volume of service delivery is decreasing. It would be useful for the Parliament and the Finance Committee to be made aware of what is happening. We must get behind the detail of the figures, as I am sure you are keen to do. Wage inflation is a detail that concerns us greatly, especially as between 50 and 60 per cent of the overall budget is spent on wages, salaries and related labour costs. What do you have to say about those issues? We need to see the detail, not perhaps in the figures, but in the

accompanying information.

Mr McConnell: There seemed to be three different questions; I will try to answer them one at a time. The first question was about the real-terms increase in the budget. Mr Wilson mentioned a figure of £15.8 billion—did that come from a particular column of the budget or was it a calculation that he made himself?

Andrew Wilson: The total budget for 2000-01 in real terms is £15.897 billion.

The Convener: The Scottish Parliament Information Centre has provided us with these figures.

Andrew Wilson: I am referring to the level 1 figures. The detail is less important than the principle that the real-terms figures are much smaller than the cash-terms figures.

Mr McConnell: We seem to be using two different sets of figures. There was an issue about the change to the GDP deflator, which I would be happy to expand on before tomorrow morning, if that would be helpful. The budget increase is in real terms—that is an important fact that should not be missed.

The second issue that Mr Wilson mentioned was the health service. It is clear that the increase in resources for the health service is substantial. The impact of increasing costs for drugs and so on was taken into account both before the Parliament was set up and when we set out next year's figures. There is a real-terms increase.

Andrew Wilson: Next year's increase is 0.8 per cent. Given that 50 to 60 per cent of the health budget relates to labour costs and that wages and salaries are increasing across the economy at 4 per cent, that implies a real-terms cut in health spending.

Mr McConnell: Not if one assumes that the health service is becoming an ever more efficient organisation. That target should always be set and resources should be prioritised within it. The increase in the health service budget is in real terms. The increase over last year, this year and the next year is the largest that has ever taken place.

Andrew Wilson: No, it is not.

Mr McConnell: Yes, it is. That is on record; to contest it is wrong. It is right and appropriate that the budget takes account of increasing costs in the health service including not only increasing staff and drug costs, but increasing costs for equipment and demand among the general population.

The third question was about wages. I am surprised by Mr Wilson's point, although I am happy to respond to it. Our provision for employee costs includes a yearly efficiency target. That

target has been met over the years and continues to be a priority. In a world where people expect public finances to be managed as efficiently as possible—they expect their taxes to be spent as efficiently as possible—we should continue to set those targets. I understood that to be the position of the committee and I think that it is the right one.

To assume that those efficiency targets cannot be met, or that we should add to the employee costs an allowance for wage increases, would be to run counter to what every organisation—both public and private—must do in the world in which we live. That process drives us towards efficiencies that in turn lead to the reallocation of money, given that there is a real-terms increase in the overall budget. Unless we build in those targets, organisations tend to become complacent, repeating the budget year on year. It is right and proper that we continually challenge those assumptions.

Andrew Wilson: We would like to know where that is happening. From what you are saying, the proportion of the budget made up from wages and salaries is decreasing; we would like to know how many people are being efficiency saved. How many jobs are going? Some of us would like to see more spent on labour provision in education and health, for example—we need more teachers and nurses. We would like to see some detail about where those efficiency savings are being made.

Mr McConnell: That is different from department to department. In the full annual process of budget determination, those are the kind of issues that I expect the committees to examine in detail, in terms of the strategies that are being developed to enable the different departments to achieve their targets. However, it is wrong to assume that, because efficiency targets are set for existing employee costs within the organisation, that leads to a reduction in the amount of money spent on staffing across the organisation. The purpose of the efficiency targets is to release resources for new areas.

A good comparison might be that of Scottish local authorities, where staff costs have been driven down in traditional areas of service; in many cases, those resources have been released to finance new areas of service. That is true of parts of our budget and it should be a priority. We should be adaptable about what we spend our money on, so that the priorities in three years' time can be met. We must ensure that traditional practices and levels of expenditure are reviewed on an annual basis.

I do not accept the assumption that wages expenditure is decreasing. Money is being released for new kinds of employment. For example, a few years ago, we did not have

classroom assistants. New kinds of jobs are being created in the public sector as a result of the priorities that are being set for the years to come.

Malcolm Chisholm (Edinburgh North and Leith) (Lab): As I am an intruder in this committee, I thank the convener for letting me ask some questions. I want to pick up Andrew Wilson's point about health. It has occurred to me that the percentages that Andrew mentioned are smaller than the in-year changes. In October, you announced a big increase to this year's health budget, which related to end-year flexibility among other things, and that was very welcome. How can we take account of that new dimension—end-year flexibility—which has a knock-on effect of a smaller percentage increase in the budget? Can that be reflected in the tables?

My second question may not be strictly relevant to next year's budget. Are the changes to trust surpluses accounted for in the revised table of figures that we are considering, or are they outside the stated budget figures? I would appreciate a written reply if you do not have the answer to hand.

12:00

Mr McConnell: I would indeed be happy to give a written reply to your final point, Malcolm.

One of the reasons why I said at the beginning of my evidence that I am keen to provide more explanation about the figures in future years is that a number of issues can appear to affect the level of real-terms or cash-terms increase or decrease. There are one-off issues each year, and that should be spelt out in a particular budget.

As a result of the use of around £300 million of end-year flexibility money this year, some of this year's budget figures increase for certain one-off payments. That appears to result in a much smaller increase for next year than is actually the case on baseline figures.

There are also a number of cases in which departmental surpluses have been built up over the years and only now, under the new rules, can they be released. There are cases—one of which is being discussed in another committee this afternoon—in which surpluses that built up over the years have been reallocated within the overall programme. Decisions will be made on such cases, and it is important that we find a way of explaining them so that the year-on-year comparison, whether a percentage increase or, at times, a percentage decrease, is as accurate as it can be. When providing the figure, one-off additions or reductions in a particular year—whether they are for technical reasons or are because of some cash being available—should be taken into account.

As an Administration and as a Parliament, I think that we will regularly have one-off formula consequential from the Treasury, in which a one-off expenditure is agreed for England and Wales and we in Scotland get the formula payment for it. It will not be repeated for the next year, the year after or the year after that, but it is in this year's budget, and it affects the percentages as they fluctuate.

Malcolm Chisholm has made a good point about how we can, perhaps, identify such figures more clearly in years to come, and I am happy to take his comments on board.

Mr Davidson: If I heard correctly, minister, you talked about using a standard deflator. We discussed how that affects the health service. At Westminster, there are up-to-date figures on the drugs budget, for example. Are you suggesting that when using the standard deflator, which does not apply to the subsections within a budget, you will merely resort to the supplementaries that you talked about earlier? In your presentation you mention using a spring supplementary as well. Is that your way of trying to tackle the problem, or are you looking to change the deflators in future?

You made a statement early in your remarks about having come to the committee and the Parliament suggesting the use of supplementaries once. You are talking about doing that again—it is the second time that you have mentioned it. Are you doing it because the budget was not designed correctly to cope with the situation that we are in?

Health boards are screaming out that they cannot cope with the 2000-01 figures, and they name the lines in which there are problems: wages, drugs and two or three others. They are doing that very publicly. Is it your view that, every year, you will operate on a basic formula and use the supplementaries to tidy up where you think necessary?

Mr McConnell: No, I think that we should do that at an earlier stage. We have a consistent deflator across the estimates but, as a result of the spending review process, we then make judgments about where real-terms increases—or, from time to time, decreases—are applicable to deal either with specific cost pressures or with a change in priority inside the health service.

Your question, Mr Davidson, is perhaps based on the assumption that we start from budgets at certain levels and then increase them all by the same percentage. I do not think that that is what we as an organisation should be about. I certainly do not think that that is what the annual budget round will be about if we are serious about consultation and widespread discussion in the spring and autumn of every year, before we come to the final figures.

Budgeting is about trying to estimate year-on-year increases and having a formula or general rule of provision for that; it is also about then making judgments about where within the overall figures priorities have changed or where certain pressures increase that require more allocation—or where pressures have relaxed and less money can be allocated.

During the year, supplementary estimates are needed, partly to deal with unexpected pressures—there were examples of that in the estimates that were discussed at the meeting of this committee last month—and because, for example, if we get an allocation of money that is allocated by the Treasury across the UK as a whole, we cannot spend that money unless we have authority from the Parliament. That will happen during the year from time to time. Also, we might find that moneys are urgently needed in a particular area and that there is no authority to spend, so we have to make an allocation from a reserve or from retained in-the-year flexibility.

Supplementary estimates are not part of a process that is designed to set budgets and then to wait and see what happens. The original estimates at the beginning of the year should be realistic estimates that are based on what we think is needed, available, or appropriate to allocate to a particular service in any one year. Frankly, across every budget heading, that will never be enough for anybody. The allocation for the Parliament building is probably not enough for the corporate body. The allocation for the health service will not be enough for all the boards and trusts. The allocation for education will not be enough for the schools. The allocation for universities will not be enough for them. The allocation for prisons will not be enough for the Prison Service, and so on. We all have responsibility to decide on priorities within those overall demands. It is right that all those services ask for more money to do things, but our job as politicians is to decide on the priorities.

Mr Davidson: We get huge aggregated figures. For example, we cannot differentiate between what the two enterprise organisations, Scottish Enterprise and Highlands and Islands Enterprise, have spent their money on, because the figures are lumped together.

If we continue with the level 2 system, the subject committees will not have enough detail to do their work—to home in on sub-budgets and sub-heads and on spending within divisions and departments. We have to set up systems to communicate with the other committees. That depends on getting disaggregated figures early each year. Such information might also answer some of the queries that you have just defended. What is your view on the different levels of information?

Mr McConnell: There are two stages in this process, which are almost separate. The timetable is compressed this year, so we have not had the more detailed discussion that would take place in all committees—not just this committee—about the rationale behind budgets and about how money is spent within the different headings.

My interpretation of the process in which we are engaged today, tomorrow and in January and February until we have a budget bill, is that we are authorising expenditure and giving people authority to spend next year. In that context, therefore, level 2 figures are important. Going below that as part of the control exercise would limit flexibility and the style of management we would like there to be inside the organisation. We can debate over the next few years whether the individual lines for level 2 are right, or whether some of those lines could be slightly more disaggregated.

Discussion on what the money is then spent on should occur in the process that takes place in spring and early summer each year, at which time, I would imagine, each committee will want to examine in more detail how money is prioritised within the headings. You mentioned HIE and SE; I assume that the Enterprise and Lifelong Learning Committee will consider the way in which those organisations spend money and the relative balance of priorities at that stage of the budgeting year. Whether that involves looking at figures, or at outcomes and setting targets and priorities, is another issue that we will need to develop.

We have to recognise that the system is very new in a parliamentary sense in the UK, but it can work to this level of detail over next year and the year after. We also have to differentiate clearly between the control figures, which are about giving people authority to spend in advance of a budget year—that is a good development and an improvement on the House of Commons system—and the detailed discussion of priorities within those totals, which takes place at a different time of year. That process allows us to put together budgets on a more consensual and certainly more informed basis.

Mr Davidson: So your short answer is that you will be happy to provide disaggregated figures in the spring?

Mr McConnell: Each committee may have its own way of operating. It should be a matter for discussion between each committee and the relevant minister. Some committees might want a general discussion about outputs, overall targets, or the level of service. They might want to discuss particular issues that affect the budget, or they might want to discuss more detailed figures than are provided by totals such as these.

For example, the budget of the rural affairs department, in which the Rural Affairs Committee will be interested, is a very different beast from the budget for local government in Scotland. The rural affairs budget is largely tied down to specific amounts that are linked to European grant schemes, whereas budgets for areas such as local government or, to some extent, health, are much larger and much more wide-ranging and flexible.

As we are learning the process and developing a new system, I think it is appropriate to give ministers and committees the opportunity in spring and summer to consider what is best for their particular areas of expenditure. I would not want to predetermine how best to do that. I hope that the process is as informative as possible and involves individual members in setting the priorities that are agreed in the budget later in the year.

Andrew Wilson: That is very clear.

David Davidson hit the nail on the head on what this committee is seeking to do, and you talked about outcomes. How are we to judge anything within a budget process and how are we to consult with other committees as part of that process—to an extent, we have to arbitrate on behalf of the Parliament—if we do not know the outcomes? I suppose that this comes back to what we have been discussing throughout: can you undertake to give us information beyond these vote numbers, to tell us what proportion is going on labour costs, how labour costs are rising, what proportion within health is going on pharmaceutical provision and how costs for that are rising?

Figures for money going in are meaningless to the electorate. It is interested in the outcomes of budget decisions. To put it simply, if as a result of a budget a Wishaw hospital has an extra £100 million one year but has fewer nurses and pharmaceuticals, I am more interested in the second result than the first. To make such judgments, we need to know volume outturns. Can you undertake to provide with the budget an idea of the proportion of labour costs, and how they are rising, and a breakdown of costs of service delivery points such as pharmaceutical provision, and other costs such as capital, rent and running costs?

We are more interested in outputs than inputs, as inputs alone are meaningless. I do not know whether you caught any of that.

Mr McConnell: Yes, I caught bits of it—it was very interesting and helpful, although, as the constituency MSP for Wishaw, the final outcome in which I am interested is the health of the local population. It is not just about nurses and pharmaceuticals, and budgets for them. That is why these exercises are sometimes not as clear-cut or scientific as it might be helpful for them to

be.

We could easily spend more money on nurses in Wishaw and have a less healthy local population—that is a balanced judgment that I hope the Health and Community Care Committee would be involved in. Perhaps even MSPs from Lanarkshire would be involved in discussing the detail from time to time.

The committee is well aware of my commitment to provide relevant information at an appropriate level in a way that helps to inform committees' discussions. I have consistently undertaken to do that, and consistently stepped back from being specific about what that might entail. It is important that that information is relevant, flexible and adaptable and that we do not tie ourselves down to a particular way of describing these figures each year, which might or might not be helpful.

There is no evidence that requests for information—even Mr Wilson's parliamentary questions—are not responded to in some detail. As we go into the next full budget round, we should be flexible and prepared to respond to what individual committees feel is most helpful for them, by preparing information that is useful overall. I do not want people to read that as an implication that information will be restricted or withdrawn from committees in any way. The purpose of this exercise is to inform committees' discussions and for the committees then to inform the Executive's decisions about its budget.

12:15

Mr Raffan: As Andrew Wilson said, the Finance Committee has a central role of arbitrating between committees. While I accept that different budgets are not necessarily comparable, I am not happy, because we need figures that are broken down further.

Under level 2, we have 70 headings—compared with 19 under level 1. Level 2 is certainly an improvement, but in the health budget there is one line that amounts to £4.5 billion. Surely we could break that line down a little bit further, minister—even you and I might be able to do that in five minutes. We need to be able to do so because you asked us not to produce a wish list; rather, you said that if we want increases in certain areas we must identify where the money is to come from. If we are to do that, the figures must be broken down further.

Mr McConnell: I made a number of points about that during this exchange, which we need to consider in a flexible, responsive way.

Health is an example of a large budget that covers a number of different areas. We must be careful, as we work towards the full budget round,

that we do not mix up detailed discussion on individual budget headings with a more detailed, specific, less flexible route that would over-control the authority to spend.

I imagine that the Health and Community Care Committee will discuss allocations to health boards, health trusts and different elements of the health budget as part of its response to the Arbuthnott report, never mind as part of a discussion about the annual budget round. However, that is not the same as either this committee, the Parliament or the Executive being specific at this stage about the control total of expenditure for each health board for next year.

All the evidence points to the fact that I am keen to have discussions that are as informed as possible. There is a difference between discussions on some of these figures with full information available—as detailed as required—and having control totals that are broken down too far and that therefore reduce the flexibility of ministers or managers to run the service in the interests of the people whom we are here to serve.

Mr Raffan: I take that point, but I want to move on to another issue. You said in an elegant contribution that, as politicians, we will decide the priorities, but the people on the ground will have to deal with our decisions. I want to raise two important examples of efficiency savings.

Tayside Health Board, through efficiency savings, has cut administration costs to the bone—those are non-clinical savings, but it now has to consider clinical savings. To me, that is ominous and simply means health service rationing.

Fife constabulary did not get the allocation it hoped for—it got 6.92 per cent less. Wages and pensions make up 86 per cent of its costs, and yet it has to make efficiency savings this year of 1 per cent, of 1.7 per cent next year and of 2.5 per cent the year after. The constabulary sees that as a cut of 14 per cent in its budget, which it does not think is sustainable.

The Convener: It is a bit unfair to expect a response on a specific case.

Mr McConnell: I have already said that I do not think that we should run public services on the basis of budgets that are repeated year after year. The only way to release resources in any organisation—public or private—is continually to drive for efficiencies within existing budgets. It is right to set efficiency targets. The Parliament and the committees should have a serious discussion about the level, nature and spread of efficiency targets.

There are always two critical elements in any budget round. First, there is the pro-active

element: we must constantly scrutinise and set efficiency targets in order to finance new services and improvements to services. That is critical to the public sector budgeting process. Secondly, we must also recognise that there are very few—although there will be some—public sector organisations that would not like to have more money and that could not use it well. We are always in that situation.

The overall level of public expenditure in Scotland—relating to the responsibilities of the Parliament—is increasing in real terms. Within that, the individual budget headings have top priorities, the funding of which is increasing in real terms. Spending in other areas is decreasing in real terms in order to pay for that. That is right and proper. The decisions on those priorities have to be made year on year. Individual councils, health boards and voluntary sector organisations will have comments on that and will want to make bids for more resources—that is part of the process. We should not ignore the fact that there are other things that people could spend money on, but we must remember that there is an overall total that we must work to and within which we must prioritise.

Dr Simpson: Part of the problem lies in the term, efficiency savings. We are talking about two different things: first, there are genuine efficiency savings, where we attempt to root out inefficiency; secondly, there is re-engineering. In the long term, we need to find some way of getting organisations that are accountable, such as health boards, to say what they are achieving in terms of genuine efficiency—reducing bureaucracy for example—and in terms of shifting priorities. I accept what you are saying about efficiency savings, but the problem lies in the terms that are being used. If, as in Keith Raffan's example, Fife police is being asked to re-engineer 1 per cent of its budget, that is hardly a very challenging operation.

I want to come back to the aggregation of the budget. Do you think that it would be possible for us to have some indication about which elements are controlled centrally, as opposed to those that are properly devolved, in order to clarify the responsibility of the individual administering organisation? I keep returning to health as an example, because it is the subject with which I am most familiar. If some of the measures are top sliced—providing for tertiary services for example—there are different mechanisms whereby central funding is allocated. In holding individual health boards to account—something that we must do at a committee level—it would be helpful to be able to consider the Scottish Executive's central responsibility separately from the elements that are devolved to health boards and in which it decides priorities.

Mr McConnell: I do not think that there is any difficulty providing information on elements of budgets for the purposes of discussion. All budgets have a series of estimates that make up the overall total. In recent months, I have answered questions on European structural funds and we have had to estimate what element of the total will be spent on objective 1 and transitional programmes and so on. Recently I gave an answer to a question about the budget lines for the Scottish Executive office in Brussels. That was broken down into budgets of £5,000, never mind the totals that we are discussing today.

I am cautious about saying that we will provide that level of detail across the range of departments, annually. It is important that we evolve a system in which the committees and the ministers—in some cases the Finance Committee will have an overview—are able to request and discuss information in a targeted way. If, at the beginning of next year's round, the committees find that they want more detailed information, they are at liberty to request it, as appropriate. I suggest that it would be helpful for every committee to decide its priorities for scrutiny each year and to make requests on that basis. We could respond positively to that discussion.

Even the level of scrutiny that we are considering today is a massive leap forward from what happened at Westminster. We are moving in the direction of discussion and scrutiny—that is new to the whole organisation.

Andrew Wilson: We do not want to get bogged down on the issue and what you have said is reasonably clear. However, I have made some quick calculations and, of the 70 lines of expenditure that you provide at level 2, two lines account for 57 per cent of the total. We clearly need more information and we are requesting that now. We need information on price rises in different categories. We do not expect you to use a different deflator. We must draw together a report on the budget and that must be included. We would like you to consider the matter.

It is the committee's cross-party view that we need that information. It is not meaningful for us to say that spending on child care must be increased and for you to ask where to find the money if we do not know where other cuts will be made. If you want the feedback that you have suggested, we require more information. Although we understand your reticence, it would be helpful if you were to provide the information that we are requesting.

Mr McConnell: If the Finance Committee were to make that request, it should not make it about one of the two headings that you pinpoint. I presume that one of the budget lines to which you referred was that of local government. However, the figure below the level 2 figures is that of the

individual allocations to local authorities. That kind of budget is different from the one that would include spending on Scottish Enterprise or Highlands and Islands Enterprise, for example, which is why the local government budget is so large at level 2. That is why I would like people to be specific about which details are helpful.

The scrutiny of the priorities and strategy for the budget, which is a revolutionary new step in parliamentary budget scrutiny—we were unable to carry it through this year, but it will take place next year, beginning in the spring—will involve a discussion about the way in which resources are allocated between different boards and trusts, for example. That will be discussed by the Health and Community Care Committee and the information will be available to the Finance Committee; it is already under discussion as a result of the Health and Community Care Committee's work on the Arbuthnott report. Although it might sound ideal for the Health and Community Care Committee to discuss such matters as part of the annual budget round, by April or May, that committee might want to discuss something else.

Andrew Wilson: Can I interrupt you there?

12:30

Mr McConnell: I am trying to respond. You mentioned two substantial budget headings. That is a good example of what can helpfully take place at stage 1 of the budget round. At this stage, however, it would be wrong for the control totals to include that level of detail. For example, within the overall health line, the Executive or the minister responsible should be able to reallocate money to health boards in an emergency, if that is required, during the winter. It would be unrealistic and unhelpful for the health service, which must address those priorities, to specify in the control totals in the authorities' spend each year the individual allocations to health boards.

I accept what you are saying about the need to have more information at the right stage in the budget process, to inform advice and decisions—I accepted that in my first sentence this morning. However, any changes to the control totals, at this stage of the budget, would have to be very carefully considered. I am not averse to suggestions on that. I hope that, between now and next autumn, in the good dialogue that we have as a committee and as a team, we can consider the ways in which the accessibility of the figures can be improved and the suitability of their levels assessed.

The figures can be changed only very carefully. We have devised the ones that are in front of the committee today carefully, because of the new departments. Some of the figures are

amalgamations of previous totals that were spread across three or four departments, and some are broken down more than they have ever been before. We are in year 1 of that process and of the new departments, and I imagine that next year's totals may automatically be adjusted from these ones—never mind any views that the committee might have—as we will know how the new departments are working one year on.

I am sorry if that was a long answer, but those are important points. There are several different stages to the process, and it is important that we stick to them.

The Convener: I am keen to move on, as we have spent a long time on this. I shall allow one last question.

Andrew Wilson: I tried to interrupt you to say that all that you said, several sentences ago, is accepted. However, we are after the figures not just by line but by type of expenditure—for example, wages and salaries, administrative costs and so on. Can you undertake to provide that level of information?

Mr McConnell: I do not want to give glib answers to questions that seem straightforward but are not. You mentioned the fact that the local government line takes up a huge proportion of the overall budget. It is not for the Parliament or the Executive to determine how much of that money is spent on wages and salaries. It might be appropriate, as part of the review of local authority expenditure, for the Local Government Committee to consider whether staffing costs are rising or falling in local authorities.

Andrew Wilson: We need to know the figures.

Mr McConnell: There is a balance to be struck so that the Executive and the Parliament are not seen to be interfering with bodies that rightly have their own decision-making structures and the ability to spend—local authorities, in particular. The Audit Committee has received a submission about the auditing of local authorities. A balance must be struck between their independence, as individual elected bodies, and our scrutiny of the overall control totals of local authorities and the distribution of money within them.

We must be cautious. It would be easy for me to say, "We can take this whole budget and provide staffing cost figures for the whole budget today." However, there are different kinds of staffing cost figures within that budget: there are those that are rightly and properly matters for individual bodies that have independent expenditures, which we must respect, and there are those over which we have much more direct control.

There has been no difficulty, in recent weeks, in providing parliamentary answers that detail

information such as the staff costs in different areas. Providing that kind of information, for informed discussion in this or any other committee, should not be difficult for the Executive or the Parliament. However, to give a broad-brush answer to a question such as Andrew Wilson's might create expectations, and I would be cautious about that. Different areas within the budget must be treated differently. I stand firm on that, and will treat any requests that are made on that basis.

Mr Davidson: At what point in the year do you anticipate releasing the details of the firm outturns? In how much detail are you prepared to convey those to us?

The Convener: Are the 1998-99 outturn figures available yet? They were not included in the figures that were published.

Mr McConnell: We must be careful and distinguish whether we are dealing with provisional figures or final audited figures.

Mr Davidson: It is the final ones that I am asking about.

Mr McConnell: The final audited figures will be available nearer Christmas, after the end of a financial year. We are keen to bring those forward, not least because that would help this process and it would, generally, be better practice. As many local authorities have found—and they have much smaller budgets than ours—bringing forward final audited figures is not always a straightforward process. However, that is a target that we have set ourselves, which we are keen to try to meet.

Mr Davidson: So, your target is late autumn. How much detail?

Mr McConnell: Sorry?

Mr Davidson: How much detail will be given?

Mr McConnell: That will relate back to the individual lines that were included in the authorities' spend at the beginning of the year. The audited accounts for last year would reflect the previous individual headings within the figures that were agreed for that year. The audited accounts for next year, coming in the year after that, would reflect those figures.

Mr Davidson: Basically, we are talking about level 2. A lot of work could be saved, for this committee and others, if there were more detailed breakdowns in the final outturns. That would give us a lead to look for the very points that members have made this morning about shuffling money about within a zero-sum budget.

Mr McConnell: There are some headings where things go below the level 2 figure within the accounts, even at the moment. I am keen to encourage that practice.

Mr Davidson: Good.

The Convener: I want to clarify a point. You mentioned that the 1998-99 outturn figures would be available at Christmas. Once the pattern of a budget is established, when do you expect those figures normally to be available?

Mr McConnell: We must be conscious of the fact that the Auditor General for Scotland is only just taking up position. We would want to have some discussion with Audit Scotland before we commit ourselves to a date. The strong indication is that we want to move that date forward from around Christmas, which is when it has been. I believe strongly that this process should be informed by the audited figures. In general, I am keen to discourage the production of audited accounts more than six months after the end of a financial year, although it is not always possible to produce them earlier. We must recognise that, and we must discuss with Audit Scotland the resources and the input that would be required to ensure that that happens.

The Convener: We may revisit that issue in a year's time. We want to make sense of planned expenditure, which is difficult to do without details of the outturns.

Mr McConnell: The other possibility, which we talked about in drafting the Public Finance and Accountability (Scotland) Bill, is the production of in-year figures for monitoring. We must still discuss the best way in which we can provide that information. That will not be easy, but it is something that we can work towards over the next two years.

Dr Simpson: Minister, you have already covered the issue that I wanted to raise on underspends and overspends in relation to the outturn figures. You said that you would keep those figures separate, so that we can look at the outturn against the original budget and then add any end-of-year spend from the previous year. I do not know whether I am making that point clearly. This new flexibility, which allows us to roll money over, affects how one looks at the budget figures that one is working on. You will be able to keep the figures separate, so that we can know what the outturn was, separate from any additional end-of-year spend.

Mr McConnell: I do not want to commit myself to a particular format. Where we can more accurately reflect individual baselines, compare them with one another and see where end-year flexibility has been taken up—whether it has been moved inside a department or from one department to another—I would like to provide that information. I am cautious about promising it in that sort of detail from year 1, but I would like to move in that direction, as it makes our decision

making more transparent and it makes this committee's input into the decision-making process more viable.

The Convener: If members have no other points on that, we will move on to talk about the consultation exercise. Can you give us a flavour of the responses that you have received in the consultation? To what extent have individuals—as opposed to organisations—engaged in the process and given their views?

Mr McConnell: As we expected, the level of response from individuals is small. Indeed, the response overall will be very small. The consultation finishes tomorrow and we will produce a summary of it as quickly as possible. I have not seen any of the responses, so I would be making it up if I tried to give you a flavour of them. In future years, as we said when we launched the consultation in November and in our discussions with this committee, we must start the consultation process at an earlier stage in the autumn. The committee should remember that there will be a more widespread consultation process in spring and early summer. That is when the real meat of the consultation will take place—on priorities and overall strategy, rather than on the figures.

I have been surprised that—as I understand it—the number of responses from organisations has not been large. I was anticipating in the first year more responses from organisations than from individuals. There has not been a queue of local authorities or other organisations submitting their responses. That could be because other consultations are going on at the moment.

The Convener: Are you satisfied that the consultation exercise was sufficiently widely known about?

Mr McConnell: We circulated 1,830 copies of the document to a range of public and private organisations in Scotland. Copies were placed in libraries across Scotland for information purposes. As you know, I felt that that was important. They were also placed in schools across Scotland for school classes to use.

The launch was not widely publicised, which presumably had an effect. The fact that it was happening so late in the year and on such a short time scale will have affected the number of responses. We knew that it would, but I took the view that the consultation was still worth carrying out, despite the fact that it was happening six months after it would normally happen. Even if the document was going out only for information purposes and we did not get many responses, at least people in different organisations across Scotland would be more aware of what we spent our money on.

The consultation exercise is about information

and involvement. We have started down the road of information, but we may have some way to go before we get detailed involvement.

Mr Raffan: How do you see the two consultation processes fitting together? This has become more of an information exercise. Perhaps if the figures in that expensive glossy booklet that you produced had been broken down more, you would have received more responses.

The consultation exercise will go on in a full year, as opposed to the compressed year that we have just had, and there is consultation through the committees pyramidally—for example the Health and Community Care Committee consults the health boards. How do you see the consultation exercise in spring and early summer and the one in autumn dovetailing together rather than confusing everybody?

12:45

Mr McConnell: They are two very different exercises. The principle set out by the financial issues advisory group report was that this committee, and the Parliament, would almost be in the lead in the spring and early summer exercise. That stage of the budget was an opportunity for the Parliament's committees to make an input into the summer discussions that produced the spending plan in September of each year. I see that first stage in the annual process as being strategically led—based on a report from the Executive—but fairly open-ended and an opportunity for the Parliament's committees and other bodies to comment on the overall strategic priorities and to get more information.

What was not really said by FIAG, but what I still believe is important, is that, when the Executive publishes its spending plans in September, it should make those plans widely available for the purposes of information and consultation. If nothing else happens to the consultation document and people have it on their shelf in advance of next year's consultative process, at least different organisations, key decision makers and some individuals who have taken a look at it will have a view and will be better informed as a result. That is a good thing.

Consultation is a two-way process—it is about our informing people as well as about people giving us feedback. It was right and proper to test the water this year. I would be grateful, between now and next September, for comments from any organisation or individual about the nature and purposes of the document and how it could be improved. Everything that we do at the moment is a significant improvement on what came before, but everything we do can be improved much further. I want to take that approach.

Andrew Wilson: I suggest that if there are to be more responses, people and organisations will need to feel that the consultation is a meaningful process. That has to be proved as you go along. For example, "Spending Plans for Scotland" says that planned health spending will increase from £5 billion this year to £5.5 billion by 2001-02, which, the document says, fulfils the Executive's commitment

"to increase NHS spending substantially in real terms".

In fact, what is happening in real terms is that health spending is increasing from £5 billion to £5.2 billion. If I were in the health sector, I would want to know what the real information was and to give something meaningful back. It would be nice to see questions posed to individuals under each sector, asking what their priorities were on x, y or z. The document reads as a partially presented information sheet, rather than as a formal consultation. It highlights our point about real-terms figures—it suggests a £600 million increase in health spending, which is misleading, as the increase is in fact £200 million.

Mr McConnell: I made the point in my first sentence this morning about hoping to provide real-terms figures next year. I would like to improve the explanation and to be in a situation in which we can pose questions. Whether those questions are posed in the autumn of each year or in the spring and summer is a matter that I need to discuss with this committee, as the committee is responsible for that. I suspect that the time for questions might be the spring/summer consultation. The autumn consultation and information exercise might more appropriately be a detailed explanation of the Executive's plans, to which people could respond. We are in the process of learning; Andrew Wilson's comments are helpful in that process.

The Convener: Minister, I thank you and your officials for coming here today and being so open and frank with the information provided.

I apologise for the inadequate heating in the room—that is something that we will take up separately.

Mr Raffan: Efficiency savings.

The Convener: Efficiency savings, perhaps, but not efficient for running a committee.

We will now consider what we have heard and finalise our report, which, with the great help of the clerks, we will have in a fit state to present to the Parliament tomorrow.

12:49

Meeting continued in private until 13:12.

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