

FINANCE COMMITTEE

Tuesday 1 February 2000
(*Morning*)

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FINANCE COMMITTEE

2nd Meeting 2000 (Committee Room 1)

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:

The Minister for Finance (Mr Jack McConnell)

CLERK TEAM LEADER :

Sarah Davidson

SENIOR ASSISTANT CLERK:

Callum Thomson

ASSISTANT CLERK:

Alastair Macfie

Scottish Parliament

Finance Committee

Tuesday 1 February 2000

(Morning)

[THE CONVENER *opened the meeting at 09:49*]

The Convener (Mike Watson): We have a full agenda today. The minister and his civil servants are due at 11:30. I suggest that we take items 6 and 7 in private. Do we agree to do so?

Members *indicated agreement.*

Accounting Policies

The Convener: The first item is the determination of accounting policies. Members will have before them the letter from Jack McConnell and a memorandum. Despite the fact that the letter says that comments had to be in by last Friday, Sarah Davidson, the clerk team leader, has assured me that the date has been extended and is flexible. Any comments that we make will be taken into consideration.

As Jack McConnell says, the Audit Committee has also received a copy of the letter. I am told that the Audit Committee has not taken a decision—Andrew Wilson will know about this—and has asked for some matters to be clarified by the National Audit Office and Scottish Executive officials before making a considered response. It is now up to us to consider our response to the memorandum. I invite comments.

I see that nobody is rushing to pick up that challenge. The choice before us is which of the three possibilities that are laid out in the memorandum to accept. Do we want to support the recommendation that an internal body, an extension of the financial reporting advisory board to the Treasury or an independent and separate body be responsible for resource accounting? The recommendation at the foot of the last page is that

"officials should negotiate a suitable extension to the remit of the FRAB together with Scottish representation on the FRAB."

Mr David Davidson (North-East Scotland) (Con): Paragraph 23 says that the FRAB would submit its annual report to Westminster and the Scottish Parliament. What thoughts does the committee have on dispute resolution, should the two Parliaments have differing views?

The Convener: That is a fair point. I tend to support the third of the recommendations: the

establishment of a new body. I did not understand the part of paragraph 29 that says that such a body might have difficulty establishing its credentials. That might be the case initially, but any problems could be overcome.

Mr Kenneth Macintosh (Eastwood) (Lab): My understanding of paragraph 23 is that although an annual report would be submitted to Westminster and the Scottish Parliament, we would consider matters that were within our areas of responsibility. I did not think that there would be arguments. I also understand that there are rules for resolving disputes.

Dr Richard Simpson (Ochil) (Lab): If this committee is giving advice to Parliament, it is important that we establish what the system for resolving such disputes should be. I am not saying that there will be disputes, but any agreement of this type needs to have an arbitration stage laid out so that we are agreeing a package to put before the Parliament, not just two or three good ideas.

The Convener: That is certainly the sort of question that we should ask before we make a decision.

Dr Simpson: There is no need for a mechanism to resolve disputes. If we choose a different route, we choose a different route. There is no requirement on us to follow the Treasury rules if we do not wish to do so. The Treasury can require a Scottish minister to provide information but we do not have to follow the same rules. There is a suggestion that it would be cost efficient and sensible for us to have the same procedures, but we are able to choose a different route, even after recommendations by the FRAB.

Mr Davidson: I am quite happy with that. I am pointing out that that question will be asked in a meeting of the Parliament and we should have a definitive answer.

Mr Macintosh: We should ask the Executive to clarify the matter. Either disputes do not need to be settled or arrangements for settling them are already in place.

I do not think that the choice before us is particularly difficult. The internal committee option is not good. The choice between the FRAB and a new body comes down to a matter of saving money. There is no point duplicating a committee if one already exists and we could benefit from the wisdom—if that is the right word—of this committee.

The key point is made in paragraphs 13 and 14. The Finance Committee and the Audit Committee are the bodies to which the Executive has to present its figures and which must agree those figures, although the Executive also has to

account to the Treasury.

The Convener: Sarah Davidson has informed me that the Audit Committee has already raised the questions that we are discussing.

Elaine Thomson (Aberdeen North) (Lab): Paragraph 24 suggests that the title of the FRAB could be changed so it is clear that it does not deal only with Treasury matters, but with Scottish Parliament matters too. I wonder whether the FRAB has been asked about changing its name.

Andrew Wilson (Central Scotland) (SNP): The Audit Committee had a lengthy talk about these issues. Kenneth's argument is appealing in one respect: we do not want to duplicate work. Of course, that is a convincing argument against devolution per se. The question is really whether we want to have a devolved set-up. There has to be clarification of some issues. Changing the board's title is less important than what its role would be. Richard identified the fact that the Scottish Parliament has to report to the Treasury and will have to produce a set of accounts that matches the Treasury's own accounts.

We cannot answer the question before us until we see the detail of the information that the Audit Committee and this committee ask for. We might want to have a joint meeting to digest the information together.

Mr Keith Raffan (Mid Scotland and Fife) (LD): I think that the memorandum contains a contradiction. Paragraph 20 says that

"the FRAB, although a creation of the Treasury, operates as an independent body"

but paragraph 29 says that

"Extending the remit of the FRAB has many attractions with the only drawback being continued reference to the Treasury."

Presumably that means that we have to go through the Treasury to communicate with the FRAB. Does it mean that? The two sentences do not seem to support each other. Was that discussed by the Audit Committee?

Andrew Wilson: There was a general concern about the all-pervasive influence of one UK department. It provides the staffing and support but the body would have civil servants and outside people in. The memorandum suggests that Scotland should be represented by officials from the finance department.

The Convener: I think it just says the principal finance officer or a nominee. Only one person, anyway.

Mr Davidson: Do we know what is going on with the Wales and Northern Ireland arrangements?

The Convener: We can find out. A phone call will tell us whether there is anything useful to be learned from that. The Audit Committee has asked similar questions. Sarah, being the clerk team leader to both committees, will ensure that the procedure does not duplicate work.

Mr Davidson: We do not want to reinvent the wheel, but we have to come up with something that works and is acceptable to the public.

The Convener: Shall we ask Sarah to collect our points together and ask the relevant questions of whatever body can provide the answers? We will consider the matter again at the next appropriate opportunity.

Mr Davidson: If it is being dealt with over the telephone, could an e-mail containing the information be sent to committee members during the week?

The Convener: We will deal with the question relating to the Wales and Northern Ireland arrangements by telephone. The other points might be dealt with another way.

Scottish Executive Finance Functions

10:00

The Convener: Members have in front of them the revised wording for the remit of our inquiry. You will note in lines 3 and 4 of the second paragraph the words

“how the finance function operates in policy areas which cut across Executive departments.”

If I remember correctly, that was the main issue that members raised at our meeting a fortnight ago. It has now been included. I understand that no amendments to the remit have been submitted to the clerks. Do we agree the remit for the inquiry?

Members indicated agreement.

The Convener: Thank you. The provisional programme for the inquiry, extending to the end of March, is also set out. It includes a logical and varied series of meetings. Next week we will have the benefit of having Graham Leicester with us, and we can expand on some of the items then. Do members have any comments?

Mr Davidson: I pointed out to the clerk that the programme would have us back here the morning after the mini recess. Many of us had already organised activities in advance, when we thought that we were going to be away for a week. If we are going to have a meeting on 15 February, is it possible to have it start a little later, because many people will be travelling back a fair distance from other parts of the country and from abroad.

The Convener: We will come back to that in a moment.

Andrew Wilson: I was thinking about who would be the best person to attend our evidence-taking session on 15 February and came up with the name of Peter Hennessy. His agenda is very tight, but he is the most published commentator on the civil service and would be able to provide an external perspective.

The programme mentions Sir Russell Hillhouse as a possible witness from within the civil service. Was anyone else considered?

Sarah Davidson (Clerk Team Leader): His name appears at the moment because I understand that the current system was his brainchild. We had expected that, at the meeting of 14 March, current civil servants would give their views on the present structure from the post-devolution perspective.

Mr Raffan: I want to back up Andrew Wilson's

point about Peter Hennessy. However, I think that he will be difficult to get at short notice.

To pick up on David Davidson's point, this programme allows for a certain amount of slippage before Easter, which is not until mid-April. It might be possible to push everything back and miss out the meeting of 15 February.

The Convener: Even if we agreed to invite Peter Hennessy and he was available for 15 February, David Davidson has made the point that members from more distant constituencies could have difficulty attending.

Mr Davidson: When the recess dates were first announced through our business manager way before Christmas, the idea was that the Parliament would be closed for a week in February. As a result, many people booked holidays so that they could be away for that time. A couple of weeks back, it was announced that Parliament would be closed only on the Friday and the Monday, which still allows people a break. If the committee has to meet during that time, that is fine—if we have to do the business, we have to do the business. However, if people—of whom I will be one—have some distance to travel back, a slightly later start would enable us to get here. If there is slippage in the system and there is difficulty in giving a witness sufficient notice, perhaps we should be more flexible and organise our programme around what witnesses can manage.

The Convener: Most members will know of Peter Hennessy. Is there general agreement that we should seek to have him give us the benefit of his experience and ideas at some stage? It remains to be seen whether that will be possible for 15 February.

Members indicated agreement.

The Convener: We will ask the clerks to attempt to have Peter Hennessy come on that date. If that is too short notice, as there is probably no other business we could conduct on 15 February, we will have to leave a gap. I am not looking for extra work, but we have already missed two weeks since we returned from the Christmas recess and we do not want to leave too many gaps. However, if we must, we must.

David, you suggested a later starting time for the meeting of 15 February. What do you have in mind—10:30?

Mr Davidson: That would be fine.

The Convener: I ask members to bear that in mind when making lunch time commitments on Tuesday 15 February, so that if Peter Hennessy does come, we do not have members leaving before he has finished giving evidence.

Future Inquiries

The Convener: Members will recall that we had some discussion of topics for future inquiries at our meeting before the festive recess. Paper FI/00/2/3 lists the topics that were suggested at that meeting, as well as some that were mentioned earlier.

At this stage we need to consider the timing of any inquiry. Given the programme that we have just endorsed, we would not be able to start work on the inquiry until after the Easter recess. It is not, therefore, essential that we take the crucial decisions today, although we do not want to delay them much longer.

Mr Davidson: Will we be divided up into sub-groups and do things separately, or will we all deal with everything at the same time? What methodology do you propose?

The Convener: There is flexibility. It was the committee's view that we wanted our first inquiry to be fairly short. Whether we split the committee into two so that we can do different things is another matter. When we take evidence, we must do that as a full committee, but visits to collect information could be carried out by smaller groups.

Mr Davidson: If we were investigating European funding or the Barnett formula, it might be necessary to set up two small groups, one to speak to civil servants in Europe and another to liaise with people in London. We would not want to have the whole committee trekking round doing that—although it might be possible to have people come to us.

Mr Raffan: I would be very edgy about the committee doing visits like that. It is important that everybody has the experience of talking to the different people.

My concern about this inquiry relates to where it will fit into our timetable. I presume that by mid to late May will be into the initial stages of the budget process, as the other committees will be coming back to us by then. We do not have much time between then and the end of the first week in July, when we go into recess. Presumably, we are talking about an inquiry that would last until the end of the year—probably until next Easter.

The Convener: Not necessarily, but it would certainly take us into the autumn.

Mr Raffan: The inquiry topics that I favour are the private finance initiative, the Barnett formula and quangos. Andrew Wilson has already pointed out that the tax-varying powers will not be used during the first session of this Parliament, so there is no urgency as far as that is concerned. I have attended one or two meetings of the European

Committee in which it has considered aspects of European structural funding, so there might be a slight danger of duplication if we hold an inquiry on that issue.

The Convener: I want to come back to David Davidson's point about groups. If we choose a subject for inquiry, we must cover it as a committee. Within that inquiry, groups of members could take advice from different interested parties, but at the end of the day the subject must be considered by the committee as a whole. We cannot have half the committee doing one inquiry and half the committee doing another.

George Lyon (Argyll and Bute) (LD): The Enterprise and Lifelong Learning Committee has set up small working groups, but their role is only to go out to look at best practice in certain areas.

The Convener: That is what I had in mind.

George Lyon: The committee itself was not split up. Four groups were appointed to visit different areas of the country with different practices. They then reported back to the main committee. The reason for establishing groups was simply to allow us to get through the work programme. I do not see how this committee can be split into two to carry out two different inquiries.

The Convener: I do not think that David Davidson was suggesting that.

We are fairly clear on the time scale. A number of topics are suggested, so it may be worth ranking them in order of importance or desirability.

Andrew Wilson: Keith Raffan made an important point about the budget process. Given that people elsewhere will be considering the Barnett formula, it may be an issue that we wish to grab by the horns early on—especially as we are focusing on the structure of financing in the Parliament. It also influences the budget process. If we do not take this on, committees of inquiry elsewhere may steal a march on us, which would not be in the interests of the Parliament.

The Convener: Can you clarify what you mean when you say that others are considering this issue?

Andrew Wilson: The funding of the regions and of the devolved legislatures is a very controversial topic at the moment. We want to take a view on it at an early stage, so that we can come to a developed, cross-party, parliamentary position.

George Lyon: I want to support what Andrew Wilson has said. It is important that we get to grips with the Barnett formula. That would be my priority, with the private finance initiative a close second, because it is integral to what we will discuss throughout this parliamentary session. We need some clarification on the Barnett formula,

because at some stage the Parliament will have to decide whether it wants the process examined, stopped, reversed or whatever. It is such a big political issue that we need to consider it.

The Convener: We must tread warily before we come to any decision.

George Lyon: We need to know what the underlying issues are.

The Convener: You will be aware that the Treasury Select Committee suggested a new needs assessment. I am not convinced that it is in our interests to conduct one.

George Lyon: I agree.

The Convener: I am not sure whether we have much opportunity to influence what happens with the Barnett formula. Andrew Wilson said that it is being examined elsewhere. We may be in a position to respond, but the UK Government has made it fairly clear that the system will remain in place for the foreseeable future.

I am anxious for us not to be seen to be responding to what the Treasury Select Committee said in 1997. We should not feel that we must have an answer ready for the Parliament to endorse.

Andrew Wilson: There are other issues. The operation of the formula as it stands has significant implications for the Parliament's budget, which we should be aware of. That is not simply my view, but the view of academics. I do not see it as a question of trying to preserve the position, although others may take that view.

The Parliament needs to develop a view on the formula quite soon, because within five years its effect on the budget will be very grave. Some academics argue—although I do not agree with them—that we should be pre-emptive and come up with suggestions to assist us. It would not be a matter of responding to the Treasury Select Committee report of 1997, but of having our own review.

Mr Raffan: It is three years since the Treasury Select Committee issued its report, so it would hardly seem as if we were responding to it. I support Andrew Wilson on this. You say, convener, that we need to tread warily, but if the controversy surrounding the Barnett formula is heightened and we are seen to be reacting to it, it will look as if we had been avoiding dealing with the issue. It is far better to have a pre-emptive strike. However, it might take a fairly lengthy inquiry.

The Convener: It would be a major inquiry.

Elaine Thomson: I want to clarify the time scale that we are considering for this inquiry. Are we talking about something that would run from

Easter to the end of the summer or something that would spread into the autumn?

The Convener: We are talking about an inquiry that would run into the autumn. It would not start until the middle of May.

Elaine Thomson: The Barnett formula is a very complex subject. If a lengthy inquiry is planned, it may be better to delay starting it until the autumn, rather than spreading it over the summer. It might be better to find a topic for a very short inquiry that will end before the summer recess.

The Convener: That was what we had decided. I do not imagine that any inquiry into the Barnett formula would fit such a format.

10:15

Mr Davidson: We should examine the Barnett formula first of all, if only because we could then advise people who keep asking us about the issue. As we also have to consider long-term other available forms of funding, it makes sense to examine the Barnett formula first as it is the building block of the financial exercise in which we are involved. We could then move on to variations on the PFI theme.

We will need to examine new income streams that will marry in with the current Barnett formula system, if it does not change. Perhaps we could deal with the Barnett formula as a learning exercise, if nothing else, by simply allocating an odd Friday to it.

The Convener: If you mean briefings on the Barnett formula, that is a different matter. I would be happy to get further information on the subject. A full-blown inquiry is something else.

Mr Davidson: Briefing sessions would be only the first stage of an inquiry. We would have to consider alternatives to the system after that.

Rhoda Grant (Highlands and Islands) (Lab): I am concerned about taking the Barnett formula as the subject of our first inquiry because that would put this can of worms back at the top of the agenda. Although committee members are concerned about the Barnett squeeze, the squeeze means that Scotland is getting more money.

Although I would like to know more about the matter, I do not think that the committee should produce a report containing its thoughts or recommendations. If we put the issue at the top of the agenda, everyone else will pile in with their views.

Dr Simpson: Rhoda has expressed my views exactly. I think that we should first address the issue of quangos. The Health and Community Care Committee has received two petitions that

indicate public concern about the accountability of trusts and health boards. We need to examine the relationships between the Parliament and such quangos—as opposed to the relationship between the Executive and quangos—and to determine whether current quangos are appropriate or inappropriate.

Mr Macintosh: I want to echo the comments made by Richard Simpson and Rhoda Grant. There is a very good reason why the Barnett formula was included in the constitutional settlement: it gives the Parliament a stability that we might start to lose if we have an inquiry into the issue.

I agree that we need more briefing about the transparency of the system and the application of the formula, but it would be a big mistake for the committee to consider alternatives to the Barnett system. That would open up the issue UK-wide, which might undermine the financial basis of the Parliament. We should examine the issue in the future, but not now.

I disagree with Richard about quangos. We should examine the PFI, because many people are concerned about whether that is the right way to find public funding for government responsibilities.

Mr Raffan: We definitely need more briefings on the Barnett formula. I still believe that we should examine the issue first; we cannot keep skirting around it.

No one has really answered my point about the timing of an inquiry. We will be heading into a hectic budget period from mid to late May right through to the end of the first week in July. After the recess, we will have the budget on 20 September, and the process will begin again. If we are to follow the consultation process laid out by the financial issues advisory group, we should be taking something slowly, otherwise we will end up meeting twice a week. It is important that we sort out the timetable and pace ourselves. For example, the Social Inclusion, Housing and Voluntary Sector Committee, of which I and the convener are members, took on too much work initially and got into a mess.

Elaine Thomson: I support Richard's view that an inquiry into quangos would be extremely useful. Do the clerks have any idea whether we could fit the issue in before the summer?

Andrew Wilson: We should not choose a topic of inquiry because it fits into a particular period of time. Keith and Elaine are both correct: before the summer recess, we could take initial evidence and commission reports to be done over the summer, which we could read when Parliament returns.

As for concerns about an inquiry into the Barnett

formula, I want to examine the implications of the formula for our budget process and then decide whether the system is good, bad or indifferent. We should start any inquiry by exploring the implications of a subject and come up with views on that. Rhoda said that such an inquiry would open a can of worms; if she reads the regional press elsewhere in the UK, she will find that the can is well and truly open. In the past week, three different journals in London have asked me to produce a paper on the subject—to all of which I have said no. Even Labour think-tanks are examining the matter. The issue is raging, and we need to get to grips with it.

George Lyon: If we do not examine the implications of the Barnett formula, people might accuse the committee of shying away from the issue. The Finance Committee and the Minister for Finance will both come under extreme pressure for extra spending commitments. For example, there is a lot of pressure in our party for the removal of capping limits on borrowing consents in local government. What effect would that have on funding levels in Scotland? Are there other mechanisms in the Scotland Act 1998 for raising finance?

As the matter raises so many other issues that are fundamental to this committee's ability to judge financial bids from the various subject committees, we would be failing in our duty if we did not at least have briefings to understand how all the funding mechanisms work.

The Convener: Although I tend more towards George's view, it is still not within our remit to change such funding mechanisms.

George Lyon: We need to know what the parameters are.

The Convener: There is no doubt that we need to be better informed about the issue. It is a question of how far we take such briefings, as opposed to having a full-blown inquiry.

Mr Macintosh: There is obviously much interest in, and concern about, this matter. We should be very careful about a committee such as ours opening up an issue such as the Barnett formula. That would be a dangerous step to take at this stage. George's suggestion was very good: we should set aside committee time to examine the Barnett formula, not to take a view on whether it should be the definitive settlement for the constitution, but to inform ourselves and the wider public about the issue.

Andrew Wilson: With the greatest respect, convener, although we cannot change anything, it is our job to take a view about what is good or bad for the Parliament. If our views are not known, the debate will be influenced by other people. As a result, I see no value to the Parliament of having

briefing sessions that will merely sit in the *Official Report*; it is our job to take views and produce reports. Although such reports can be as anodyne as we like, we should still have an opinion.

Mr Raffan: I am getting slightly confused. George suggested that we have briefings; Ken seemed to agree with that, but talked instead about taking oral evidence in public and yet not making any recommendations or producing a report, which is a different matter. Mixing the two would be dodgy. Either we have an inquiry that involves evidence sessions and visits and makes some recommendations—although, as the convener rightly points out, we can have no effect on this issue—or we have extensive briefing sessions in private between now and the end of the summer recess.

Mr Macintosh: In response to Andrew Wilson's point, of course we as individuals and party members are entitled to take a view on the matter, but the committee should not be put in that position. As the Barnett formula is part of the constitutional settlement, it is a matter of great political sensitivity, and we would send out completely the wrong message if the committee jumped into it in its first inquiry. The paper contains a number of issues, such as quangos and PFI, which are of great import to people and on which we could have an inquiry. We should not confuse our needs and belief about whether the Barnett formula is right or wrong with the purpose of the committee, and we should steer clear of the issue.

The Convener: Timing is also important, Andrew. It would look as though the Barnett formula was the committee's first priority if the matter became the subject of its first inquiry. That would, at best, send out a slightly alarmist message.

Andrew Wilson: As our budget is determined by the Barnett formula, we should have an inquiry into how that budget is set. How is that alarmist? This debate is happening in the rest of the UK. As we do not seem to have resolved the committee's position, perhaps we should put the matter to a vote.

Rhoda Grant: I have a suggestion that might suit everyone. The candidates in the election campaign for the mayor of London are obviously casting around for money and have been looking at our budget; that will happen as long as the campaign goes on. Between now and summer, we should have briefing sessions on the Barnett formula and put off making any decision on topics for inquiry until after the summer, which means that we will not have a break in the middle of an inquiry. After the summer recess, when we are better informed, we can decide what we are going to do.

Mr Davidson: In the paper on future inquiry topics, the third bullet point in the section on the Barnett formula talks about the implications of any change. I have spoken to water authorities, which will have to find a more creative type of funding. Over the next three or four years, the committee will have to examine where funding streams might—not should—come from to complement the requirements of the economy. This discussion is rampant in the north of England, in the Welsh Assembly and, as Rhoda points out, in London. People are not scaremongering; they are simply examining the issue, which means that if they cannot come up with options now, they will at least be aware of the issue in future.

The Convener: We have to come to a conclusion one way or the other. I hope that we do not need to move to a vote, as the committee has got by on consensus so far.

10:30

Mr Raffan: Kenneth Macintosh said that the Barnett formula is an issue of great sensitivity, as if the Parliament or its committees should avoid such issues. The whole point of this Parliament is to grapple with issues of great sensitivity. Sooner or later we will have gone through the list of topics for future inquiry and be left with the Barnett formula.

I agree with Andrew Wilson and David Davidson: anybody who reads the press in the south or in Wales—I know a bit about that—will know that this controversy is raging. Our burying our heads ostrich-like in the sand could, equally, lead to criticism of this committee.

The London mayoral election will obviously raise the issue further, but we would not embark on an inquiry until that election is over. The fact that this is a matter of sensitivity is no reason for avoiding it; it is a reason for getting to grips with it.

The Convener: Nobody denies that. We have identified these topics as subjects that we want to consider. It is a question of timing.

Dr Simpson: It is a question of timing and priorities. Some of the discussion has confused the devolution settlement with the Barnett formula, but they are two different things. Some of what David Davidson said, on income streams, for example, must be discussed, but not necessarily as part of consideration of the Barnett formula.

I support the view that we should take a briefing to determine which issues relate to the Barnett and which to the devolution settlement and to determine our powers in terms of our relation with the Treasury. Such a briefing before the summer would be very helpful. We could then decide whether we should address the Barnett formula

next.

The Convener: We have gone around this issue for the past 20 minutes and now need to reach a position. It seems to me that there are two options: first, we could take a briefing on the Barnett formula and then decide where to go from there; or we could launch into a full-blown inquiry, which would be the first inquiry by this committee.

Can we reach a consensus rather than put the matter to a vote?

Andrew Wilson: It will be difficult to do that as there are two opposing views.

The Convener: There are indeed, Andrew. If there is no alternative we will put the matter to a vote.

Dr Simpson: As always, I will try to find a consensus. I suggest that we take the briefing and then proceed to an inquiry if we feel that it is appropriate to do so. As we have said, we cannot do much of the work before the autumn, so let us hold the briefings before the summer and then consider whether we wish to launch an inquiry into the Barnett formula or defer it for some time.

The Convener: That is the choice.

Andrew Wilson: Richard Simpson has given the position that he outlined before.

The Convener: The difference in views is fairly stark. I do not want to go round and round again, but as Adam Ingram has not spoken, perhaps he can come up with some wisdom on the matter.

Mr Adam Ingram (South of Scotland) (SNP): We have to decide in principle today whether to proceed with an inquiry. The question of the remit will obviously be important. We should decide on the principle but request a draft of the remit of the inquiry, which we could discuss at a future meeting.

The Convener: That still leaves us with the divergence of views.

Mr Ingram: We cannot avoid taking a decision on the principle of holding an inquiry into this topic.

The Convener: I agree. We will therefore move to a vote. The question is whether we move straight to an inquiry on the Barnett formula, which would involve the committee making recommendations and giving its views, or whether we take detailed briefings on the matter and thereafter decide whether to pursue the matter.

I will take those in favour of moving immediately, as the committee's first inquiry—

Andrew Wilson: Second inquiry.

The Convener: Second inquiry. I will take those in favour of considering the Barnett formula as the

committee's second inquiry.

For

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

Mr Adam Ingram (South of Scotland) (SNP)

George Lyon (Argyll and Bute) (LD)

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

Andrew Wilson (Central Scotland) (SNP)

Against

Rhoda Grant (Highlands and Islands) (Lab)

Mr Kenneth Macintosh (Eastwood) (Lab)

Dr Richard Simpson (Ochil) (Lab)

Elaine Thomson (Aberdeen North) (Lab)

Mike Watson (Glasgow Cathcart) (Lab)

The Convener: The result of the division is: For 5, Against 5, Abstentions 0.

There is a debate in the conveners group about the role of the convener's casting vote.

Andrew Wilson: Perhaps we should consider how many members are not here.

The Convener: We are only one member short.

Andrew Wilson: Right. We can be of the opinion that if we held this vote next week, the result would be different. In that context, your casting your vote might be seen as unhelpful.

Mr Macintosh: If Mr Swinney wants to turn up and vote, that is fine, but if he does not wish to be here, Andrew Wilson should not tell us how he would vote.

Andrew Wilson: The question is about the use of the convener's vote.

Mr Macintosh: That is a different matter. Mr Swinney is not here and Andrew Wilson cannot speak for him.

Andrew Wilson: It is important because the convener is using his casting vote.

Mr Raffan: It is a block vote.

The Convener: My view of the casting vote is that it is supposed to be given for the status quo. There is no status quo here, so that does not help us. There has been enough dithering. I vote that we hold briefing sessions first and then move to an inquiry, if we think that it is appropriate to do so. There is no doubt that we will hold an inquiry into the Barnett formula at some point as it is on our list of topics.

Mr Raffan: Will you clarify the position? We will hold briefings, but will not begin a different inquiry—we are putting off the decision about a second inquiry as of now.

The Convener: Yes. In effect, that is what we

have decided.

I am sorry that we have not been able to maintain consensus on the committee, but that will happen from time to time.

Mr Raffan: I think—

The Convener: I have not called you, Keith. We will move on to consider the other topics; do we want to rank them or delay consideration of them until a future meeting? We will delay consideration.

Budget Process

The Convener: Item 4 is the annual budget process. Members have copies of the revised questions that were drafted following our discussion at the meeting on 18 January.

Andrew Wilson: Are we putting off discussion of other inquiry topics until another meeting?

The Convener: I mentioned that. You must have been looking at your papers.

Andrew Wilson: I heard you say it.

The Convener: We are delaying discussion of those topics until a future meeting. We do not have to decide on them today.

We are now discussing the stage 1 and stage 2 questions that will be given to the various subject committees. The clerks to this committee have briefed their colleagues on the other committees, and the matter will be put on the agenda of the conveners liaison group. I hope that it will not be on the agenda for today's meeting as I cannot attend—the group meets fortnightly, so it may well be discussed at the meeting two weeks today. That is how information will be passed on to the conveners of the various subject committees.

At the conveners group, I raised the question of the Equal Opportunities Committee being included in our briefing. It was agreed that it was appropriate that the budget should go to that committee. I do not know how that committee will deal with the additional work load, but its convener thought that it should be consulted.

Members have had the opportunity to consider the list of questions, which has been expanded in light of members' suggestions at our previous meeting. Are there any further comments?

Mr Davidson: The questions are flexible enough to allow other committees to work with them. They may not all work in the same way as we do. It is important that they should not feel steered to a view as it is their view that will add value to the response that we receive.

The Convener: As there are no further comments, it is agreed that this will be the form in which the committees will be asked to consider the budget.

Deputy Convener

The Convener: Item 5 is the appointment of a deputy convener—there is a sense of déjà vu here. Members will have seen the correspondence between Richard Simpson and me and know that there is a vacancy for the position of deputy

convener. It has been agreed that the deputy convener should come from the Labour party.

Andrew Wilson: I suggest that we record our thanks to Richard for his work as deputy convener. *[Laughter.]* I have been asked by my group to express the view that we regret his decision to resign as deputy convener, but understand.

The Convener: He has had sleepless nights at the thought of the additional work load. Of course, the committee will endorse Andrew's view. I invite nominations for the position of deputy convener.

Andrew Wilson: I nominate Elaine Thomson.

George Lyon: I second that.

Elaine Thomson was elected deputy convener by acclamation.

Elaine Thomson: I thank the committee. I will try to follow Richard Simpson's strong act.

Mr Raffan: He never put a foot wrong.

The Convener: That is the first time anyone has said that of Richard.

We agreed at the beginning of the meeting to deal with items 6 and 7 in private. We do not have a full public gallery, but I invite the official report to leave us.

10:41

Meeting continued in private.

11:32

On resuming—

Budget (Scotland) Bill

The Convener: I formally reconvene the meeting and issue a warm welcome on behalf of the committee to the Minister for Finance and his staff. We move straight to consideration of the Budget (Scotland) Bill. As convener of the committee, it is incumbent on me to move the motion.

I move,

That the Finance Committee consider the Budget (Scotland) Bill at Stage 2 in the order in which the provisions arise in the Bill except that each schedule be considered immediately after the section that introduces it.

The question is, that the motion be agreed to.

Motion agreed to.

Section 1—The Scottish Administration

The Convener: Does anyone want to comment on section 1? If not, I will put the question.

Section 1 agreed to.

Schedule 1—THE SCOTTISH ADMINISTRATION

The Convener: Does any member want to comment on schedule 1?

Mr Davidson: Does the minister feel that the budget pays enough attention to development of the economy and of tourism in Scotland?

The Minister for Finance (Mr Jack McConnell): I believe that the budget provides a good balance between departments, within the limits that exist. The departments that have been identified as deserving of increases above the general rate for all departments—education and health, for example—are the right choices. The departments that have not been allocated such increases have—on balance and given the overall limits available to us—been allocated the appropriate level of resources at this time.

Mr Davidson: At the beginning of the Parliament, Henry McLeish and the First Minister made speeches in which they indicated that advancement of the economy was the Executive's primary goal. That goal does not appear to be getting additional prioritisation over other segments of the budget. Can we expect to see supplementary estimates in that area coming up during the year?

Mr McConnell: With respect, I think that that displays a slightly narrow view of public expenditure and how it might be of assistance to

the Scottish economy and Scottish business. The investments that are being made in education and public transport and roads are vital for the success of the Scottish economy in the longer term. Making prudent, well-targeted use of existing resources for, for example, the enterprise network and training programmes is only one element of our overall support for the development of the Scottish economy. If we are going to succeed in the modern world, getting our education and transport and distribution right will be fundamental. That is why those areas were prioritised in the original estimates for the budgets for next year, and were also allocated additional resources in the supplementary statement last October.

Dr Simpson: On the receipts side of the equation, I understand that—under the devolution settlement—the Treasury may seek to retrieve some of the funding from sales of land. Item 5 on health, in the table in schedule 1 of the bill—in which the minister will understand my interest—states that the sale of land, buildings, equipment and property amounts to £4.1 million. Is that the correct amount? Can you explain to me what that is about? It seems to be a fairly modest amount.

Mr McConnell: The sales that are included in that figure are not major sales—they will, therefore, be included in the Scottish consolidated fund.

Dr Simpson: Will the major sales come into the consolidated fund?

Mr McConnell: I am coming to that. The statement of funding policy allows—where the taxpayer has made a substantial investment in public assets in Scotland—for discussions to take place about whether money from a major asset sale should remain in Scotland or whether the UK Treasury should retain some of that. That would, however, benefit Scotland as well. If money from a public investment in Scotland goes back into the UK Treasury, it could be used in UK-wide programmes that would benefit Scotland. There would be discussions about that in Scotland as well as between the Scottish Executive and the Treasury. Those discussions would be reported to Parliament in the normal way.

Dr Simpson: That is not referred to anywhere in item 5 at the moment. Would major sales of health service land be the subject of a separate report by you to Parliament?

Mr McConnell: I find it inconceivable that a major asset sale might take place, and that there would be agreement on it between the Scottish Executive and the Treasury on how to dispose of the income from the sale of that land without Parliament being notified.

Andrew Wilson: I would like to ask a question on a similar topic. In relation to recoverable VAT,

under item 3 of schedule 1, will you comment on the type of work that VAT was paid on and the implications for VAT recovery in deals such as the one that has been suggested in Glasgow—and others—to do with private finance?

Mr McConnell: We pay VAT under the same rules as any other taxpayer. I am not sure what the figure in item 3 refers to specifically, but the rules that apply to the Scottish Executive are not different from those that apply to any other organisation in Scotland, or elsewhere in the UK.

Andrew Wilson: Would VAT be recoverable if transactions were to take place within the public sector? Would it be irrecoverable if the agency or department were to contract services from outwith the public sector? In other words, would such VAT be levied and be payable?

Mr McConnell: I am not a tax expert, so I will consult advisers on that question.

It is suggested that we answer that point in writing. It does not necessarily relate to the authorisation of those figures, but it is an important point, on which I will be happy to correspond with the committee after I have spoken to expert advisers.

Andrew Wilson: On a matter that is perhaps more germane to today's meeting, and which follows on from last week's debate, could you comment on the implications for the enterprise and lifelong learning budget of the announcement on student finance?

Mr McConnell: Those figures are based on the assumption that any new expenditure on student financial support—such as that which was announced last week, or that will follow the consultation and discussions that take place following the statement—is contained within the budgeted figures for the enterprise and lifelong learning department. If, at any stage, those overall totals have to be amended, they will come before the committee and Parliament and be subject to the supplementary estimates procedure. Our working assumption is that the overall totals will not need to be changed. If they do, whatever adjustments that must be made in the departmental level 2 figures to ensure that we can pay for that additional student financial support will be reported next year in the supplementary estimates booklet.

Mr Raffan: Although I strongly welcome the increase in spending on education as a result of the partnership agreement, I would like to take up Mr Davidson's point about the enterprise budget. You will be aware of the analysis in the quarterly review of autumn 1999 of the Fraser of Allander Institute for Research on the Scottish Economy, which expressed concern about the reduction in the enterprise budget. This relates to the fact—on

which Mr McLeish did not elaborate in his statement last week—that the generous tuition fees package will have to be financed from somewhere. Government has to be realistic about spending commitments, as one cannot simply pick the money off trees. Mr McLeish implied that the tuition fees package could result in painful—I believe that he used that word—cuts in the enterprise budget. I realise that that is a level 2 matter, but will you comment on when we can expect some more details on that?

Secondly, I am concerned—as the minister must be—about the current situation of some health boards and the situation that they will be in next year. Tayside Health Board has been allocated a specific amount of money—£175,000—to tackle drugs misuse, but has significant problems regarding its deficit, which will probably rise to £12 million for the current year. The money that was allocated to tackle drugs misuse is not being used for that purpose, but is being set against that deficit. That is worrying, and I understand that similar things are happening in other health board areas. Can you assure us that money that is allocated for specific purposes will be spent on those purposes?

Mr McConnell: As I said about the enterprise and lifelong learning department budget as a whole—and on the enterprise companies budget in particular—we must have regard to present circumstances. There is an urgent need in Scotland to prioritise new investment in education and in health and I strongly believe—as do my ministerial colleagues—that transport should be an additional priority. The spending statement made in October reflected transport's rise up the Executive's agenda since the original comprehensive spending review.

The enterprise and lifelong learning budget is influenced by other factors, such as the substantial investment in the new deal in Scotland, additional money for training from the new deal and from other sources and the year-on-year uptake of resources for new and major inward investments in Scotland.

That budget, as it is outlined for next year, is balanced in comparison to the budgets of other departments. It is important that that money is well used and I know that ministers are interested in that—as is the Enterprise and Lifelong Learning Committee, which recently produced a report that talked about the duplication of expenditure and the need to rationalise that. Between them, they will ensure that the money is put to good use.

The substantial increase in health funding next year and beyond is designed to include not only the financially challenging increases in drugs budgets, but the cost of pay awards in the health service. We are agreeing overall totals today, and

I would not want to comment on individual board allocations—this is neither the time nor the place. Our working assumption is that the budget guarantees a level of resources that should allow for those developments. The health department will have an interest in the way in which the boards use that money, but that is more a matter for it than for me at this stage.

11:45

Mr Ingram: I would like to ask a couple of questions on expenditure on housing and local government. On Thursday, during the stage 1 debate on the bill, you referred to Glasgow City Council's housing debt. You mentioned the sum of £900 million, although the Exchequer costs would be only about £68 million per annum. That aside, ministers are on record as saying that a deal is in place for writing off Glasgow's debt, if a wholesale stock transfer is successfully completed. Can you tell us whether the figure in the schedule contains a sum that is set aside for that purpose?

Mr McConnell: I might be wrong, but I do not believe that those figures contain an amount of money that relates specifically to the Glasgow transfer. The sums of money mentioned reflect the level of housing expenditure in the public sector in Scotland, and money for new housing partnerships that will be scheduled over the next two years. Given the time scale for the Glasgow project, I am not sure how much of that money might be committed to the Glasgow housing partnership this year or the year after. That will be a matter for the Minister for Communities and Glasgow City Council to discuss, when they determine how much new housing partnership money needs to be allocated to Glasgow in the short term or the medium term.

Mr Ingram: So, no sum has been set aside for that? No deal has been done?

Mr McConnell: A sum has not been set aside that would be available for expenditure elsewhere if it were not used in Glasgow. There is a budget for new housing partnerships that makes some assumptions about the scale of the new housing partnerships that might develop in Scotland. However, that budget is not allocated to specific potential new partnerships in Glasgow or elsewhere.

Mr Ingram: I seek clarification on a more technical point. Perhaps the officials can help to answer this one. Why are local authorities' housing borrowing consents included in the expenditure figures, when that borrowing is not paid back through general taxation, but by the rent payer?

Mr McConnell: Those are the rules under which we operate. The total budget for the Scottish

Executive includes local authority capital borrowing and housing borrowing. Those factors are reflected in the totals. It was agreed, during the passage of the Public Finance and Accountability (Scotland) Bill, that these figures should be included in budget bills each year. Given that they make up a substantial part of the Executive's total budget, it is right and proper that the Parliament exert some control over what the Executive agrees in that field. That is why the figures are included.

Mr Ingram: I have a question about borrowing consents in general. What criteria are used for setting borrowing consents, and how much influence do you have over that process?

Mr McConnell: In housing or in general services?

Mr Ingram: In local authority capital expenditure.

Mr McConnell: In general services capital expenditure, a formula for distribution is agreed with the Convention of Scottish Local Authorities, which produces the annual figures. I would be happy to provide details of that in correspondence. In fact, I may have answered or be about to answer some parliamentary questions on that very subject.

Mr Davidson: I am a bit concerned—as are others in Scotland—about the adequacy of funding for the police services, particularly in view of the capping of the general budget for the justice department. Many police forces are experiencing difficulties, not least because local authorities find it difficult to supply them with their proportion of the funding. Forces are finding it hard to maintain their numbers at a time when, to be competitive and to make positions attractive, they are bringing in new entrants at a much higher grade than before. That indicates that they are under pressure to keep numbers up, as fewer young people are applying for positions in some—though not all—areas than was the case previously. Do you feel that the budget that you have set adequately addresses the demands that have been submitted—argued demands, rather than just wish lists—by the various police authorities in Scotland, particularly in view of the huge expenditure requirement for the new communications system that is being discussed?

Mr McConnell: Like all MSPs and MPs, I would like to see more police officers on the streets of my constituency and of every other constituency in Scotland. However, every budget has to be balanced against other departmental budgets. Within the overall sums that we have at our disposal, we have to make judgments about where to increase resources, by how much and for what purpose. The figures that are set out in the Budget

(Scotland) Bill would ensure that existing police numbers are maintained and allow some funding for pay increases, which is obviously a big issue for local government. The figures also include new investment in things such as the drugs enforcement agency. In the spring it will be for the Parliament to debate whether, taking into account other departmental budgets, the right priority has been given to the police forces. Police forces across Scotland are making a strong effort to ensure that expenditure is more targeted than it was in the past and that efficiencies are built into the system. That is a good approach, and I hope that we will continue to pursue it in all areas.

Dr Simpson: Do you expect the balance between the number of support staff and police officers to continue to change?

Mr McConnell: I think that I am in touch with public opinion on this, as well as doing the right thing financially. We should strive constantly to ensure that those who are employed as police officers across Scotland are involved directly in the preservation of law and order. When administrative and other functions can be carried out more cheaply, efficiently and expertly by people who are not police officers but are properly trained in those functions, that should happen. That applies not only to the police but to every area of public expenditure and public employment. Given the scrutiny to which public expenditure in Scotland will be subjected by this Parliament and the Executive, that trend can only accelerate.

Andrew Wilson: I want to return to the issue of the health budget, which came up at an earlier stage in the process. The cash-terms increase that you have outlined is about 3.7 per cent; the latest estimated increase in average earnings for the year to which that refers is 4.7 per cent. What are the implications of an increase in the budget that is lower than that of average earnings for the pay of people in the health service and for cuts in the number of employees in the service? At an earlier meeting, Richard Simpson raised the point that the drugs budget rises at about 6 to 8 per cent. The same point applies here: if the cash that is going into the budget does not keep pace with the inflation of earnings or prices, what is being cut?

Mr McConnell: I do not have detailed figures on the precise increases that will be incurred as a result of the recent pay settlement and outstanding pay settlements in the national health service or on the drugs bill for next year. It is safe to assume that the figures and the real-terms increases in relation to health departments account for both those escalating costs. They also build in the absolute necessity to continue to strive for new efficiencies. It would be wrong of us not to make that expectation clear.

It will be for the managers in the health service

to strike the right balance between increased pay for those who work in the service and efficiencies in terms of staff and the use and range of drugs and equipment. Managers in the public and private sector must continually strive to strike that balance. That is why we have given them some leeway as a result of the real-terms increase in the budget. That increase should allow the balance to be struck.

Andrew Wilson: That is a fair way of constructing the answer but—to repeat my point bluntly—the amount of money that is going in will not meet an increase in the pay of people currently employed in the health service that keeps pace with average earnings. The only response that you have given is efficiency savings, which must mean fewer people working in the health service or less money going into front-line services.

Mr McConnell: That is a strange definition of efficiency. By their nature, efficiency savings are those that can be made without detriment to front-line services. Moreover, they do not necessarily mean a reduction in overall levels of employment. The objective that we should be setting ourselves is to improve the outcomes of the health service, the services that are delivered and the quality of the Scottish nation's health; we should not simply operate from figures that do not in themselves show the quality of health provision and care and the quality of individual and public health.

The points that you make are valid considerations for those who are responsible for the health budget, who will be aware of those factors when they draw up the individual budgets for next year. They will take into account the health board allocations that were announced by the Minister for Health and Community Care recently. It is important that we recognise the need in all public organisations to strive for those efficiency savings that are clearly possible year on year and which allow us to fund improved developments, even where we are already providing real-terms increases.

Andrew Wilson: Everyone agrees that we must continue to pursue better service delivery. However, we cannot square that with cash increases—particularly when they are promoted as substantial real-terms increases—that are not keeping pace with the costs of the services that are meant to be delivered. We cannot continue to squeeze more and more out of an organisation that has very little fat left in it.

On the wider question of health spending, the convener notified you by mail before the meeting about the Prime Minister's recent announcement of real-terms increases that are about 3.4 per cent higher than what you have announced for this year. What are the implications of that announcement for this budget? Do you regard our

current share of per capita UK health spending as fair and equitable?

12:00

Mr McConnell: The Prime Minister's announcement looked further into the future. It would be good news for Scotland, because we could pursue the availability of the real-terms increases that have been available this year for next year and the year after.

I want to make it clear to the committee that the way in which we allocate those resources in Scotland will be for us in Scotland to decide. If the health budget for England increases by £20 per head in 2003-04, it will be for this Parliament and this Executive to decide whether the increase in Scotland is £15, £25 or £20. The money will be there for a £20 increase, but it will be up to us to decide how it is actually spent and whether a higher or lower increase is required. In some areas of Scottish public expenditure, account may be taken of the substantially higher current expenditure per head than is the case south of the border.

We will wait and see what the Prime Minister and Chancellor of the Exchequer specifically propose this summer in the public expenditure announcements for the years ahead. We will then make our own decisions about how the money is spent, rather than automatically follow the UK decisions.

I regard both the historic level of spending on the health service in Scotland in comparison with elsewhere in the UK, and the fact that the new devolution settlement guarantees a per capita increase, or decrease, in Scotland equivalent to the ones in England or—depending on the spending programme—in England and Wales, as very fair to us.

Andrew Wilson: Given that you regard per capita spending in Scotland of about 20 per cent higher than the UK average as fair today, minister, why is it fair that that share will fall over the next four years to a much lower level?

Mr McConnell: The share of increases and decreases will not fall. We will get exactly the same increases and decreases per head in health—and in other programmes—as our colleagues in England or, depending on the programme, in England and Wales. That is right and proper. The challenge that faces us as a nation is to ensure that we take into account the historically higher level of public expenditure on health and on other programmes in Scotland, which has to an extent underpinned the nature of life in Scotland.

As we strive to improve individual and public

health in Scotland, we do so in the knowledge that Scotland's bad health record has led to that higher cost and expenditure over the years. I would hope that, if our health programmes are successful and our efforts to increase preventive health and public health education in Scotland improve so that we generate a much better health profile across the population, we will release, with an equivalent share per head across the UK, more resources than are available south of the border. I am prepared to face that challenge, and I am sure that most members of the Parliament are, too.

Mr Raffan: I accept the minister's general points about NHS expenditure in Scotland, particularly in relation to what happens south of the border. The health service in Scotland is under huge pressure, however. I have in front of me a written answer from the Minister for Health and Community Care, dated 30 September. I understand that she is updating the figures in a written answer over the next few days.

Back in September, nine acute NHS trusts were forecasting year-end deficit. Some of the deficits were substantial. I know of one case in which the deficits have greatly increased, as the new written answer is likely to show.

That is the kind of pressure that the trusts and the services are under. I am worried that, while we are falling back on the perhaps unfortunate phrase "efficiency savings", the trusts in my constituency are telling me that they have cut the administrative costs to the bone and now use the ominous phrase "clinical savings"—rationing and cutting down the volume of work.

I agree that the standard of health care in many cases may have been not just higher than south of the border but, in Tayside, significantly higher than the Scottish average. However, I am worried that the standard will come down.

My second point relates to efficiency savings in the police forces. I mentioned to the minister earlier that I had spoken to the police again, so I will not go into the details of the example. Police forces have told me that they are being asked to make efficiency savings on what amounts to 15 per cent of their budgets, with pay making up 85 per cent of their budgets. You are asking for high efficiency savings—more than 2 per cent, in the case of Fife constabulary—on just 15 per cent of the force budget. Forces will have difficulty achieving that.

Mr McConnell: Sometimes, such discussions with public agencies in Scotland depend on the starting point. I have certainly held discussions with senior police officers in recent months, which may have had a different starting point from Keith Raffan's, given my day-to-day responsibilities. We spoke about how better use could be made of

police officers' time in Fife. Other public authorities should take their responsibilities a bit more seriously.

It is important that we examine the individual budget headings and that we continually review whether the existing level of resources meets needs. We all know that we cannot always meet demands, but we should ensure that we are meeting needs and providing the levels of core service that are so necessary.

It is also important that, across the public sector in Scotland—across all departments, all local authority spending and national spending—we strive to generate efficiencies in the way in which we operate, as such efficiencies could release significant savings for new challenges in the future. That is why the Executive has made it clear that not only will we keep reviewing individual budgets and considering individual areas, but we must modernise the way in which we run government in Scotland across the piece, both locally and nationally. I do not think that it would take long for most members of the public in Scotland to identify possible areas of saving in the work of public bodies in their town, city or country area, if we were to ask them to. We should all start from that premise, as well as considering difficulties with current budgets.

George Lyon: On the expenditure of the rural affairs department, the Minister for Rural Affairs negotiated a package of an extra £40 million in October to help many of our hard-pressed rural industries, particularly the agriculture industry. Is that money noted in the expenditure guideline before us, or will it appear in another supplementary estimate later in the year?

Mr McConnell: Some of that money is in the supplementary estimates for this financial year, which we will discuss later, and some is in these figures for the next financial year.

Dr Simpson: How will you deal with the Accounts Commission reports on our public services? The latest report on health dealt with drug prescribing; the commission identified £56 million of savings, of which £21 million could be realised rapidly by good and effective management of drug costs. That is just one of the commission's reports. The other report that interested me dealt with collections by local authorities, where revenue streams could be improved by better collection. We seem to be much worse than England and Wales in terms of overall collection. Do you have any comments on the principle of those good reports by the Accounts Commission?

Mr McConnell: I referred earlier to the draft report of the Enterprise and Lifelong Learning Committee, which talks about duplication of

services and a need to rationalise and target resources more effectively across the enterprise network of local authorities and other agencies. I am sure that many people around this table share my view that the increased, regular scrutiny that comes from having a Parliament and an Executive operating in Scotland and examining these budgets and the operation of government in Scotland will result in increased attention being paid to the areas mentioned by Dr Simpson. Such attention is already being paid to council tax collection and I am sure that it will be paid to health by the Minister for Health and Community Care and the Health and Community Care Committee. I am absolutely certain that attention will be paid to expenditure on the enterprise network, and I hope that that will also happen in other areas. This committee has my assurance that, as Minister for Finance, I will not let up the pressure on any of those issues.

Mr Davidson: In a recent speech in the chamber, minister, you talked about a new procurement body to deal with purchasing. We all agree with the idea of looking for savings to fund front-line services. Have you included a figure in this budget for expected outcomes in savings? Is there a general deflator for efficiency?

Mr McConnell: Assumptions are made about efficiency savings under different budget headings. There are as yet no assumptions in this budget that relate to the work of the procurement and supervisory board.

Mr Davidson: Have you used any figure?

Mr McConnell: There are different assumptions in different budgets, such as the health budget and the local government budget. The assumptions relate to things such as employee costs. There is no across-the-board assumption of targeted or—in this case—untargeted efficiency savings. However, I am certain that that is the kind of thing that we will examine in the spending review—which I announced last week—that looks forward to the period after the comprehensive spending review in 2002-03.

Mr Davidson: I look forward to hearing more from you on that.

Andrew Wilson: Minister, could you tell us your target for efficiency savings in the health budget? Having done some rough and ready reckoning with the figures just now, and taking on board Keith Raffan's point about labour costs in the health budget, I think that savings of at least £50 million would have to be found just to ensure that the budget stands still. If the health service has to find such savings after receiving an increase of 3.7 per cent—which you described as substantial—the situation is grave.

Mr McConnell: I have enough experience of

questions such as that one to know not to make an immediate response. I hesitate to repeat myself, but I think that there is a clear understanding that, although the real-terms increase in the health budget for last year allows for the increases in pay and in the drugs budget, it assumes that the budgets will be managed and that managers will have to generate efficiencies to cover increased costs. That will not be the case for every health board, it will not be the same for every aspect of the health budget and it will not be the same in the health budget as it is elsewhere in the Scottish Executive.

Historically, the assumptions about each department have been based on that department's circumstances. A debate that should be held during the next few years—I am sure that ministers and committees will discuss it—is whether we need to set more general targets for efficiency savings across the whole Scottish budget. A move to that sort of system would need a lot of thought and knowledge.

The departments have projected their likely cost increases and efficiencies during the three-year period of the CSR. They have received real-terms increases to cover the balance. That gives us balanced budgets across the whole of schedule 1. I hope that the committee can support that.

Schedule 1 agreed to.

Schedule 2

RECEIPTS OF THE SCOTTISH ADMINISTRATION APPLICABLE
WITHOUT INDIVIDUAL LIMIT

Andrew Wilson: I would like some clarification about the fact that receipts are applicable without individual limit. Does that mean that all receipts received under each of the categories are retained?

Mr McConnell: It means that the limits that have been established are the overall-amount figures at the end of each part of the schedule, not that each type of receipt has an individual limit.

Schedule 2 agreed to.

Section 2 agreed to.

Schedules 3 and 4 agreed to.

Sections 3 and 4 agreed to.

Schedule 5 agreed to.

Sections 5 to 8 agreed to.

Long title agreed to.

Subordinate Legislation

12:15

The Convener: We now move to the draft Scotland Act 1998 (Transitory and Transitional Provisions) (Appropriations) Amendment Order 2000, otherwise known as supplementary estimates. It is my pleasure to invite the Minister for Finance to move the motion.

Mr McConnell: As I am mindful of the time and presume that the committee has some questions about the estimates, I will make two comments and then formally move the motion.

It is worth noting that although many of the changes reflected in the estimates are technical, two changes—one of which is also quite technical—might be described as policy related. Mr Lyon mentioned the first of those changes. In vote 1, the change of around £23.7 million for the rural affairs department refers mainly to additional provision for the hill livestock compensatory allowance, but includes extra money for meat hygiene services. The total is slightly larger than that, but there are some estimated savings for this year. That is good additional money, which was promised and has been delivered. When I last appeared at this committee, we said that we would bring it back in January or February and we have done so.

The second change to which I draw the committee's attention is the provision for the costs of the Lockerbie trial—for want of a better description—that is taking place on the European mainland. The sum involved is some £30.8 million, spread over votes 5, 9 and 11; £18.1 million for police and prison costs; £11.2 million for court and Camp Zeist site costs; and £1.5 million for Crown Office prosecution costs. The good news is that, by agreement with the Treasury, all the capital costs and 80 per cent of the current costs will be met from the UK reserve; in addition, the UK Treasury is negotiating with the American Government, with a view to the latter providing substantial compensation towards those costs. Although a substantial sum of money is involved, a relatively small amount will fall on the Scottish criminal justice system budget. The amount of money involved is significant, and it is important that we continue with the trial, but we have done well out of the special arrangement with the UK Treasury. The circumstances are exceptional and the national reserve has been willing to pick up almost all the tab.

I move,

That the Finance Committee, in consideration of the Scotland Act 1998 (Transitory and Transitional Provisions)

(Appropriations) Amendment Order 2000, recommends that the order be approved.

The Convener: Thank you. I propose to proceed with the supplementary estimates as before; that is, we will consider each vote separately, starting with vote 1 on agriculture, fisheries and environmental services. Does any member wish to raise a point or question the minister on vote 1?

Mr Davidson: I would like clarification on page 2 of the vote, on items C2, C4 and C5, which concern fisheries. The sums of money involved do not seem huge, but what exactly is being reduced?

Mr McConnell: It is mainly, I think, reduced demand for harbour grants in this particular financial year. That is not entirely demand led, because there is always a budget limit on the overall number of grants that can be given. However, where grant applications decrease, the money will no longer be required. Other elements are involved, but that is the most substantial.

Andrew Wilson: What we are doing now? What will be the result of our deliberations?

The Convener: The minister moved the motion at the end of his opening statement. We are now proceeding vote by vote. At the end of that process, we will vote on the motion.

We now move to vote 2 on local government, housing, transport, other environment services and European funds.

Andrew Wilson: Can you explain what is happening with the net change of £98 million in AZ?

Mr McConnell: As a result of the end of the previous European programme on 31 December and of our valiant efforts to speed up grant payments and improve the payment of European structural fund grant money, there has been a substantial increase in the number of payments required in this financial year, which has far exceeded the budget. That does not mean that the overall amount of money spent on European structural fund grants in Scotland will increase. The amount remains exactly the same, but the pattern of expenditure has changed dramatically. Under the funding rules, we had to apply to the Treasury to bring forward expenditure from next year to allow us to make payments in this financial year. We received an affirmative response to that application. We may have to do the same again next year for the year after.

Having improved the system and speeded up payments, it would have been wrong of us to tell organisations that we could not implement the new system, even if the system caused a temporary cash flow problem, which has now been dealt with.

Mr Davidson: There is some confusion about the timing of the Executive's application. Is there any connection between your having to draw moneys down and the Executive's application going in late?

Mr McConnell: None whatever.

Dr Simpson: Under D4, provision for roads and transport will decrease by £34.6 million. Is there a technical reason for that?

Mr McConnell: Yes. That is the money paid under the bus fuel duty rebate scheme; it is transferred back to the Department of the Environment, Transport and the Regions, which makes the payments on our behalf.

George Lyon: Under nationalised industries' external finance, Caledonian MacBrayne will get increases of £3.6 million on P4 and £791,000 on P5, while there will be a shortfall on PZ. Will the minister clarify what those figures mean?

Mr McConnell: Those are amounts of money that were budgeted for originally in the non-voted provisions for this year, but that were not included in the voted amounts, for which we have permission to spend. It has now been clarified that those amounts will be required and we are therefore moving them from the non-voted figures to the voted figures to ensure that the payments can be made.

George Lyon: Is the money for capital investment in boats?

Mr McConnell: I believe that it relates to the repayment of loans to the ship mortgage fund.

Andrew Wilson: I want to go back to Richard Simpson's point on D4. Does the £34.6 million cover the total sum of the bus fuel duty rebate scheme? If so, why is it changing under supplementary estimates, rather than being simply a budgeted sum?

Mr McConnell: I do not think that the total is changing. The money was in our budget. If my memory serves me well—I remember answering a question on the subject at the time—we increased the amount of money in the last round of supplementary estimates. The scheme is administered nationally by the DETR, so although the money comes out of our budget and we make the payment, we then transfer the money back to the DETR to pay on our behalf.

Andrew Wilson: So why does the money show up under supplementary estimates?

Mr McConnell: Because it is a transfer.

The Convener: If there is nothing else on vote 2, we will move to vote 3—education, industry, arts and libraries.

Mr Raffan: Will the minister clarify the decrease of £9,307,000 under A4?

Mr McConnell: Mr Raffan may regret that question, as I have a full page of notes on that point.

The decrease of just over £9 million is in respect of a number of transfers both in and out of the heading, all of them technical. They include, for example, transfers from the Northern Ireland education department for student tuition fees in Scotland. In the other direction, the transfers include one of £100,000 to sub-heading A2 in respect of teacher recruitment publicity.

I would be happy to go through the full list, but I suspect that you might not want that. Probably the most substantial element is a transfer to cover the establishment of a separate budget for the administration costs of the Scottish Further Education Funding Council, as a result of the changes in the departments over the past nine months.

12:30

Dr Simpson: That is a good illustration of the problem that we discussed earlier in the year, that these netted figures may be the balance of some quite large sums. When we get around to dealing with full budgets, and when we get the estimates next year, I hope that there will be supplementary addenda, saying that this £9 million represents £40 million this way and £31 million the other way. Then we will not have to ask you for these explanations, although we have cut you short on them today.

Mr McConnell: That would take all the fun out of not knowing what I am going to be asked.

The committee will be aware that this is the last time that we will operate under the old system. We need to discuss—and I am sure that the committee and I will do so—how to handle this in the next financial year.

The Convener: We move on to vote 4, on health.

Mr Davidson: The possible overspend in some of the hospital trusts amounts to £50 million odd. Is that identified anywhere in here?

Mr McConnell: That is the figure that you and Mr Wilson like to quote.

Mr Davidson: The trusts present us with those figures.

Mr McConnell: Perhaps I was thinking of another figure of £50 million that has been quoted.

Mr Davidson: I said £50 million plus.

Mr McConnell: Oh, it has gone up in the past

20 minutes.

The general estimates that are bandied around are not included in these figures.

Mr Davidson: Can you identify figure E5, the removal of £21 million?

Mr McConnell: The vast bulk of that money relates to the capital costs of providing teaching facilities, as a result of the relocation of the Edinburgh Medical School. As Dr Simpson was saying, if we could find a better way of explaining these things in the documents, it would not appear quite so strange. It is not a reduction of budgets of any sort; it is an internal transfer.

The Convener: As there are no other comments on vote 4, let us move on to vote 5, on law and order. There are no questions on that, or on votes 6 to 9, so we will move to vote 10, on the Forestry Commission.

Mr Davidson: At a previous meeting on supplementary estimates, you told us that the commercial side of the Forestry Commission was not doing terribly well and required some assistance. Will that assistance come to an end?

Mr McConnell: In the detail of the budget bill figures that we discussed earlier, you will find that we have had to continue to make additional provision for the Forestry Commission into the next financial year. We are anticipating that some of the difficulties that it has faced this year will continue—timber price problems and so on.

Mr Davidson: So the answer is, yes, it will go on.

Mr McConnell: "Go on" is a bit open-ended. However, for the next financial year we have continued to make provision for the difficulties that the commission was facing as a result of timber prices.

Mr Davidson: Having set your targets and accepted the bad news, what action is your department recommending to the Forestry Commission?

Mr McConnell: I have agreed with the minister responsible that the matter will be kept under review. There is a downward pressure on costs, but we must be sensitive to the current market conditions. In next year's budgeted provisions we will need to consider whether the situation has changed. There are no specific initiatives in the offing that would alter the current demand for additional resources to keep the Forestry Commission at its present levels of activity.

Mr Davidson: I appreciate that this is an investment in the rural economy, but I wonder whether there is not a better way of spending the same money to generate jobs in the rural economy.

Mr McConnell: At the moment it is a short-term problem, and we need to be conscious of that. Longer-term opportunities may be opening up for the forestry industry. The canal improvement, for example, will create opportunities to move timber from west to east in a cost-efficient manner. There could be significant improvements, but we need to keep a close eye on the situation.

The Convener: We move to vote 12, on the Scottish Parliament.

Andrew Wilson: I have a general question. Everything in this document, apart from administration, is on the up, with increased funding in each vote. Where does the funding come from, and how does that fit in with the announcements made in the budget of a recycling fund from previous years? Basically, how does it work?

Mr McConnell: The situation that you have described can be explained in a number of ways. First, allocations may be moved from non-voted to voted provisions—from budgeted but not yet available to spend, to authorised to spend. Secondly, there is the take-up of end-year flexibility, most of which we did last time but some of which comes through here. Thirdly, there are additional allocations such as the agriculture money that comes from the UK Treasury during the year. We have to make allowances for that so that ministers and departments can spend it.

Those are the three main areas. Unless there was an economic crisis in the middle of the year and budgets across the UK were suddenly retracted, those are the situations that we would face when amending budgets during the year.

Andrew Wilson: During the next week or so, can we have a wee note on sources of funding, broken down into the categories that you have just set out?

Mr McConnell: For these figures, or in general terms?

Andrew Wilson: For these figures and for the budget itself, showing what comes from end-year flexibility, what comes from money budgeted but not yet released for spend and what comes from elsewhere. That would be useful.

Mr McConnell: I seek your guidance, convener, on whether that would be a sensible use of time, given that we are approving these supplementary estimates today. I would be happy to provide examples from either this or the next set of estimates, if members of the committee would find that helpful, but I do not want to commit myself to doing it over the next week.

The Budget (Scotland) Bill has to complete its passage over the next 10 days, and I am conscious that I have not yet signed off the response to you and to the convener of the Audit

Committee on the written agreements. I am also conscious that we have an outstanding commitment to the committees to produce in-year monitoring figures, which I have on my desk and hope to provide shortly.

Over the next 10 days, I would rather concentrate on dealing with those issues, before we ask Parliament to vote finally on the budget for next year. I would be happy to provide members of the committee with the information that Andrew Wilson has requested over the next few weeks, if that would be helpful.

Andrew Wilson: I did not realise that it would take time.

Mr McConnell: If it is not time consuming, we will do it very quickly, but I am assuming that it will be. If it is, we will do it as quickly as is practical.

The Convener: The question is,

That the Finance Committee, in consideration of the Scotland Act 1998 (Transitory and Transitional Provisions) (Appropriations) Amendment Order 2000, recommends that the order be approved.

Motion agreed to.

The Convener: I thank the minister and his officials for their attendance.

Meeting closed at 12:39.

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