

FINANCE COMMITTEE

Tuesday 22 February 2000
(Morning)

© Parliamentary copyright. Scottish Parliamentary Corporate Body 2000.

Applications for reproduction should be made in writing to the Copyright Unit,
Her Majesty's Stationery Office, St Clements House, 2-16 Colegate, Norwich NR3 1BQ
Fax 01603 723000, which is administering the copyright on behalf of the Scottish Parliamentary Corporate
Body.

Produced and published in Scotland on behalf of the Scottish Parliamentary Corporate Body by The
Stationery Office Ltd.

Her Majesty's Stationery Office is independent of and separate from the company now
trading as The Stationery Office Ltd, which is responsible for printing and publishing
Scottish Parliamentary Corporate Body publications.

CONTENTS

Tuesday 22 February 2000

Col.

FINANCE INQUIRY	339
EUROPEAN UNION FUNDING	368

FINANCE COMMITTEE

4th Meeting 2000, Session 1

CONVENER

*Mike Watson (Glasgow Cathcart) (Lab)

DEPUTY CONVENER

*Elaine Thomson (Aberdeen North) (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)

*Andrew Wilson (Central Scotland) (SNP)

*attended

THE FOLLOWING MEMBER ALSO ATTENDED:

Ben Wallace (North-East Scotland) (Con)

WITNESSES

Professor Irvine Lapsley (University of Edinburgh)

Richard Parry (University of Edinburgh)

CLERK TEAM LEADER

Sarah Davidson

SENIOR ASSISTANT CLERK

Callum Thomson

ASSISTANT CLERK

Alastair Macfie

LOCATION

Committee Room 2

Scottish Parliament

Finance Committee

Tuesday 22 February 2000

(Morning)

[THE CONVENER *opened the meeting at 09:47*]

The Convener (Mike Watson): The committee is quorate, so I call this meeting of the Finance Committee to order. There are two items on today's agenda.

Finance Inquiry

The Convener: As part of our inquiry into the finance functions of the Scottish Executive, I am pleased to welcome Professor Irvine Lapsley and Richard Parry, both from the University of Edinburgh, who will speak to the memorandums that each has submitted to the committee. I do not propose to ask them to go through their memorandums, but I will invite them to introduce themselves and to provide us with some background on how they got into the subject, which is now one of their specialities. If they wish, they may add to their memorandums or highlight particular points. For the benefit of members of the committee, I should say that Professor Lapsley must leave at around 10.45 am to deliver a lecture. He will, therefore, speak first.

Professor Irvine Lapsley (University of Edinburgh): Thank you, convener. It is a pleasure to be here. Many thanks for allowing me to leave in time for my lecture.

I am professor of accounting at the University of Edinburgh and have been interested in public sector accounting for more than two decades. Public sector accounting includes health, local government and central Government. I am an accountant, and my focus has been on financial management and the various initiatives relating to that. I have done research in that area for a range of institutions.

I want to make a couple of points about the memorandum that I submitted. In terms of finance and its handling, we are not in a stable situation; dramatic change is happening. The kinds of accounting practices that are now envisaged by central Government in Scotland and at Westminster represent something of a revolution—they involve changes to practices that have existed since the mid-19th century.

The issue is about best value and implementing a modernising agenda. In order to ensure that we

make best use of the Scottish Executive's resources, the paper that I submitted highlights some of the pitfalls and some of the ways forward. I favour particular kinds of accounting. In the paper, I offer observations on the quality of some information that has come the committee's way and on the control systems that have been established to deal with the moneys of the Scottish Executive.

The Convener: Thank you. Clearly, Professor Lapsley, you are in favour of budgetary delegation. In your paper you say:

"The Resource Budgeting (RB) system should enhance this system by being more comprehensive with responsible individuals (Accountable Officers) having explicit responsibility for all resources over which they exert control".

Apart from that, what do you see as the benefits of budgetary delegation?

Professor Lapsley: The people who deliver the service are usually best informed to make decisions. If the appropriate delegated budgets are set up and those people are able to influence and command the process so that they get the right level of resources, the result should be a better service. It should be more efficient, and those delivering it should be much more aware of the prices that they pay and the resources that they use.

If there is no delegation and everything is pulled back to the centre, all those benefits are lost. That is to rely too much on a traditional form of control that is focused on balancing the books at the year's end. It is important to balance the books each year, but if that dominates the process people will end up being driven by cost savings and cost awareness, rather than by best use of resources. Such a system does not make people think about what they are doing within departments or operational branches of services, which is the key to advancement in the public sector. We need to get people to use their information and resources with greater sensitivity.

Mr David Davidson (North-East Scotland) (Con): Good morning, professor. I want to ask you about your comments on policy frameworks. You state that

"financial constraints may dominate to the detriment of quality of service objectives".

That relates to what you have just said. This is also a major issue in a fund-raising organisation such as a business, as other demands have to be satisfied. In your comments you have not offered us a specific view on who should lead the financial system, and to what end. I suppose that you are trying to get us to examine that more closely and see how we feel about it. However, perhaps you could put some more flesh on the bones of what

you said about policy frameworks.

Professor Lapsley: I see the finance function as providing a service. If the finance function is centrally controlled, it might become too dominant. Over the past decade or more, there has been a way of thinking in the public sector that the emphases are on cost cutting, cost reduction and cost savings. We should move beyond that. Costs are important, but we also need to get people to think about the kinds of services that they are providing and how prompt and responsive those are.

In my previous exchange with the convener, I said that budgetary delegation is one mechanism for achieving that. In my comments on policy frameworks, I highlight another important way of getting people to think about the way in which services that they provide might be achieved—by linking objectives to outcomes. That is a radical change in accounting practice. If it were successfully brought to fruition, it would place Government accounting ahead of its commercial counterpart—that comment is not often made. It would allow people to see what various departments were trying to achieve and it would link to how they performed. That is quite novel and should put the people who are delivering the services in the driving seat. They should be driving the process along, and the job of the financial control system should be to indicate how resources have been expended.

Mr Davidson: When departments are competing for resources—they have done the work, have the bit between their teeth and are doing the linking to which you refer—do you see the Minister for Finance acting as an arbitrator, or, as you have suggested elsewhere, as a powerful central figure in overall policy delivery?

Professor Lapsley: I have no doubt that the Minister for Finance would have an overarching role and would play a part in policy delivery. However, the issue is how we get departments to change their ways and collaborate on resource use. This is all about continuity and change, because there is still some continuity with the mode of operation of the former Scottish Office. A change in thinking is required, as much as anything else is.

In my paper I touch on the issue of annuality, which has dogged the public sector for a long time and has been one of the major reasons for strange—one might even say perverse—decisions, as it forces people to be driven by short-term financial considerations. We need to move away from that. If we did, it would allow much more considered debate of the issues. I envisage the Minister for Finance being a very powerful figure among those who consider the budget, but we need to persuade the people who

run departments to think beyond their departmental brief.

Mr Davidson: To that end, do you feel that there ought to be a financial function in each department?

Professor Lapsley: In the paper I mention the issue of outposting. If that happens, it should relate to a particular kind of finance function. There are different ways in which the various strands of finance function can be organised. There is the corporate, Treasury type of function—looking after finances, payroll and so on—and there is management of the flow of information to ensure public accountability.

However, there is also a whole raft of activities that are associated with trying to make the best use of resources. I describe them as problem solving, score keeping and attention directing. The nub of the issue is to make people think along those lines. That is different from saying, “We had £X and we have spent it all this year.”

Finance functions could be located within departments, with those responsible using their professional colleagues as reference points. That is necessary if we are to address the issue of budgetary delegation. However, the critical thing is to get people to think in the way that I have described. I am talking about a way of thinking that differs from the traditional counting-every-penny approach.

Mr Davidson: Is it a mixture between qualitative and quantitative approaches?

Professor Lapsley: It is. It is also much more about questioning and challenging the use of resources than about thinking simply, “Let’s save as many pounds as we can.” It is about relating spending to value and to the kinds of services that are being provided. That is the key to the joined-up approach that we have flagged up.

10:00

Mr Keith Raffan (Mid Scotland and Fife) (LD): Is not the trouble with putting more emphasis on value that the judgment of output and the quality of services are so much more subjective?

Professor Lapsley: It is, as you say, much more difficult and challenging—one can see why people have not grappled with it in the past.

However, we have moved on. I made reference to the fact that the prospective changes in financial reporting practices will put the Government in the vanguard. Measuring value and benefits provides the Government with difficult, messy and challenging problems, but the finance function should try to get at outcomes and put them into reports. We need to ask how costs inform

outcomes. There is no doubt that that is a challenge, but that is the direction in which we must go.

Mr Raffan: You talked about shifting away from annuality. Presumably, you are in favour of more rolling over of budgets?

Professor Lapsley: Indeed. The signal that the Government was moving from one-year to three-year planning was about the best thing that has happened in the management of public finances for decades.

Mr Raffan: You might tell that to the people who run the Parliament. We are all desperately trying to spend our allowances before 31 March. There is no imagination here. I am sorry—carry on.

Professor Lapsley: Short-termism has residual effects. Annuality has dogged public services' attempts to achieve the best use of resources. We are all familiar with examples of people spending, perhaps not in the most sensible way, in the run-up to the year-end.

Mr Raffan: There are glaring examples of such spending. Yesterday, while driving through my constituency, I was dogged by road works, which is typical of this time of year because money has not been used to maintain or grit the roads during the winter. People are now desperate to spend it as quickly as they can.

Professor Lapsley: I agree.

Mr Raffan: Will you elaborate on the comment on page 2 of your submission that resource budgeting is less developed and should, perhaps, have preceded rather than succeeded resource accounting? I am not an accountant, so will you also explain resource accounting and resource budgeting in layman's terms?

Professor Lapsley: Thank you for that challenge. I will endeavour to do so.

Resource accounting tries to recognise that Government has a whole lot of assets. Historically, Governments have functioned with cash, which goes back to the annuality convention. The focus has been on the amount of cash raised and expended in a year, which ignores the resources that one has at one's disposal.

A striking example of that can be found in our hospitals. Until recently, there was no measure of hospitals' capital stock, so we did not know whether that stock was being maintained, being run down or was growing. Resource accounting allows for such information. It identifies assets and recognises that they have a life that lasts way beyond a single year and that that enduring benefit should be recognised. That is the main difference between resource accounting and cash-based accounting. It is a dramatic change from

1861, when we settled with appropriations.

Resource budgeting is forward-looking. It asks how money will be spent and what commitments will be made. Instead of saying that we will have so much cash this year from whatever source—the sale of public assets, borrowing or taxes—and this is how we will spend it, resource budgeting looks beyond that to consider how commitments can be made. It also takes into account the existing spread of assets. If we focus purely on a cycle of cash budget and cash outturn, we cannot capture all the resources. Is that helpful?

Mr Raffan: It is clearer than it was. Why is resource budgeting less developed? Why should it have preceded resource accounting?

Professor Lapsley: As an academic, I find that a very interesting question. Resource accounting has been driven by the Government accountancy service and resource budgeting has lagged behind. There is an argument about the feasibility of resource accounting. There was a feeling that it would, perhaps, not be easy to deliver and that resource budgeting would not, therefore, be necessary. It looks now as if resource accounting is taking shape and will happen. That is part of the reason for the delay.

I favour resource budgeting as a starting point, because of where I come from in my thinking about finance functions. One can take the traditional route of counting every penny and considering matters after the event—a backward-looking approach to the finance function—or one can ask, "What are we about? What are we trying to do? How can we use our resources best?" We can look forward and consider what can be done with the money that we raise and how that money should be spent. It is a forward-looking approach—a different way of considering the matter. That is the best way forward.

For too long, public services have been dogged by the need to balance the books and to look back at what has been spent. It is still important to look back, but if that dominates, best value can never really be achieved. That is why resource budgeting should have preceded resource accounting, and also why it has not. It is a pragmatic argument.

Mr Raffan: My final point is on best value. As an accountant, you obviously like the system that you have outlined, but do politicians? I would have thought that it opens them up to greater criticism and attack. Best value, to a great extent, is subjective, so different people can have different opinions of the same outcome.

Professor Lapsley: That is true of the entire public sector. The only way to address the issue is to be clear and to express what one is trying to achieve and what has been done. One might not

achieve everything that one sets out to do—one must be up front about that. There must be a mature discussion. I can see why people might be anxious about a simple point-scoring exercise, but if people have a genuine commitment to improving public services, I do not see why they should flinch.

Andrew Wilson (Central Scotland) (SNP): Professor Lapsley's point about the need to have a handle on capital assets will be useful when we come to consider the written agreements again.

I have a question on your specific suggestion about outposting management accountants. I am not overly suspicious of the need for professors of accounting to promote the idea of having management accountants across the service. However, why is that preferable to charging a roving commission or a group of accountants with the job, which would mean that there was less of an issue about people going native or focusing on their own area? How can you square the need for people to focus on a specific division with the need to take a cross-cutting, joined-up approach?

Professor Lapsley: That is a difficult issue. We must be reasonable about the time scale for making the changes—we seek a change of heart as well as a change of mind. I have suggested putting in place a particular kind of thinking, which is not the traditional cash-counting approach to accounting, but is far more about managing resources.

On the question of people going native and achieving change, I have suggested that there might be a case for more secondments or exchanges, not only within departments and throughout the Executive, but beyond. We should acknowledge the great pool of expertise and the large number of extremely capable finance people, who might not necessarily reside in central Government, but who can be found in Government-associated bodies, such as non-departmental public bodies. There is potential for cross-fertilisation, which would take us into the territory of joined-up Government and allow us to adopt a cross-cutting approach.

I have made suggestions about how the finance function might proceed and how finance departments might handle that, but one can see how that could align with other departments. The civil service has a strong tradition of rotating staff through secondment and moving people around, which is, potentially, an important part of the exercise.

Dr Richard Simpson (Ochil) (Lab): I have a couple of questions, which I hope will help me to understand the matter. The capital charges system in the national health service is part of the new process. Is that being applied elsewhere?

Professor Lapsley: The NHS started the ball rolling. A similar system is now being bedded down in local government and central Government has followed. The phenomenon is not peculiar to these islands; it is an international trend. The United Kingdom has been in the lead, but there are similar developments in accounting in Australia and New Zealand.

Dr Simpson: I agree that changes in attitude are the most important thing; it is not just about changing the systems. Do you detect a change in attitude in the NHS, which was first up?

Professor Lapsley: That is a fundamental question to which we could devote considerable time. The entire issue of the NHS is complex—there are so many strands to it and so much happening in terms of public expectations and pressures on facilities. The changes have made managers more sensitive about the level of resources that they have, for example, in capital equipment. People now consider that part of the equation.

Dr Simpson: Has the introduction of three-year planning brought any further changes in attitude? Is it crucial?

Professor Lapsley: Three-year planning has a number of benefits, not just in terms of capital, but in terms of getting people to think more about programmes and less about short-term hits and the need to spend to square the books at the year-end. Three-year planning is important. I have tied it to departmental objectives and outcomes. Together, those could provide an important instrument for the committee or anyone else who is interested in public services in Scotland.

Dr Simpson: I want to raise a couple more points. A previous witness spoke about setting not just three-year programmes, but longer-term objectives. How does that fit in? Should we begin to ask where we want to be in 10 years and should we have three-year rolling programmes to get there?

Professor Lapsley: I would expect a major commercial organisation to conduct its planning in that way. There is an issue with an elected Parliament planning for 10 years, given shifting priorities. Longer-term objectives are, for an institution such as the Scottish Parliament, a more delicate matter than they are for a commercial enterprise, which has different objectives.

Some systems are loosely tied together and there are broad strategy statements. There is the three-year plan, which is as good as we can get. It would be difficult to go any further, unless there was complete unanimity around the table and people were comfortable about committing to a decade without change.

Dr Simpson: Do the way in which the Accounts Commission works and the reports that it produces meet your objectives?

Professor Lapsley: The Accounts Commission has made rapid and dramatic strides. Initially, it was very focused on financial accountability, but it has now moved into best value and value for money and has produced some stuff that is very interesting indeed. The set-up of Audit Scotland looks very promising for Scotland.

Rhoda Grant (Highlands and Islands) (Lab): It is obvious that there needs to be a complete change of mindset throughout departments. Even within sub-departments of ministries, success is gauged by the amount of money that the department gets from the annual budget or the rolling programme.

How do you change that mindset to make people say that they need less to achieve the goals that are being set out?

10:15

Professor Lapsley: That is a fundamental question, which strikes at the heart of the entire business. We have to get people to stop thinking that the amount of money that they have at their command determines what they bring to the public services. One of the reasons why I am so enthusiastic about objectives and statements is that they give people a chance to look differently at what the services are about. It is not just a question of saying, "My budget is £X million, rather than £Y million, so you should take more account of me." It is more about what they are delivering and what they are about.

The Convener: In response to a question from Keith Raffan, you said that capital assets would be controlled better in a delegated, budgeted system. In your submission you say why you could make more efficient use of assets

"which are idle or surplus to operational needs".

Is that about just value for money, or is there more to it? Why would it be better for such benefits to accrue within a delegated system?

Professor Lapsley: The history of the public sector is that people in senior positions in public service organisations have not considered how to get maximum use out of their assets. Much of that is a question of responding to the pressures that people face. It makes it much more explicit if you say to those who have financial responsibility, "We will give you £X millions to run this service—that includes these assets. We want to see how you perform on those assets, so would you account for them?" That is an explicit message to the manager about what he has at his disposal, in terms of manpower and other resources, and in terms of

assets. He has to account for them explicitly; that is the major link.

There is a link with VFM, although VFM tends to be irregular and spasmodic; it considers areas throughout the public sector. The resource management approach would be more systematic, in that you would expect systematic consideration, by managers within departments, of how departments were using their assets. You would expect managers to ask, "Is there something that we can give up?" and "Do we need this?" The counterpoint to that is identifying the need for assets. So, the resource management approach is more explicit, makes managers more accountable and is more systematic than VFM-type interrogation.

The Convener: In a sense, we are talking about changing the system. You describe resource accounting and resource budgeting as a radical change. Could that change be carried through effectively by existing civil servants or managers? One of the Sunday newspapers carried a report about plans to introduce middle managers or senior managers from the private sector. Could the necessary change in culture be achieved with existing civil service attitudes, or is there a need for cross-fertilisation of experience from outwith the sector?

Professor Lapsley: That is an important question. If you take private sector organisations as reference points and try to tap into their expertise, you have to do so in the knowledge that they operate to a different template and different objectives, and that they may have quite a different outlook. That is not to say that they do not have something to offer, but what they have to offer is distinct.

I suggested in my paper that some scope exists for cross-fertilisation within the public sector. We may not be proud enough, shall we say, about the quality of financial management expertise throughout the public sector. That would be another way to change things.

Can people change? I see that happening. It is perfectly possible, in any service and in any organisation, for people to adapt. Much comes down to putting proper systems in place to help people to carry through the change.

Mr Kenneth Macintosh (Eastwood) (Lab): I want to ask about resource budgeting, of which you say in your submission

"not only is this potentially very important, but . . . it is developmental."

You sound quite cautious that it might go wrong—if I can put it that way—or that it may not be accurate or fully developed enough yet to be a fully working system. In other words, it may do

harm as well as good.

Professor Lapsley: That is an interesting observation. The main thrust is making things better, but I was trying to introduce a caveat. We must recognise at the outset that, in financial and accounting terms, and in terms of how the figures are calculated and how all the information is gathered and disseminated, we are facing radical change. We should bear that in mind.

Resource budgeting is less well developed, but it is the way to go. It gives us a symmetrical flow of information. The budget and the accounting systems reflect each other; they are in balance, if you like. We would hope to have a resource accounting system that reflected the resource budgeting system. That is the way forward.

The major harm, in a changed or existing system, would come from finance and costs having such primacy that we ignored the other dimensions of what public services are about—quality and outcomes. That is critical and we need to keep an eye on it.

Mr Macintosh: I can see that we should be cautious, but I was not sure how developed the resource budgeting system was.

I agree with the gist of what you are saying—we should recognise the importance of capital assets—but I am worried that if we introduced such a system, in effect we would encourage managers of public finances to turn capital into revenue in some way. If managers were encouraged to make the greatest use of their capital assets, they could decide to get rid of those assets and use their value in another way. Do you recognise that danger?

Professor Lapsley: That may or may not be a danger. It is not a danger if the asset is surplus and sitting idle and there is some benefit to be gained from selling it on. That would make perfect sense to me; it would make sense to the financial managers and to the system. It could offset the cost of running parts of the system. That has to be handled sensitively.

In the resource budgeting system, if a manager has to deliver on services and he has assets for which he is accountable, he will not deplete the asset base to the point at which he cannot deliver the service. That would be foolish and irrational; I do not think that that would happen. I hope that it would not happen.

Mr Davidson: On the subject of accountable officers, take the example of a hospital trust that has an expensive capital asset in the form of an operating theatre. If the trust cannot get surgeons and staff to work on a 24-hour shift basis so that the operating theatre is in constant use apart from the safety periods, is there a need for some kind of

arbitration? What if somebody outwith the trust says from on high, "You have this huge asset and you are only using it for 35 to 40 per cent of the week—you could be penalised." Is resource budgeting really down to the accountable officer—who, presumably, would be the chief officer of the hospital trust in that particular case—or even to the hospital itself? Or would such matters be pulled back up to the centre?

I am concerned about that linkage. Managers can do the cash accounting—that is not difficult and it is done now. Outcome measurement is being developed now. However, this is about how the budgets are set and whether there will be penalties. There is no arbitration system behind all this yet—is there a need for one?

Professor Lapsley: That is an interesting issue. To take up your example, managing the use of resources should be down to the accountable manager, who would be responsible for the assets and for ensuring that they are used to good effect. That is a question of managing patient demand as well as maximising theatre capacity.

The complicating factor is that the operating theatre is part of a joint asset, so it is hard to manage it as a separate exercise. In terms of arbitration and the use of resources, there are some interesting developments in health care that are not so much finance driven as clinically driven.

Intensive care, in which there is a sharing of beds around the network, is an example of making the best use of a resource. That is the best way to do it, because the managers who provide the service know the patient characteristics and whether they fit the kind of bed that is available. They can achieve the kind of arbitration that you mentioned.

A bureaucratic, heavy, hands-on approach would not necessarily resolve those issues in quite the same, seamless fashion. When we have talked about cross-cutting and modernising, that network is the kind of thing that we have had in mind. People in different trusts are working between trusts to try to deliver services; that is an interesting development.

Mr Davidson: The public sector fears that we may end up with three surgical units for the whole of Scotland, working all the hours that God sends, where people would be shipped in and out and there would be no visiting facilities and so on. We have to ensure that, whatever system we have, not only does it satisfy the needs of the organisation itself, but it serves the needs of the public at large. It is about getting that balance right without hurting any manager who is at risk of falling between two stools. Does he satisfy the public demand or does he satisfy the needs of the system?

Professor Lapsley: That is an important observation. If outcomes are monitored against resources, it can be seen whether that trend will occur. The best way to do it, whether the organisation has high throughput or something more diverse, is to have external scrutiny. Monitoring could establish what is happening to outcomes.

Andrew Wilson: Kenneth Macintosh made a point a few moments ago about capital asset realisation. To turn his question on its head, if there was a disincentive to realise surplus capital assets because the receipts would not be retained, should we address that issue?

Professor Lapsley: That is an important issue. One of the problems that has dogged the public sector is that people may have assets that are surplus to requirement, but they have no incentive to move them on. They do not need them to deliver the service, but if they sell them and realise the capital receipts, those receipts are pulled straight back to the centre. That is something to keep your eye on.

The answer would be to have a trade-off, whereby a portion of the receipts would be retained in the local budget and a portion would go back to the centre. The proportion could be varied, but there has to be an incentive. No incentive: zero return.

Dr Simpson: If you gave up an asset that was no longer being used, there would no longer be a capital charge against it. That would be at least one incentive.

Professor Lapsley: That would be part of the incentive, but there could also be a flow of receipts from the sale. The capital charge would reduce the costs that are put against you, but if substantial funds were raised from a sale and a proportion of those funds could be retained locally, that would be another incentive.

Dr Simpson: "Proportion" is the important word. If all the proceeds were retained locally, one would simply be giving up assets that might have been in that particular locality by accident in the first place.

Professor Lapsley: The trick is to release the surplus asset and to find a means of leveraging it out.

10:30

Elaine Thomson (Aberdeen North) (Lab): Can you clarify and expand on a couple of points in your submission that I may not have picked up quite correctly. The section on budgetary delegation mentions the accountable officers who would be responsible for controlling resources. Your submission also says:

"A major force for the more efficient utilisation of resources . . . would be an expanded role for management accountants".

Are accountable officers and management accountants the same group of people? Would they have similar roles?

Professor Lapsley: I see the accountable officer as, for example, a chief executive officer. In effect, an accountable officer would be a manager who had ultimate responsibility for a given service. The management accountants would support that person and help him or her to make decisions on efficiency gains, reducing costs or making the case for more investment. Accountable officers and management accountants should work as partners in tandem, but the accountable officers would call the shots.

Elaine Thomson: I assume that, as resource budgeting is not used much at present, there are not many management accountants in the system. Should they be located within departments rather than centrally? How would that fit in with what Rhoda Grant asked about earlier—maintaining joined-up government and ensuring that people do not develop departmental loyalties?

Professor Lapsley: Location is critical to whether people go native or retain a commitment to the centre. Rotation is needed, as is being a good employer and showing employees that they have a responsibility to work with their professional colleagues in the same area.

There is a trade-off involved. If people work deep in an operational area, they have a far better grasp of what is going on and they can consider costing options and value for money. One relies on their professionalism to ensure that they do joined-up, cross-cutting work between departments, rather than going native and using their expertise to maintain departmental configurations. This is tricky, but it is the only way that I can see of advancing the system. We must see how things pan out and what patterns emerge. Rotation should help. If the accountants move around and are not totally locked into one particular sphere of activity, they will still have some independence.

There is also the question of how the accountants are received. A departmental fortress that sees itself as such will not respond well to anyone, but if someone comes in to help that department to achieve best value, the whole business must not be finance dominated. We cannot rely entirely on the finance link to deliver; we must have managers who have a bit of vision and can see beyond departmental boundaries. The finance aspect should move in step and should help and support the work of the departments.

Mr Raffan: In your answer to Mr Davidson's question, you talked about flexibility in sharing intensive care beds. As a regional member, I have seen how that works between Fife Health Board and Tayside Health Board, particularly during the recent flu crisis. There is overlap in any case, because people from north Fife go to Ninewells hospital.

There is flexibility in management at grass-roots level, ward level and bed level, but when one goes further up in the trusts and the health boards, one comes across what you described as heavy bureaucracy, which makes not only I, but the health boards themselves, begin to wonder what the health boards actually do. They have shrunk in size and their exact strategic role is not clear.

There is another problem: 19 of the trusts are in deficit at the moment. Things are working wonderfully down at the grass roots in terms of sharing beds, but something is clearly going wrong somewhere.

Professor Lapsley: That is an interesting point, which includes a number of strands about structure and organisation, levels of funding and methods of working. We should focus, at trust level, on how the health service operates.

When the trusts were first introduced, I remember that there was a great deal of suspicion about them, but they worked rather well. Part of the reason for their working well was that they were closer to the people that they were looking after; they were smaller and perhaps more efficient and responsive. I am not saying that they did not have any problems, because they certainly did, but the configuration was interesting and useful. We now face an interesting reorganisation, in which the trusts are going from smaller to mega, particularly locally; that makes it challenging for management to keep the balance.

If one studies the overall structure of the health service, as I have done over the past 25 years, the one thing that one can say is that it is always changing. It is therefore understandable if the people at the centre, who are trying to make it work, are a wee bit confused from time to time. We can allow them that modicum of confusion, as the health service is always shifting and changing, with new structures, internal markets, three-tier systems, two-tier systems, regrouping, mergers and so on.

As I said to David Davidson, I take great heart from the fact that the clinicians, with their networking approach, have found a way of getting best value for resources. Their approach is not labelled in that way, but it works in that way and they just do it. That is tremendously heartening and it is the starting point for trying to change minds, attitudes and behaviour.

Health boards should fulfil a strategic function. There are difficulties, as we all know, because in the health service one could expend and invest and expend and invest and there would still be a need for more. That is the problem with trying to set up new strategies, new avenues and new points of growth. There are pressure points throughout the system, which present a challenge to management. Is management heavy-handed or bureaucratic? I think that it is less so than it was 10 or 15 years ago.

Mr Raffan: You inferred that there is a need for stability, and that there has been almost too much change. I know of one health board that has recently had great difficulty in finding a new chief executive and has had to recruit from outside Scotland, partly because of the uncertainty about the future of health boards and consequently about that person's career.

There is a need for stability, but the health boards also have a direct responsibility for patient care and are responsible to the minister. However, they do not have leverage over the trusts, so there is an uncertain relationship between them. It is even said within health boards that when a new finance director arrives in a trust, he is on a steep learning curve and one can expect a £1 million deficit in the first year while he learns the ropes. That is the kind of language that is being used about the management of money in the current structure. It relates to what we are trying to do in this committee, but it is desperately worrying when it is such a large part of the total budget.

Professor Lapsley: The real danger for people who are interested in and concerned about the well-being of public services is that we can sometimes lose the plot. The plot is about getting a modernising agenda and trying to encourage people to make better use of resources. If people are, for whatever reason, driven to the shoring up of short-term deficits, one can lose the way.

Continual reconstructing and reorganising can make people lose direction. We may have had too much reorganisation. Given the demands and uncertainties of the service, which are profound, we had some efficiently organised, well operating, smoothly running systems that worked pretty well. The most recent round of changes has caused some uncomfortable moments for those who manage the service.

The Convener: My last question is on a different subject. The last paragraph of your submission refers to the chief economic adviser, who will be a witness later in our inquiry. You say that the present regime should be retained, but that would seem to restrict the role of a chief economic adviser in an expanded finance function. That seems to fit in with what you said about decentralisation and more responsibility for the

departments. How do you see the future role of a chief economic adviser?

Professor Lapsley: Given the limit to revenue-raising powers, which will not be used during the lifetime of the current Parliament, and given the way in which the macroeconomic financial management of the Scottish Executive is handled, the challenge is one of making the best use of the resources at our disposal. We work in a much more prescribed framework. I see that function as being different in kind from what we talked about earlier.

The Convener: As I said at the start, Professor Lapsley has to return to the duties for which he is paid—training the management accountants, public and private, of the future, and no doubt some accountable officers as well. Thank you for your memorandum and for coming here to answer our questions so fully. It has been of great assistance to our inquiry.

Professor Lapsley: Thank you. It has been a pleasure meeting you all.

The Convener: Our second paper, which has been circulated to members, is from Richard Parry. As with Professor Lapsley, I invite Mr Parry to introduce himself and to say a bit about his paper.

10:45

Richard Parry (University of Edinburgh): I am interested in this issue because I have recently been working on two projects funded by the Economic and Social Research Council. The first of those was on the role of the Treasury, particularly in relation to the spending departments in the social policy area. I have also been looking at the way in which the transition was made last year from the old Scottish Office to the new Scottish Executive in terms of the organisation of departments and the internal working arrangements. I was also part of the team that wrote the report, published in 1998, that you heard about from Graham Leicester at your last meeting. I generally support the findings of that report.

As I have outlined in my written evidence, I think that the Executive has one basic choice about its finance business. The first option is to act in a way that is rather reminiscent of the Treasury at Whitehall—a strong Treasury versus the spending departments, which will also have expertise in finance. We lived with that system in Whitehall. As I outlined in my paper, there could well be a drift in that direction as the spending ministers in the Executive ask for their own finance expertise.

The other choice facing the Executive is staying with the system with which it has been working over the past year and which it inherited from the

Scottish Office, with all the finance function and expertise in one central finance division. All the Whitehall arguments are, in a sense, changed. As I outlined in my paper, that system has worked reasonably well. We speak about being in an era of joined-up government, in terms of bringing an end to what has been called departmentalitis, in which all ministers think that looking after their own department is the most important part of their job. There are certain virtues to the system under which the Executive worked in its first year.

As I see it, that is the choice facing the Executive, and, personally, I favour some version of the present system rather than a change to a kind of Whitehall system of the Treasury versus everyone else.

Mr Raffan: On departmentalitis, you say in your written submission that Scottish Executive departments have a weak identity. You also say that we have ministers, but not real ministries. Is it not unlikely that departmentalitis could develop, given that our ministries do not have that clear, distinct identity or the kind of back-up that Whitehall ministers have?

Richard Parry: That is true. If the spending ministers demand extra expertise in the finance area in particular, I suspect that that issue will have to be faced in the next year and beyond. The system worked reasonably well during the first year and the ministers were prepared to live with the lack of a strong ministerial identity. The theme that the ministers are working for the Executive as a whole is one that the ministers have been prepared to live with and is a strength, if it can be maintained.

Mr Raffan: Moving on to an unrelated point, you mention in your submission that the old post of Deputy Secretary (Central Services), which was abolished, was not reinstated. Can you tell us about the responsibilities of that post? What do you think has been the impact of both its abolition and the omission to reinstate it?

Richard Parry: That was an overarching post, covering the finance division and the establishment division, which deals with personnel. Until the early 1970s, those functions were held by each of the Scottish Office departments. Then it was decided to hold those functions centrally, creating an extra job at what is now grade 2 level.

Then the Scottish Office had to lose a senior figure as part of the delayering trend, which was strong in the early 1990s, and decided to lose that post. As I outlined in my submission, the post was not added back in last year, when two extra posts at that level were created, first, because of the division of education and industry and, secondly, because of the establishment of the Executive

secretariat, which is responsible for a wide range of functions at the centre.

Those functions do not include finance or personnel. There is no senior figure between the principal finance officer and the principal establishment officer and the permanent secretary. That means that the permanent secretary has a strong, hands-on role in those areas, which, one could argue, are aspects of the business of the post in which the permanent secretary should have a strong interest. I was a little surprised that the Scottish Executive did not feel any need to reinstate that senior position.

Mr Raffan: In order to clarify your views, are you questioning whether the permanent secretary has the time available to have a much more hands-on role?

Richard Parry: Yes. The permanent secretary must choose the areas in which he intervenes. He is emerging as a central figure in terms of resource allocation. Arguably, that is what the permanent secretary, as the chief civil servant, should be.

The Convener: At the bottom of the third page of your submission, under your three questions for discussion, you say:

"The Scottish Executive has inherited patterns of finance business in which both the structure and the atmospherics approximate to the kind of collegial, problem-solving approach that the Treasury has been striving towards. This should not be jeopardised."

Professor Lapsley's comments about the desirability from the accounting perspective of having delegated budgeting responsibility do not seem to sit easily with your view that the existing system, which was inherited from the Scottish Office, should not be jeopardised.

Richard Parry: We need additional expertise in that area. I think that Irvine Lapsley's point was that everyone, whether they work in finance or elsewhere in the department, needs to have expertise in accountancy. I do not see that as being at all incompatible with my argument. The question is "Who is this expertise working for?" It could be extremely healthy if that expertise is working for everyone, as the pieces of information that were not available before, for the purpose of the consideration of policy, are now available. I do not see that as building up the finance function in a way that could be a threat to the service delivery function.

Andrew Wilson: I wish to ask about paragraphs 8 and 9 of your submission on the Scottish Executive's arrangements, which Keith Raffan just mentioned. Can you detail why you think finance and personnel functions have been separated out from the Executive secretariat under Robert Gordon? There is no clear logic as to why one part

of the office requires a direct line to the permanent secretary, rather than going through a grade 2 post, which would be the alternative structure. Could those functions usefully be lumped under the Executive secretariat, which would bring us haring in the direction of a discrete Treasury function?

Richard Parry: I wish I knew the answer. If one considers all the functions that fall within Robert Gordon's remit, as head of the Executive secretariat, they do not completely add up. One could say that some functions serve ministers and the Cabinet. That is certainly one way of looking at the situation. I presume that the thinking was that absorbing all the central functions would place an undue burden on the Executive secretariat. The other argument that could be used is that one wants to have a good job for the permanent secretary. If the permanent secretary has an interest in resource allocation and public sector management, to define those functions broadly, one could argue that the permanent secretary has a hands-on role.

Andrew Wilson: I am not clear about why the permanent secretary should have a hands-on role in terms of those issues alone, rather than across the office. Surely it would be logical for him or her to have that role through the reporting line of grade 2 posts? Why would you put finance and personnel functions together?

Richard Parry: All the gradings are more flexible than they were. We used to live in an age where everyone worked up through a hierarchy in the civil service and in other large organisations. These days, things are flexible and there is nothing wrong with the head of a department dealing with people who are two or three levels below them in the hierarchy.

Mr Davidson: I want to turn to the comments in your submission on the perceived role of the Minister for Finance, that is, the ministerial post itself, rather than the people who work for the minister. You have collected together quite a range of departments in the job specification, if you like. Under paragraph 11, on the 1999 spending round, you talk about "tight scrutiny" and "a rhetoric of toughness". Under your question at paragraph 13 ii), you ask about the minister's responsibilities. What do you think the minister's role is planned to be, and in what ways should it develop?

Richard Parry: We have ended up with a rather strong Minister for Finance, although we had no idea that that would be the case. The minister is strong because he is a full member of the Cabinet and because he deals not only with finance but with all the personnel functions and the changes to the civil service in Britain that come under the general rubric of modernising government, the

series of initiatives that were launched at the UK level in the past year. All those issues are the responsibility of the Minister for Finance.

When I worked with Graham Leicester on his report, we asked ourselves about the role of the Minister for Finance. We were concerned that, in all those functions, there should be a strong role for the First Minister. We did not want a situation where the First Minister left everything to the Minister for Finance, who could easily emerge as a kind of hatchet person, although I am not saying that that has happened this year with the present minister. However, that is always the risk if one thinks that one needs to have a hard Minister for Finance who will be rigorous on all the other ministers who ask for extra expenditure.

That was why, in Graham Leicester's report, we said that there should be a post like that of the Chief Secretary to the Treasury, as happens in Whitehall, who would not be a full member of the Cabinet and who would work closely with the First Minister. I would regard that as the strongest model, because if there is a strong Minister for Finance, there will always be the risk that the minister will begin to behave a little like the Chancellor of the Exchequer. As finance issues are the big issues that the Executive has to deal with, the Minister for Finance will say that those issues must lead everything else.

The big challenge facing the Executive is that the virtues of the way in which it is organised should not be taken over by the feeling that one needs to have a kind of Treasury equivalent in Scotland or that that is the only way in which one can do business. That is not the way in which modern organisations work. The Government is very much into overarching objectives, with joined-up actions and achievements being measured by what happens at the end of the outputs rather than at the end of the inputs. The Scottish Executive should be reasonably well placed to handle those issues, because of the organisation inherited from the Scottish Office.

11:00

Mr Davidson: Do you feel that there is a policy drift on who is modelling or pushing the economy in Scotland? From what you have said, you see the Minister for Finance as much as a facilitator of organisation as someone with some controls over finance. He acts as an arbitrator, he is a go-between for the cabinet, between the First Minister and other ministers. Do you think that he will have any role to play in future that involves being responsible for the economy, or do you think that that is a cross-cutting role which all the ministers share?

Richard Parry: I think that all the ministers

ought to have an interest in economic issues, which are the fundamental ones. It has always been an argument for having a strong Treasury that an intimate link is required between finance and economics, and that one without the other will not work.

In the Scottish Executive the Minister for Finance is not really responsible for economic development; the Minister for Enterprise and Lifelong Learning is involved in that. There is also the chief economic adviser, who is housed in the Executive secretariat, and is, in a sense, working for all the ministers. I think that that is an excellent thing.

It is not easy to link finance and economics in an organisational way. That results in a finance department, or whatever it would be called, which just gets bigger and bigger, with all the action. I think that a structure of economic advice and policy making that brings in all the ministers and that gives the ministers access to economic information is required. That would have to take in both the areas that are devolved to the Scottish Parliament and all the other areas, which themselves are intimately joined up.

Mr Davidson: You describe the Minister for Finance as being responsible for European structural funds. Do you think that he should have a much stronger role in Europe, or should he still act on the back of what happens in the Treasury down in London?

Richard Parry: The Minister for Finance is the minister for Europe in the Executive, so that is his area. It was a wise decision, I think, that the Minister for Finance ought to have responsibility for the European structural funds.

It is interesting that the civil servants working on the European structural funds are still working in the Scottish Executive development department; they have not been transferred to the finance department. That is interesting in a way, but what the civil servants are actually doing is fixing up all the schemes with local authorities and with the other partners involved. That is where they should be: with the other civil servants dealing with local government.

It is an interesting outcome that we have such a mismatch between the organisation of the ministers and that of the departments. There are lots of ministers working to more than one head of department and almost all the heads of department are working to more than one minister. Last year, the heads of department left the Scottish Office and the ministers were fitted on. It was made quite explicit that the ministers were not to have their own ministry, with a head of department working for them rather than anybody else. That was the Executive's way of saying that

it did not want to follow the same route as Whitehall, which had strong departments, and where doing one's best for one's department became an end in itself.

What the Executive is doing is very interesting, but quite challenging. A situation could be projected in which the ministers ask for their own ministry and their own civil servants working for them, with a whole administrative apparatus. I do not see any particular evidence that ministers have been asking for that in the first year of devolution, but that is one model that we might think the ministers would be happier with. The evidence is, however, that they are not asking for it, which is an interesting aspect of this first year.

Mr Macintosh: I want to follow up from David Davidson's previous question. Both you and Professor Lapsley seemed to emphasise how important it is that this system will work, and will control the finances of the Executive, but suggest that the economic role is possibly reduced because of that.

Alternatively, are you saying that there is no economic role, or that there is a very minor role, for the Scottish Executive? This is the sort of implication that you are making: that it is very important that we have financial controls, but control of the economy is minimal anyway, therefore it does not matter that we have little or no economic role.

Richard Parry: I did not argue that. I think that it is vital that the Executive is interested in general economic issues, and has a picture of how the Scottish economy is developing.

The real issue is that the bridges between devolved and reserved functions are being crossed. Even if the Scottish Executive had a view on all those issues, which I guess that it would want to have, it would not be able to take all the necessary action, because of the lack of access to fiscal instruments and so on. The Executive is not in the same situation that the Scottish Office had always been in. The Executive is very interested in economic matters and has access to economic advice, but it is not able to do everything on its own. In the area of finance, which involves internal housekeeping and internal policy development, the Scottish Executive is able to do things on its own and has responsibilities on its own.

Mr Macintosh: The Minister for Enterprise and Lifelong Learning has a direct function on supply-side measures in the economy. What control is exercised by the Minister for Finance over the economy? Is there a clash? You have not commented on whether enterprise and finance should be realigned in any way. Do you see it as a plus that they have not been realigned, as long as joined-up government works, the ministers and

departments talk to each other, and it is all collegiate, as you put it?

Richard Parry: I think so, yes. It was also a big strength of the Scottish Office over the years that the civil servants were not just working in one little bit of the department, but worked everywhere—at least most of the senior officials did.

Civil servants will often have worked in finance. A great weakness of the system in Whitehall is that a civil servant will join the Treasury, for example, at an early stage in their career and will spend all their working life there. When I was doing research on the Treasury, this seemed like a very important variable: whether the civil servant had always been working in the Treasury or had also worked elsewhere in Whitehall.

There is a need for civil servants to have worked in all parts of the Executive, and for the economic issues to be understood by everybody. The great risk is that, if we start to say that certain things are joined up with certain other things as a policy is worked out, the organisations also need to be joined up. If all the financial or economic functions were joined into one little bit of the Executive, it would end up like a Scottish Executive Treasury. That would be a big decision if it were a route that the Executive wanted to embark on.

The Convener: You mention in your submission, Mr Parry, that the way in which the Scottish Executive has been organised, as opposed to the Scottish Office, has led to the fact that:

"The new Scottish Executive departments have a weak identity, and the central mechanisms for making and presenting policy . . . are held centrally."

I can see the politics behind that, and I understand about people wanting to retain power centrally, but perhaps the departments have a weak identity because they have still to accrue their identity, with the new departments splitting education and splitting housing from local government for the first time, and so on.

Is there a case for saying—and I take your point about the financial expertise of civil servants—that the ministry for finance would oversee all the departments, which would not necessarily lead to departmentalitis? Do you think that there is a case to be made for having a ministry for finance within the Scottish Executive?

Richard Parry: The issue is whether all the civil servants working for the Minister for Finance ought to be in the same organisation, which is not the case at the moment, because those working on local government finance and on European structural funding are still working in the development department. There is a divide between the finance group and the corporate services group, which deals with personnel and so

on. If we want to bring all those under one ministry, that would presumably require a civil service head, and there is none at the moment.

The interesting thing about the workings of the Scottish Office, and now the Scottish Executive, is how it does not have a totally neat organisation chart. That is because the civil servants have worked there over the years in all parts of the office and are all friendly to each other—in so far as civil servants can be friendly at a senior level, as they have different interests. They all work on reasonably good terms. That is the big difference in the working atmosphere here and at Whitehall, where people's relations with the Treasury are often very psychologically flawed, because they see the Treasury as the enemy. That is not something that we have had in the Scottish Executive or which we experienced in the Scottish Office. I believe that that is a strength.

The Convener: Would it be fair to take from what you have said that those psychological flaws could develop if there was a ministry for finance in Scotland and a centralisation of civil servants, and that the same sort of suspicion could develop?

Richard Parry: Yes, I think that that would be a big risk.

Mr Raffan: This is very interesting. You have talked about different heads of department being responsible to more than one minister, and about different ministers having more than one head of department to work with. You have discussed the strength of the civil servants, because they have had finance functions and have been around.

My worry is that the civil servants appear to be very strong, but the political control may be rather weak, partly because the politician is working with different people in different areas and does not have one structure. The civil servants have had such a diversity of experience that they could run rings round the politicians.

I am perhaps putting an extreme case, but you can see what I am getting at: the weakness of political control because of the lack of a department and because of the very strength of the civil servants' experience and skills.

Richard Parry: It is an unusual thing to have a minister working with more than one head of department. There is no reason why ministers should not be able to work with more than one head on some aspects of their functions, and there is no reason why a head of department should not be able to work with more than one minister. It is a strange idea, but one which can work reasonably well.

That happened because the First Minister decided last year that he did not want the organisation of the Scottish Office to be changed

in a big way, and he did not want all the ministers to have a corresponding ministry, with all the responsibilities organised in the same way. I suspect that he made that decision because he did not want the Scottish Office to be put through a major organisational change when it was dealing with all the devolution implementation business. That is a reasonable argument, but it is the decision that he made.

If the departmental ministers are beginning to say—I am not sure if they are; I do not think that there is any particular evidence for it—that they need their own finance expertise, that would mean having their own finance officials working for them alone for when they have negotiations with the Minister for Finance. Last year, in the autumn, the Minister for Finance had his meetings with all the spending ministers. Finance officials were there, but, interestingly, they were working for both the spending minister and the Minister for Finance.

It is an interesting idea that can be thought of as a strength rather than a weakness. What may seem a little bit strange, because it is not in line with the relation between ministers and officials that we have been used to in Whitehall, is not a weakness.

Mr Raffan: I am a bit worried that the clout of the Minister for Finance, for example, depends to an extent on his personality and on his ability to throw his weight around, whereas the clout of the Chancellor of the Exchequer perhaps depends far more on his position, rather on the person inhabiting that position.

11:15

Richard Parry: That is correct. The chancellor's is the biggest office in Whitehall; it is the one that all senior politicians most desire, after that of the Prime Minister. It is the big prize.

The job of Minister for Finance was not seen by Labour and Liberal Democrat ministers as desirable. The issue becomes one of personality. The Minister for Finance has general responsibilities to do with working for the First Minister and the Deputy First Minister. He is a key personality, perhaps through the force of his personality and his position in the Labour party.

Mr Raffan: Some departments seem to be growing up. The Scottish Executive rural affairs department, which is in a separate building, seems to be forming itself into a more Whitehall-like department.

We have heard you and, at a previous meeting, Graham Leicester, the director of the Scottish Council Foundation, talking about finance and economic functions. I get the impression that both of you are thinking aloud on the subject. It seems

that neither of you are happy about the division but that you are rationalising the situation by assuming that it will be resolved at Cabinet level through policy making.

A similar division exists in Whitehall between the Treasury and the Department of Trade and Industry, which has an economic development function. Clearly, the situation is much more balanced here than in Whitehall.

Richard Parry: Yes. In Whitehall, the relations between the Treasury and the DTI have not been good.

SERAD has always been physically on its own, so there has been no great change there. What is interesting is that, even though that department is headed by a Liberal Democrat, it has not turned into a ministry owned by the Liberal Democrats.

Mr Raffan: We are working on that.

Richard Parry: I think that you asked another question as well.

Mr Raffan: I asked about the division of the finance and economic functions.

Richard Parry: What you say on that subject is correct. Everyone agrees that there must be an intimate relation between the two areas. In the 1960s, the separation of the Department of Economic Affairs from the Treasury did not work.

On the other hand, if all the organisations are linked up, the organisation would become bigger than anything else. It is felt that they should have some sort of overall identity but should not be linked. The Scottish Executive works together in a much more joined up way than practically any other organisation in the UK. That is an asset.

Mr Raffan: Your submission makes a point about output and performance indicators being set in Whitehall rather than here. The implication is that they are not being operated as clearly in Scotland as they are in Whitehall.

Richard Parry: The Scottish Executive works with output and performance indicators. Many are listed in the "Making it work together" document. However, they are not as detailed as the indicators that have been agreed between the Treasury and departments in Whitehall. If the departments achieve the targets that they are set, they will be given extra money; if they do not, they will lose money.

At the end of 1998, the departments were told that, in return for their three-year expenditure allocation from the comprehensive spending review, the Treasury wanted a lot of extra bits of information. The Scottish Executive has not picked up on that sort of method to the same degree because it has a better working relationship with its departments. It does not need the systematic

structure of indicators that Whitehall ended up with.

Rhoda Grant: Do you feel that the fact that we do not have strong ministries helps us to measure success by outcomes? If people work together, there might not be the same amount of empire building as goes on in Whitehall.

Richard Parry: That is correct. We are able to examine the achievements of the Executive as a whole. If the indicators were over-used, people would start to say that certain departments were doing well while others were doing less well. That would not be helpful.

The Executive's interest in social justice issues links departments. For example, the Executive is concerned with health throughout every policy area, not just in medical areas. The responsibility for improving the health of the population rests with every department, not just the health department. Modern government should operate by sharing responsibilities.

The Convener: Your paper says that parts of the Scottish Executive, such as the national health service executive, have grown back their finance function. How does that impact on its collegiate approach?

Richard Parry: The health department has its own finance function because it is responsible for the overall management of the health service. The financial health of the NHS in Scotland is an external issue.

I presume that the arrangement gives the minister with responsibility for health a slight edge over the other ministers because of her access to financial information on health. However, I should mention that the Scottish Executive finance people work with the people in the health department. In fact, the present principal finance officer used to be the head finance person in the health department.

The Convener: The health department is a special case.

Richard Parry: Yes.

The Convener: I thank you for attending and for answering the questions today, Mr Parry.

I ask members to note that next week we will take evidence from two witnesses from the private sector and two from the public sector: the director of finance for Scottish Power, the general manager of BP Amoco, the director of finance and strategic policy from Perth and Kinross Council and a representative of the City of Edinburgh Council, whom we hope will be the director of finance.

Andrew Wilson: How many evidence-taking sessions are scheduled?

The Convener: We set out our programme of meetings a fortnight ago. I do not have the chart that we devised with me.

Andrew Wilson: Could that be circulated again?

Sarah Davidson (Clerk Team Leader): I will probably circulate a revised timetable to accommodate people who are coming to give evidence.

The Convener: Peter Hennessy has said that although he is flattered to be asked, he does not feel that this is his area of expertise, so he has declined to give evidence on this occasion. I am sure that he will be able to assist us with other inquiries.

European Union Funding

The Convener: We now move on to item 2 on the agenda. Before the meeting, members were given a copy of a letter written to me by Andrew Wilson and Bruce Crawford. This morning, I also received a letter from Keith Raffan, asking me to put the item on the agenda. That is why we are discussing the subject.

Members may be aware that, this afternoon, the European Committee is taking evidence from two members of the European Commission directorate general for regional policy. It might be interesting to sit in on part of that meeting. Andrew and Bruce requested a joint meeting of the two committees. I understand that the general presumption is that committees will not hold joint meetings. That is not to say that such meetings are impossible. It would be possible to hold a joint evidence session on a particular subject, but that would have to be sanctioned by the Parliamentary Bureau. Whether the bureau would sanction such a meeting remains to be seen.

As joint signatory of the letter, perhaps Andrew would like to outline the reasons for discussing the subject.

Andrew Wilson: Given the debates of the past fortnight—of which members will be well aware—and the requests from Keith Raffan, David Davidson's colleagues, and the three smaller parties, there seems to be consensus on the need for an inquiry. We requested a joint meeting because the Finance Committee has a specific focus on the financial aspects and the European Committee has a close handle on structural funding and allocation issues—it has already spent some time considering the matter. The subject usefully dovetails with the interests of both committees.

I am not sure what you meant by "presumption", convener. I have not seen that term in the standing orders. Provision for joint meetings is made in standing orders, if the bureau is approached accordingly. I do not see any reason why we should not hold a joint inquiry. The matter is of enough substance to support a joint approach.

The only other issue is timing. The matter was brought so quickly to the attention of both conveners because three issues came to a head at once, putting it at the top of the public agenda: the publication of the Welsh Affairs Committee report, the publication of a year-long study by the Institute of Welsh Affairs in Cardiff and recent events in the Welsh Assembly. All of those issues require us to consider the matter of structural funding timeously.

Mr Raffan: I thought it would be useful to hold an inquiry, although I take a different tack from Andrew in that I do not think that we have to do it jointly with the European Committee. In my letter, I suggest that we co-ordinate with the European Committee because the remit overlaps and we do not want to offend another committee. However, it is clear that the specific areas that I outlined—additionality rules and matched funding—fall within the remit of the Finance Committee, rather than within that of the European Committee. It is perfectly legitimate for us to examine the matter.

11:30

This area has been a running sore—if I can put it that way—for as long as I have been involved in politics. The matter was raised constantly when I was at Westminster. It has arisen recently in an unhelpful party political context, but I shall try to be non-partisan about it.

The Welsh experience is relevant, as there could be a knock-on effect. The situation in Wales is very different: objective 1 funding there has greatly increased, whereas we have lost objective 1 funding for the Highlands and Islands and the funding is now transitional. The committee should consider the Welsh Affairs Committee report and John Osmond's Institute of Welsh Affairs report, to clarify the situation and ensure that the rules are being operated transparently.

The Convener: That is fair. We can draw too close a parallel with Wales—there is no parallel with objective 1 and objective 2 funding there. The difference has been highlighted during the past two or three weeks.

Mr Davidson: I have some sympathy with Keith Raffan's view. The two committees should be involved, but their involvement should be different. We need to satisfy ourselves that the European context in the block grant is being thoroughly explored. That could be part of a projected look at the Barnett set-up, quite apart from our examination of the general use of finance. The European Committee comes at the issue from a slightly different angle. Its view—which you have heard from its convener—concerns the connections with Europe. We are considering how resourcing is applied in Scotland, how we access it, and whether it is distributed correctly. That is the remit of this committee. We do not need a joint inquiry. We should run separate inquiries, but have constant contact with the other committee.

The Convener: That point makes an important distinction.

Rhoda Grant: If the European Committee is carrying out an inquiry at the moment, would it not be wise for us to wait until it has reported before we begin our own inquiry? We are taking informal

briefings on the Barnett formula. We may want to take some informal briefings on this issue as well while we are at it, as the two are closely related. After the European Committee has reported, and depending on its findings, we can decide how to proceed with our own inquiry. We do not want to duplicate the work of the European Committee.

The Convener: I understand that the European Committee is currently carrying out an inquiry. I have a copy of the agenda for today's meeting. It is headed:

"Review of the European Structural Fund Management Executives and their relationship with the Scottish Executive".

It is taking evidence on that subject today.

Elaine Thomson: Committee resources are quite tight. We must be careful not to duplicate the work of another committee. It would be useful for us to allow the European Committee to complete its inquiry and await the outcome. Two weeks ago, we agreed to proceed with briefings on the Barnett formula as a priority issue. David Davidson's suggestion was helpful: within those briefings we can perhaps consider some of the European issues.

The Convener: Yes, there is a fairly obvious connection with the Barnett formula.

Andrew Wilson: The European Committee is addressing an entirely separate issue—the management of the funding programmes. The words are the same, but the content is quite different. We will have a meeting with the convener of the European Committee on Wednesday morning. As that committee is likely to have a similar discussion this afternoon, and as this is a finance issue rather than a European one, should we not take soundings from the European Committee on its views and return from the meeting with coherent suggestions? We cannot decide on a course of action in isolation, given the fact that the letter has been sent to the European Committee as well.

The Convener: That is a sensible suggestion. We need not make a decision today on what work the committees should undertake jointly.

Andrew Wilson: Perhaps a suggestion could be made at the meeting on Wednesday that could be taken back to both committees next Tuesday.

Mr Raffan: It is important that we co-ordinate. Additionality rules and matched funding are, as David Davidson said, separate issues in our remit. I want this committee to focus on those issues.

I agree with Andrew Wilson that the European Committee is pursuing a completely different inquiry, judging from what you just read out, convener. That committee has a different focus

altogether. We cannot keep waiting to find out what other committees do.

The Convener: I was not suggesting that the European Committee's inquiry is the same as ours.

Mr Raffan: I never said that you were, convener, but that is what one or two other committee members are suggesting. These are major issues. We cannot keep putting off discussion of them or adjoining them to briefings on other issues. Sooner or later, we must tackle them. We are undertaking a specific inquiry at the moment, and there is the question of time, but I am happy with Andrew's proposal that you co-ordinate with the European Committee. That is important for our good relations with that committee.

The Convener: Is anyone not of the view that that is how we should proceed? The European Committee meets today and there will be discussions with the convener of that committee tomorrow. Should we await the outcome of both those meetings and return to this matter next week?

Members *indicated agreement.*

The Convener: Thank you for your attendance.

Meeting closed at 11:36.

Members who would like a printed copy of the Official Report to be forwarded to them should give notice at the Document Supply Centre.

Members who would like a copy of the bound volume should also give notice at the Document Supply Centre.

No proofs of the *Official Report* can be supplied. Members who want to suggest corrections for the bound volume should mark them clearly in the daily edition, and send it to the Official Report, Parliamentary Headquarters, George IV Bridge, Edinburgh EH99 1SP. Suggested corrections in any other form cannot be accepted.

The deadline for corrections to this edition is:

Tuesday 29 February 2000

Members who want reprints of their speeches (within one month of the date of publication) may obtain request forms and further details from the Central Distribution Office, the Document Supply Centre or the Official Report.

PRICES AND SUBSCRIPTION RATES

DAILY EDITIONS

Single copies: £5

Annual subscriptions: £640

BOUND VOLUMES OF DEBATES are issued periodically during the session.

Single copies: £70

Standing orders will be accepted at the Document Supply Centre.

WHAT'S HAPPENING IN THE SCOTTISH PARLIAMENT, compiled by the Scottish Parliament Information Centre, contains details of past and forthcoming business and of the work of committees and gives general information on legislation and other parliamentary activity.

Single copies: £2.50

Special issue price: £5

Annual subscriptions: £82.50

WRITTEN ANSWERS TO PARLIAMENTARY QUESTIONS weekly compilation

Single copies: £2.50

Annual subscriptions: £80

Published in Edinburgh by The Stationery Office Limited and available from:

The Stationery Office Bookshop
71 Lothian Road
Edinburgh EH3 9AZ
0131 228 4181 Fax 0131 622 7017

The Stationery Office Bookshops at:
123 Kingsway, London WC2B 6PQ
Tel 0171 242 6393 Fax 0171 242 6394
68-69 Bull Street, Birmingham B4 6AD
Tel 0121 236 9696 Fax 0121 236 9699
33 Wine Street, Bristol BS1 2BQ
Tel 01179 264306 Fax 01179 294515
9-21 Princess Street, Manchester M60 8AS
Tel 0161 834 7201 Fax 0161 833 0634
16 Arthur Street, Belfast BT1 4GD
Tel 01232 238451 Fax 01232 235401
The Stationery Office Oriol Bookshop,
18-19 High Street, Cardiff CF1 2BZ
Tel 01222 395548 Fax 01222 384347

The Stationery Office Scottish Parliament Documentation
Helpline may be able to assist with additional information
on publications of or about the Scottish Parliament,
their availability and cost:

Telephone orders and inquiries
0870 606 5566

Fax orders
0870 606 5588

The Scottish Parliament Shop
George IV Bridge
EH99 1SP
Telephone orders 0131 348 5412

sp.info@scottish.parliament.uk

www.scottish.parliament.uk

Accredited Agents
(see Yellow Pages)

and through good booksellers