

# **FINANCE COMMITTEE**

Tuesday 14 March 2000  
*(Morning)*

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# CONTENTS

**Tuesday 14 March 2000**

**Col.**

<b>SCOTTISH EXECUTIVE FINANCE FUNCTIONS</b> .....	443
<b>SCOTTISH PARLIAMENT BUILDING (REPORTER)</b> .....	478

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## **FINANCE COMMITTEE**

**7<sup>th</sup> 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

### **WITNESSES**

Dr Peter Collings (Scottish Executive Principal Finance Officer)

Dr Andrew Goudie (Scottish Executive Chief Economic Adviser)

Gill Noble (HM Treasury Public Services Directorate)

### **CLERK TEAM LEADER**

Sarah Davidson

### **SENIOR ASSISTANT CLERK**

Callum Thomson

### **ASSISTANT CLERK**

Alastair Macfie

### **LOCATION**

Committee Room 2



## Scottish Parliament

### Finance Committee

*Tuesday 14 March 2000*

*(Morning)*

[THE CONVENER *opened the meeting at 09:50*]

**The Convener (Mike Watson):** Colleagues, I call this meeting to order and give the usual reminder about pagers and mobile phones.

I suggest that we take agenda item 1, which is a discussion of the questions that we will put to our witnesses under item 2, in private. Is that agreed?

**Members indicated agreement.**

09:51

*Meeting continued in private.*

10:07

*Meeting continued in public.*

### Scottish Executive Finance Functions

**The Convener:** We are now back in open session and will deal with item 2 on the agenda. I am pleased to welcome Gill Noble, deputy director of the public services directorate of the Treasury; Peter Collings—whom we know—the principal finance officer at the Scottish Executive; and Andrew Goudie, chief economic adviser to the Scottish Executive. You are welcome and I thank you for being with us today.

All three of you have submitted papers to the committee. I ask Gill Noble to speak first. We will then have questions. After that, we will hear Dr Collings and Dr Goudie and ask the two gentlemen some questions. If, as I understand, you are willing and able to stay with us, Gill, we can then have a general discussion on other cross-cutting points if we wish.

Your papers have been very helpful in setting the scene for our meeting this morning, Gill, but I wonder whether you could give a quick summary of what you see as the pros and cons of how the Treasury relates to other Whitehall spending departments, or any other remarks about the papers that you have submitted.

**Gill Noble (HM Treasury Public Services Directorate):** It is a pleasure to be here. It is always nice to have an excuse to come up to

Edinburgh, but it is a particular privilege to appear in front of the committee.

I was not too sure what the focus of your review was so, if the papers are not quite what you were hoping for, I would be happy to take questions on other aspects of our business.

I thought that it would be helpful if I started by saying a few words about the Treasury and my job, and then by offering the committee a few observations to add to the bits of paper that I sent, which provide background material that I thought you might find interesting.

The Treasury is quite small by Whitehall standards, with just under 1,000 staff, and a running-costs budget of about £64 million. It is small considering the scope of our work. If any members have had the chance to look at the organisation chart that I provided, they will see that we cover a huge range of things, including international finance, European finance, tax policy and policy on the regulation of the City, as well as the planning and control of public spending, which is, I understand, the main focus of this committee's interest.

We are structured in eight directorates, but that number is about to drop to seven—two of the directorates are about to amalgamate and we are about to take out one of the senior posts. The structure, as shown in the organisation chart, is strongly team based, with a flat management structure above that. The structure is so designed in order to give a fair degree of flexibility.

I am one of four deputy directors in what is called the public services directorate. Deputy director is grade 3, for those of you who are familiar with civil service grades; in old-fashioned terms, it corresponds to the level of the under-secretary.

The public services directorate is the bit of the Treasury that deals with both the planning and control of public spending. The directorate has a complement of about 190 and a running-costs budget of £9 million, which, as my boss likes to point out when he has to defend it, is a relatively small amount for a body that has to deal with £330 billion of public spending.

The directorate comprises a number of teams. One set deals with keeping the books, which is no small task, given the scale of public spending. It organises the periodic big spending reviews and co-ordinates and presents the annual estimates to Parliament, which is also a substantial task. A team in the same group is masterminding the switch to resource accounting and budgeting.

Apart from those central teams, there are 11 spending teams, which shadow each of the major spending departments. Each of those acts as a

first point of contact in the Treasury for the departments. The spending team's job is to understand the nature of the corresponding department's business and to act as a conduit into the Treasury for that department.

The spending teams do not just deal with spending issues. If there is a major policy issue that affects a department, on which we need to give Treasury ministers advice, one of those teams will deal with it. Often, a team will be dealing with a major private finance contract. One of the teams that works for me—on home and legal affairs—found itself embroiled in a debate on horseracing and selling the Tote. That was a novel bit of business for the team. The teams do not just concentrate on public spending, but that is their main job.

I have four teams working for me. One deals with health and personal social services; one deals with the business of the Home Office and the legal departments; one deals with local government finance; and the other deals with the Treasury's relationships with the devolved countries, including Scotland.

The management structure above that of the teams is very flat and fluid. It is so designed to give us the capacity to handle cross-cutting issues. I have quite a few responsibilities relating to those. Two years ago, I chaired a big cross-cutting review of the criminal justice system. This year, I am chairing two of the cross-cutting reviews that are being handled as part of the current spending round.

When Sarah Davidson invited me to come before this committee, she said that the committee was interested in whether, because the Treasury holds the purse strings, it exercises influence over policy. The answer to that is obviously yes, but not just because we hold the purse strings. We have two ministers in the Cabinet. The Chancellor of the Exchequer is obviously a very senior member of the Government, and he has strong views on a number of subjects. We give him advice when he needs it on the detail of proposals. We influence policy in that respect. An important part of the Treasury's role is as a challenge function—we are the counterweight to the pressure that departments are under from various lobby groups. When a department needs extra money, we are likely to influence the debate.

10:15

Over the past few years, however, we have deliberately tried to move away from the aggressive, adversarial role that we used to play. Some of the papers that the committee has received refer to that, saying—quite rightly—that that was a destructive and unhelpful approach. We

are trying to build a more constructive relationship with the departments. That has been helped by the switch from an annual public spending round to a three-year budget, which is revisited only every second year. Last summer, we did not have a public spending round, which gave us the time to sort out resource accounting and budgeting. It also meant that we had some time in which we were not locked in argument with the Whitehall departments about their spending plans.

One of the Treasury's strengths is that we have a unique overview of Whitehall's business. Unlike the individual departments, we can see links between programmes and how cross-cutting themes can be approached. It is part of our function to ensure that those links are made. We can do that more effectively if we have positive relationships with the departments.

Our new relationship with the departments is crystallised in one of the Treasury aims, which is to improve the quality as well as the cost-effectiveness of public services. The present chancellor is concerned that the Treasury should improve the quality of public services and not just make them as cheap as possible.

One of the cross-cutting exercises that was carried out for the previous public spending round was chaired by one of my colleagues and led to the sure start initiative, which provides early-years development services. Work that was initiated and implemented by the Treasury resulted in the allocation of £0.5 billion over three years to promote that initiative. We then repatriated the initiative to the departments. That demonstrates that we are not just in the business of cutting budgets.

I have two suggestions or observations, which reflect my experience of the way in which public spending control can affect the relationship between departments. One of current preoccupations in Whitehall is how to break down the silo phenomenon, in which each department paddles its own canoe and does not link up with the other departments. When I worked with the old Scottish Office, I found that there was no silo phenomenon. Working for one secretary of state meant that there was always one person who could broker a debate between the component elements of the organisation.

The new structures in Scotland have the capacity to develop silos. Whereas Whitehall's current task is to break down those silos, you will have to guard against their development. That should form part of your reviews. In my experience—including the work I did on "Wiring It Up"—the most important thing is to ensure that the message comes from the top. The silos will not develop if the ministers in Parliament do not want them to and if they behave in a way that prevents

it from happening.

One of the problems in Whitehall is that some of the ways in which Parliament scrutinises the Government create a risk-averse climate. That did not strike me as a characteristic of the old Scottish Office, but it is important that the Scottish Parliament's scrutiny of the Executive is a positive process. I am convinced that the right sort of parliamentary scrutiny can militate against the silo mentality, by focusing on cross-cutting links and ensuring that departments that do not join up with one another are challenged. I suggest that the Finance Committee should consider carefully how the scrutiny of the Executive can be positive and avoid reinforcing the risk-averse instincts of civil servants.

**The Convener:** Thank you. Your two suggestions are particularly helpful. You touched on the sensitive subject of policy and have been open in saying that the Treasury has a role in that. How does the Treasury affect policy decisions without the input of the Chancellor of the Exchequer and the Chief Secretary to the Treasury? There is an argument that such matters should be left to the Cabinet, and that the Treasury's job is to implement the policy.

A previous witness made the interesting comment that the relationship between Whitehall spending departments and the Treasury was

"psychologically flawed, because they see the Treasury as the enemy."—[*Official Report, Finance Committee*, 22 February 2000; c 363.]

Have you any comment on that? Has that changed since the move from the annual public expenditure surveys to the three-year comprehensive spending review?

**Gill Noble:** Let me start with that point and then go back to your first questions. I am rather wary of commenting on the relationship with the departments because, every time I do, a little voice in the back of my head says:

"O wad some Pow'r the giftie gie us  
To see oursels as others see us!"

The relationship has become much more positive. We ask the department finance officers to give us some confidential feedback once a year. They tell us that they regard the relationship as much more positive. I read the comment about seeing us as the enemy. We work very hard to make sure that we are not seen as the enemy. On the other hand, we are the bank manager and no matter how constructive relationships are with the bank manager it still colours the relationship.

There are two contexts in which decisions are taken about public spending. One is in the big public spending rounds. The Treasury on its own does not take the decisions about where the

money goes. The Ministerial Committee on Public Services and Public Expenditure, which is known as PSX, is a small Cabinet sub-committee made up of a group of senior ministers. That committee considers proposals from departments. The material that it considers is pre-processed by the Treasury, but the ministers of the departments go to the sub-committee with their proposals. PSX is an important part of the process. The Prime Minister also has an active interest in the decisions. In the big spending rounds, the chancellor does not take the decisions on his own; he takes them with the involvement of his colleagues.

We also run a small reserve fund for contingencies, which is managed by the Chief Secretary to the Treasury. If a department asks us for extra money, the chief secretary will take the decision. However, if that decision is likely to be contentious, he will consult other colleagues first. In the end, the full Cabinet can always overrule a decision made by the Treasury. There are checks and balances in everything.

**Mr John Swinney (North Tayside) (SNP):** First, to what extent has the comprehensive spending review fundamentally changed the relationship between the Treasury and the departments? Has CSR simply put the public spending review in a three-year context? Secondly, has CSR resulted in a fundamental reappraisal of public expenditure or has it simply changed the timing of public expenditure?

**Gill Noble:** In answer to your first question, the shift to three-year settlement was very important. The main shift in the relationship with the departments came about six years ago, when the previous Government set up the forerunner of PSX, which was called EDX. That was the old Ministerial Committee on Public Expenditure, which the Chancellor of the Exchequer used to consider the spending proposals from departments. EDX was a committee of very senior and experienced ministers who had spent some time in most of the big spending departments. That was a significant shift because if you were working in a spending team you could tell departments that their argument was not with the Treasury but with EDX, and that EDX would decide the merits of the case.

10:30

Our job was to ensure that ministers had the material and the analysis that they needed to make that decision sensibly. The Chief Secretary of the Treasury would tell his colleagues that the Treasury had to go through the debate about the merits of their proposal, but ultimately EDX, which was a sub-group of their peers with a lot of experience in public spending, would make the

decisions. That made a significant change to the atmosphere between the Treasury and the spending departments. The switch to three-year settlements built on and compounded that change, because it got us off the annual treadmill of debating the next year's plans with the departments.

There were also some extra flexibilities introduced, to which I drew your attention in one of the papers that I sent to the committee. Unlimited end-year flexibility was introduced, for example. Breaking out of the straight jacket of annuality had a real impact on departments. All of the changes introduced have really made a significant difference and have been coupled with positive efforts by Treasury to make the relationship with departments more constructive.

On your question about how deeply we are examining plans, and whether we are just postponing them, the comprehensive spending review, which was undertaken immediately after this Government took office, was a deep, far-reaching scrutiny of everything that departments were doing. The new Government rightly wanted to examine in some depth what it had inherited. The current spending review is not being done in that depth. The CSR gridlocked Whitehall for a year. This time it is not necessary to review every plan from a zero base, because they are the present Government's plans, and we are considering how we roll them forward rather than whether they should exist at all.

I do not think that the spending review is just about timing. I think that it will be decided that some policies that are being floated will not be introduced, rather than that their introduction will be postponed. We are only about a third of the way through this spending review so I cannot tell you what the outcomes will be.

**Mr Keith Raffan (Mid Scotland and Fife) (LD):** Although your written submission said that the 2000 spending review would not be a lengthy item-by-item examination, it said that some issues would be reviewed in depth. How do you decide which issues need to be reviewed in depth? Does the review develop the cross-cutting agenda?

**Gill Noble:** Yes. We do not have a set of criteria. There are some areas that everybody knows need a proper examination, and some areas in which the Treasury feels that more detailed work needs to be done.

In all the years that I have worked in the Treasury, we have never considered cross-cutting themes in such depth as we are doing in the present cross-cutting reviews, nor have we examined so many things together. For example, we are examining provision for pre-school children, as research suggests that the right

support early on for families can make a substantial difference to the ability of children to cope with and benefit from school. There is an impact on criminality and many aspects of the later lives of those children. Therefore we are considering provision for pre-school children alongside policies on crime reduction—whether it is better to head off problems or to tackle them when they occur. We are examining the issue of young people at risk.

We are considering those issues alongside the work of the social inclusion unit. We are examining area-based initiatives, through which money is pumped into deprived areas. We are examining all those issues together in a way in which I do not remember the Treasury doing before now.

**Mr Raffan:** You talked about the principal finance officers in the different departments. This is probably a simplistic question for you, but I want to be clear about the structure: have all the principal finance officers in departments worked in the Treasury at some stage?

**Gill Noble:** No.

**Mr Raffan:** So they are not, to use an objective phrase, the Treasury's tentacles reaching out into Whitehall?

**Gill Noble:** No. We do not regard that as the reason for bringing people into the Treasury. We bring many people into the Treasury, not just to give officials experience, but because it is healthier for the Treasury to have people with different experience and expertise. It is not a Machiavellian plot to plant our men and women in all the Whitehall departments.

**Mr Raffan:** When I was an MP in Wales, the PFO in the Welsh Office was known as the Treasury man in the Welsh Office. Has that changed?

**Gill Noble:** I hope that it has. Certainly, the PFO in Wales is the Assembly's man rather than the Treasury's man.

**Elaine Thomson (Aberdeen North) (Lab):** Last week, we had witnesses from Scottish Power and BP Amoco, who talked about the development of finance functions in the private sector. In the private sector there has been a move to devolving financial functions so that there is a very small corporate centre and a number of business units, within which there are financial controllers, who report both to central corporate finance and to the business unit.

The private sector witnesses said that because finance staff were located in business units, they had a much better understanding of the objectives and strategy of business units. They said that people were moved around business units and back and forth between the centre and business



units. To what extent is that structure mirrored in the public sector? Is it relevant for the Treasury and the Scottish Executive? How does the Treasury ensure that it has a firm grip on the objectives and strategies of the spending departments?

**Gill Noble:** The structure that you describe has obvious parallels with the way in which the Treasury functions. The philosophy underlying the three-year settlements that we have given departments is that the Treasury should stick to facilitating and to ensuring that big strategic decisions are taken properly. We give departments large budgets and broadly know what those departments will do as the key policies are agreed collectively by ministers.

For example, if the Cabinet and the Treasury are happy with the strategy for the Department of Health, that department will be responsible for taking that strategy forward within the broad parameters that have been agreed in the spending review. Once we have set the budget, it is up to the Department of Health to run the health service and personal social services. The Treasury is not equipped to check constantly the minutiae of how the Department of Health operates, nor do we think that it right that we should do so. Therefore there is a parallel with the arrangement that the BP Amoco witness described. The Department of Health has finance people who know and are close to their business. They talk to us when it is necessary that they should do so, but they are a self-contained operation.

The risk is that by giving departments large ring-fenced budgets and telling them not to come back to us until the next spending review the silo effect in Whitehall is compounded. One has to ensure that there are bridges to allow cross-cutting topics to be adequately handled. The Treasury tries to adopt the BP Amoco philosophy. Given the scale of the operation, the size of the budgets and the detail that is involved, it is the only way in which the Treasury can work. We do not enough capacity to cross-check everything that departments do and it would be silly for us to try to do that.

You asked how we ensure that we understand the business of departments. Part of the remit of our teams is visiting people. For example, the local authority team spends time with local government. Also, we bring people into the Treasury from departments and elsewhere. We have just appointed to our directorate a former chief executive of a local authority. We try to have a dialogue with the people who run the services.

**Elaine Thomson:** Am I correct in thinking that the people who are responsible for financial affairs in each department do not have a reporting relationship with the Treasury?

**Gill Noble:** No. Those people have only one responsibility to the Treasury. There is a structure of accounting officers in each department whose primary responsibility is to Parliament. The accounting officer to whom the finance team reports has an obligation to us to ensure that policies are costed and that we have the information that we need about the cost of policies. However, the position of the staff who report to those accounting officers is different to that of finance staff in Scotland. They are not Treasury's people who have been posted out to departments; they belong to the departments.

**Elaine Thomson:** Last week, the point was made strongly that it is the quality of the financial information on which companies such as BP Amoco are now able to base decisions that enables them to develop the structures that you have broadly agreed are what are needed. Much of that information is based on effective, modern information technology. How does the quality of the financial information that is available to the public sector compare to what is available to, say, the financial sector?

**Gill Noble:** The quality of the information that we have had at the centre has been abysmal. One reason for the switch to resource accounting is to make a step change in the quality of information in departments and at the centre.

As part of the move to resource accounting, many departments had to re-examine their internal information systems—much work has been done on the back of the move to resource accounting. The information that we are receiving from departments for the current review is of a different quality from the information that we received before. We are getting information about spending proposals allocated to objectives. Departments are telling us that, if we give them a particular amount of money, there will be a particular effect on outcomes. For the first time, we can see clear links between spending proposals and outcomes.

As part of the public service agreement structure, the departments will sign up to delivering outcomes, which we will fund. This time around, departments have been supplying tables with information of a completely different quality. I hope that, in three or four years when the whole system has bedded down, we will have the same quality of information systems as in BP Amoco.

10:45

**Dr Richard Simpson (Ochil) (Lab):** Although that point takes us quite nicely to PSAs, I want to follow up another matter that has been raised. A major criticism is that everything up to now has been very short term. Some time ago, we took evidence about how a three-year CSR has

improved the situation, and many of the Government's objectives now have 10-year, 15-year and 20-year time scales. How would you link such longer-term objectives to what you have been talking about?

**Gill Noble:** We monitor departments with longer-term objectives against agreed milestones, which might be intermediate points or might focus on the processes that will produce the outcome in 10 years.

**Dr Simpson:** Some of those objectives clearly cut across departments, as one of the papers pointed out. Are public service agreements stated against not only objectives and intermediate milestones for individual departments, but cross-cutting, long-term objectives such as sustainability, child poverty and so on?

**Gill Noble:** It was quite an achievement to implement the first public service agreements. They were not perfect; because they had far too many targets, it was difficult to distinguish priorities. We are trying to focus the agreements more this time round and trying to ensure that where, for example, two departments appear to be undertaking linked work, they have common objectives. One particular case which involved criminal justice aspects required an overarching set of objectives to bind the departments' activities together.

Although we are working hard to improve the quality of the framework, we have to proceed case by case. Sometimes an overarching set of objectives is required; at other times, we just need to make sure that two departments have compatible objectives which reflect the different activities that will make the joined-up aspect work.

**Dr Simpson:** Can you give us an example of an overarching set of objectives into which the PSAs of individual departments might link? Furthermore, what kind of carrots and sticks would you use to make sure that agreements fit into those overarching objectives?

**Gill Noble:** The PSA that I am most actively involved with is the one relating to criminal justice. In England, criminal justice involves three departments: the Home Office, the Lord Chancellor's Department and the Law Officers Department, the main responsibility of which is the Crown Prosecution Service. The bulk of the Home Office's programmes and those of the Law Officers Department—although not all of them—relate to criminal justice. Until the last few years, the criminal justice system was not managed as a system; each department supervised its own bits. Nobody considered it as a complete process through which people passed and where the separate bits must work together.

As a result of the cross-cutting review that I

chaired, the system has two overarching aims. The most powerful driver is to reduce crime and the fear of crime and its economic and social costs. That is integral to the overall aims of the three departments. The PSA targets are matched into the targets of the three departments, tailored to fit the activities of those departments. That is cascaded down into the aims and objectives of the component organisations, such as the police, the courts and so on.

Putting that structure in place is an enormous job and the departments are looking at the information requirements needed to monitor that. A joint management framework is one of the key parts of the new structure. That includes a joint planning committee for the criminal justice system and a small secretariat, which is staffed jointly by the three departments. The secretariat checks that the performance management system is coherent and will monitor performance against targets. We are only 18 months into the process and there is still much to be done. In other areas, a much looser framework will be adequate.

**Dr Simpson:** Does the secretariat give advice on the carrots and sticks for individual departments?

**Gill Noble:** Yes. The main carrot and stick of the PSA framework is that the performance against the targets is monitored quarterly. That is reported back to the PSX committee. PSX has meetings with ministers who are missing their targets. If there is a problem in criminal justice, the three ministers will be invited to explain what is happening.

The performance against the targets is also published. The new approach includes the publication of a three-year strategic plan, an annual business plan and an annual report of performance against the plan. Parliament will scrutinise that performance.

A few weeks ago there was a Public Accounts Committee hearing on the criminal justice system and the three accounting officers appeared together, to talk about the way in which they were managing the structure. If the performance does not match the targets, one of the parliamentary committees will ask the ministers to account for that. That is quite a strong stick.

**The Convener:** In your submission, you describe a "something for something" philosophy,

"creating more transparent accountability to the Treasury, Parliament and the public for the performance of Departments."

I see the benefits of the Government seeking to give more information to the public, but what has been the benefit for the Treasury, compared with the previous process? Were any targets set previously? What monitoring took place?

**Gill Noble:** Monitoring was pretty ad hoc. We had neither a proper monitoring structure nor anything like the rigour of reporting performance against targets.

If a department is given money because it says that it is going to do something with that money, one can check that the department spent the money on that function. Indeed, parliamentary processes require that the department spends the money on that function, and if that function is supported, then that is that. From the Treasury point of view, one is stuck with a dilemma if the department fails to deliver the outcome. Does one pump in more money, in the hope that, eventually, the desired results will be produced, or does one say to the department that it cannot have any more money? The Treasury takes a view on the merits of each particular case.

However, the structure of the PSA is different, because it is transparent. Parliament can see the targets, receives reports on progress against those targets and is able to hold the departments individually to account for their performance against those targets. If parliamentary scrutiny means anything at all, that discipline should drive performance and the Treasury should not have to police performance on its own, as that should be done properly by Parliament. That is a much stronger framework that has ever been in place before.

**Andrew Wilson (Central Scotland) (SNP):** Given the time constraints, I will ask two unrelated questions, one of which bounces back to one of Gill's earlier comments on the process of the comprehensive spending review.

To the extent that there is good value in having longer-term budgeting and all that goes with it, do you think that there will be a relationship problem between the Scottish system and the CSR at the United Kingdom level, given that our cycles do not appear to be synchronised with those of the UK? To put it simply, the Scottish Parliament was elected midway through a UK parliamentary term, by which time the UK Parliament was at least one year into a CSR period. Does that situation produce downsides or upsides?

**Gill Noble:** I am not sure that I am able to answer that question.

**Andrew Wilson:** Perhaps Peter Collings will come to it later.

**Gill Noble:** The fact that we are not budgeting every year, as we have three-year budgets, should give the Scottish Parliament more certainty about its own budget. How the Scottish Parliament handles that is for it to work out, but a three-year budget should give a degree of certainty and capacity to plan ahead. That would not have happened were we still budgeting every year,

when one was never quite sure until the last minute what one was going to receive in the budget for the year ahead. Surprises might happen every so often, when the budget is topped up as a consequence of something in the English budget, but at least that would be extra money, rather than one being unsure whether the budget would end up being less than expected.

The process must be managed if it is out of sync with the UK Parliament, but the Scottish Parliament has a slightly better chance of being able to manage its affairs sensibly than would have been the case if the system of three-year budgets were not in place.

**Andrew Wilson:** My other question relates to the extent to which the finance function of the Scottish Executive should have Treasury functions, which we are chewing over as part of our inquiry.

You said earlier that the Treasury has an economic management function alongside its public spending function. To what extent do you think that the economic functions of the Treasury are influenced by the fact that the Treasury must control public spending, quite apart from considering tax and all the rest of it? Do you think that there is value in involving the economic management function in the spending function, given that they impinge on each other? From your Treasury perspective and in the context of the Scottish Parliament, should those matters be kept quite separate? That is the issue on which we must deliberate.

**Gill Noble:** We are not the only Whitehall department that is interested in economic management—the Department of Trade and Industry has a large part to play, as do a number of other departments. It is inevitable that we are concerned about macro-economic policy and management. Public spending planning is an important part of that. Decisions have to be made about how much to spend against how much to raise in tax and what effect raising taxes has on the economy.

As to what you should do in Scotland, you clearly have an interest in what is happening to the Scottish economy. A number of parts of the Executive need to examine that and understand what is going on. As to whether you concentrate that in one department, you are not running with such a large organisation as we have in Whitehall, so it ought to be possible to do it in different ways because fewer people are involved.

Where you put the person should not matter. If the structure is joined up enough and working as a large team, but with different functions, I am not sure that it matters who is doing what—so long as everyone is talking to each other and somebody

understands how much of the problem you need to understand. Does that make sense to you?

11:00

**Andrew Wilson:** I am interested to hear a Treasury official put it like that, which would be illuminating for some folk.

**Mr David Davidson (North-East Scotland) (Con):** You have touched on many issues that I would have asked about. The picture is beginning to form. You have obviously gone through a major cultural change in having to come away from only number crunching; you are now looking at qualitative analysis, along with quantitative analysis.

You mentioned that you are faced with 10-year cross-cutting budget plans for the future. They are not likely to come up in the form of any budget debate in the short term—they provide the background to where we are heading.

What are the pros and cons of the outcome targets that you are trying to set and measure, when they are now so qualitative as opposed to quantitative?

**Gill Noble:** We are trying to make the targets quantitative as well as qualitative. It requires a lot of hard work. Each time you look at something, you must ask, "What would I regard as evidence that this has succeeded?" If you are rigorous about that, you find measurable things that would be evidence that what you are trying to achieve has worked.

We are working hard on this next set of public service agreements to make all the targets SMART—specific, measurable, achievable, realistic and timed. That is a useful discipline. Each time someone tells me that the target cannot be quantified, I say, "You tell me what you would regard as success if you achieve it."

The fact that some of the targets are long term does not mean that they are not debated, or are not relevant, or are just background mood music: they are long-term targets. If there is no strategy for getting there and we do not know what we have to do each year to get there, we will not achieve them. You have to build that into a disciplined structure, make sure you know the track that you are going to follow and work out how you are going to check at all the points along it that you are on track and how you are going to get back on track if you are not. There is risk management for your strategy.

The fact that the targets are long term does not mean that they are off the radar screen; they are harder and achieving them requires more rigorous management.

**Mr Davidson:** Do you think that our department, which is not going to be huge, will have the resources—especially with rolling budgets, where it is easy to lose track of where a project is at any one time—to dip in and out to monitor projects?

**Gill Noble:** You have to be quite clear about your priorities. We are trying to do that in relation to our public service agreements. There were so many targets that people's energies were scattered all over the place. We are trying to get the PSA targets down to about 10 to 15 per department. It is a discipline that we are imposing on departments: to force them to work out what the most important priority is.

If you impose the same sort of discipline on yourselves, you will achieve quite a lot. You do not need a huge number of people to do that, but you need to ask yourselves the right questions and keep doing so until you have established the most important things to achieve. You need to establish what evidence you would need to say that you have succeeded.

**Mr Davidson:** Has your use of template reporting styles been effective?

**Gill Noble:** We have only just started. We are now on to the second quarter of reporting. It is making quite a difference to the way departments go about their business. They know that they will be challenged each quarter on whether they are still on track to deliver the targets ministers have told departments are the most important things to achieve.

**Rhoda Grant (Highlands and Islands) (Lab):** I want to return to structures. In the Scottish Executive, there are ministers but not ministries. That is almost a built-in cross-cutting mechanism. Does it allow the Scottish Executive more flexibility than the Treasury has for moving money around within the year? You spoke about a contingency fund that departments can come back to. Do you think that that could prevent the setting up of Whitehall silos, or is that too in-built in Government departments?

**Gill Noble:** I do not think that there is a hard and fast answer to that. There is clearly a risk of creating silos if someone is given a budget and is told, "That's yours. That's what you've to do with it. Don't come back if you need more money." If there are higher-level, outcome-focused objectives that a number of those silos are working towards, it ought to be easier to move money around.

I return to what I said about criminal justice. Three departments with clearly separate budgets are now committed to a common objective. Those three departments are now noticing where the others have bottlenecks and do not have the money to ease them. They might consider giving one of the other departments some money to ease

its bottleneck so that they may save money themselves in the longer term. That sort of dialogue starts to happen more easily if everybody is working towards clear objectives instead of having department-focused objectives.

The rigidity of your budget arrangements depends on how rigid you want to make them. There are different ways of structuring them. It is possible to have reserves or to hold money back until it is clear where it ought to go—although that is not a terribly good way of doing it. Alternatively, there could be someone with the authority to move the money around.

I cannot advise members on what the right answer is for Scotland, because I do not know enough about how your new structures are working out in practice. I can warn you that there are risks, but how you work it in practice depends on how effective your political structures are in developing a common agenda that straddles the official structure below it. If there are lots of ministers with narrow agendas who are not signed up to the cross-cutting views, silos will develop.

**Rhoda Grant:** Do you think that it should be controlled at ministerial level?

**Gill Noble:** I am absolutely convinced that that is where things can be put right or can go wrong.

**The Convener:** Let us move on to cross-cutting issues.

**Mr Raffan:** You may say that there are lots of ministers with narrow agendas; the ministers themselves might put it slightly differently. In your opening remarks, you advised Scotland not to move towards the Whitehall silos. We have a more fluid departmental structure, with our ministers in the Scottish Executive working with more than one department. Are there possible drawbacks in that arrangement?

For example, the Minister for Finance is often described as the minister without a ministry, and it is said that he has no political clout. From a politician's perspective, all the fluidity and all the phrases, such as social exclusion down south and social inclusion up here, have yet to be defined. I have yet to find two civil servants who define them in the same way. If I may present the devil's advocate's point of view, all that fluidity reduces political control.

**Gill Noble:** You are right to say that it could, but I do not think that it has to. If things are run properly, it should not. I hope that that is not too complicated an answer.

The key to this issue is to have a clear view of what one wants to achieve and what one's priorities are, and to articulate those in such a way that the official machinery can plug into it and understand it.

**Mr Raffan:** Cross-cutting government and joined-up government are the trendy vogue phrases of our time and have infiltrated every department. Do you think that their use is leading to a more integrated approach? In "Wiring It Up", which I read with great interest, you give many illustrations of that. Perhaps the clearest example in Scotland is the cross-cutting ministerial group on drugs, with four different departments in the Executive working together to tackle the problem.

You are talking about an integrated horizontal approach. Things are different down south, as you have to knock down ministerial barriers. It may be easier to achieve up here. Is it working down south?

**Gill Noble:** It is starting to work, and it is working quite well in some areas. Criminal justice is the subject on which I have spent most time. The cross-cutting approach is certainly working in that area. In the spending review, we are opening up a different way of looking at cross-cutting issues. I hope that it will allow us to move towards a better structure of public service agreements and a better set of policies. The effect will be to improve the joined-up nature of policies that have to be joined up.

One of the most important diagrams in my report is the one that shows a rectangular graph whose axes are the difficulty of joining up and the importance of joining up. The centre should do the things that are both difficult to join up and for which joining up is most important. But each issue must be considered on merits. One must decide how complicated a structure one imposes to ensure that the joining up happens.

Too much joining up could lead to a confused mess. In some areas, such as drugs, it is important to have activities straddling departments as part of a clear strategy for tackling the problem. In some cases, the best way to drive forward is to have a single objective, to which several departments are committed. In other cases, there may be a more diffuse theme, of which departments are aware. In such cases, one must ensure that individual departments' targets are compatible with the theme, but there do not have to be the same structures.

**Mr Raffan:** Basically, the approach comes from the top. It comes from the centre, as your document says. It is policy driven and it is resources driven. One sees that most of all, perhaps, in drugs: 75 per cent of the £1.4 billion is being spent on enforcement, compared with only 13 per cent on treatment and 12 per cent on education. The funding is concentrated on cutting supply rather than cutting demand. That approach is policy driven, but to some of us it may not seem integrated. If the centre decides to spend the money on enforcement, that is it. It is not cross-

cutting at all.

**Gill Noble:** I am not sure what the significance of that comment is.

**Mr Raffan:** The significance is that—

**Gill Noble:** Cross-cutting is not an end in itself; it is a means to an end.

**Mr Raffan:** You are trying to get a more integrated and balanced approach to resolving a particular issue across departments, yet in a cross-cutting approach there can still be an imbalance that is obvious to some of us.

11:15

**Gill Noble:** For “Wiring It Up” we looked at the different ways different countries are putting structures of objectives in place. There is a difference between a clear objective and a theme. A theme is a way of collecting decisions and seeing whether they make sense overall. It is important to keep those ideas in mind. When you are looking at a topic, you must ask whether it makes sense overall, or whether it is something you have to drive with an objective, pushing it down through targets and objectives for the different components that can contribute to it. You have to do that case by case.

**Mr Kenneth Macintosh (Eastwood) (Lab):** I see in the Executive summary on “Wiring It Up” that you talk about stronger leadership from ministers and using the centre to drive policies forward, but in many ways the importance of a cross-cutting approach or joined-up government is not to measure the policy, but to measure the outcome or output. People’s experience of government is that it can be disjointed, to put it mildly. There is little mention of anything coming from the bottom up. How do you learn? How do you listen to people who tell you that they are getting different services from different people and that they often conflict?

**Gill Noble:** The exercise that we are talking about does not tackle the bottom-up issue. I say that explicitly in the report. A lot of other work into how you integrate at working level was going on. It was a necessary, but not sufficient, condition for that to work that we got things sorted out in Whitehall.

A number of mechanisms are being put in place in Whitehall to pick up what is happening at ground level, such as the people’s panel, which feeds back information about individuals’ views of government services. We have an initiative to ensure that all departments have consumer survey mechanisms in place to monitor service users’ view of the service, because they are the people who can tell you whether it is working. Getting properly tuned in to that, and having mechanisms

in place that respond to it, are the next big challenges. We have to remember that most of the services that government delivers are delivered by local government.

**Mr Macintosh:** Indeed. One of the other main tools that you recommend is the flexible use of budgets, in a cross-cutting manner. How effective has that been, for example with regard to the invest to save budget, or in some of the examples that you give in your document?

**Gill Noble:** Invest to save has been good at providing catalytic money for people to try out different things. We are trying to remove some of the most important budgetary barriers in England and Wales. One key bit of legislation that has just been put through will allow health bodies and personal social services to pool their budgets and manage it together. Other legislation will allow local authorities more generally to operate pooled budgets, presumably with anyone they need to.

It is important not to overstate budgetary barriers. In practice, most budgetary barriers could be got round if there was sufficient will. The question is: why was there not enough will to do that?

**Mr Macintosh:** Have you managed to create any new incentives to encourage cross-departmental approaches?

**Gill Noble:** We have created an incentive for the three criminal justice departments to start to consider pooling their budgets, by giving them a strong common objective that their ministers are committed to achieving together. An incentive has been created for the officials to work in a different way and to look for opportunities for pooling money that they would not have looked for before.

People who are involved in health care want the best for patients; a strong incentive is not necessary to make them want to work with someone else to provide a better service for patients. There must be no barriers to frustrate that approach.

**Mr Macintosh:** You say that that is common sense, but the budgets work against it. The budgets encourage people to spend money on drugs although they would be better off spending it on nurses—or vice versa.

**The Convener:** We have spent more than an hour on this item. I ask Dr Simpson and Andrew Wilson to be brief with their questions.

**Dr Simpson:** I have two brief questions on cross-cutting. First, do you think that having financial leverage held centrally is important in that respect? Secondly, given the current parliamentary structure and the structure of subject committees, should the Parliament have more cross-cutting committees? That idea is

mentioned in your document. Do you think that that will happen?

**Gill Noble:** It is important that Whitehall scrutinises business in a cross-cutting way. It is for the Parliament to decide how to do that. That is an important factor that washes back into the way civil servants behave. I do not know enough about the structures and working practices here to suggest what you might have to do to make them more effective. The way in which you scrutinise the Executive is very important, and I understand that you have more cross-cutting ways of working than we have in the Westminster Parliament.

**Andrew Wilson:** In your paper, you refer to twice-yearly discussions on PSA monitoring between the PSX—the Cabinet sub-committee—and the relevant secretary of state. Is the Secretary of State for Scotland involved in those discussions?

**Gill Noble:** No.

**Andrew Wilson:** So the matter is totally devolved.

**The Convener:** Thank you very much for answering our detailed round of questions. If you are able to wait, that would be much appreciated.

Dr Collings and Dr Goudie have been waiting patiently. We have the papers that you submitted. If there is something that you would like to put on the record for the benefit of the committee, please do so. If not, we will move straight to questioning, and will take the two of you together if that is all right.

**Dr Peter Collings (Scottish Executive Principal Finance Officer):** I would be happy with that, although I would like to say something about structure first. On re-reading the papers, I realised that the committee may have received a false impression.

The papers that I submitted detail what I do and what is done by the people who work for me. You would be wrong in thinking that all the finance staff in the Scottish Executive report to me—that is not how it works. We have a mixed model. For example, health and community care finance is the responsibility of the NHS management executive. The director of finance of that executive reports directly to Geoff Scaife, but also has certain responsibilities to me.

Similarly, our executive agencies have their own financial managers who look after their finances. We operate a mixed model, in which the bulk of the financial work is carried out under my command. However, if there is a discrete piece of work that could sensibly be allocated to the relevant agency or—in the case of health—

department, we do it in that way. Our model is not straightforward and centralised.

I am happy just to take questions.

**Dr Andrew Goudie (Scottish Executive Chief Economic Adviser):** The committee has my submission. I am happy to answer any detailed questions members have about it.

**The Convener:** Dr Collings, can you say something about the thinking that has gone on in your department about the challenges and opportunities that devolution presents? I would also like some clarification. The papers that you submitted include what might be called your job description in your letter of appointment. The letter is dated June 1998. Has your job description changed in any way since 1 July 1999? How has the way in which you operate as the principal finance officer in the Scottish Executive changed from the way in which you operated in the Scottish Office?

**Dr Collings:** I will deal with the straightforward issue first. I let you see my minute of appointment because principal finance officer is one of the few jobs in which people get one of those.

**The Convener:** At four pages, it was worth waiting for.

**Dr Collings:** Indeed. I would not term the minute a job description. Although my job has changed a great deal, my formal responsibilities have not really changed or been updated.

The impact of devolution has been considerable. With more ministers and a Minister for Finance, there are more people having bright ideas and wanting to hear our thoughts. There is much more demand for work on how we tackle different issues. There is far more policy-making activity than prior to devolution.

We always knew that there would be a big increase in our involvement with Parliament, but the extent of that has come as a shock. The CSR, which Gill Noble described, was a major exercise for us, but it was subject to a total of one hour's scrutiny in the Scottish Grand Committee. We have had more scrutiny since May than we received in the previous 30 or 40 years. We have drafted two pieces of legislation, the Public Finance and Accountability (Scotland) Bill and the Budget (Scotland) Bill. Previously, in those areas of activity we had to produce estimates that we sent off to the Treasury and forget about, because eventually we would get a note back to say that they had been approved. That was all we had to worry about. The idea that we have to produce these documents and submit them to scrutiny is very new to us.

There has been a big increase in parliamentary interest generally and in the number of

parliamentary questions. There has also been an increase in interest from the public. We receive more letters and we have made a start on public consultation, which we had not done before.

There is also the issue of what the Treasury used to do. We always thought that it did not do very much as regards Scotland except send us the money, but we have discovered that it did a number of important things, which we have taken on. For example, in theory, none of the guidance that the Treasury issues about public spending, propriety, regularity and so on now applies in Scotland. We have to examine what the Treasury has written and decide whether we like it—in which case we simply put our heading on it and adopt it—or whether we want to do something different. There has been rather more of that than we thought. It has been a big change.

**The Convener:** In your opening remarks, you mentioned the NHS management executive. We have heard that it has sucked back some of its financial responsibility. Briefly, can you outline the pros and cons of returning the finance function to departments in the Scottish Executive?

11:30

**Dr Collings:** To summarise the history, when the management executive was formed, it was realised that NHS financing was rather important and needed a much higher profile in our organisation than it previously had and that there were benefits to looking outward to the NHS rather than staying within the former Scottish Office. We then had a parallel team in what is now my organisation, which looked after health, so we were attempting to have both an NHS management executive with health people and a team working for me that was trying to do what the Treasury does.

That duplication of effort did not work well. The people in the team who worked for me found it difficult to keep sufficiently up to date with what was going on in the NHS to make a useful contribution. We therefore decided to move the work that had been done in my outfit to the NHS management executive. That works fine as long as we do not have the silos that were described earlier. As long as people provide me with information and views in an open way—and at the moment, that is what happens—that model works fine. If those people were seen as having a remit for health rather than for the Scottish Executive as a whole, the organisation would come under considerable strain. At the moment, I see no sign of that.

**Mr Swinney:** Is the health example that you have given the only case in which an aspect of financial control of a core department of the

Scottish Executive has been effectively hived off to the department itself?

**Dr Collings:** There are two other areas. I mentioned executive agencies. The Scottish Prison Service, for example, has its own finance function as it is running a major operational provision, so it makes sense for it to look after its own finances. Obviously, we have an interest in the total that it spends and in its objectives and targets, but the day-to-day work is done in the agency. The other example is local government finance. That is a rather different relationship from any other type of spending because of the extent to which it is not hypothecated to particular services. Local government people work in the development department rather than for me, although of course we have a strong interest in local government spending.

**The Convener:** What is the argument for financial control being situated within those executive agencies? Is it part of the policy agenda of the Scottish Executive that financial controls over the agencies should be strengthened in comparison to the pre-devolution arrangements?

**Dr Collings:** The rationale is that when service delivery was closely integrated within predominantly policy departments, it was not getting the attention it deserved. It was thought better to put someone in charge, with agreed objectives, targets and money, and to ask them to get on with it. We monitor how they are doing. There are no particular proposals for change except for the general one of the Scottish Parliament bringing rather more accountability than previously applied to the agencies as much as to other parts of the Executive.

**The Convener:** Gill Noble mentioned the public sector agreements. I take it that they were introduced too late to have any effect on the Scottish Office.

**Dr Collings:** Not strictly. I noticed that our publication did not make the front pages of newspapers. We published it twice, once in the Treasury document and once as a self-standing document, "Delivering to You", which was published in autumn 1998. That public service agreement does not apply post-devolution, but most of its contents were taken up in the programme for government publication.

**The Convener:** It is obvious that PSAs are very outcome focused. How does what your department does compare to what happens in Whitehall departments?

**Dr Collings:** We are taking a different approach, although we are trying to do the same thing. Our exercise is less finance driven. Gill Noble mentioned that the Treasury has been the driving force behind things in Whitehall. We have a



different model of Cabinet decision making and a more corporate approach—without silos. Parts of the programme for government do much the same as public service agreements. We have published social justice documents, which set out a different range of targets. We are trying to integrate those policy-driven documents with our public expenditure planning process. The emphasis is more on policy and less on finance than has been the case in Whitehall. That is partly because all that Whitehall has to drive it is the Treasury, whereas we have a different structure and do not need the process to be driven in the same way.

**Elaine Thomson:** I want to ask about resource accounting and budgeting, to which you are moving. How will that affect your financial structures? What stage of implementation have you reached? Gill Noble said that the quality of the financial information that had been received previously had not been high. Will resource accounting and budgeting improve that situation? Your paper referred to the need to change many of the processes and skills in your department; is that the same as what would be called business process re-engineering elsewhere?

**Dr Collings:** There are two sides to resource accounting and budgeting. One aspect, which tends to be emphasised and which takes a lot of work, is changing the way in which spending numbers are calculated so that there are capital charges. That is a big piece of work, but I do not think that it is the more important side. For many of our expenditure programmes, numbers do not change much, because what we do is not capital asset intensive—the numbers change very little when we are just paying out grants. In some areas, such as roads, in which there is a massive asset base, the numbers will change a lot.

We have produced a draft set of accounts for 1998-99, which the National Audit Office—Audit Scotland will do this in future—is reviewing but not auditing. We will produce accounts for 1999-2000 that will be audited. If the Treasury goes ahead on its present plans, in 2001-02, expenditure in Whitehall will be controlled on a resource basis with estimates and accounts showing outturn.

We plan to go at the same pace as Whitehall because of the complications that would arise if we operated in a different currency. The financial issues advisory group considered whether we could go earlier, but the complications that that would cause are too great.

The accounting is proving to be challenging in a range of ways. At the moment, we are still working predominantly on a cash basis for expenditure planning. The successor to the departmental report that will come out this month will be on a cash basis. Between Easter and the summer, we will shift to having all the main numbers that we

use for planning on a resource basis. We intend to make our announcements on a resource basis—that is likely to happen in the autumn. For most programmes, that does not make an enormous difference; for roads, it makes a big difference. It also makes the division between current and capital spending much clearer.

Another aspect of resource accounting and budgeting, which is much more important, is the focus on outputs and targets. Although we still have a way to go, in some ways we are ahead of Whitehall: the Budget (Scotland) Bill contained material on objectives and targets, which the estimates in Whitehall for the coming year will not do. We have to work on reporting mechanisms and to improve the quality, but we are a little way ahead, partly because we had an opportunity in the Public Finance and Accountability (Scotland) Bill to make changes a little ahead of Whitehall. We legislated for resource accounting ahead of the Treasury—the legislation that permits resource accounting is going through at the moment. Ours is already through.

I would not call what we are doing business process re-engineering. Parts of what we do can be considered in that way, which is a useful way of looking at processes with inputs and outputs that can be measured. We make a million payments a year and process about 100,000 receipts, and the work that goes into that is susceptible to such an approach. Other parts of what we do on value for money are much more difficult to consider in that way.

During the process of devolution, we went for stability, with minimal organisational change in Scottish Executive finance. While many things were changing around us, we wanted to have stability. We now have a clearer picture of what devolution means, and of what—post-devolution—our job is. We are considering the ways in which my organisation ought to be changed in order to perform its task more efficiently and effectively. To that extent, your inquiry is very helpful to us.

**Mr Raffan:** You said that the departmental structure in the Executive was more corporate than that in Whitehall. The Scottish Council Foundation told us about Northern Ireland, where a finance officer is placed in each department, almost as a spy. That might be a more expensive structure, but it would also allow more effective monitoring of what is going on. Do you think that it is a more effective way of operating than your way?

11:45

**Dr Collings:** What we do appears to work for us. Because we have historically worked as one department—which is not the Northern Ireland

tradition—we do not need what you have described as sufficient information about what is going on. If we succumbed to the silo mentality that Gill Noble mentioned, we would need that. As you say, it is expensive, so we should not adopt that structure if we do not need it.

**Mr Raffan:** Dr Goudie, having read your written submission, it seems to me that your main role is to advise Dr Collings about resource allocation. Is that correct? Is your role changing?

**Dr Goudie:** Our relationship with the finance side is predominantly at the micro levels and relates to assessments of different ways to deploy resources to address certain objectives. Our input at the higher levels is much smaller, although important pieces of work are being done that will contribute to discussions at the higher levels, particularly as regards the way in which the outcomes are addressed.

**Mr Raffan:** You are located in the Executive secretariat. You say that that gives you a more over-arching view, but you also say that your work has increased significantly since July. Why has that happened?

**Dr Goudie:** The history of the department is relevant to your question. You might be aware that my post did not exist before last year. Throughout the 1990s, there was no chief economic adviser. That role was played—in so far as it was played at all—collectively by three senior economic advisers at a lower level.

The demand for the office of chief economic adviser was anticipated about 18 months ago when a review of analytical services was undertaken, particularly as regards the functions that a chief economic adviser could perform.

When I arrived in my post, I focused on getting the skills of the staff up to a point that would allow us to be up and running for July. I had to anticipate the sort of functions that we would have to perform. Since July, we have come under more pressure than we anticipated. That is partly because we are located at the centre of the Executive and interact with a number of ministers, not just one. Also, some of our functions, which we list in the submission, have taken on a greater importance than those who did the review 18 months ago anticipated.

**Mr Raffan:** Can you give us some examples?

**Dr Goudie:** Yes. It was decided that the so-called reserved areas of economic policy—as it relates to the European Union and the United Kingdom—would have to be covered more systematically. That has generated more work than we anticipated it would, whether we are dealing with macro-economic policies or policies that emanate from Whitehall and are targeted at a

micro-economic level.

The cross-cutting areas were not new in July, but in the areas of social justice and economic development, they have become more important and have led to a greater need for professional analytical input than we anticipated.

**Mr Raffan:** What is your working relationship with the Scotland Office and the Treasury?

**Dr Goudie:** We do a great deal of economic statistics work, which is made available to the Scotland Office and to Whitehall. Factual briefings, rather than confidential ministerial briefings, are made available to the Scotland Office.

I regularly meet Gus O'Donnell, the head of the economic service, who is based in the Treasury. We both have a need to have access to information that is available. That contact means that the work that we do on reserved matters, and the analysis that we do for ministers in Scotland, is better informed. The relationship works well.

The reverse flow of information has been more important than I anticipated, as the Chancellor of the Exchequer's wish to understand what is going on in the UK regions is greater than it once was. You will know that the monetary policy committee of the Bank of England is bound to take account of what is going on in the regions; the Scottish Executive makes an important contribution to the committee's understanding.

**Mr Raffan:** I presume that you are in frequent contact with the regional director of the Bank of England.

**Dr Goudie:** Yes.

**Mr Raffan:** In the part of your submission that deals with dissemination of economic knowledge, you talk about a new discussion paper series that is being developed. What is that about?

**Dr Goudie:** We used to have a publication called the "Scottish Economic Bulletin". We published the "Scottish Economic Report" in the middle of January. It looks at what is going on in the Scottish economy and interprets what outside events mean for Scotland. In February, we published "Scottish Economic Statistics", which presents the economic statistics that we think are of prime importance to informing the debate. We also have the discussion papers series, to which you referred. We thought that it was important to have a series to disseminate more substantive and technical pieces of economic work that were relevant to policy thinking. We wanted to make available information produced by external agencies that we had contracted to do work on our behalf. We aim to get that series off the ground in the summer.

**George Lyon (Argyll and Bute) (LD):** Gill

Noble mentioned that the financial information that the Treasury had received in the past was not good. She went on to say that the information had become better and that outcome-related proposals were being put to the Treasury by departments.

There has been much concern about the quality of information and the statistics in Scotland. Do you think that the quality of financial information in Scotland is improving? Will the use of new technology and e-commerce, as part of the modernisation of the Scottish Executive, assist that process?

**Dr Collings:** It is never good enough. It is fair to say that the demands for information since devolution have stretched us to the extreme. We need to improve the information available.

The present accounting system is about five years old; it is about time to consider moving to more modern technology. We are in negotiations about changing to a web-based system, which would be e-commerce enabled, over the next 12 to 14 months. We are already doing quite a lot of work on more output-focused information. The Budget (Scotland) Bill includes some of that. I look forward to hearing what the committee thinks of the new version of the departmental report that we will publish later this month. We have tried to achieve greater clarity, and we would like to know whether we have got it right.

There is a more general issue surrounding the monitoring of performance against planning in the Executive. That is on our agenda. When one makes commitments such as those in the programme for government and the social justice targets, one needs a mechanism to ensure that we hit those targets and that there are warning signals when we are going to miss them. The information will get better, but that involves a lot of work.

**George Lyon:** Does that mean that the systems to measure outcomes are not currently in place?

**Dr Collings:** They are in place, but they tend to focus on long-term outcomes. The public service agreement in the programme for government concentrates on where we need to be in 2002. That means that we need to know where we should be in six or 18 months. That has to be sharpened up.

**George Lyon:** I want to widen the question to include Andrew Goudie. There is an important issue about measuring the effects on the Scottish economy. You mentioned two new publications. Is that part of an on-going process? There has been much concern about the quality and volume of statistics needed to measure the impact of policy decisions on the Scottish economy.

**Dr Goudie:** Prior to last July, the Scottish statistics were as good as those of any UK region.

Since July, we have faced a completely different situation and the demands for economic statistics have increased dramatically. Chapter 1 of "Scottish Economic Statistics", published in February, describes the Scottish economic statistics programme. We have tried to set out the important areas in which economic statistics should develop. Like Peter Collings, I will never be satisfied with what we have achieved—we can always do more. However, with limited resources, it is important that we prioritise what should be done. As part of that process, we have explained the current situation in "Scottish Economic Statistics" and are establishing an external group to allow interested individuals from different organisations to discuss with us their perspective on the Scottish economic statistics that should underpin the thinking on which policy is based. That group will meet in June this year.

The economic statistics programme is an evolving strategy. We have taken the lead in setting out what we think is important, based on several discussions with external bodies. We would like the strategy to continue to evolve on the basis of more detailed discussions. As resources become available, we will provide more robust data in the areas that are deemed of greatest importance.

12:00

**George Lyon:** Could you give us an idea of the time scale in which you will be able to give us this robust, disaggregated information on the Scottish economy?

**Dr Goudie:** That depends on the specific data that we are discussing. There are important reasons for understanding what is, for example, the gross national product of the Scottish economy. That is mentioned in the strategy that we have published. We will consider that very soon, because there are major conceptual problems that will need a great deal of attention. At the moment, it is impossible to say when GNP statistics will be produced. Indeed, there might be more important questions about whether we can produce such statistics of a quality that is deemed adequate for publication.

I cannot put a time scale on any particular statistic. However, we have begun the process of considering carefully how to produce the required statistics, drawing on the methodologies that are used in the UK and elsewhere, and on the insights of academics in Scotland. We will then try to reach a decision on whether we can produce something that is worthy of publication. Quality is an important issue.

**Mr Davidson:** I want to go back to Gill Noble's comment on the Treasury's influence on policy.

We are considering resource accounting, which will mean agreeing and discussing outcomes in advance of setting spending. Dr Collings and Dr Goudie both give advice to ministers. Dr Collings also has to exercise financial control. Do you have mechanisms to deal with policy differences and priorities in relation to resources? Can you influence the ministers and help to resolve cross-cutting issues?

**Dr Collings:** Yes, we have a clear role in that. I support the Minister for Finance in his role in making those things happen. The change from the Scottish Office arrangements, under which the secretary of state carried out the finance role as a spare-time job, to the current situation where the Minister for Finance has a Cabinet role, has had a significant and beneficial effect. It is good to have someone who has the time and remit to consider those issues in depth.

We have mechanisms in place for mainstream policy making. We are involved with our colleagues on a range of cross-cutting initiatives in the Scottish Executive, but that is work in progress. Nobody knows exactly the best way to do it, and we are still short of examples of it working effectively on the ground in service delivery. Things are going on, which must be monitored and evaluated to spread best practice more widely, but we have a long way to go to get what we do up to the standard that our ministers want it to reach. We still have a lot of work to do on where pooled budgets are appropriate and where they are not, and on the framework in which they should be set.

**Mr Davidson:** You said that you work mainly for the Minister for Finance. I assume that other ministers come to you for advice on building a case for an activity and deciding whether there is a resource potential for that activity. Do you feel a bit like the jam in the sandwich, or do you have a clear role?

**Dr Collings:** This is not just a post-devolution issue; it has been much debated. Some consultants who studied our work several years ago described us as having a Janus-like role, but it does not feel like that. My role is to support the Scottish Executive on financial matters. The main remit for that lies with the Minister for Finance, so that is the minister with whom I work most closely. However, if other ministers want advice and help, I am also there for that. I do not find that a problem in practice, although I can see why, in theory, people think it might be. Whether one's role is a problem depends on the corporate culture, at ministerial level or at official level. At the moment, it is not.

**Mr Davidson:** Within a reasonable time scale, will there be a more robust mechanism? You said that it is still work in progress. Will there be an

outcome from the schemes that you are working on?

**Dr Collings:** There are pieces of work in train, and there will be a range of conclusions—on the spending review, on cross-cutting and on the sort of longer-term work that Gill Noble talked about. Our emphasis is much less on how to do it in central Government than on how to do it in service delivery.

**Mr Davidson:** Andrew Goudie, you advise the Executive across the board. Do you have to get involved in any resolution activities that may create tensions as to where the focus should be?

**Dr Goudie:** The role of my office and of the economists group should be to inform that debate from an analytical and professional point of view. The big decision between two major competing demands probably lies outwith an economic judgment. However, economists have a major role to play in analysing the relative importance of those competing demands for achieving outcomes. The resolution itself lies beyond the economists.

**Mr Swinney:** Andrew Goudie mentioned higher-level discussions on resource allocation in the future. I wonder whether there is an appropriate analytical structure in place to make a judgment about the higher-level allocation of resources, or whether historical spending patterns are affecting current spending practices. What should be done to improve that analytical debate? Will the framework for economic development that is being developed provide too narrow a focus for that higher-level debate? It will inevitably concentrate on the harder terms of economic development, rather than on a wider agenda that will touch on social inclusion and other significant issues that affect our economic performance as a society.

**Dr Goudie:** The economists group is focused primarily on the micro, or lower, levels at the moment, working on ex ante appraisal of different options and ex post evaluation of programmes. The economic framework is an important example from the higher-level outcome side. The focus is on what the Executive wants to achieve in the longer-term, working backwards to the intermediate objectives on which it should focus. That work will stop a long way short of discussing resource allocations, as a great deal of debate must take place about where the appropriate emphases should lie. The work is focused on economic development rather than on all the interests of the Executive. We can thus discover whether the manner in which the Executive goes about its work is efficient in targeting the key economic intermediate objectives.

**Mr Swinney:** Is not that an example of a lack of joined-up government? I am quite happy with the

initiative on economic development—I think that it will help—but the first priority in establishing a structure for proper policy appraisal should be to introduce a mechanism that looks from the output end back towards the policy-making objectives to assess the Scottish Executive's impact on Scottish society and communities. It should not relate simply to economic development.

**Dr Goudie:** One could argue that. What is useful about the economic framework exercise is that it is difficult to have that sort of conversation unless one is confident about the pieces in the jigsaw. In trying to weigh up the big priorities that you mentioned, one would have to be confident about each piece. The economic development piece is a fundamental one to weigh against the Executive's other objectives. The value of that piece of work will be to make the Executive clearer and more confident in talking about that particular part.

I would like to rephrase your question slightly to ask whether there are other areas of the Scottish Executive in which similar exercises need to be undertaken to allow a broader discussion to take place. Having a high-level discussion is likely to be less productive if it is not well informed. The economic framework is one way of informing that important piece of the argument.

**Mr Swinney:** I appreciate the point you are making about the importance of the components being reliable. If I accept that logic, what is going on in the other policy areas to evaluate in a similar way the effectiveness of current Government policies? The Government is making strong claims about the effectiveness of its policies, but at this stage we are unable properly to evaluate whether, during this term of office, it will have made any difference to key areas of policy.

**Dr Goudie:** Social justice is a key area with parallels to economic development. It is on a par with economic development as a primary objective for the Executive. The work on social justice that has been taking place since July deliberately attempts to look at the problem similarly to the economic framework—to identify the main channels through which social justice should be pursued, to identify what is going on at the moment and to try to redirect to that end both specific initiatives and initiatives that are mainstreamed across all departments.

There is a parallel in that the social justice work has articulated a particular vision and is getting down to the detailed ways in which it might be taken forward. I am not sure of the timing, but an action plan will be published quite soon. Equally, on economic development, the current work will articulate a vision and the main intermediate objectives and policies that will build towards it. Both examples are part of the bigger picture.

12:15

**Mr Swinney:** Do you accept that without a strategic overview there is a danger of a lack of synchronisation between those two policy areas? Directions may be pursued for reasons of social inclusion that are not synchronised with economic development and both may be out of synch with the direction of Scottish Executive policy as a whole. Are you in a position to tell me whether the Cabinet discussed this approach? Is that the Cabinet's view of how development should be structured or is it a direction being pursued by individual departments?

**Dr Goudie:** In the work we are currently doing in economic development we are very conscious of the importance of linking economic development thinking and approaches with the work in social justice. There are other linkages that need to be made but the link with social justice is very important. Making sure that the links are clear, understood and feed through into policy thinking is an important role that the framework can play.

We are well aware of that issue. How far we get with the document under discussion we shall see—but the point is well understood and it is an area that we are trying to develop.

I am not able to answer your question on whether the Cabinet had an explicit discussion. I do not know. In contributing towards the evolution of the bigger picture, which I think is what you are referring to, the work done on social justice and the economic framework has a key role in building it, but I cannot comment on whether the Cabinet has discussed it in those terms.

**Mr Macintosh:** I will try to be brief. I have two points. Peter Collings, you referred to Northern Ireland and the different tradition of the Scottish Office, now the Scottish Executive. You also talked about the corporate culture that has evolved. Do you think that that ethos is the right one to carry us forward and support the devolution settlement? Gill Noble said that the Treasury has a unique perspective: it is able to drive forward cross-cutting and joined-up government. Is your part of the Scottish Executive in the same unique position, or does it not need to be?

**Dr Collings:** The culture that we have fits well with our devolution settlement. Devolution in Northern Ireland is not only different in its traditions, but the settlement is very different, such as the role of ministers. The Scotland Act 1998 is full of references to "Scottish Ministers"—not to the Scottish minister for this, or the Scottish minister for that. There is a good fit in our case.

On your second question, we are well placed to have a view across areas, but there are other parts of the Scottish Executive—the Executive secretariat and the policy unit—that also look

across areas. More bits of our jigsaw are able to do that. The finance department has a role in doing that, but it is not unique. While other parts of Whitehall do that, the Treasury's role is pre-eminent in a way that ours is not.

**Mr Macintosh:** You would not say that your department is driving this agenda forward?

**Dr Collings:** We are supporting the agenda, rather than guiding it. We support cross-cutting studies in Scotland, but they are driven by ministers and officials who do not necessarily come from the same department. Ours is a more flexible model than the Whitehall one, which has some of that flexibility, but is a Treasury-driven exercise.

**The Convener:** I wish to have one last bite at the cherry, and ask Dr Collings a question. The committee is aware that the Scottish Executive is undergoing its own review of financial functions. Are you able to say when that review is likely to be completed? Will it be published?

**Dr Collings:** I am expecting to receive a report on our review on Friday. David Wilson, who is in the audience, is conducting the review and he starts his new job on Monday, so if I do not get the report on Friday we have a problem. Inevitably, there will be a process in which ministers and officials will decide whether we agree with what is written, because for this sort of review we set up a team and it owns the report.

The full report will not be published, because it goes into detail on individuals and our relationship with our information technology suppliers, which we would prefer to be confidential. I am happy to let the committee have the Executive summary and the full list of recommendations, but the report itself goes into a level of detail that is not appropriate for the committee—unless you feel that you absolutely have to have it—because a lot of it is about named individuals.

**The Convener:** It would be helpful to have the conclusions and the recommendations, but we can come back to that.

I thank Gill Noble, Peter Collings and Andrew Goudie very much for answering our questions, submitting their papers in advance and contributing in considerable measure to our inquiry.

## Scottish Parliament Building (Reporter)

**The Convener:** Colleagues, we have now been meeting for an hour and three quarters, so I would like to push on to the final item on the agenda, which is to consider the suggested remit for the reporter on the Scottish Parliament building project.

Last week, we agreed to consider this item. The clerks have since circulated a draft remit. In a moment, I will ask colleagues for their comments. I would like to suggest a brief insert in the final sentence to take account of the Spencely inquiry. I suggest that we insert, "SPCB report and" so that the sentence reads:

"Also to keep the Committee informed of any other relevant developments such as the SPCB report and progress of an inquiry by the Auditor General for Scotland."

We understand that the Spencely report is due to be published at the end of this month. *The Scotsman* reports today that Robert Black has agreed to undertake the inquiry that the Audit Committee asked him to undertake, although he will not take up his post as Auditor General for Scotland until 1 April. He underlined his aim to be finished before the summer recess.

I thought that it would be helpful for our reporter to have sight of the Spencely recommendations or conclusions. Would it be acceptable to broaden the remit in that way?

**Members indicated agreement.**

**The Convener:** Does anyone else have any suggestions?

**Elaine Thomson:** I agree that it would be sensible to take account of the Spencely recommendations but, as it stands, the remit is not time limited. I suggest that it should be. The time limit could be when that report comes out, or at the end of the year, or at some other appropriate point.

**The Convener:** I take that point, but the phrase "watching brief" in the proposed remit suggests that the process would be on-going. We cannot be sure how long this will go on for, and there will be year-on-year impacts. It will be important to have reports regularly; we may want the reporter to do the job, stand down, and then come back to it. The implication of our discussion last week was that we want to keep this matter under review.

**Mr Raffan:** I support that—it should be an on-going brief, but if it appears that everything is on track, the reporter could stand down.

**The Convener:** That struck an optimistic note.

**Andrew Wilson:** I suggest that the remit should include some reference to the method of financing the project, especially the use of current expenditure for a capital project and the implications of that for the structure of the Executive's budget. That was brought up at the previous meeting and it could usefully be looked at, especially because of the continuing public debate and speculation on the issue. So, if you wanted a practical suggestion—

**The Convener:** That is moving into a different area, Andrew.

**Andrew Wilson:** No, it is not—

**The Convener:** It is: that is not how the project is financed at the moment. That may change, but we are considering things as they are now and as they are likely to impact in the future. You are taking us into uncharted territory.

**Mr Swinney:** It is being financed from current expenditure, is it not?

**The Convener:** As I understand it, yes.

**Mr Swinney:** That is Andrew's question; he is asking about the implications of that.

**Andrew Wilson:** Yes. That is the point.

**Mr Swinney:** That is the point.

**Andrew Wilson:** Financing can be sustained when it is £60 million, but the minute it becomes six times that it will have very significant implications for the structure of the financing—as you have said yourself, convener.

**The Convener:** We will not know that until we get the reports and see just where things stand. All sorts of figures have been bandied about.

**Andrew Wilson:** Quite. That is the point—I think that keeping an eye on that and reporting on it should be part of the watching brief. That is the whole point of reporting.

**The Convener:** What would be your suggested wording?

**Andrew Wilson:** After:

"In particular to report on the implications for the Scottish Executive's expenditure proposals of any revised cost estimate or revised date for completion of works",

I would add:

"and to consider the structure of the financing of the project."

**The Convener:** Yes, that is fair enough. Are we all agreed?

**Members indicated agreement.**

**The Convener:** All right, we now have two amendments to the wording. We now have to agree on who the reporter should be.

**Elaine Thomson:** I nominate Ken Macintosh.

**Mr Raffan:** As he first raised the issue, I nominate David Davidson.

**Andrew Wilson:** I second that.

**The Convener:** There will be a vote. I will take the nominees in the order in which they were nominated.

**Mr Macintosh:** Can we vote for ourselves?  
[Laughter.]

**The Convener:** Yes. Every member of the committee has a vote.

*Members voted by show of hands.*

#### **FOR MR KENNETH MACINTOSH**

Rhoda Grant (Highlands and Islands) (Lab)  
George Lyon (Argyll and Bute) (LD)  
Mr Kenneth Macintosh (Eastwood) (Lab)  
Elaine Thomson (Aberdeen North) (Lab)  
Dr Richard Simpson (Ochil) (Lab)

#### **FOR MR DAVID DAVIDSON**

Mr David Davidson (North-East Scotland) (Con)  
Mr Keith Raffan (Mid Scotland and Fife) (LD)  
Mr John Swinney (North Tayside) (SNP)  
Andrew Wilson (Central Scotland) (SNP)

**The Convener:** The result is: Ken Macintosh 5, David Davidson 4.

I chose not to vote unless the result was tied. Ken Macintosh will be the reporter.

*Meeting closed at 12:31.*





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