FINANCE COMMITTEE

Tuesday 21 March 2000
(*Morning*)

£5.00

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FINANCE COMMITTEE
8th 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

WITNESS

Sir Russell Hillhouse (Former Permanent Under-Secretary, Scottish Office)

CLERK TEAM LEADER

Sarah Davidson

SENIOR ASSISTANT CLERK

Callum Thomson

ASSISTANT CLERK

Sean Wixted

LOCATION

Committee Room 1

Scottish Parliament

Finance Committee

Tuesday 21 March 2000

(*Morning*)

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

Scottish Parliament Building (Reporter)

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

Members will be aware that a revised agenda was issued yesterday, because there is a new item 1. I wanted that item on the agenda not because I think that the committee needs to consider the role of the reporter; I want to draw attention to my disquiet at the remarks attributed to Keith Raffan and, in an *Edinburgh Evening News* article that I have been shown this morning, to another MSP, who is not a member of the committee, about our decision last week to elect Ken Macintosh as our reporter.

I do not intend to open a debate about this matter. I want to clarify that, whoever is the reporter for the committee, that person's report will come to the committee for discussion and will then be the property of the committee itself. It is not the property of any individual member, nor of any political party represented on the committee. I was disappointed at the suggestion that our decision had been made for some partisan reason, particularly as the vote did not split down party political lines. For the record, we should note that committee members, and other members of Parliament, accept that a reporter to this committee will make his or her report and that the committee itself will then decide what form the report should take when it becomes the property of the committee.

Mr Keith Raffan (Mid Scotland and Fife) (LD): May I comment, convener?

The Convener: It is only fair that I should allow you to speak, but I do not want to open a debate.

Mr Raffan: I stand completely by my remarks, which were accurately reported by Mr David Scott. I am sorry that you have paraphrased them inaccurately. I was following the precedent as established in the House of Commons, where the chairman of the Public Accounts Committee is traditionally and conventionally a member of the Opposition—I hope that that will be recorded by the media. I made it quite clear that my comments were not directed personally at any member. I think it quite wrong that a member of the party of the First Minister, whose role in this whole project is under close scrutiny, should be the reporter. I think that we should follow the conventions established in another place, which have traditionally served that place well and would serve this place well.

The Convener: We are not obliged to follow the traditions of what you call another place.

Mr Raffan: I never said that we were obliged to follow them.

The Convener: In many cases, we should avoid doing so. However, we are not the equivalent of the Public Accounts Committee. In the Scottish Parliament, as you well know, that role is performed by the Audit Committee. There is a rule in standing orders that the convener of the Audit Committee must not be from the party or parties in government, so that is covered. Without opening up the matter to any further debate, I want to record that any report of this committee is the committee's report and not the property of any individual.

Mr Raffan: I want to—

The Convener: I am not accepting any more discussion on this matter.

Mr Raffan: Well, I shall certainly make my views clear to the press.

The Convener: You always do, Keith.

Mr Raffan: I will, and very, very strongly.

The Convener: I shall now ask the committee to agree that we take agenda items 2 and 4 in private. Is that agreed?

Members *indicated agreement.*

09:52

Meeting continued in private.

10:03

Meeting resumed in public.

Scottish Executive Finance Functions

The Convener: I thank Sir Russell Hillhouse for accepting our invitation to give evidence to the committee. Good morning, Sir Russell. I understand that you have been following our deliberations and the evidence that we have heard so far. You will be the last person to give evidence before we hear from and question the Minister for Finance after the Easter recess. We are coming towards the conclusion of our deliberations and we will produce a report before the summer recess.

You have submitted a memorandum of which all members have a copy. I wonder whether you would tell us a little about your background and draw out the main themes of your memorandum. We will then proceed to a question-and-answer session.

Sir Russell Hillhouse (Former Permanent Under-Secretary, Scottish Office): Thank you. As you probably know, I have spent my whole working life in the civil service, mostly in the Scottish Office. Back in the 1960s, I was involved in local government finance at quite an important stage, which included the beginning of the rate support grant, for example. I then went to the Treasury on secondment for three years in the early 1970s. When I came back, we were in the fairly early stages of pulling together the central finance function in the Scottish Office; I was involved in improving the way in which we handled public expenditure with Willie Ross and then Bruce Millan. I got out of finance for three years in the late 1970s but came back as principal finance officer in 1980. I stayed in that job for five years, at a stage when the development of very much better financial management was a high priority for the then Government. It was an interesting and rather challenging time.

After another fairly brief escape, I was back in a central role as permanent secretary in 1988. I was in that job for 10 years. With the major help of successive principal finance officers, one of the main tasks was to help the secretaries of state and their ministers to arrive at the decisions that best reflected their priorities in allocating public expenditure across all the services for which they were responsible.

I chose to highlight that theme in my paper; I guessed that that was the theme from the past that might be of most interest to you. I note from the evidence that I have been sent that it has indeed been a theme that others have spoken about. I was very interested to read what Gill Noble and Peter Collings had to say. I am not sure that there is much that I want to add to what they have said and to what I have already put in my paper—save to remind you that I have been away from the job for two years and that a lot has happened since then. I know about the past but I am not so hot on the present or, indeed, the future.

The Convener: We will bear that last comment in mind. Your memorandum talks about the annual public spending round. I suspect that, during the last few months of your tenure, and following the comprehensive spending review, the move towards public service agreements and a three-year budget was under way. You have given some details of what happened in the annual spending round and of the way in which you operated in the Scottish Office. Can you say—we accept that this would be speculation—how that system would have differed had you been in the position, as we now are, of having three-year budgeting, which gives the ability to plan ahead with perhaps greater clarity than you suggest was possible under the old system?

Sir Russell Hillhouse: In fact, the comprehensive spending review had not got very far with us in Scotland at that point, because, to an extent, we were waiting to see what would emerge from the big exercises that were taking place in England. The public spending agreements had not really got going with us, although they must have happened quite soon after I left.

I am delighted that we now have three-year settlements that are, in effect, firm for two years. We had that system for local government finance back in the 1960s but, alas, it did not last. The public expenditure survey system always looked—or nearly always looked—at least three years ahead. The trouble was that, for many years, it was only the first year that people took really seriously—the rest was very soft indeed.

For many purposes, even three years is far too short. The lack of clarity and certainty about the longer term was undoubtedly a tremendous disadvantage for people who were trying to take rational decisions about the future and to plan with any confidence what they could do. I hope that the new system sticks. It is a considerable advance, and it would be nice to think that it could go even further in future.

Dr Richard Simpson (Ochil) (Lab): Do you think that it would be appropriate for us to set longer-term targets? We have heard that some states in the United States of America have 10-year targets to which everything has to be fitted—although, obviously, those targets may change depending on the political circumstances. Would

that be appropriate or helpful for us?

Sir Russell Hillhouse: That depends on the services that you are considering. The work that has been done on target setting and the attempts that have been made to look at ultimate goals that involve a contribution from a variety of services have been very helpful. We tried to do the same in the past, but considerable political will and the development of a lot of consensus in society are required to make it really worth while. However, I am sure that it is a very good idea.

One has to realise that circumstances change. The further you look into the future, the vaguer it will be. However, if you know, or if you think you know, where you are trying to go, you can chart a path, making adjustments as new information arrives or as changes become apparent in what the public want or in what politicians believe are the right priorities. Having a framework in which to operate is always very helpful. It will take a while to achieve results that we can all rely on, but the effort will be well worth it.

Mr David Davidson (North-East Scotland) (Con): On the front page of your paper, you talk about demographic changes and so on. We are considering long-term planning, and there seems to be a lack of predictive statistics that are sufficiently reliable. In your period, did you feel that that area was not dealt with well enough? What would you like to see in the future for us?

Sir Russell Hillhouse: Good figures were available for many of the things that we were looking at, but, as others have rightly said, things can always be better. On the whole, straight demography was not a problem—the registrar general would give us all sorts of interesting figures, about the changes in age balance, for example. The long-term trends in morbidity and mortality were also pretty reliable. A lot of work was put into predicting what the outputs from the various bits of the education service would be, although there was a time when the demand from young people and others to enter higher education considerably outstripped anything that we had forecast. That was very exciting but a little bit daunting. However hard you try to forecast accurately, unpredictable things can happen, and no one could have forecast that one.

In the economic area, predictions are a little more difficult. I believe that you took evidence from Andrew Goudie last week about that; it is something on which we would all like to have better and more reliable data.

To some extent, the priority that is given to getting good data will reflect the appetite of politicians to use them seriously. There is no doubt in my mind that the new emphasis on taking a longer-term view and on developing what are fashionably called joined-up policies will help to stimulate the development of better data and more innovative ways of looking at them. If you are living from hand to mouth for a year at a time, and if you are thinking, "Planning is not for us—we'll get by," that does not encourage people to do a lot in the way of developing measures and statistical guides to the future, because no one is going to use them. However, the world is certainly different now.

Mr Davidson: In your opening statement, you talked about your role as permanent secretary in helping to deliver the priorities—presumably the political priorities—of the secretary of state. Do you feel that we are likely to be able to move away from that in the near future, or will we become more machine-like, which is exactly what has happened? Richard Simpson talked about 10-year planning, but that involves looking at things less politically. Is there room for us to do that, or are we still in a political dynamic?

Sir Russell Hillhouse: That is the exciting thing about what this Parliament will do, and about what committees such as yours will do, is it not? If you consider the way in which some secretaries of state tried to develop a wider public dialogue about what the priorities should be, you will realise that it is not novel to try to achieve more consensus and to give better information to the public and to the leading opinion formers in Scotland. In turn, that process will inform the decisions that the politicians take, which need not be along party lines at all.

In some countries—especially in Scandinavia—there is often a rather greater effort to develop consensus than there has been in Scotland. However, if you look back at the way in which quite a lot of decisions on public expenditure have been taken in Scotland over the past 30 years, even in the most difficult political circumstances there was always a dialogue, especially with local government. We never stopped talking and listening to local government, whoever was in power. We have the means to develop priorities that attract a high degree of consensus from the people, even though, ultimately, it will be for the politicians to make the decisions.

Sometimes, the politicians will, quite legitimately, have strong political objectives—that is what we expect from our elective democracy. There should be a balance between the two sides of the dialogue. Changes of party do not—and cannot—always produce reprioritisation or redirection of expenditure, because so much spending is committed on a long-term basis anyway.

10:15

Mr Raffan: The development of an economic

research department within the Scottish Executive or former Scottish Office is a recent phenomenon, as is the appointment of a chief economic adviser with a staff of just five. I understand from Dr Andrew Goudie's evidence that they are completely overwhelmed and that he is hoping for a significant increase in the number of staff. Surely that highlights a major problem that perhaps existed when you were at the Scottish Office—that there were not enough data and that they were not reliable.

Sir Russell Hillhouse: We had a chief economic adviser at times in the past—Gavin McCrone, who successively became head of two Scottish departments but kept on his role as chief economic adviser. We did not replace him when he retired. That reflected the fact that, at that point, the chief input that we required from economists was, as Dr Goudie explained, mainly on the micro-economic side. That input was well deployed.

The total economic strength of the office is a good deal more than five staff. I am delighted that Andrew Goudie is back, as he was one of our stars when he was with us previously. To be blunt, the reason why we did not go all out for a major post at his approximate level some years ago was that we could not afford to. We had strict restraints on staffing, especially at senior level.

Mr Raffan: A bit of a false economy.

Sir Russell Hillhouse: I do not know that it was at that time. These things are done to reflect the priorities of the Government of the day and the things that it thinks are important and necessary in the circumstances. We had advice from economists on macro-economic aspects in so far as they were relevant to the allocation of public expenditure.

In the current situation, the Executive is bound to take a somewhat broader view than the Scottish Office could, given its role within the UK Government, working with other departments. The need was not so obvious at the time. We would have liked to have had such a major post but, given the priorities facing us, we did not feel that we could afford it.

Mr Raffan: You mentioned the on-going dialogue with local government, which is, I would say, a dialogue of some creative tension.

Sir Russell Hillhouse: Yes.

Mr Raffan: Some of the work of Andrew Goudie's department on the local government formulae, including measuring both rural and urban deprivation, is critical at the moment and a matter of controversy within local government finance. However, we seem not to have hard, reliable statistics to back up the way in which the formulae are being used.

Sir Russell Hillhouse: That is the one area on which a huge amount of work has been done over many years. Dr Peter Collings—who came before this committee last week—played a major part in that. He is a professional statistician as well as a professional accountant, and is generally a very able chap. He worked on this matter in the mid-1980s.

A lot of work has been put into local government formulae by both central Government and local government. That work needs to be refined. When the regions were the main spending authorities, they were rather large. A great deal of internal sorting out of allocations was required in those big authorities, especially in Strathclyde, and to an extent in Lothian and Grampian. The splitting up of Strathclyde into 12 local authority areas created enormous difficulties. We rather quickly discovered—we had guessed that this would be so—that it was very difficult to arrive at a formula, even if we wanted to, that could replicate the internal allocation that Strathclyde had made to Glasgow and to what is now West Dunbartonshire and so on.

The problem is not just about good statistics—genuine dilemmas face the Convention of Scottish Local Authorities and central Government about what should be done. I was part of the argument back in the 1960s, when the problem was to do with small counties. We are dealing with established patterns of spending that might not have an absolute validity if were starting from scratch, but still matter an awful lot to the people in those areas.

Mr Raffan: I do not want to talk about policy, but perhaps I could go on to a different tack—structure. It is clear from your written submission that you like the fluidity of structure within the Scottish Executive and the absence of rigid, vertical silos, as described last week by the witnesses from the Treasury. There is an ability to sort out spending priorities without acrimony and with some consensus. You are presumably a strong devotee of such a structure and not of providing our Minister for Finance with a ministry.

Sir Russell Hillhouse: Yes. We were very fortunate in managing to create—it was not easy—a way of doing things and a set of attitudes that cultivated openness and allowed people to see and understand the whole picture. As I state in the paper that I have presented to the committee, that worked both at senior official level and, very often, at a political level. It is important for ministers to understand the total impact of what is being decided and not just the bit that affects their services. Ministers are all members of the Scottish Parliament and their constituents are interested in everything, not just in the thing that the member happens to have responsibility for. I think that that

is a very good way of doing things. Under the Westminster system, decisions are, in the end, decided at the top—at Cabinet level. However, the process used not to encourage the way of thinking that we are talking about. More recently, as Gill Noble explained to the committee last week, the process has started to do that rather more.

The fact that there is technically no finance ministry is not very significant. What matters is the support given to and the role of the Minister for Finance. Like the Chief Secretary to the Treasury at Westminster, he is there to help the Government to make the best use of its resources and to achieve the best results in terms of financial management. That is, politically, what he is for.

Having a politician in Scotland who is able to concentrate on such a task—he also has the important matters of local government finance and European funding to deal with—and who has a lot of time to devote to the role, with his political input and thinking, should be very helpful. In the past, the Secretary of State for Scotland had to do all that himself, which could be demanding and difficult.

We will see. I am optimistic about the long-term effects of the arrangements here.

Mr Kenneth Macintosh (Eastwood) (Lab): I want to ask about the economic role of the Scottish Executive. Should it have more of a Treasury role, now that the Treasury no longer takes the interest that it did—although I am sure that it still takes an interest—in Scottish affairs?

Sir Russell Hillhouse: Do you mean the Treasury in the economic management sense?

Mr Macintosh: Exactly. Do you think that we should push that side of things?

Sir Russell Hillhouse: The reason why the Treasury has that particularly strong role at Westminster is that it is responsible for taxation and fiscal policy in general. That situation does not apply here yet—we have limited power. Andrew Goudie and his small team will undoubtedly be keeping an eye on the situation. If there is anything on which they can advise the ministerial team, I imagine that they will.

A great deal of the Executive's interest in the economy will continue to come from the education and industry department—now the Scottish Executive enterprise and lifelong learning department—with its enhanced contacts with the whole of economic activity in Scotland, and from pulling together industry's social aspects, which is important.

At this stage, given the nature of the devolution settlement and the very limited taxation interests, we would not expect a finance ministry to have a major economic role. Circumstances could change—one has to keep an eye on the situation. I would be content to leave most of the effort to the industry side—that department is very good at what it does in that respect and has been concerned with it for a long time.

Mr Macintosh: I would like to build on another point raised by Keith Raffan. Several people have commented on the collegiate, consensual way of working that has been built up. You spoke about that in relation to the Scottish Office and said that you thought that it was a good thing. Several people have commented on it. Would you say that there is a danger either of that breaking down or of us moving away from it?

Sir Russell Hillhouse: That is one thing that I really have no idea about. One should never go back and meddle. When I retired, I retired. I do not think that there is anything to suggest that what you suggest will happen. It would be a pity if it did, especially as Westminster and Whitehall are now belatedly trying to move away from the confrontational style. If it is the intention of the present Executive to continue to behave in a more collegiate way, with people understanding one another's problems and working with one another to pursue wider goals, that is excellent—that is how things ought to be. It would also fit into the way in which the Parliament seems to be trying to organise its collective approach to policy issues.

Members will all be aware that the Executive did not restructure the civil service departments precisely to match ministerial portfolios. In some cases they fit; in many cases they do not. That was interesting—I did not necessarily expect the Executive to do that but, if it works, it will help to maintain the notion of working across boundaries naturally without worrying about it.

Mr Macintosh: You make a comment in your written evidence about the annual public spending round. You say that the total money available to the Scottish Office or to the secretary of state

"was determined by the application of a formula to net changes . . . assistance to local authorities originally lay outside these arrangements but was eventually included."

Can you remind me why such assistance was included, but not originally so?

Sir Russell Hillhouse: Assistance to local authorities indeed used to be dealt with separately. The way in which local government finance has been treated within the UK public expenditure system has varied over the years—it has chopped and changed many times. There was a major change in the system's definition some years ago—in the early 1990s, I think. At that time, there was a change to which bits of local authority spending were to be in the main control total. My memory is a bit rusty on the technicalities, but I know that the Scottish block definition was

changed at that point.

In practice, there was always a dreadful argument about how to accommodate changes in the local authority side; the Treasury was always trying to get us to pay for that out of the rest of the Scottish block. It is all past history, but a firm decision was taken and the change was made.

Mr Macintosh: That was a way of evening out the relationship between the Scottish Office and the Treasury and of stopping annual squabbles. Is that correct?

Sir Russell Hillhouse: It certainly removed a great deal of the annual argument about local government finance and it provided the secretary of state with a plain choice about how far he would put his resources into the revenue support grant for local government. The revenue support grant was brought into the equation: more money on it meant less on something else, and vice versa. The formula applied to the changes in the equivalent element of cash transfer in England, just as it applies to all other spending changes.

10:30

The Convener: Sir Russell, your paper states:

"Over the years considerable efforts were made to achieve a high standard of transparency and consistency of information across all programmes".

You go on to say:

"The open approach we adopted helped to create a better sense of the shared priorities of the Office."

How did that compare with other Whitehall departments? Although there might not be any direct comparisons—with the exceptions of the Welsh Office and the Northern Ireland Office—did those departments not have such transparency at that time?

Sir Russell Hillhouse: Although procedures within some Whitehall departments might have been every bit as good as Scottish Office procedures, the same did not hold across all departments. For example, the department dealing with the demands of higher education—the Department for Education and Science, as it was—might have had little understanding of the pressures on the Home Office or the Department of Health and Social Security, and all of us were always very concerned about what on earth was going on in the Ministry of Defence.

At that time, there was a tendency for each department and set of ministers to argue very hard for their own particular programmes without necessarily understanding until too late in the game what problems were faced by colleagues in other departments. The problems faced by a certain department might well have been so acute that any sensible minister would have prioritised it. Although the Treasury very often tried to explain such circumstances, the basic flow of information was not strong enough to enable others to understand fully what was happening. At the Scottish Office, we tried to be open about everything to allow people to understand the issues faced by all departments.

The Convener: Did that transparency apply only to the Scottish Office and not to relations with other Whitehall departments?

Sir Russell Hillhouse: The Scottish Office had open lines of communication to corresponding Whitehall departments, especially when the whole Government was planning a policy change or a major shift in priorities in England. Although certain measures might not have applied in Scotland, it was good to know what was going to happen south of the border so that our ministers could decide whether to follow such policies. In Scotland, it was quite embarrassing not to be aware of some wonderful new scheme that was about to be implemented in England, even if it was not used in the end. As a result, there were always good informal contacts with Whitehall departments; sometimes the Treasury helped with that, because it wanted a process of rational decision-making on certain matters.

On the other hand, the Treasury did not really care what we did. Although we gave details of our spending because they had to be included with other statistics, decisions about spending were very much up to us.

Dr Simpson: Did any Scottish divergence from UK Government policies create any significant tensions? I ask that question because there might well be increasing policy divergence on how the Scottish Parliament chooses to spend its money.

Sir Russell Hillhouse: The main chunks of spending went along well-determined lines. For example, the previous Government had made certain commitments on health spending that allowed very little room for manoeuvre. In Scotland, we had to achieve a certain minimum rate of uplift in health spending, which proved quite expensive as it was a very large programme. Similarly, our room for manoeuvre in local government spending was often extremely restricted.

However, there was some scope for divergence in other policies. We were sometimes able to do something quite different with smaller programmes, which occasionally caused great annoyance in certain parts of Whitehall.

Dr Simpson: So a new pilot, for example, created annoyance instead of enthusiasm.

Sir Russell Hillhouse: The trouble was that

whereas we could decide to put more money into, say, tourism, Whitehall departments had to get Treasury agreement to do the same and sometimes they did not get agreement.

Life was quite hard at that time and there was not much scope for radical initiatives. For most of the time that I was dealing with this situation, the programme for industry fell outside the block arrangements; The Secretary of State argued direct with the Treasury for funding for that programme, which is an area where Scottish policy diverged. Support was needed for the Scottish Development Agency, the Highlands and Islands Development Board, Scottish Enterprise and Highlands and Islands Enterprise. That was a very interesting area where, with Treasury agreement, more innovative measures could be introduced because we had the mechanisms and institutions that allowed us to do so.

Dr Simpson: As the convener has pointed out, your paper refers to

"high standards of transparency and consistency of information across all programmes".

Does such transparency refer only to different departments, or does it include the Westminster Scottish Affairs Select Committee?

Sir Russell Hillhouse: Actually, we were very open with that committee early on. We were way ahead of Whitehall in the quality of information that we submitted to the committee. For many years, we sent the committee an unpublished document—which it then published—that provided the sort of detail that was latterly published in the departmental reports for all departments.

I think that the document was introduced by my predecessor as PFO; when I was PFO, I and other colleagues developed the format to help Scottish MPs understand what we were up to. We provided as much detail as possible, such as a narrative about the objectives of programmes, detailed spending breakdowns and information about what was being purchased. We were doing that long before anyone else in the system. For example, the Welsh did not do it at that time even though the coverage of their spending programmes was very poor in the Treasury documents.

Rhoda Grant (Highlands and Islands) (Lab): When budgets were set, was there any measurement of outcomes of current spending?

Sir Russell Hillhouse: Yes. This theme has been developing for many years. In my early days in the Scottish Office, there was not much measurement of outcomes, except for capital projects where we suddenly had to explain what had happened.

I think we started measuring outcomes in the 60s. It was a matter of great interest in local government spending, where one needed external measurements of the number of people who benefited from a service, for example. The progress in developing output measures in the late 1970s and early 1980s, which was slow, has accelerated over the past 10 years.

At one time the public sector just did not measure outcomes because it was thought to be very difficult. Once explicit aims and objectives have been stated, it becomes easier to identify realistic and meaningful measures. I think Gill Noble said something about that last week. Although we have come a long way, there is still a long way to go; it is not always easy to find a meaningful way of showing whether one has achieved goals if they are somewhat nebulous. Sometimes one has to stick to textual statements about outcomes and time scales.

However, things have come along quite well, and I suspect that the committee will want to take a great interest in such matters. Quite right, too.

Rhoda Grant: One of the councils told us that although there was much emphasis on new programmes, not much effort was being put into closing down programmes that had reached their natural end.

Sir Russell Hillhouse: I wonder what that witness had in mind. Such measures were taken when there was a particular drive to find out what programmes had outlived their usefulness. I am sure that fundamental spending reviews would also have carefully examined the matter. It is important to review the range of programmes, because the need for certain programmes may no longer exist or it might be possible to use resources more effectively on something different.

The Convener: I want to maintain that theme for a moment, Sir Russell. I was surprised to find that your paper does not mention monitoring or measuring outcomes. Last week, Gill Noble said that Treasury monitoring has been somewhat ad hoc and mentioned the "something-for-something" philosophy, in which inputs and outputs are most important. Was that philosophy more advanced in the Scottish Office than in the Treasury?

Sir Russell Hillhouse: I am not sure whether that is true. As I said, it has been hard to persuade people to produce meaningful measures of outcomes. Although we have been in the outcome business for 10 years, I would not say that we were ahead of Whitehall. However, the Treasury has decided that it can more effectively manage expenditure in England by this method instead of its previous, more combative approach, which it realised was not very fruitful. Although I would like to think that we were better at this procedure in Scotland, I am not entirely convinced about that.

I should apologise; I did not realise that I had left this issue out of my submission. I had initially written a longer paper from which I had cut large chunks. The monitoring of outcomes is a very important part of the build-up to the process described in my paper and forms part of the dialogue between policy divisions and the central finance function. For some time in the old Scottish Office, we tried to provide ministers with a story about that as a back-up for their narrative about future spending plans.

Mr Davidson: My first point is perhaps a little tongue-in-cheek. If this committee and its new structure is to work properly, should we receive the same level of information as ministers?

10:45

Sir Russell Hillhouse: I am sure that we are moving towards a great deal more information being made available. Decision making on public expenditure might well become more open to the Scottish people as well as to this committee. If that happens, a way must be found of making things more meaningful for the public. That is not easy, because a lot of the information can be pretty detailed and boring.

In principle, the answer to your question would be yes: information such as what the money has bought and what objectives have been achieved should be made available. In practice, however, a happy medium should be struck relating to how much the committee can cope with. Further, the committee should not expect to see the steering brief—the narrative that officials write that takes into account what they know of the political priorities of ministers and that helps them to reach decisions. That is what the politicians have to consider and then defend.

Mr Davidson: I want to tease out some information about the roles of the Executive and the First Minister compared with the role of the Secretary of State for Scotland in your time. He was not only the arbiter between departments but one of the principal negotiators with the Cabinet in Westminster if the Scottish Office wanted to spend more than was granted to it by the Barnett formula, for instance. The secretary of state no longer has that role. Should we think about resurrecting that role in some other form?

Sir Russell Hillhouse: What to do?

Mr Davidson: Currently, the UK Government and the Scottish Executive are of the same political persuasion. If that were not the case in future—which is quite feasible—we would need to examine the arbitration systems between the national Treasury and the local budgetary systems.

Sir Russell Hillhouse: That takes us into an interesting area. The convener might not want us to pursue it.

You are talking about the system that we have for the allocation of resources from Westminster to Edinburgh not being regarded as adequate by either side and some change being sought. If that were the case, the First Minister and the Finance Minister would have an important role to play in negotiating with the UK Government. I would not want to say whether it would be wise to get into that situation or what the outcome would be. The First Minister's role would, however, be largely similar to the role that the secretary of state played, except that he would have to expend a lot more effort to build a consensus among his colleagues—who are ministers in charge of major subject areas—than the secretary of state had to when he was dealing with his junior ministers.

Because most decision making was done under the umbrella of the block, the range of subjects on which the secretary of state had to do battle with the Treasury was limited. He had to argue about areas such as trade and industry, certain aspects of agriculture and external financing limits for nationalised industries. By the end, of course, the range was even more limited as just about everything had been brought under the block formula system.

Occasionally, there would be arguments around the edges of the formula and there were always arguments about local government finance, but that was as much to do with local government policy as public spending.

Mr Raffan: In your submission, you say that the arrangements for financial oversight were diverse because of the huge variety of programmes and services. Were the arrangements too diverse? Should they have been more uniform in their approach to the overall budget?

Sir Russell Hillhouse: I do not think so. The committee discussed this last week with Peter Collings who, because he had been the finance head of the national heath service executive before becoming the principal finance officer, knew a lot about the subject.

I included the paragraph that you mention as a warning against the adoption of a one-size-fits-all approach, although that can work well in the commercial sector. There are many ways in which the spending of the Scottish Executive is carried out, even within the approximately one third of the total that does not go to local government or the health service. A lot of that money goes in large grants to Scottish Enterprise, Scottish Natural Heritage, Scottish Homes and so on. A lot is paid to individuals, such as farmers. Also, money is given to bodies such as the Scottish Prison

Service, the Crown Office and the Scottish Record Office, the organisational structures of which are much more akin to those of businesses. However, not many dollops of money are given out like that. A great deal of spending consists of small grants.

The great variety of methods by which money is disbursed means that there can be no one model of financial control or for the collection of financial information. An appropriate system for each method must be found. As Peter Collings said, a decision was taken three or four years ago to change the arrangements for health spending. Curiously enough, up until the mid 1980s, all of the work relating to health spending had been done by the central finance division. It was difficult to persuade the health policy people to take on the responsibility, although it seemed crazy that they should not have the responsibility.

Mr Raffan: You say that there was a presumption that the line divisions would take responsibility for the management of the expenditure. Did the fact that the structure is fairly devolved make it harder for the principal finance officer to monitor what was happening?

Sir Russell Hillhouse: I drove through the policy that required the line divisions to take responsibility for the management of the expenditure. It seemed crazy for people to be making decisions on where money should be going without taking responsibility for monitoring the outcome or caring about the quality of financial management in the bodies that they were grant aiding. It also seemed important that the people in charge of bodies such as the Scottish Prison Service should take responsibility for managing their resources. If that did not happen, a huge area of influence and authority would be forfeited.

However, people have to be trained to monitor properly and there must be good auditing. Further, good relations must be maintained with the central finance function, wherever that might be, because it can help the senior management by giving them advice and by making warning noises if things are not going right. The key task was to build up the knowledge of the line divisions to enable them to carry out those tasks.

Mr Raffan: There used to be a board of part-time economic advisers to the secretary of state. Could you elaborate on the role of those advisers and tell us how much input they had?

Sir Russell Hillhouse: They were senior professors of economics in the Scottish universities. Each of them had special expertise. I cannot recall when the board was set up and I do not know whether it still exists. The full-time economic advisers, in conjunction with the secretary of state or the minister with particular interest in industry and the economy, would ask the professors about certain topics. People with real expertise would be invited to submit papers and everyone would then join in a discussion on them, or there would be a discussion on the state of the economy. That would give ministers and senior officials the benefit of the best available professional understanding in Scotland.

Mr Raffan: That seems a valuable exercise.

Sir Russell Hillhouse: It was valuable, but it was over and above the work that was being done full time by our economic staff.

Elaine Thomson (Aberdeen North) (Lab): A couple of weeks ago, we talked to people from Scottish Power and BP Amoco. They told us about the financial management that exists in big private organisations. The quality and quantity of their financial data, and the way in which they are able to use those data, have been revolutionised by things such as information technology. The way in which they gather, hold and report on financial information, even across different businesses or areas of business, allows them to have a uniform view. You have told us about the diversity of Government expenditure, but do you think that it would be possible for us to have a standardised way of gathering, monitoring and reporting financial information for Government?

11:00

Sir Russell Hillhouse: The point of the second paragraph of my submission was to imply that that is not possible. On the other hand, we must do the best we can towards that end. In the health service, where a large number of bodies generate the same kind of information while doing the same kind of business, a good system of gathering and monitoring information centrally is needed and I hope that there is one. Similarly, in local government, where there are major difficulties because not all local authorities have the same system, a rapid flow of consistent data would be of great help to the Scottish Executive. One might hope to get that in time, but I do not think that it exists at present.

The arrangements for other programmes are exceedingly diverse. There are certain bare minima of information that one needs to manage the financial budgets that have been presented to this Parliament. One tends to find that the systems that are relevant and work best are those that relate to the character and needs of the individual spending programme.

For example, major capital programmes have special needs, which are generally well catered for—they certainly ought to be. If there is a fixed pot of money, which one is disbursing through grants to third parties, it must be planned in a special way so that one prioritises correctly, does

not overspend and uses the money properly.

Dr Simpson: The Government has certain priorities. In health, mental health has been a priority for a long time, but it has struck me forcibly that, under the current system of budgeting and devolving funds to health boards, there does not seem to have been any significant shift to mental health. There is tension between ring-fencing, top-slicing and hypothecating, and telling boards our priorities, giving them the money and letting them get on with it. I am not convinced that the present system is driving the central agenda forward appropriately. The two examples are mental health and the shift from secondary to primary care, which have been priorities of the previous Government and of this one.

The Convener: You are being a bit specific.

Sir Russell Hillhouse: That is an interesting point, which you should have put to Peter Collings last week—he would probably have been able to address it properly as he was the finance director of the NHS in Scotland before he took up his present job. Although I do not know, I suspect that you are right.

There is much to be said for placing a great deal of responsibility at local level, where people have local knowledge. However, people at local level are also subjected to local pressures. As Richard Simpson will know from his professional background, much media attention is paid to various crises in the health service. Those crises very rarely relate to mental health problems, and not usually to problems of primary care. There are always eddies to knock things off course. I suspect that that is one reason why the situation that Richard Simpson describes arises.

There is always a tension between the desire to empower a local spending authority—this applies very much in the case of local government—and the desire of the centre to set priorities that it wants to encourage local decision makers to observe. The Scottish Parliament and the Executive may find a way to resolve that problem, which has been around for a long time, in the climate that we are able to create here.

Dr Simpson: How do you suggest we resolve that general problem?

Sir Russell Hillhouse: It is a very general issue. In some respects it is a more serious problem in relation to local government services. If one does not allow local decision making, many of the people who are involved in local government or in health boards will wonder what they are there for.

Mr Raffan: I have a brief point about the spending process. Your memorandum says that

"Although the basic approach tended to be incremental, from time to time"

there was

"a more radical review of the policies".

Did such reviews tend to occur when there was a change of Government?

Sir Russell Hillhouse: No. If that had been the case, there would have been no reviews between 1979 and 1997. I think that all Governments since the early 1960s have realised that they must carry out reviews from time to time or inertia will rule and we will end up in the position that Elaine Thomson described, in which things never change. One has to review policies as radically as possible. It is always important that the politicians are interested in the review and have ideas. It is difficult to make headway on the basis of what officials decide among themselves. Officials can think of all sorts of wheezes, but if the politicians are not interested nothing much will happen—after a while officials, too, will lose interest. The big round of reviews that took place in the Westminster Parliament was quite radical. That is probably because it was the Government's first chance to get at the books and see what was what. Governments must try to keep the practice of undertaking reviews going.

Mr Raffan: I am interested in this issue. What prompted radical reviews between 1983 and 1997? Were they prompted by changes of secretary of state?

Sir Russell Hillhouse: I am a bit hazy about dates. The whole Westminster Government would decide from time to time to take a particularly hard look at policies. Also, when certain secretaries of state faced acute dilemmas because of particularly tricky settlements, they would tell officials to think the unthinkable over the summer and return with suggestions. Sometimes, that would produce results. Such reviews would be internal to the Scottish Office.

Mr Raffan: Were such reviews genuine and thought through or did they represent crisis, panic management?

Sir Russell Hillhouse: The tightness of public spending, which has applied for a very long time, is always a spur to thinking hard about things. There needs to be political will for something to be done about that—ingenuity and lateral thinking from politicians is always very welcome.

The Convener: That concludes questions by members. Sir Russell, we very much appreciate your willingness to give up your time to give us the benefit of your vast experience.

11:08

Meeting continued in private until 12:12.

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ISBN 0 338 000003 ISSN 1467-0178