FINANCE COMMITTEE

Tuesday 30 January 2001
(*Morning*)

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FINANCE COMMITTEE

2nd Meeting 2001, Session 1

CONVENER

*Mike Watson (Glasgow Cathcart) (Lab)

DEPUTY CONVENER

*Elaine Thomson (Aberdeen North) (Lab)

COMMITTEE MEMBERS

*Mr David Davidson (North-East Scotland) (Con)
*Donald Gorrie (Central Scotland) (LD)
*Mr Adam Ingram (South of Scotland) (SNP)
Dr Richard Simpson (Ochil) (Lab)
*Andrew Wilson (Central Scotland) (SNP)

*attended

WITNESSES

Graeme Dickson (Scottish Executive Finance Department)
Angus MacKay (Minister for Finance and Local Government)
David Palmer (Scottish Executive Finance Department)
Steve Renwick (Forensic Accounting Services (Edinburgh) Ltd)

CLERK TO THE COMMITTEE

Callum Thomson

SENIOR ASSISTANT CLERK

Anne Peat

ASSISTANT CLERK

Graeme Elliot

LOCATION

Committee Room 2

Scottish Parliament

Finance Committee

Tuesday 30 January 2001

(*Morning*)

[THE CONVENER *opened the meeting at 10:03*]

The Convener (Mike Watson): Welcome to the Finance Committee's second meeting of 2001. We have a fairly lengthy agenda today. First, I invite members to agree to take agenda items 2 and 3 in private. Is that agreed?

Members *indicated agreement*.

10:04

Meeting continued in private.

10:38

Meeting continued in public.

Resource Accounting and Budgeting

The Convener: Good morning, Mr Renwick. Thank you for agreeing to assist our inquiry into resource accounting and budgeting. We have received and read your submission with interest, and we will put questions to you on it. First, I invite you to make an opening statement

Steve Renwick: (Forensic Accounting Services (Edinburgh) Ltd): I thank the committee for its kind invitation. It is my privilege to attend the meeting today. I shall forgo a formal introduction, but I will pick a few points out of the submission that members have received. All my evidence is in the submission, so there is no need for me to reiterate it.

I was interested to read on the internet the *Official Report* of some of your previous meetings. I was tickled by a quote from Vernon Sore—my colleague at the Chartered Institute of Public Finance Accounts—who quoted J K Rowling. I am a Christian and so I decided to find a quote from the Bible. The more that I read the quote that I included in my submission—which is taken from the gospel of Luke—the more that I thought that it would provide an apt title for what I would like to share this morning:

"All the costs and none of the ridicule."

I was a finance director in the health service for three years at Falkirk royal infirmary. In that context, I would like to share a few thoughts about capital accounting and describe some of the issues that arose while I worked there. When I moved up to Scotland, I worked for the Scottish Office in the creation of NHS trusts, having spent some time in the north of England with a purchaser organisation—Newcastle and North Tyneside Health Authority—and a provider organisation in North Yorkshire, the Northallerton Health Services NHS Trust. That blend of experience stood me in good stead for my work at the Scottish Office in helping to create NHS trusts in Scotland.

One of the key considerations in that work, with which members will be familiar, was how such a massive amount of estate and capital infrastructure could be put in the hands of self-governing NHS trusts. One of the mechanisms that was chosen to enact that transfer was capital charging. There is a sound rationale for creating capital charges, but a misguided approach to them was taken and they became something of a blunt instrument.

Capital charges were imposed for two reasons: first, to instil a sense of financial discipline into the management of the NHS in Scotland when NHS trusts became self-governing; and secondly—and importantly—to allay any public misconception that the Government was putting significant amounts of state assets into the hands of organisations that were quickly badged as unelected quangos. Capital charges were introduced as a mechanism for instilling discipline and providing a route whereby the Government could get a rate of return on its assets, to show accountability, transparency and good stewardship.

In my opinion, the system went wrong because it was an imposed solution—there was little discussion or negotiation—and because it was too complex. Capital charges created two streams: depreciation, which could be readily understood; and a required rate of return on the capital that was employed. Neither principle was wrong and both were familiar to me in the context of my private sector career with Touche Ross & Co in Newcastle, but their blending together and the creation of a separate allocation of funding to the NHS trusts caused massive confusion. The system became unwieldy.

When he gave evidence to the committee, Peter Collings identified the fact that, when two sets of accounts were created, people did not take capital charges seriously. The practitioners viewed them as funny money and from that view quickly emerged a culture of evasion: people asked, "How do we get around capital charges?" It was not that the original aims of discipline and transparency were not put forward, but people wanted to know how to get around the additional costs. At a time when there was, in the health service, an internal market in which cost equalled price—or price equalled cost, depending on which way one looked at it—an additional 6 per cent had to be found for capital charges, which became something of an albatross.

I am convinced that we need a discipline in accounting for capital in the public services, and not only in the health service. However, capital charges did not work previously. How might they work better in future? We must examine, by negotiation, a method of instilling discipline and creating transparency. One of the problems that is highlighted in my submission is the fact that, during the first couple of years of NHS trusts, most of the accounts had a qualification from the auditors—not in the sense of a formal qualification of accounts—in the form of a wee subparagraph that identified the fact that the assets did not belong to the trusts. The legal service had not caught up with the trusts and it took two or three years to vest the assets in the new legal bodies—the self-governing NHS trusts. There must be a clear process of negotiation.

We should now move prospectively rather than retrospectively. If we are to make the quantum leap from a system that was imposed—for all the right reasons—to a system that is owned by the public services, we must consider the current context. The key issues that we face include the move to resource accounting and budgeting and the prevalence of public-private partnerships and private finance initiative deals. I take the apocalyptic view that we will very soon have an empty balance sheet.

10:45

Let us consider what the public and private sectors use balance sheets for. We use them to determine whether an organisation has a strong asset base. We look for evidence of professional management of working capital. We look for ample reserves to cover liabilities. Very soon—given the introduction of public-private initiatives and public-private partnerships—there will be no assets on the public sector balance sheet unless accounting practice changes dramatically. Those assets will be on the balance sheets of special vehicle companies or of consortia that build new schools, hospitals, prisons or infrastructure.

I am 100 per cent committed to resource accounting and budgeting for the reason to which the title of my talk this morning refers; there must be

"All the costs and none of the ridicule."

In my paper, I quote a managing director of Reg Vardy plc, to whom by some tortuous route I am related through marriage. When I suggested that I could happily drive one of his Ferraris for a living and play with his other vehicles, he said, "We don't want any public sector accountants who round to the nearest million". I do not want such ridicule, because I believe firmly that there is much accounting expertise in the national health service and in local authorities, with which I work at the moment. There is a lot of readiness for resource accounting and budgeting—it is the right way to go.

I am concerned that we should apply resource accounting and budgeting appropriately to capital. This is not just about the accruals principle, which is so clearly espoused in generally accepted accounting practice. It is about putting matters into a professional context. I have a vision in which there are fewer bean counters in the public service and more financially literate managers. Those managers will see the empty balance sheet and recognise that there needs to be a change. In my vision of change, we should stop the artificial delineation between revenue and capital. If I asked Bill Gates or Richard Branson what their capital income stream was for the year, they would say that it was the same as the revenue income stream; it is the money that comes through the tills. Only when we stop that delineation can we start to hand the reins of self-control and self-discipline to those financially literate managers. We should allow them to receive a single stream of money and to be responsible for renewing and replacing their infrastructure.

That may sound apocalyptic, but I do not think that it is too far away. A private finance initiative is intrinsically about taking away from capital and making a revenue stream over the long term. The use of PFIs may be in its infancy, but more and more schemes are being introduced. I think that the balance sheet of the future will be empty and can be discarded. In its place, for public accountability purposes, we should move to something that is more akin to a statement of managerial performance, with reference to changes in working capital and to debtors, creditors and stock. The income and expenditure account will show clearly the costs of any PFI or PPP infrastructure.

I also foresee a move to real three-year budgeting. In the public services at the moment, we talk a lot about three-year budgeting. However, if at midnight on 31 March we have not broken even or delivered on the targets that have been set for us, there is little latitude for excuses. We cannot say that something was a loss-leader for which we will have fully compensated for—and then some—in two years. We need full three-year budgeting, in which there is latitude for financially literate managers to take decisions that involve entrepreneurial risk.

I trust that the paper's comments that I have not discussed are clear.

The Convener: Thank you for that interesting expansion of some of the points that you made in your paper.

I will ask you a question that you may answer from your experience in the national health service. Last week Mike Hathorn, of the Institute of Chartered Accountants of Scotland, talked about the resistance of managers to moving to resource accounting and budgeting from what they regarded as the tried and tested system. Were you aware of that resistance when you worked in the NHS? Is that management mindset still prevalent in the NHS?

Steve Renwick: There was built-in resistance to resource accounting and budgeting when I worked in the NHS. I attribute that to the fact that the creation of self-governing trusts was causing massive change. Folk were very comfortable with jamjar accounting: the prevalent attitude was that there was one jamjar containing cash for this year and another containing cash for next year. It was an alien concept to think that cash plus commitments equalled total costs. Given all the changes that were taking place in the organisations, there was a resistance to going the extra mile.

That resistance has evaporated. There are many capable managers in the health service, who would espouse management accounting in its fullest sense by introducing commitment accounting. Most accounts that are prepared in the health service are prepared on an accruals basis. Most reporting to the Scottish Executive is done on an accruals basis. There is no longer the resistance that there once was.

The Convener: What you say about jamjar accounting leads me to my second point, which is on three-year budgeting and to which you referred in your opening statement. You said that three-year budgeting was not yet a reality. I cannot reconcile that with the statement that jamjar accounting is largely gone and managers have moved on. Surely it is because of jamjar accounting that three-year budgeting has not taken off fully.

Steve Renwick: I think that three-year budgeting has not taken off because it has been imposed rather than being owned. Currently, most of my work is with local authorities, in which three-year budgeting is prevalent. I have no contemporary experience of three-year budgeting in the health service. It is clear that local authorities are sticking to the break-even, 31-March deadline, dead-hand-of-the-Treasury approach. Although I do not think that there is resistance to resource accounting and budgeting, I think that my former colleagues in the NHS are taking one step at a time. They are making resource accounting and budgeting real and will then move to three-year budgeting.

The Convener: How can resistance to putting three-year budgeting into effect—despite the facility for such budgeting existing—be fully broken down?

Steve Renwick: An omnipresent problem in the health service was that our ability to carry sums over the financial year-end was restricted. Therefore, if we wanted to create a new specialised service, such as a new clinic or outpatient service, we had to ensure that it broke even within 12 months. That restriction stopped us creating new services. By the time we obtained referrals and communicated with general practitioners, we would be unable to break even before the year-end. The tolerances for carry-forward and carry-back need to be increased. There needs to be scope for the movement of money across the financial year-ends for pre-defined and agreed projects.

The Convener: You referred to that as allowing managers to make decisions and look further ahead.

Steve Renwick: Yes.

The Convener: You described the artificiality in the NHS. Surely that applies to other parts of the public sector when resource accounting and budgeting is introduced. How might the problems that the NHS encountered be overcome? Are there useful lessons to be learned from its experience?

Steve Renwick: Yes. There are unique circumstances in the health service. There are three key targets for NHS trusts: a break-even, which is a fairly standard yardstick; an external finance limit, which identifies the amount of external borrowing; and a 6 per cent rate of return—it quickly became clear that that meant six point zero zero per cent, or else.

I will give an example from my experience to show the artificiality of the regime. My trust invested significantly in some capital equipment, which at midnight on 31 March was in the middle of the Irish sea in a storm. By not putting that through my books and not accounting for the expenditure, my 6 per cent rate of return became 6.8 per cent. I received black marks and anti-brownie points from the trust board on that day.

We could move to a set of fundamental baseline activity or performance measures. The Audit Scotland approach to performance management and planning could usefully be rolled out across the whole public sector. Under that approach, we ask fundamental questions about best value. The financial criteria that are applied are relevant in the context of best value and performance management and planning. Are we doing things right? How will we continuously improve? How do we account for our performance? It is important to put trust in the managers and to give them latitude to manage without tying their hands.

Elaine Thomson (Aberdeen North) (Lab): I will pick up on a couple of points. Mike Hathorn and another witness raised this issue previously. As RAB is introduced in the public sector and organisations move from jamjar accounting—you referred to financially literate managers, which I take to mean non-accountants—

Steve Renwick: I mean non-bean counters. I think that my tribe does itself a disservice. I am a chartered accountant and a member of the Chartered Institute of Public Finance and Accountancy and I know Mike Hathorn well. Rather than employing people who merely see the beans and count the numbers, we need people who live the job. I entered the health service because the rest of my family were nurses and therapists. I loved the job—it was my vocation and many people work in the NHS for the same reason. It is not possible to put a bean counter into the health service and expect financially literate management.

Elaine Thomson: How do we make the process straightforward? What preparation is required to develop a generation of financially literate professionals in the public sector?

Steve Renwick: When I was in the Scottish Office, we gained a less than brilliant reputation by simply tartanising what came up from the south. We changed the cover and one or two references to statute. We need to take a clear Scottish stance and we need to explain it exceptionally well. That stance should be grounded in generally accepted UK accounting practice, about which Mike Hathorn will have spoken to the committee. We are not creating an extra tier of bureaucracy; we are allowing the managers who run the finances of the public services to apply their professional codes. It must be made clear that we are not inventing a new scheme, but are applying generally accepted accounting principles and practices.

It would not hurt at all, although it would extend the time scale, to offer to introduce pilot schemes in some organisations. Case studies could be shared in forums such as the Convention of Scottish Local Authorities, the Healthcare Financial Management Association, the Chartered Institute of Public Finance and Accountancy, and the Institute of Chartered Accountants of Scotland. Dissemination of good practice would be helpful before there was a blanket imposition.

Elaine Thomson: The NHS is already using RAB. In effect, is that a large-scale pilot? Perhaps, we should examine what the experience of using it has been in the NHS.

Steve Renwick: There are two strands to that. Clearly, RAB is being used in the NHS; particularly by trusts, but less so by health boards. There needs to be uniformity among those organisations and experience must be shared.

If we are taking the changes one step forward and adjusting capital aspects in recognition of the emergence of PFIs and PPPs, although we could examine existing good practice, there would be merit in field-testing changes in the larger units that have developed PFI schemes, such as Edinburgh royal infirmary or Hairmyres hospital. There have been PFI schemes at Hairmyres for building work and for a large information technology installation. Examining how the Scottish Executive and a couple of teams that have introduced PFI schemes account for them in an RAB framework would be helpful.

Elaine Thomson: That would be helpful. You said that extension of RAB in the public sector might be helped if people were given ownership of the system, so that there is a bottom-up rather than a top-down process. Will you expand on that? How might such an approach be facilitated?

Steve Renwick: In the public services, we are not good at reconciling top-down and bottom-up views. Previous witnesses have identified the ability to track useful information. The information and statistics division in the health service has a role in finding some comparable bedrock data so that there can be a comparison of apples and apples. Furthermore, we have to get the practitioners to create the foundation on which to place the principles of UK generally accepted accounting practice, or GAAP. We can then reconcile those two aspects in a series of exercises halfway through a financial year. In that way, we do not have to suffer the trauma of trying to do everything at the end of a financial year when the auditors are breathing down our necks. If we get things out of the way in September, we can use October, November and December to dry-run a move into RAB. Furthermore, if we share experiences, we can ensure that people are more prepared for the start of the next financial year.

11:00

Elaine Thomson: Previous witnesses have said that they need new information technology to implement RAB. What is your experience of implementing RAB? That point has caused organisations in the private and public sectors a lot of grief; however, it can be worse in the public sector, which is more open and therefore even more exposed.

Steve Renwick: I agree with your very last point; life in the goldfish bowl of the public sector is really quite something. Before I came along to the committee, I asked Irvine Lapsley whether any subjects were taboo, and he said, "Certainly not." I am therefore going to make my heretical statement: any trust or body in the health service that claims to require a new IT system for RAB is missing the point completely. As RAB is enshrined in good accounting practice, there should be no need for any such system; and anyone who has bought an IT system in the past two years that cannot cope with accruals and resource accounting needs to ask serious questions about their procurement policy.

Elaine Thomson: I understood that quite a few organisations have such systems.

The Convener: It is claimed that they have such systems.

Steve Renwick: I am unrepentant on that point.

Mr David Davidson (North-East Scotland) (Con): As I have some background in the health service, I found some of the comments in your paper interesting and teasing. On the second page of the paper, you refer to

"estimates of useful economic life".

I know that, in the health service, people decide on different bits of equipment on a fit-for-purpose time scale, which will vary throughout the system. You then mention

"charges on non-revenue generating assets"

How should we handle those two aspects?

Steve Renwick: During my career in the health service, I experienced a lot of management by decibel and an ill-preparedness to replace infrastructure. For example, it is okay to assess the useful economic life of ultrasound equipment, but if there is no financial discipline to provide for a replacement, the life of that piece of equipment will be extended and extended until the clinician has to wave the shroud and the equipment is replaced because of necessity instead of prudence. That particular situation is exceptionally worrying.

You also asked about non-revenue generating parts of the infrastructure, which returns us to a previous point about the ability of accounting systems to cope with the totality of resource accounting and budgeting, particularly in a capital sense. We need to identify the costs of the supporting infrastructure; for example, no one can run a health service without the hospital, even though the car parks do not seem to generate much revenue.

When I was in the health service, I was concerned by a propensity for an evasion culture of getting round capital charges, which I felt was one of the symptoms of why capital charges did not work. We must have a more holistic view of capital. Although the ultrasound machine is important, the car park is also important as people need to get to the hospital in the first place. For example, we should remember the recent deluge of complaints when West Lothian Healthcare NHS Trust tried to start charging for parking outside the hospital in Livingston.

We must create systems that account for the full infrastructure, not just the clinical sharp end, and take a more holistic view of the asset base. That brings us back to one of the themes of my paper: responsibility and financial management being vested in the organisation rather than an imposed system dictating the useful life of a particular piece of kit or how a hospital treats its car parks.

Mr Davidson: But that is the responsibility of the individual manager of the asset, no matter who that is within the organisation. For example, in a factory that produces machine tools, someone would have made a bid within the departmental budget for the replacement of assets, which is fine. In business, people might borrow money; as you said, there is an external financing limit and the needs of the bank will need to be met.

I get the impression that you are really suggesting that we should simply consider a leasing arrangement for assets—be they PFI projects or assets owned by a trust, a health board or whatever—which is then built into a revenue structure. Presumably that means that responsibility for the total capital assets of the health service will be left in the hands of the minister. Was that part of the thinking behind setting up the trusts?

Steve Renwick: You have far more eloquently described the first part of my paper's thesis than I have—and forgive me for that.

The answer is yes. I foresee that, in future, the public services—particularly the health service—will be able to vest control of operational assets under a single revenue stream, with the totality of the infrastructure vested in the minister.

Mr Davidson: You mentioned management by decibel and said that everything should be done through negotiation. Does that mean that some trusts will be better at negotiation than others, or are we talking about a national system of negotiation?

Steve Renwick: My comment about management by decibel referred to within a trust rather than the totality of the NHS in Scotland. I was actually alluding to the concept of opportunity costing within a trust.

Mr Davidson: I will move on to your comments on Peter Collings's evidence. I get the impression that you feel that managers should be more accountable within their particular organisation instead of globally. How would separating the three strands of assets, capital charges and depreciation make managers more accountable within the budgetary process? They are looking for outcomes; you are talking about widgets and money.

Steve Renwick: It should be said more often that the most important people in the health service are not the accountants or the managers, but the clinicians, who use the assets. In the context of your question, I have found that one of the more striking features of many different NHS bodies is that the budgets of clinical managers do not show depreciation or asset charges. Consequently, there is no onus on them to sweat the assets.

For example, when we invested £500,000 in a computed axial tomography scanner, the supplier said that we would get maximum use of the equipment by scanning animals. The clinicians were horrified by the suggestion, as they did not feel the need to sweat the assets. If we are to move to that good use of assets—in which context the Accounts Commission's recommendations on full-house theatre utilisation are helpful—we must put these financial criteria into the hands of the budget holders who use the resources.

Mr Davidson: Are you suggesting that there should be equipment renewal programmes instead of depreciation?

Steve Renwick: People could see things much more clearly. My tribe is very good at using language that no one understands. The statement of standard accounting practice 12 definition of depreciation uses silly phrases such as effluxion of time, but including a measure of wearing out into a clinician's budget makes an awful lot of sense.

Mr Davidson: If that is the case, how can the Government continue to seek a fixed 6 per cent return?

Steve Renwick: I would argue that we do not. I respectfully suggest that Joe Public does not understand the financial discipline behind creating a break-even in NHS trusts—nor do they understand yardsticks such as the number of trusts in deficit or in artificial deficit. Instead, Joe Public more clearly understands the yardstick of a renewed and contemporary infrastructure that is fit for purpose and that breaks even, year on year, to ensure that there is no drain on own resources each time there is a new injection of funds into the service.

Donald Gorrie (Central Scotland) (LD): As an amateur, I find it difficult to grapple with the idea of a return on public assets that do not make money. Someone who runs a BUPA hospital needs to find income; an NHS hospital does not have that problem. I have found your comments very helpful. What do you think is the philosophy behind charging for hospitals built 100 years ago that are still going strong?

Steve Renwick: That is a very difficult situation. There must be a very clear evaluation of functional suitability, which is the terminology associated with capital charges. As David Davidson said, functional stability means assets that are actually fit for the purpose. We must find a system in which the totality of assets is recognised as generating the patient care that is the most critical aspect of the health service. The way the whole infrastructure is accounted for is very important, and any move to resource accounting and budgeting will open a window of opportunity for moving away from a piecemeal to a more holistic approach. Such an approach is intrinsic to my apocalyptic vision of an empty balance sheet and the creation of financially literate managers who are truly accountable.

Donald Gorrie: The new Edinburgh royal infirmary has been built through PFI; on the other hand, the Western general was funded by ordinary public borrowing. How would your system provide the proverbial level playing field so that we can get good management?

Steve Renwick: That is a very good question. The Western general is a very interesting case in point. The initial scheme to renovate the central core of the Western general was a PFI scheme that was deemed inappropriate because it was too integral to the whole campus.

The asset base on an NHS balance sheet will not evaporate overnight; it will depend on the passage of time as the assets come towards the end of their useful life. That said, the totality of the value of the assets—be they publicly funded assets that have been there for a long time or public-private partnership or Exchequer-funded additions to existing campuses—can still be assessed and calculated. Furthermore, the managers will be able to use that asset to generate wealth in its widest sense—which means to deliver optimum health care and health gain while still breaking even—and consider how it will meet the definition of total wealth or health gain for the population.

Donald Gorrie: If, instead of going down the social scale to become a politician, I had stayed in teaching and risen to the dizzy heights of head teacher of the Royal High School in Edinburgh, what would be my working capital statement?

Steve Renwick: Working capital is the part of the balance sheet that shows the live issues of the business, be it a school, hospital or local authority. The live issues are the debtors, or the amount of money people owe us; the creditors, or the amount we owe to folk; the stock balances, if there are any; the cash in bank; and short-term debts, if there are any overdrafts or so on. That forms the reality of the daily management agenda of a management team and a head teacher should demand members of the management team to show good stewardship.

For example, current liabilities, or the moneys that are owed, should be covered by current assets. The quality of an organisation's management is demonstrated in the way it can find the funds—or the assets that can be converted into liquid funds—to pay for any short-term call on those liabilities.

Andrew Wilson (Central Scotland) (SNP): I cannot disagree with much of your presentation, but why will the public sector's balance sheet not show any capital after how many years, and why is that logically a good thing?

Steve Renwick: I have not mentioned the word desirability this morning. The situation will come about because the paucity of capital available to the public sector will drive us to the point where there will be fewer and fewer Exchequer-funded schemes. The skill base that has been developed in PFI and PPPs is advancing so well that it will become the common model, which means that the size of the capital asset base on the balance sheet for a public sector organisation will necessarily shrink over time.

Andrew Wilson: That is interesting. Although the overall level of capital investment goes down on the balance sheet, it still far outweighs private sector funding, even in the Government's pretty expansive plans. How does that stack with your theories?

Steve Renwick: I have no problem with that. In 1996, at the public expenditure settlement presentation, the finance director of the NHS, Simon Featherstone, clearly identified that the level of capital investment is growing. The rationale behind that is that although the public Exchequer-funded element is diminishing, the use of PFI is being advocated and the likes of the level playing field support—the revenue support to go alongside developing PFI schemes—is coming forward, which is a very sensible and appropriate means of supporting that investment. Notwithstanding comments about diminishing assets on balance sheets, the infrastructure of the public services can only benefit from the increase in PFIs and PPPs.

11:15

Andrew Wilson: Any investment would do that. The question that arises—particularly given your comments about the managing director of Reg Vardy—relates to the supporting revenue streams. No one disagrees that revenue streams are important but, following Mr Gorrie's comments, the parallels break down when the revenue stream cannot be influenced. A private business would seek to increase sales to pay for investment. We do not have that opportunity. How does the commercial logic run through?

Steve Renwick: That is an interesting point. The committee agenda says that I am a management consultant; I am currently working on a huge waste management integrated PFI scheme. The critical part of that analysis is deriving a public sector comparator, because you do not get on the train unless you can afford the fare. If, when we consider the current and prospective revenue streams, the affordability model per the public sector comparator is not correct—in so far as it is not a cheaper option to go to the private sector partner—the scheme will not go ahead.

A greater awareness of the totality of cost through the piece is demanded, at the outset—before one buys the assets or takes up a PPP or PFI. That demands much greater financial discipline at the outset of an investment scheme. The models of PFI and PPPs demand close scrutiny across the piece, throughout the term of the contract. Treasury guidance on risk and risk transfer is very helpful in that context.

The Convener: Your health service experience underpins much of what you have said today—notwithstanding your other experience. The committee has received written evidence from Dr Jean Shaoul, from the Manchester University school of accounting and finance, who will give oral evidence in a couple of weeks' time. If you read the evidence that Mike Hathorn gave last week, you will have heard his comments on Dr Shaoul's submission. Dr Shaoul made the fundamental point that as capital charges must be met, staff costs are often squeezed to meet the 6 per cent demanded. She painted that in a very negative light. Mike Hathorn took some issue with that, but did not really dispel the notion. How do you view that aspect of resource accounting and budgeting in respect of capital charges?

Steve Renwick: In that context I would lean more towards Dr Shaoul's view than that of Mike Hathorn. There is a tendency in the accounting profession to start with an answer and then work out the question. If the answer is, "Here is the affordability," the question will be, "I have got to fit capital charges into the equation, so what can be squished?" That is a very dangerous preoccupation—going down to a price, rather than up to a quality. Having said that, a public limited company would not make decisions on affordability and then say that it wanted to attract better staff and so go beyond the affordability envelope. As I mentioned to Andrew Wilson on the public sector comparator, at the moment there is a greater need to derive a baseline. We must ask what the staff are currently costing us.

We have notions of best value, performance management and planning, a fundamental element of which is continuous improvement, but we cannot demonstrate continuous improvement unless we know where we are starting. If we do not know the costs of our staff, we cannot make appropriate costings to economise on staff at the expense of capital charges and we cannot get a good handle on what the capital charges should be. The inability to take that decision prevents us from considering that capital charges over the life of the asset divided by the activity that that asset can do might cause us to look more closely at the activity. That goes back to the point about sweating the assets—making them work harder. It may be that one does not have to dilute the staff-skill mix, because one can increase activity.

Finally—forgive me for rambling—we should recognise that the centre can help, rather than simply impose. Several years ago, a trust in Edinburgh—I will not name it, but I am sure that members will be familiar with it—had two magnetic resonance imaging scanners in one hospital. One was being used and the other was redundant because the trust could not afford the capital charges to run it. That is shameful. If there were some central assistance to spread the activity across centres of excellence—instead of everyone wanting the latest toy—we would be able to afford both the capital charges and the quality staff.

Andrew Wilson: How would that work? The existence of the machine would incur a capital charge irrespective of whether it was in use.

Steve Renwick: Yes. The point was related to the convener's comment made about economising on staff. As the trust incurred fixed cost capital charges on the machine, it could not afford to run it and so did not attach any staff to it.

Andrew Wilson: I see.

Steve Renwick: It was terribly sad.

Mr Davidson: I want to return to a comment you made in response to Mr Gorrie's question about working capital statements. As far as I am aware, working capital statements have never been particularly sexy in the UK. Many moons ago, when I was at business school, there was a great push to use working capital statements to examine commercial organisations. Most of the textbooks that championed that aspect of asset management were American. Has there been a change in UK culture towards that approach? Is it only the companies that respond to the US Treasury and the tax model that use working capital statements? That is a more simplistic view of the totality—to borrow your term—of how to manage the assets.

Steve Renwick: My recent experience in the private sector is rather limited; I have spent the past three years primarily in local authorities, health boards and NHS trusts. I see an awakening to a requirement, particularly in the context of political representation, to present financial statements that are straightforward. As I said to Mr Gorrie, the headmaster, as head of the ship, needs to understand the statements. By the time I prepare a balance sheet and feed it to my board of directors—that is if I am working in a trust; if I am working in a school it would go to the headmaster and to the chief executive management team if I am working for a council—for approval, it is three or four months out of date. It is historical information and of little use. As members will know, a balance sheet is simply a snapshot at a given point in time—usually 31 March. Why is that living? Why can we not have a statement of what has happened to the working capital in a 12-month period, just as we have a statement of what has happened to the income and expenditure over 12 months?

Mr Davidson: That raises an important issue. If we move towards working capital statements, we need an agreed method of evaluation of the assets. Are you proposing that there should be a formula into which different assets could be fitted on the basis of writing them off over, for example, 50 years—for a building—or 20 years?

Steve Renwick: Potentially. To some degree the comments that I made to Mr Wilson come to bear on that point. If we are taking the PFI or PPP route, the contract has a predefined term anyway and therefore the imposition of economic lives is not an issue. That is the term of the contract and the risk transfer element is clear. Beyond that, there is a need for commonality. It would be better to carry out a pilot study than to impose predefined lives for X, Y and Z on day one.

The Convener: Thank you for your submission and the clear responses that you have given to the committee's questions.

Steve Renwick: Thank you, convener. It has been a pleasure.

Future Inquiries

The Convener: As members will know, we will take evidence for our resource accounting and budgeting inquiry until the middle of March. Thereafter, we will have a period of relative calm. The beginning of April is also the beginning of the new budget process, but we should have some time in April and May before we get into stage 2 of the budget process. We will not have as much to do at stage 1 as we will at stage 2. However, we might want to consider how we handle that.

We discussed the possibility of appointing reporters to various committees and having direct links with the committees at stage 1. We might want to give additional advice to the committees, even if we decide not to go so far as to appoint reporters. We need to give some consideration to how we will fill that gap. We do not need to reach definitive decisions today and time is a little tight, given that the previous item ran on 10 minutes longer than I had intended.

Andrew Wilson: A possible inquiry that was raised at the very first meeting and that may be opportune, given the European funding inquiry and the RAB inquiry that we are currently pursuing, is one into the implications of the Barnett formula. I would like to suggest that as an option.

The Convener: Okay. The European funding inquiry is another matter. We suspended that back in September for reasons that are well known and we are not yet in a position to reactivate it. The Barnett formula was one of the initial suggestions. When we discussed it about a year ago, we also talked about holding an inquiry on the tax-varying power and another on the use of public-private partnership schemes. Those were on our forward agenda about this time last year.

Elaine Thomson: We mentioned taking a further look at the budget process. Is that already timetabled into our activities?

The Convener: Our review of the first year?

Elaine Thomson: Yes.

The Convener: It is not part of the timetable. By the end of March, we will be in a position to begin to assess it.

Elaine Thomson: It strikes me that that slot, before we get into next year's budget cycle, would be an appropriate time to pull together the various different strands.

The Convener: If we decide to begin an inquiry into the Barnett formula, the tax-varying power or PPPs, that will demand a substantial amount of time. Time will always be a factor, but it will be particularly relevant in April and May because in June we begin our review of stage 1 of the budget process and we must sift the comments of all the committees. We do not have a clear view of when we intend to start the budget review. As far as possible, we would like it to inform the process for the second full year, although that might be rather optimistic. It is more likely to be of real value for the third year of the process—the one beginning in 2002. We have a relatively short time; April encompasses the Easter recess, so that removes two weeks.

Andrew Wilson: I cannot see why it would take more than another meeting to knock out a paper on the budget review, given the substantial work that we have done over the past few months. It simply needs to be drawn together. I agree with Elaine Thomson that it would be wise to do that in advance of the next stage 1 budget process.

We were in a similar position this time last year when we were considering future inquiries. Irrespective of which inquiry we choose to pursue, we want to undertake substantial inquiries outside the budget process, and should commence as soon as possible on a timetable that can be accommodated. We do not have to report on that inquiry before the summer. However, if we choose a substantial matter, we should commence the process as soon as possible, because it will take some time to gather the evidence. The committee should show that it is undertaking substantial pieces of work outside the budget process.

The Convener: I accept that.

11:30

Donald Gorrie: We have scope to probe the mysteries of joined-up government, which everyone talks about but does not practice. Obviously, we do not want to duplicate what any other committee is doing or might do, but it would be fruitful for us to take a specific issue and follow it through the various Government departments that should be dealing with it. We might find no joined-up government and we might find out how to do things better. For example, to get people healthy and to ensure that they do not get ill, cash could be shifted from the health account to the sport account. That kind of budget activity does not seem to happen. This may be a longer-term project of the sort that Andrew Wilson mentioned, but we could track specific aspects of government to see whether they are joined up.

The Convener: That is an interesting concept. Before we could proceed with such an inquiry, we would need to pin down its remit. However, I can certainly see the merit in having it. We will note Donald Gorrie's idea as something that we can come to later; such an inquiry could be valuable.

Mr Davidson: Is Donald Gorrie's proposal not something that should be done by the subject committees, which are cross-cutting by their very nature? The committees cross between departments, so perhaps we should let them look into the matter before we review it.

On Elaine Thomson's point, we need to have another short, sharp bite at tidying up what we have learned from the budget process this year. That would clear the decks. Perhaps the clerks could take the list of proposed subjects for inquiries, consider the time and resource implications, determine what sources of information we would require and produce a short paper for the next meeting or the one after that. That would allow us to review what is achievable and reasonable, so that—as Andrew Wilson suggests—we can come to some conclusions by the summer.

The Convener: The clerks will note those points. We will return to this matter either next week or the week after, because we need to have a clear idea of what the committee will be doing.

Budget (Scotland) (No 2) Bill: Stage 2

The Convener: In my role as convener, I move,

That the Finance Committee considers the Budget (Scotland) (No. 2) Bill at Stage 2 in the following order: each section and schedule in order; and that each schedule is considered immediately after the section that introduces it.

Motion agreed to.

The Convener: We will have a brief adjournment while the Minister for Finance and Local Government and his advisers join us.

11:33

Meeting adjourned.

11:35

On resuming—

Budget Documents

The Convener: I am pleased to welcome the Minister for Finance and Local Government and his officials. For the minister's benefit, if he has not yet seen the agenda, I should explain that this agenda item is to be kept separate from our stage 2 discussion of the Budget (Scotland) (No 2) Bill, during which there will be no formal questions other than about the one amendment.

Minister, I understand that you wish to make a brief opening statement on "Scotland's Budget Documents 2001-02".

The Minister for Finance and Local Government (Angus MacKay): Thank you, convener, and good morning. I have a brief statement which, with the committee's indulgence, I will rattle through. I thank the committee for giving me the opportunity to be here today. I hope that we will have a useful discussion on the bill.

Before I begin my comments, I wish to put on record that, as I am new to my post, I am a little surprised by the lengthy procedure of developing a budget bill. I understand that the financial issues advisory group set down the procedure, but I wonder whether the committee will be interested in discussing the process at some stage and whether we can get not only better but quicker at what we do.

The Convener: I will respond to that point. We are carrying out a review of the process and would be happy to take evidence from you, either in person or in writing, to feed into our review.

Angus MacKay: That would be useful. We will take advantage of that opportunity.

The documents in front of us today are the Budget (Scotland) (No 2) Bill and its schedules, the introduction to the budget documents, and the detailed budget documents. We have tried to make a number of improvements to the budget documents, which now include figures for private finance initiative payments that have been made by the Executive and real-terms figures for all figures in each vote. We have also tried to specify the cost of capital figures, as requested.

Although the bill is an essential piece of legislation, it is relatively straightforward. As we are now in the world of resource accounting, it authorises both the use of resources by the Executive and the payment of cash out of the Scottish consolidated fund.

The bill is split into 10 sections and has five schedules. The sections provide for a range of measures. Sections 1 and 2 set limits on the expenditure and income of departments and directly funded bodies. Section 3 provides authority for, and sets a limit on, the payment of cash from the Scottish consolidated fund.

Section 4 provides ministers with powers to make contingency payments and sets out the conditions under which those payments might be made—to meet the public interest and only where the payment is required so urgently that it could not be satisfied by a budget act. Section 4 also sets a limit of £50 million on any contingency payment.

Section 5 provides for the capital expenditure of local authorities and the borrowing by a series of statutory bodies: NHS trusts, Scottish Homes, Scottish Enterprise, Highlands and Islands Enterprise, water authorities and the Scottish Environment Protection Agency.

Section 6 deals with the emergency arrangements that would apply in the financial year 2002-03 if a budget act were not in force; it applies only to cash authorisation. Emergency powers authorising the use of resources in the absence of a budget act are set out in section 2 of the Public Finance and Accountability (Scotland) Act 2000, which provides that the purposes set out in the schedules to that act are applicable to 2002-03 if there is no budget act for that year, and sets out the maximum amounts that may be paid out in any calendar month in 2001-02. Those amounts are one twelfth of the maximum amount authorised by the act to be paid out for that purpose in this financial year, or the amount paid out in the corresponding calendar month of this financial year.

Section 7 provides ministers with an order-making power to amend the budget act. That power allows for budget amendments and the bill specifies that the order must be affirmative. Section 8 repeals part 2 of the Budget (Scotland) Act 2000. Section 9 sets out the interpretations for the bill and section 10 sets out the short title.

The schedules set out the purposes to which the expenditure may be put, the maximum amounts of expenditure, the types of receipts that may be raised and the limits applicable to those receipts.

Schedule 1 sets out the purposes for each Scottish Executive department and associated departments and the maximum amount that can be paid from the consolidated fund to meet those specific limits on incomes. I will propose an amendment to schedule 1, entry 5, to insert the words, "other health services". That corrects an administrative error.

Schedule 2 sets out, by Scottish Executive department and associated department, a general spending limit on a range of incomes, each of which has a specified purpose.

Schedules 3 and 4 effectively replicate schedules 1 and 2, but for the directly funded bodies mentioned, which include the Forestry Commissioners, the Food Standards Agency, the Scottish Parliamentary Corporate Body and Audit Scotland. Schedule 5 sets out the borrowing by certain statutory bodies.

The introduction to the budget documents provides background on overall public expenditure aggregates and on how the system of public finance works. It also provides information about the limits on non-voted spending that is not covered by the budget documents.

The individual budget documents comprise the departmental summary, supported by a series of schedules, showing current and capital expenditure by level II breakdown, in addition to the various categories of receipts. Where possible, they try to provide further, level III, details on the programmes that make up the level II figures. The level of detail has been the subject of much discussion by the committee.

We have also supplied capital schedules, detailing, by project, capital projects in excess of £3 million. We have also provided the real-terms figures following each vote.

The Convener: Thank you, minister. Members have a number of points to make on the budget documents.

Andrew Wilson: To start the general questioning, let me say that this year's budget documents are, as was the case for the annual estimates, a significant improvement on those of last year. Thanks are due to your officials and to you, minister, for making those improvements—although I am sure that we will want to keep up that process of improvement.

Can you guide me, convener, on how you want to run the section-by-section questioning? Are we beginning with the opening section of the documents, or are we to have general questions first?

The Convener: We could, as we have done in the past, run through the various sections in order.

Andrew Wilson: I will start with two general questions. The first relates to the reserve, which was shown in the documents for the previous stage but does not appear in the budget documents. Could you give us guidance on the situation with that?

Graeme Dickson (Scottish Executive Finance Department): The reserve does not appear in the budget documents because it has not been voted for a purpose. It still exists in the Scottish consolidated fund. If it is drawn down, that will be done by means of a budget revision.

Andrew Wilson: Understood.

My second question relates to table 2.2 on page 6 of the budget documents. Will you say what the column heading "Main departmental programmes in Annually Managed Expenditure" comprises and what the £986 million voted for "Other expenditure outside Departmental Expenditure Limits" comprises?

David Palmer (Scottish Executive Finance Department): I have just noticed a mistake. The figure of £403 million opposite "Rural Affairs Department" and under the heading "Other expenditure outside Departmental Expenditure Limits" should not be there. The £1,560 million figure for the development department in the same column is for non-domestic rates. The £574 million figure against the health department is, I think, the receipt for national insurance relating to the health service and teachers' pensions.

Andrew Wilson: Did you say that the £403 million figure simply should not exist?

David Palmer: That is correct.

Andrew Wilson: Why are there only three projects shown under private finance initiative payments?

David Palmer: That is the number of payments that we make to PFI projects.

Andrew Wilson: So only three of them come under the Executive's accounts.

David Palmer: Yes.

The Convener: Are there any other questions of a general nature, before we consider the figures department by department?

Mr Davidson: Minister, one or two of your colleagues have recently been making announcements that do not seem to tie in with the figures in the budget. Where is the line in the sand? What is the date of the budget documents?

Angus MacKay: I am not sure to which announcements you are referring.

Mr Davidson: I will give an example. Ms Alexander made a statement over the weekend about a £25 million funding package of new money for learndirect. That does not appear to be included as new money in the budget documents, which show a movement of about £7 million. Where are we coming from on that?

Angus MacKay: So your question is by what date the figures in the documents were cast.

Mr Davidson: Precisely.

Graeme Dickson: The date was just after the debate on the Finance Committee’s stage 2 report, on 13 December, so the figures were finalised and taken to the printers around 20 December.

11:45

Donald Gorrie: During the discussion in the Parliament on road maintenance, it was claimed that, although the proposals would save the Executive money, they would cost the local authorities a lot more money. That may or may not be true, but is there an argument for including overall public expenditure more widely in budgets in the future?

Angus MacKay: That question raises both a specific and a general point. The specific point is the process into which the Executive is bound under European Union procurement rules for trunk road maintenance work. Those procurement rules are specific about the way in which we judge best value for that expenditure; they do not necessarily allow a broad comparator across the public sector.

I think that Donald Gorrie is making the more general point that we should take a broader view and attempt to ascertain whether we are achieving best value for the public pound across the board. That matter would bear further examination across the Executive; I intend to give it some thought and I will have discussions on it in the coming weeks and months.

The Convener: As there are no other general questions, we will move on to the various departmental heads in section 7 of the budget documents. We will take them by department as they appear in the documents. The first one is rural affairs.

Mr Davidson: There has been talk of a decommissioning scheme for fisheries, which would come under the figures on page 14; it has obviously arisen after 20 December. If that scheme were to go ahead, there could be a cost to the budget of £100 million. Where would that money come from?

Angus MacKay: Any call on the budget that is introduced after the date on which those documents are cast is a matter that we have to address once we know what the specific sum is. We would have to look elsewhere in the budget to see where there might be flexibility. I cannot give an answer to your question until we have a detailed proposal.

Andrew Wilson: My question relates to pages 38 and 41; it is on the treatment of the water authorities. There is a substantial line under capital expenditure on loans in support of water authorities; it amounts to in excess of £0.25 billion a year over the next four years. How does that system of loans work? Does it come out of the revenue income stream that the Scottish budget receives and then get passed over to the water authorities? For how long do you anticipate that programme of capital expenditure to continue?

On a related point, could you give some information about where, under the heading “Income to be surrendered”, the interest to the Scottish consolidated fund comes from and interest to non-Scottish consolidated fund goes to?

Angus MacKay: While the officials are giving some thought to those points, could Andrew Wilson redirect me to the pages that he is talking about?

Andrew Wilson: Page 38 on the interest and page 41 on the loan. The loan is a substantial sum of money. Is it coming out of our general budget, as allocated, through the usual route? For how long will that lending process go on?

David Palmer: The answer is that it comes out of the general fund and will continue for as long as the investment is required in the water industry.

Andrew Wilson: If, for example, the programme of investment is completed in five years’ time, we will find that £0.25 billion is available within the budget—the programme will have finished and the money must have been found from somewhere to pay for it. When is it anticipated that the programme will finish?

Angus MacKay: I suppose that you are assuming that all other things were equal and that no further calls emerged from that sector.

Andrew Wilson: Yes.

David Palmer: I am no expert on water investment, but I imagine that the time scale is quite long—I think that it will be longer than five years.

Andrew Wilson: Sure—I can imagine that. I am making the point because the sum of money is so much more substantial than has occurred in previous years.

The second point is about the interest that is coming from the water authorities, as outlined on page 38. Almost £29 million is paid to the Scottish consolidated fund, which I assume is to cover interest payments from the Scottish consolidated fund. Will you describe what that is and how it is calculated? Could you also do that in relation to the line on interest to non-Scottish consolidated fund?

David Palmer: I do not know the detail of how that interest is calculated. I will have to check that, so the easiest solution will be to write to the committee with the answer.

Andrew Wilson: Okay.

The Convener: As there are no more questions on rural affairs, we will move on to the development department.

I have a general question about presentation. "Investing in You" and "Making a Difference for Scotland" included headings for communities, environment, transport, local government and other matters, which all fall under the heading of the development department in the budget documents. That makes it difficult to make comparisons, not so much for us—although it does not make the task simple—as for the people of Scotland as a whole, for whom we are trying to make the budget documents accessible. Is there a good reason for the change? If so, is there some way of making the documents more directly comparable?

Angus MacKay: I am not sure whether there is a statutory reason for setting out the documents as they are. I accept the suggestion that the presentation could be clearer. I will defer questions about requirements for presentation to officials.

The Convener: The only previously used heading that I did not mention was that of European funds, which now also falls under development. The other headings remain the same. I asked specifically about those headings that now fall under the development department heading.

Graeme Dickson: We will take that on board for the next time that we present such documents. "Making a Difference for Scotland" was organised by ministerial portfolio, whereas the budget documents are done by vote. Each department has an accountable officer. That is why development includes matters that fall within the remit of more than one ministerial portfolio.

The Convener: I understand that. I am thinking about people who have tracked the process from "Investing in You" through to "Making a Difference for Scotland" and this year's budget documents. I realise that one department deals with all the issues, but people tend to know of the Minister for Social Justice or the Minister for Transport. I would just like the documents to be a bit more accessible.

Angus MacKay: That is an important point. I am happy for us to follow it up and to try to find a better way of presenting the information.

Mr Davidson: The top line of page 43 appears to show a dramatic decrease in the capital budget for motorways and trunk roads. Is that because alternative funds have been provided, which are not included in the budget?

Angus MacKay: I think that the reduction is a result of a reclassification of minor works and improvements, which have been moved from the capital to the current heading in resource accounting terms. That accounts for the difference that you describe. I do not know whether that answers the question.

Mr Davidson: Have alternative funding streams such as private finance initiatives or public-private partnerships made a difference to the figure?

Angus MacKay: My understanding is that, in broad terms, the amount has moved from one expenditure head to another. You ask whether substitute funding rather than public funding is involved. I presume that substitute funding will form an element of the amount during the three-year implementation of PFIs and PPPs.

Graeme Dickson: The more detailed motorways and trunk roads budget on page 45 shows that the programme costs expenditure under the operating budget will increase by between £37 million and £38 million from 2000-01 to 2001-02. The money has switched from the capital to the current heading because of the change to resource accounting definitions.

Mr Davidson: Have you a figure for alternative funding sources in the programme budget?

Angus MacKay: No.

Mr Davidson: Will the minister write to us with that?

Angus MacKay: Sure.

Donald Gorrie: Page 64 concerns community ownership. It says that transfer debt will be almost £32 million and a note to that figure says that that amount excludes

"£44 million held . . . for use in the repayment of debt principal."

On the same page, an item for feasibility and transfer will reduce from £36 million to £18 million, and that change is also explained. Is the £44 million included in the cost for 2000-01? That would make the total figure £95 million or so.

Angus MacKay: The £44 million is not included.

Donald Gorrie: In the year for which we are budgeting, what is the cost of community ownership of council houses likely to be?

Angus MacKay: For which year? For the whole three-year period?

Donald Gorrie: No, for 2001-02.

Angus MacKay: The cost will be approximately £50 million.

Donald Gorrie: Are there estimates for future years?

Angus MacKay: Not at the moment.

Donald Gorrie: So the £44 million is not additional. Does that mean that the £49.96 million is likely to be the total?

Angus MacKay: That will be the global figure.

Donald Gorrie: So when will the £44 million that is held in the fund for use in the repayment of debt principal be used?

David Palmer: That money is held in the consolidated fund against a transfer taking place. When a transfer takes place, that money will be used to repay the debt principal.

Angus MacKay: I should say that Fiona Hyslop wrote to me on that subject and I have written a response to her this morning.

Elaine Thomson: Are there any plans to align the descriptions in documents such as "Making a Difference for Scotland" a little more closely with the budget documents? For example, I assume that, in the budget documents, the public transport fund is dealt with under the heading "Other Transport". I notice that the integrated transport fund appears under "Capital Expenditure", but I am not sure about the public transport fund.

Motorways and trunk roads are dealt with under "Capital Expenditure". Presumably, the information that is presented in that section is what was available when the document was drawn up; other schemes that might be introduced were not agreed early enough to be included in the document. Is that correct?

Angus MacKay: Yes. The document is subject to the information that was available at the time. Necessarily, if issues emerge after the date on which the document is assembled, they will not be found in the document.

We are trying to align the information in the Executive's documents and publications. We recognise that greater clarity would be helpful to committee members and to ministers.

Andrew Wilson: Page 45 has useful information about the projected £22 million that will be spent on the Kingston bridge, the completion of which will be a blessing to us all. Above that information, however, we read about 48 schemes for which there is no specific projected costing. Why is there a costing for the Kingston bridge project but not for the 48 others?

Angus MacKay: I could guess at the answer to that question, but that would not be much help to the committee. I will ask officials to give you something more concrete.

David Palmer: I am guessing as well, but I think that the situation is a reflection of the fact that the Kingston bridge project is an on-going project with a fairly tightly defined time scale and end date. I do not know if the money is in the budget to procure those 48 schemes. I do not think that anyone has a clear idea of what those schemes are and they have not been tendered for.

Andrew Wilson: The point is that there are 48 schemes to be procured, I assume, from the budget line headed "Maintain condition and value of strategic trunk road and motorway network".

12:00

The Convener: As an example, the M74 northern extension that the Minister for Transport announced last week is not even scheduled to begin until 2005. No actual costs will be incurred until such time as planning permission is granted. I do not know any details about the other schemes.

Angus MacKay: The specific expenditure set out in that table, unlike the 48 schemes above, represents performance targets. Those figures are at a fairly rudimentary stage.

The Convener: They are imprecise at this stage.

Donald Gorrie: On page 74, there is a line called "Voluntary Issues" and another called "Equalities and Equality Development". Could you give us a rough idea which voluntary issues are dealt with under that heading? I assume that there are voluntary activities that would come under the education department and so on.

Graeme Dickson: The voluntary issues in that line are only those that are dealt with in the development department under the social justice portfolio. Those would not include spending in the other departments.

The Convener: That is a rather detailed question. Perhaps we could get something in writing on that.

Graeme Dickson: Yes.

Donald Gorrie: Am I right that that expenditure is for social inclusion partnerships and so on, dedicated to specific areas, rather than across the country?

Graeme Dickson: As far as I understand it. However, we will confirm that in writing.

Mr Davidson: On page 92, there are two lines: "*Freight Facilities Grants*" and "*Piers & Harbours Grants*". There is a major increase in those over the three years. Can you indicate which programmes those refer to?

Angus MacKay: I have nothing to hand that gives me detailed information on which piers and harbours are involved. The lines reflect a general commitment arising out of the spending review 2000 to provide additional provision for piers and harbours grants to improve standards. In particular, those will allow the larger vessels that are being commissioned to berth. That is what that spending line refers to in general.

Mr Davidson: What about the freight facilities grants?

Angus MacKay: We are surmising that Sarah Boyack made a recent announcement in relation to those grants, but we cannot recall what that announcement was. We will write to you on that.

Andrew Wilson: We owe the minister some apologies for our more detailed questions. However, if we get written information it will certainly help with our more general thoughts.

In that spirit, can I ask about page 65, which shows that capital expenditure on regeneration and development is taking a considerable tumble? I do not remember that from previous budget consultations, at any stage. I expect that to be of interest to the Social Justice Committee. Can I request further information on that as it becomes available?

Angus MacKay: Okay. We will write to you on that as well.

The Convener: Let us move on to the education department.

Mr Davidson: On page 115, on schools, there is a substantial reduction in capital expenditure. Is that being substituted from other places?

Angus MacKay: My understanding is that £10 million was transferred to the excellence fund, which funds the national grid for learning. That accounts for a substantial element of the change.

Andrew Wilson: I will ask a substantial question on superannuation pension payments, which is not an issue that has received much attention from the committee or anyone else. I refer members to page 105.

What immediately grabs my attention is that, in the case of NHS superannuation, for example, the contribution from employees and employers will rise from 66 per cent of pension payments to 75 per cent. That means that there will be a proportionately greater contribution from employees and employers. What is driving that change? The same thing is happening for teachers' superannuation.

Graeme Dickson: That is obviously something on which we will need to give you a note. I think that the contributions to those schemes are determined by the Government actuaries.

Andrew Wilson: An extra 10 per cent call on the employees represents quite a big shift.

Graeme Dickson: We will find out from the Scottish Public Pensions Agency and give you a note.

The Convener: If there is nothing more on education, we will move to page 117, on enterprise and lifelong learning.

Mr Davidson: Page 119 refers to performance targets. Could the minister explain how he and his department will audit those targets, and what the cost of doing that will be to his department?

Angus MacKay: I do not know what the mechanism will be for monitoring the particular set of performance targets to which you refer. The Executive is examining the outcomes and outputs that we expect from budgets. That relates to the kind of information that we expect to make available in such documents in future years, which is an issue that we have discussed with the committee. We are considering the testing mechanisms that we can introduce to ensure that, as budgets are committed throughout the year and as we look back annually on budget expenditure, we are able to audit properly the achievement of performance and policy targets generally. I have no further information on how these performance targets will be audited. We will come back to you on that.

Andrew Wilson: What is the relationship between the finance department—or Treasury—and the other departments when performance targets are set? How much of a handle do you as Minister for Finance and Local Government keep on that?

Angus MacKay: Historically, departments have been substantially responsible for setting their own performance targets. Increasingly, we have dialogue between finance, at the centre of the Administration, and the other departments about the performance targets that should be set, so that they are achievable and challenging.

Andrew Wilson: That last point is interesting. It amazes me to see on page 129, on Scottish Enterprise, that the number of jobs that are associated with inward investment projects is targeted to fall from 19,500 to 8,000. That is a substantial drop of 11,000. That is neither ambitious nor challenging. Would you pass a request from the committee to the Minister for Enterprise and Lifelong Learning to review why she seeks such a considerable fall?

Angus MacKay: I have a range of matters to discuss with all ministers.

The Convener: We will move on to page 151, on the health department.

Mr Davidson: I refer the minister to page 154. Obviously, we have not had level III figures this year. It is very difficult to read the operating budget. For example, the second line refers to income from a variety of sources, but there is just a single figure. A range of things have been lumped together, including commercial activities and taxation in the form of prescription charges collected by dispensing doctors, pharmacists and hospitals. It would be very helpful to have a breakdown of those major sources of income. A single figure for prescription charges would be helpful, for example. Such a breakdown would allow us to consider the construction of the budget. I found this section particularly unhelpful, but the point applies to other parts of the document.

Angus MacKay: We will take that matter up and consider how we can provide additional information.

Donald Gorrie: I refer the minister to the community care objectives on page 160 of the document. Does the budget allow for any changes in the Executive's developing community care policy? Is there any system to allow for such change and development?

Angus MacKay: Are we talking about free personal care?

Donald Gorrie: That is one aspect. However, Susan Deacon has announced community care developments at various times and I am not sure whether they have been included in these figures.

Angus MacKay: Free personal care will be a matter for the 2002-03 budget onwards. I am not immediately sure which financial years Susan Deacon's other announcements fall into.

Graeme Dickson: If they were going to be implemented in 2001-02, they would be included in this budget.

The Convener: We will move on from the health department to the justice department.

Mr Davidson: Convener, I am sorry to be such a jack-in-the-box, but we have to keep up with the new minister. On page 171, there is a line for retained income under the heading "Police Central Government". Presumably, some of that income will come from money that the police have charged and retained under part V of the Police Act 1997 in relation to checking on volunteers working with children and so on. Does that mean that the budget documents will contain a new line, or had that income already been considered when those charges were brought in? What will happen on that issue in the future?

Angus MacKay: I do not think that the line contains any part V charges, as they are not yet active.

Mr Davidson: Not at all?

Angus MacKay: No. They are not active as yet.

Mr Davidson: Okay. It is just that some of the police forces thought that those charges were being made. In that case, is the retained income derived from general charging such as football control?

Angus MacKay: I am not sure about the exact charges, but I do not think that they are part V charges. That regime is not yet operating.

The Convener: We now turn to page 202, which shows the budget for the Scottish Executive administration.

Andrew Wilson: It appears that the share of the budget spent on administration has risen this financial year, even though reducing that figure was one of last year's targets. Why has that figure risen this year, and on what basis do you think you will reduce it next year? I hope that that question is clear to everyone.

Angus MacKay: On the basis of the three-year budgetary cycle, it is clear that the expenditure line is declining in percentage terms.

Are you asking me how the figure will reach that level?

Andrew Wilson: I asked why it was going up this year and how it was going to be reduced for next year.

Angus MacKay: I do not have an immediate answer for why the figure is going up this year, and I will get back to you on that point. I will examine the issue of how we reduce future budgetary expenditure in my general review of Executive expenditure.

Andrew Wilson: Okey-doke.

Figures on page 209 highlight another issue that I was not entirely aware of: the refurbishment of St Andrew's House, which cost £10 million. Do you have any more information about the total costs of that refurbishment in previous years and the year covered in the documents? Likewise, can you provide information on the related costs for capital developments such as Victoria Quay and other areas of the Executive's capital procurement? It would be interesting to compare those figures with the Scottish Parliamentary Corporate Body's approach.

Angus MacKay: We can provide the committee with those figures, subject to anything that might be commercially confidential. I am not sure whether any of that information will be.

Andrew Wilson: Okay.

Mr Davidson: Page 208 of the document shows the Scottish Executive's operating budgets. I notice that there has been a huge drop in income from payment for services. Has that happened because of some new accounting process?

Angus MacKay: That reflects the transfer of HM inspectorate of schools to agency status.

The Convener: We move to page 210, the general register office.

Andrew Wilson: That was one of the most controversial departments during the stage 1 debate, was it not?

The Convener: We move to page 235, the Forestry Commission Scotland.

Andrew Wilson: I want an explanation of the £46 million and the £45 million sums under cost of capital. They are substantial sums.

12:15

David Palmer: That is the capital charge on the forests.

Andrew Wilson: Oh right.

David Palmer: So I would imagine that it is 6 per cent of whatever the value of the forest is. I do not know the background figures.

Andrew Wilson: That is how it has been applied?

David Palmer: I think so.

Andrew Wilson: It would be interesting, for our RAB inquiries, to work out how the forest is valued. Is it the timber value or the recreational use?

Mr Davidson: In the first section, you have performance targets for the production of timber, yet if you move further down there appear to be no figures for either the gross value or the net value—or any income whatever—from the timber activity. I questioned your predecessor last year about support for the commercial activity on the timber side of the Forestry Commission. The responses were fairly vague. I do not blame the representative for that, as he did not have the details with him. However, it is important in the budget scrutiny that we consider timber production from forest enterprises and get details of the commercial activity that goes on.

Angus MacKay: I am not sure that we fully understand the question.

Mr Davidson: What is the value of the business that the Forestry Commission has in timber production?

Angus MacKay: Can we write to you on that?

Mr Davidson: Yes.

The Convener: We move from the Forestry Commission to the Food Standards Agency. I want to ask about the operating budget. It is lower in 2001-02 than in 2000-01. Does that simply reflect start-up costs?

Angus MacKay: Are you referring to the total funding requirement?

The Convener: Yes, on page 243. The net operating budget is a bit lower. There must have been start-up costs. If there is another reason, I would be interested to know.

Angus MacKay: That is probably a reasonable stab, convener. We are not certain, but we will try to confirm that.

The Convener: There is nothing else on that, so that concludes our consideration of Scotland's budget documents. I thank the minister and his officials for assisting us. We look forward to receiving further information, as agreed, in the near future.

Budget (Scotland) (No 2) Bill: Stage 2

The Convener: We have to deal with the bill in accordance with standing orders. Only one amendment has been received. Members have it in front of them. We will go through the bill as agreed, taking each section and its schedule in order.

Section 1 agreed to.

Schedule 1

THE SCOTTISH ADMINISTRATION

The Convener: I call amendment 1, in the name of the minister.

Angus MacKay: As I mentioned, it is simply a small change to the health department's purpose—purpose being something that authorises what individual departments are allowed to spend their money on. There was an administrative oversight, which meant that the words "other health services" were omitted from the health department purpose, as set out in the current entry of the schedule. The amendment seeks to reinsert the words and ensures that the health department has the authority to spend resources on the full range of activities that it needs to carry out.

I move amendment 1.

The Convener: I think that we are glad that that point was picked up.

Amendment 1 agreed to.

Schedule 1, as amended, agreed to.

Section 2 agreed to.

Schedule 2 agreed to.

Sections 3 and 4 agreed to.

Schedules 3 and 4 agreed to.

Section 5 agreed to.

Schedule 5 agreed to.

Sections 6 to 10 agreed to.

Long title agreed to.

The Convener: That concludes our consideration at stage 2 of the Budget (Scotland) (No 2) Bill.

I remind members that the next meeting is on Tuesday 6 February, when the—or a—minister will return in connection with a second set of budget revisions. I thank the minister for attending.

Meeting closed at 12:21.

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