FINANCE COMMITTEE

Tuesday 27 February 2001
(*Morning*)

£5.00

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

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Scottish Parliamentary Corporate Body publications.

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FINANCE COMMITTEE

5th 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

WITNESS

Dr Peter Collings (Scottish Executive Principal Finance Officer)

CLERK TO THE COMMITTEE

Callum Thomson

SENIOR ASSISTANT CLERK

Anne Peat

ASSISTANT CLERK

Gerald McInally

LOCATION

The Chamber

Scottish Parliament

Finance Committee

Tuesday 27 February 2001

(*Morning*)

[THE DEPUTY CONVENER *opened the meeting at 10:24*]

The Deputy Convener (Elaine Thomson): I welcome everyone to this morning's meeting of the Finance Committee. Given the inclement weather conditions, attendance is quite good. We have two apologies, one from Mike Watson and the other from David Davidson, who is not well in Peterhead.

First, I must ask whether the committee agrees to take agenda items 2 and 8 in private. Do members agree?

Members *indicated agreement.*

10:25

Meeting continued in private.

10:30

Meeting continued in public.

Resource Accounting and Budgeting

The Deputy Convener: I welcome Dr Peter Collings to this morning's meeting and invite him to make an opening statement to assist us with our resource accounting and budgeting inquiry.

Dr Peter Collings (Scottish Executive Principal Finance Officer): I thought that it might help the committee if I made a few comments about how the process has been going and how prepared we are for it.

We are producing and fully auditing accounts for 1999-2000. That is taking longer than we had hoped, as we have had to produce three sets of accounts: the three-month pre-devolution account; the nine-month post-devolution account; and the resource accounts. However, we are just about there with both the Scottish Executive accounts and the consolidated accounts, where we take in the accounts for agencies and health boards. We have found that, although it is not a great problem to produce Scottish Executive accounts fairly quickly, there are many points to sort out in the accounts of each body that is being consolidated. That takes time. However, we are working with Audit Scotland on a timetable that will allow us to hit the deadline of sending our final set of cash accounts and a set of resource accounts for the current financial year to the Auditor General by the end of September.

On the issue of budgeting, the committee will know that in September we published plans on a resource basis; the budget documents and the budget bill have also been produced on a resource basis. That process has gone reasonably well and we have not found any great problems with those figures.

The committee has raised the issue of information technology systems. I should make it clear that our existing accounting system is designed to handle resource accounting; indeed, the system is rather complex, as it can handle both resource accounting and old-style cash accounting. We are replacing that system not because of the need to handle resource accounting but because we have to update the technology and improve the accessibility of information to people. The fact that we will not produce old-style cash accounts will make life somewhat simpler, because the system contained a fair amount of bespoke work that enabled us to handle the old-style and new accounts simultaneously. Most systems can handle one or the other, but do not like doing both at once.

We have done a substantial amount of training, although we have a lot more to do. A basic two-day course for finance programme managers based around RAB has been run 14 times. We have given seminars to senior staff and circulated information to staff through our intranet. We have also conducted sessions for particular groups of staff dealing with programmes on specific issues. For example, there have been seminars on water for our staff and for people from the water authorities. We will be undertaking more training as the system is introduced over the next year.

The one awkward issue that has cropped up is the halfway house in resource budgeting, where the capital charges and some other resource adjustments are scored as annually managed expenditure. At the moment, the Treasury gives us whatever we need as far as those items are concerned. However, in terms of parliamentary control—that is, control by MSPs—those items are treated as part of our budget. That arrangement is much more complex than the full system will be. As for training, we do not foresee any insuperable problems in getting people used to the full system. However, we have had to work quite hard with people on the complexities of what scores as annually managed expenditure and what scores under departmental expenditure limits. This halfway house will probably last two years. Although the arrangement was sensible—it would have been too risky to put all those adjustments straight into departmental expenditure limits where we were not used to managing those items—it just complicates matters a bit more. That is the main issue that we have found unexpectedly difficult.

I am happy to answer questions on those or any other points.

The Deputy Convener: I am sure that the committee will ask you questions on those and other issues.

My first question relates to a comment made by Hugh Hall at our previous evidence-taking session. He said that, when he had met civil servants or senior officials from Scottish Homes, he found that there were different attitudes to the introduction of RAB. Some people were cynical about the system; others assumed that they knew all about it when perhaps they did not. Hugh Hall argued that, in order to get the full benefits, RAB needs to be sold hard to enable people to appreciate how it can improve the quality and quantity of information that they receive and thereby improve financial decision making. How is that approach developing?

Dr Collings: I agree with all those points, which is why we have placed particular emphasis on senior staff, not just on the people who are working with and producing the numbers every day. People appreciate certain aspects of RAB, such as the fact that what counts at year-end is not whether the cash has been got out the door but—in the case of grants, for example—what has happened that means that grant is payable.

There is also a fairly general understanding of capital charges, although it is slightly awkward to score them under annually managed expenditure. However, we perhaps have some way to go in relating measures of output and performance with inputs. Although the general idea is widely known and accepted, we have a bit more work to do to make it a reality. What will determine how people feel about RAB is whether they see this or other committees of the Parliament using our information about costs and whether they, too, are using it in their work.

The Deputy Convener: As we have frequently discussed how inputs, outputs and—increasingly—outcomes can be reflected in financial information, we will be interested in how that aspect develops over time.

What is the main purpose of RAB? Is it a managerial tool to allow better decision making or will it assist public accountability?

Dr Collings: I hope that it will do both. Our accounts will never be terribly simple, partly because we do so many things. However, if we produce accounts that look more like the accounts of other UK organisations and that contain copious notes explaining the entries, there is far more chance that people who are interested in expenditure will be able to understand what is going on. As a result, I hope that RAB will add to transparency, which is an important part of public accountability.

RAB has some benefits for management, particularly the more sensible treatment of what happens at year-end. However, we should not overemphasise such benefits in relation to the Executive. One of the big changes in the system is in the way in which we treat fixed assets and capital charges. We do not manage vast amounts of fixed assets; much of our work involves funding other bodies to do that. As a result, one would expect RAB to have a fairly direct effect on assets that we own and manage, such as our offices, prisons and arguably the road network. However, we fund other more arm's-length areas such as local government and the health service, which has been running an internal system more or less based on RAB for some years. As I said, although there will be improvements, we should not overstate the change that there will be, as any change will mostly affect the assets that we manage directly.

Donald Gorrie (Central Scotland) (LD): What is the motivation behind the Scottish Executive professionals pursuing RAB? Is it that, because the system seems to have worked in the private sector, we should copy it, or is it because it will improve democratic accountability and managerial efficiency?

Dr Collings: The answer is both. In principle, if we can work out more sensible costings for what we do, we should be able to manage those things better; if we have a balance sheet that shows our fixed assets, that will take us some way towards managing those assets.

Our accounts will not be quite the same as those from the private sector, as we have to address issues in our accounts that that sector does not face—for example, it does not give out grants. However, it is important that we have similar accounts, so that people who are interested in financial issues will see material presented in a broadly similar way. Furthermore, as accountants are trained and IT systems are produced to support the work of the private sector, it will be simpler to produce accounts that are similar to those of the private sector. Although those are all good reasons for introducing RAB, the fundamental issue is whether it will allow us to manage the assets better.

Donald Gorrie: Halfway through your answer, I think that you had a slip of the tongue and said public sector when you meant private sector. Perhaps we should make it clear for the record that we are copying what the private sector does.

Dr Collings: Yes.

10:45

Donald Gorrie: Dr Shaoul, who was one of our witnesses and who is much cleverer than me, thought that resource accounting could mean that control over quangos is less good than it is at present. Do you think that there is any substance in that argument? Government finance is increasingly done through public-private partnerships, leasing and outsourcing. The argument is that resource accounting and budgeting could make control worse.

Dr Collings: There are two separate issues. The first is how public services are delivered. That gets us into the area of public finance initiatives, PPPs and outsourcing, which also brings us into the political arena, on which I cannot comment.

Secondly, there are issues about how to account for that. Irrespective of the approach that one believes is best for the delivery of public services, one wants to produce accounts that reflect and give a true and fair view of what is happening. That is what we are endeavouring to do. I do not see the link that Donald Gorrie has suggested.

Mr Adam Ingram (South of Scotland) (SNP): Could I ask you to clarify that point, Peter? Jean Shaoul’s argument was, I think, that the introduction of capital charging was producing a revenue stream and so was a sort of precursor to PFI. Capital charging created the conditions whereby PFI could take over the provision of assets.

Dr Collings: It is true that, under resource accounting and budgeting, we are comparing like with like when looking at the accounting treatment of publicly funded assets and of assets that are funded through PFI, whereas, under cash accounting and budgeting, we were not comparing like with like. I think that we ought to be comparing like with like, so to that extent RAB is a good thing. It makes what we are doing much clearer.

Donald Gorrie: Explain to me how the system would work. Let us imagine that I am head of a school, with an old school building that has all been paid for. How am I supposed to produce a revenue stream or to account for the capital value of the school—which might be quite high—without benefiting from it?

From experience, I am aware that there is a lot of pressure on councils to sell playing fields, for example. Because councils get debited with the notional value of playing fields, they flog them off for housing. That seems to be seriously perverse. Could you cover that bad aspect as well as explaining how local managers are supposed to account?

Dr Collings: First, resource accounting and budgeting does not apply to local government, which has its own system of accounting. That system is a mixture and includes accrual accounting, which is similar to RAB. However, local authorities fund most of their capital expenditure by borrowing and so have genuine spending on loan charges.

I will therefore have to talk about a hypothetical school that is owned by a body that is directly affected by resource accounting and budgeting. The asset would be valued according to its use as a school. That would reflect the condition of the building and, to an extent, whether its design was appropriate for the way in which education is now delivered. The valuation would also reflect the remaining life of the school and would normally be much lower than it would be for a brand-new school.

As far as a revenue stream is concerned, we are adding to the public expenditure aggregates. We have put roughly £1.2 billion extra on the public expenditure aggregates for capital charges. Therefore, it is not the case that capital charges are having to be found from the previous revenue stream; people are operating within totals that are bigger than the totals within which they were previously operating.

Dr Richard Simpson (Ochil) (Lab): The national health service has now had RAB for about six or seven years, I think.

Dr Collings: In principle, RAB started in the health service in about 1992 and was phased in over the next three or four years.

Dr Simpson: I know that that is not under direct control, but comes, or presumably has come, under part of the consolidated account. Can you give me some examples of where RAB has had a positive effect? We have had it for six years; if it is to involve more than simply bringing us into line with the private sector and making government more open and transparent—which is welcome in itself—but is to drive management decisions, there should now be good evidence of that in the health service.

Dr Collings: The main evidence that I have come across was in research suggesting that the effect of a capital charge regime had been to make managers look at their assets. Traditionally, the health service has held a great deal of land and buildings that have been no longer necessary or, indeed, appropriate for the delivery of services. Research has suggested that capital charges have made managers examine that fact and consider whether it is sensible to keep to the same approach.

I believe that Trevor Jones discussed with you the fact that the finances of various NHS bodies look different if they are presented on a cash basis from how they appear on an accruals basis. The accruals figures highlight some potential problems that can be addressed earlier than would be the case using a cash basis.

Dr Simpson: You said that year-end funding would be affected. That has been a matter of public concern. Last year, as every year, the annual underspend was highlighted. What effect should RAB have on year-end funding? Does the roll-on expenditure make a difference to the funding that is left at the end of the year, which is carried forward?

Dr Collings: The amount will be calculated on a resource basis. In the case of some grants that we give, if they are allocated some months in arrears—after the activity that is being funded has happened and audited claims have been received—that expenditure will be counted in the year when the activity takes place, not when the cash is paid out. To that extent, we will be working on more realistic figures for what we have spent.

The system is not essentially changed by end-year flexibility. The calculation of the numbers changes, because of the different way of measuring the expenditure. However, there is still an arrangement whereby 100 per cent of underspends on our departmental expenditure limit can be carried forward into the following year. It will be for ministers to consider how that money is then allocated to particular expenditure programmes.

Andrew Wilson (Central Scotland) (SNP): You said that the effect on the budget aggregates was £1.2 billion or so. I am interested in finding out how that is calculated, how that will change as we go forward and what that actually means. How—specifically and, in more detail, by area—was that figure of £1.2 billion, which was allocated by the Treasury, worked out?

Dr Collings: That was worked out by us. It was what we asked the Treasury for and the Treasury agreed our numbers. The figure was based on forward projections of the fixed assets of each of our expenditure programmes. We took the figures from our accounts—resource accounts, which were produced only to a draft stage for 1998-99.

We also had to take in figures from other bodies whose accounts are not consolidated into ours, including public corporations. We took their accounts and corporate plans and, essentially, we projected forward their balance sheets. We had to project forward everybody's balance sheet and then work out what 6 per cent of the asset value was. That is how we come to the figure of £1.2 billion and to the equivalent figures for each of the later years.

Andrew Wilson: That is quite clear. We will probably want to return in a few moments to how the capital values were worked out.

As you mentioned in your briefing at the start of this inquiry, there will be a transition from annually managed expenditure into the DEL, through the Barnett formula. To understand what will happen to the relevant part of the allocation, we need to know what changes will arise in the rest of the United Kingdom. Will the comparable expenditure under capital charging be compared to the expenditure for the equivalent departments in England and Wales, as with the rest of the block? Do we have an indication of the extent of capital charges in the rest of the UK, so that we can understand whether the Barnett allocations will be proportionate?

Dr Collings: As far as the process is concerned, the assumption is that that part of the allocation will be brought into departmental expenditure limits in the next spending review, in 2002—although that to some extent depends on events between now and then. The first financial year for which that will be done will be 2003-04.

The process that I would expect to occur involves our having a baseline for our capital charges for 2003-04, which will come under our annually managed expenditure totals. That will simply be moved from annually managed expenditure—at the figure at which it stands—to the departmental expenditure limit. At the point of transition, the process will be entirely neutral.

After that, we expect changes in our overall departmental expenditure limit—including capital charges—to be determined by the Barnett formula, along the lines set out in "Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: A Statement of Funding Policy". We still have to discuss with the Treasury whether any fine tuning has to be done on that in any area.

The Treasury published the equivalent figures for Whitehall departments last July, when it made its spending review announcements. The white paper that was issued covered the total figures. If members look at them and at the information in "A Statement of Funding Policy" on the comparability of different departments, they will get a fair idea of what would happen.

Andrew Wilson: That is what I find difficult to do. Will you give an indication of what the differentials are? I have found it difficult to establish them using the source that you have mentioned, specifically in areas of comparable spending in Whitehall departments. Is there a differential in spending between Scotland and the rest of the UK with respect to capital charges? For example, is spending 15 per cent higher or lower? I ask that because, if there is a differential, Barnett will, over a long period, produce a convergence in the capital charges aspect. We need to know where the differential lies, if there is one. Can you provide that information?

Dr Collings: We can give you some idea about that, although that is easier for some areas of the budget than for others. A major area to consider is roads. The road network is the biggest asset on a balance sheet. I would be happy to write to the committee with information on that.

The Deputy Convener: That would be helpful, particularly if it threw some light on the roads issue, which has cropped up consistently.

11:00

Andrew Wilson: That would be useful, as we are having difficulties getting a Treasury official—the main source of the information—to come here.

This is a daft question, but where does the money go? Where is the £1.2 billion in the budget spent?

Dr Collings: I am sorry; I do not quite understand the question.

Andrew Wilson: There is £1.2 billion extra in the Scottish budget. Where is that money expended?

Dr Collings: That money is not cash. We calculate our expenditure according to rules set out by the Treasury. That expenditure is compared with our budget, which has been calculated against the same set of rules. That is used to determine whether we have an overspend or an underspend. The money is not cash out the door. Separately, we receive from the Scotland Office and other sources the cash that is required in each year to allow all the expenditure to happen. That is a different figure. For the years of the present spending review, we will get the cash that we estimate is required to deliver the resource budget aggregates described.

Andrew Wilson: I understand the problem because I am puzzled. Does that mean that the budget documents that we debate will include £1.2 billion of resources that does not really exist? We cannot spend it or allocate it—if not to capital, then to something else. I am struggling to grasp this.

Dr Collings: We could allocate it to something else if we no longer had the assets that generate the capital charge. If we disposed of a massive amount of assets so that the capital charge was less than that, we could spend the difference on things that are cash going out the door.

Andrew Wilson: So there is an incentive that relates to the point that Mr Ingram made earlier. In summary, there is £1.2 billion in the budget that does not exist.

Dr Collings: It does not exist as pound notes, but it is included in the calculation of the aggregates that control our expenditure.

Andrew Wilson: I understand.

Dr Simpson: I want to take that further. First, if a unit that has to meet its capital charge within its own budget fails to do so, it has to find the money, in real terms, from its income. To that extent, it is real. If the money does not meet the capital charge for any reason, you may have to forgo staff or new equipment. The money is not around to spend.

Secondly, ultimately the money is real, because the Treasury has to borrow. In a sense, therefore, there is an ultimate capital charge, which the Government meets through its gilts and other funding arrangements.

Dr Collings: I agree with both points. The Treasury has indicated that the RAB aggregates that will be used to control expenditure fit well with the fiscal rules that have been adopted by the Treasury—the Treasury considers it more appropriate for fiscal control to use aggregates calculated on a RAB basis as opposed to on a cash basis. To that extent, and considering the points that Dr Simpson made, the whole thing is real.

Dr Simpson: I want to clarify that, as it is a difficult concept. There is a capital charge on an asset that is not being used. For example, we have hospitals that are redundant. If we can release assets by selling them, we reduce our capital charge. However, the money still comes into our budget, so we can spend it another way.

On the other hand, if we had an old hospital with an asset valuation of x, and we paid our 6 per cent capital charge, if we wanted to construct a new hospital that cost 2x, we would have twice the capital charge and would have to find the money within our budget.

Dr Collings: That is correct, but the running costs for the new hospital would be much less than for the old one, because its design would be appropriate for the delivery of modern medicine. Therefore, the overall cost of providing the health care would be unchanged or, in some cases, reduced.

Dr Simpson: Which makes the whole thing real. That is the point: we do not hang on to assets that are either redundant or that are inappropriate due to their maintenance and running costs. We would say, "This is costing us too much from our capital flow, so we need to convert it to a more modern asset that will be cheaper to run."

Dr Collings: It also emphasises that some of the expensive capital equipment that is in hospitals is not free, therefore it is in the NHS's interest to make maximum use of it.

Dr Simpson: That is another important area. I think that I am right in saying that no witness so far has come to any conclusion on separating out the fixed asset charge from the capital depreciation on equipment. That is an important issue, because there has clearly been a trend in the health service over the years to pinch from the capital equipment budget for running costs. The assets were paid for on a cash basis. When they were wanted again they were paid for on a cash basis and no depreciation was written in. Depreciation will now have to be written in. It should mean that the capital equipment budgets are treated seriously. Is that another driver within the system?

Dr Collings: The incentives within the NHS financial system to do with capital versus current expenditure were to some extent meant to operate sensibly, but there was a mismatch between that and the way in which the health department's expenditure was controlled and worked within the Treasury's aggregates. The treatment is now the same the whole way up, with capital identified separately. That should help prevent such a mismatch.

The Deputy Convener: We will now explore implementation and training. Previous witnesses have raised crucial issues on the implementation of RAB. You talked about some of the progress that you have made on that and the amount of training that has been carried out so far. What checks have you deployed to ensure that the implementation of RAB is successful and that it is accepted?

Dr Collings: We have allocated accountants to each of the main programme areas and have asked them to keep in touch with the people who work in that area and to talk through problems with them. The issues that arise differ from area to area—we have to move from training to ensure broad awareness of the issues down to how issues affect the individual programme. That is the main check that we are doing.

The process of converting the budget from cash to resources highlighted many of the problems and misunderstandings that can appear. When we got the information about the conversion for each programme we checked it carefully to ensure that it was sensible and we went back to people when we thought that they had got it wrong. We worked with them and got it corrected. That has helped to identify issues. Clearly, we will have to continue that process.

The Deputy Convener: So far, do you feel that there has been adequate buy-in from the people who are implementing RAB?

Dr Collings: So far, but the control mechanism starts only on 1 April. We have a continuing job to do.

Donald Gorrie: Some organisations, such as the police and fire services, have no funded pension. However, civil servants, teachers, local government officials and so on have a funded system. How does RAB budget for the imponderables of the unfunded pension schemes?

Dr Collings: For the unfunded schemes, we have for some years run a system of notional funds. For example, we pay some of the money that we get from the Treasury for civil servants back to the Treasury, as an employer's payment, into a notional superannuation fund. To an extent, we are already dealing with the people in the areas of the public sector where there are no pension funds. The idea that those pensions are not free, because we employ the people, is already part of the system.

The main change that RAB will introduce is in areas such as early retirements. We have previously accounted for early retirements on a pay-as-you-go system. If someone retired five years early we would, over each of those five years, put through our accounts the cost of that person's pension, in cash, in that year. That would not come out of the notional fund. Now, we take the full cost of that person's pension, between their early retirement date and the normal retirement date, and charge that to the year when they go. That brings home to people the full cost of early retirements.

Dr Simpson: If RAB is to work, it has to be part of the management thinking as far down the line as possible. You said that you had run 14 seminars. Are the seminars for individual departments broader? Do they involve groups beyond the accountancy and finance people? In the health service, which has had RAB for a while, is there evidence that the concept is included in the lower levels of management training—the second and third-tier levels?

Dr Collings: On the first point, the training that I mentioned was specifically for people who are not accountants and do not work in finance. We have had to do rather different, more detailed work with people who are in finance.

On your second point, I am afraid that my main awareness of NHS training is through having delivered some of the courses to do with finance. I have delivered training that involved explaining capital charges to non-executives who work in the NHS. People in management received similar training. There was a great deal of awareness among them of capital charges as an issue. However, that took some years. Early on, rather than considering it as an overall budget, there was a tendency to say, "This is the real budget, which excludes capital charges. We need to be funded for the capital charges on top of that." It was several years before managers in the NHS were able to consider the thing as a whole.

11:15

Dr Simpson: Have any evaluative studies been done of managers' attitudes, changes in attitudes, and the effects of what has happened?

Dr Collings: The only Scottish study that I am aware of, which looked at the NHS, was done by David Heald a few years ago.

Dr Simpson: It might be worth looking at that to inform what will happen when RAB is introduced across the other departments. I am thinking in particular of the effect on groups, such as non-departmental public bodies and others, that are just beyond the central core group for which you are responsible. There are concerns that their understanding and appreciation may be too slow for them to come in at the next spending review.

Dr Collings: Yes, I would agree with that.

The Deputy Convener: I have a slightly different question. We mentioned earlier the whole business of trying to produce information that is more focused on outcomes and outputs than on inputs. You also mentioned that you are in transition and are moving to a new IT system. How far away are you from being able to produce financial information that is based on outcomes? Will the new systems facilitate that?

Dr Collings: The best thing is just to look at the budget documents. It is clear from them that for some expenditure programmes we have quite reasonable measures of outputs and targets; for others there is a need to improve the quality. We are starting on that and we need to work on it.

The outcomes thing is much harder, partly because there are often significant time lags, which require considerable study, and partly because it is quite hard to see the causality between the inputs and the outputs—often there is a series of different inputs and it can be hard to see which were critical. I think that there is a long way to go before we have anything that looks like a comprehensive system—if we ever reach it. Particular studies of particular policy areas can consider that sort of issue. We are getting there on outputs, but on outcomes we have further to go.

Andrew Wilson: I have two separate points.

Adam Ingram made some points about Jean Shaoul's evidence. At the time, I could not quite agree with her about the incentive that RAB could provide for taking assets off the balance sheet, but I can perhaps see it now from what you said a moment ago, so I want to clarify the point that you made. You said that the £1.2 billion is notional; it is an accounting mechanism to provide a charge on assets for departments. However, if the assets were put off balance sheet, people would have access to their capital charges as revenue expenditure, which they could then allocate to other aspects of their budget. Is that the case?

Dr Collings: All the most obvious mechanisms for acquiring assets and having them off balance sheet require that cash be paid out. If the assets are on balance sheet, there is an associated capital charge; if they are off balance sheet, there is typically a charge for the finance of that asset, which will be a similar amount to the capital charge. Therefore, there is a level playing field between assets off balance sheet and assets that are on balance sheet.

Andrew Wilson: The key point in all of this is to prove that the 6 per cent and the value are essentially neutral, which is something that is of interest. I take it that the 6 per cent is taken from the standard public sector discount rate.

Dr Collings: Yes.

Andrew Wilson: The market value of borrowing could be higher or lower than that, depending on how well things are going. To that extent, the 6 per cent is almost random, because it reflects other things and does not reflect the market price of borrowing capital.

Dr Collings: You are probably better equipped than I am to comment on that, because the work is done by economists in the Treasury. One of the factors that is taken into account in working out the opportunity cost of capital is market rates, but it is by no means the only factor. A lot of other factors are considered.

Andrew Wilson: That is something that we could explore with the Treasury official.

The other side of the coin is the value itself: the £1.2 billion that you have calculated. The confusing thing is that the evidence that we received from KPMG and from the chap who did the water financing was that, in the case of the water boards, the capital valuation was done on the basis of the net present value of future income streams. In another sector, however, the valuation was done on the basis of the cost of replacing the capital, and in yet another it was done on the basis of market valuation. I think that Historic Scotland also did valuations on the basis of income streams. How is that decision made? To what extent is the balance across the £1.2 billion, on the basis of future income streams, based on market value or replacement value?

Dr Collings: Very few assets are valued at market value. That would normally be appropriate only for an asset that we expect to dispose of. Assets are valued at value for their present purpose. Most commonly, that is based on the depreciated replacement cost. There are particular difficulties with that in the water industry, where many of the assets are extremely old and it is hard to assess what would be a sensible valuation. I think that water is the main area where depreciated replacement cost has been departed from. Most other valuations are based on that.

Andrew Wilson: Would you be able to give us a note of how the £1.2 billion breaks down?

Dr Collings: I can certainly do that.

Andrew Wilson: That would be terrific. Thanks.

Dr Simpson: The 6 per cent seems to be a rather blunt figure. Different assets have different values. Having a uniform capital charge for roads and capital depreciation of equipment, for example, seems somewhat superficial. As we progress, will that be an adequate mechanism to drive the system, or is it likely that we will move to a system in which charges vary according to different asset valuation systems, as Andrew Wilson has outlined?

Dr Collings: Depreciation rates will vary according to the type of asset, so it is only the 6 per cent that is uniform. Different assets will be depreciated over different lifetimes, so that part of the calculation will vary according to the type of asset. I do not immediately see the case for applying different rates to different types of asset. The only obvious circumstance in which one might want to do that would be where a trading body was competing with the private sector. There, one might want a cost of capital that reflected costs in the private sector so that one had a level playing field for competition. Apart from that, I am not clear why one would have different rates just because the nature of the asset was different. It is meant to be about the opportunity cost of having that asset.

Andrew Wilson: Is it possible to separate out, in the information about the £1.2 billion, the 6 per cent capital charges and the depreciation that you mentioned? We have not yet seen what part of the figure is depreciation and what part is the 6 per cent.

Dr Collings: Yes. We can certainly give the depreciation figures separately from the 6 per cent.

The Deputy Convener: We look forward to receiving that information. I thank Dr Collings for coming here to discuss RAB further with us. I am sure that we will take a keen interest in how things develop.

11:25

Meeting adjourned.

11:32

On resuming—

Future Inquiries

The Deputy Convener: We talked briefly at previous meetings about future inquiries. There are two papers that are relevant to this agenda item. The first paper details three topics that were suggested when we discussed inquiries, all of which are quite big subjects and would take quite a long time to investigate. The second paper, on the funding of the voluntary sector, is from Donald Gorrie. I invite Donald to speak briefly to his paper.

Donald Gorrie: I am sure that all members receive a lot of representations about the voluntary sector. Voluntary sector organisations have had their funding cut almost annually for about 20 years. Whether they are local or national bodies, that is a real problem. There is more money from the Executive for certain projects, but it does not help with core funding. There is also short-term funding from the lottery, Europe or Government projects, but what happens when that funding finishes is an important question.

Continuity of funding and core funding are both important issues that should be investigated and I think that this committee would be a good vehicle for such an inquiry. It may surprise members to hear me make a pro-ministerial comment, but I have discussed the matter with Angus MacKay, who is quite enthusiastic about us conducting an inquiry.

Andrew Wilson: Donald Gorrie has identified an important area of the budget, which is an example of where we could make quite an impact for a whole range of organisations. This might be a good opportunity to appoint Donald as reporter into the funding of the voluntary sector, so that he can do some background work and report back to us before we launch a fully functioning inquiry. That might be the easiest route, rather than having a straightforward inquiry at this stage.

The Deputy Convener: The committee might well wish to consider that. I have been informed that the Social Justice Committee is examining the voluntary sector and conducting a broad inquiry into charity law that will cover many of the issues that Donald Gorrie's paper raises. We might want to take up Andrew Wilson's suggestion, which I think is valid. It is right that the committee discusses the voluntary sector. Given that the Social Justice Committee will do some work on the subject, we should consider how we might make best use of this committee's and members' time. We might wish to appoint Donald Gorrie as a reporter, but perhaps we should first take a closer look at the issues that the Social Justice Committee will cover, so that we do not duplicate work.

Andrew Wilson: Rather than saying to Donald Gorrie, "You're now a reporter. Off you go," I suggest that it would be worth while considering ways of properly resourcing him to conduct his inquiry. I do not know whether the clerks have time available, but perhaps we could allocate resources from our research budget for next year. That might allow Donald to take a lead, and would be better than sending someone off into the wild blue yonder, which experience has shown can prove less than useful.

The Deputy Convener: I was just making a proposal.

Andrew Wilson: I know that.

Dr Simpson: I support what has been said. I had a private conversation with Donald Gorrie and made the same suggestion as Andrew Wilson made. That is the way in which to proceed. Having acted as a reporter for the Health and Community Care Committee—I think that I am on my third report, and the committee may want to reconsider appointing me now—I support what Andrew said. It would be useful to link with the Social Justice Committee and find out what it is doing on charity law, and to have some research resource.

The one aspect that I found difficult as a reporter was that the work was time consuming. Interviewing people for the Stobhill inquiry took about 60 or 70 hours, and our proposed inquiry may be broader than that, because many different groups are involved. We should try to find out what the principles are.

Andrew Wilson also hinted that we could ask Donald Gorrie to speak to the Social Justice Committee first, then tell us what remit he would like, so that we could approve it formally. An interim report could then be produced. At that point, the full committee could become involved in taking formal evidence, so that some information is on the record before the final report is produced. That combination would be novel and valuable.

The Deputy Convener: We will consider that suggestion. Callum Thomson will talk about the availability of resources and how we might proceed.

Callum Thomson (Clerk): Originally, I thought that resources from the external research budget were being requested, but as the discussion has developed, it appears that the issue relates more to manpower and whether personnel are available in the directorate of clerking and reporting or in the Scottish Parliament information centre to assist the reporter in the early stages of the proposed inquiry. From a clerking perspective, I am not certain of our position to help with resources. I will need to come back to the committee about that.

Andrew Wilson: May I make a suggestion? Given the limited availability of the clerks' time, especially as the timetable for the budget process is extremely tight, I suggest that the solution is first to discuss with SPICe what resources it has available. Secondly, and perhaps more interestingly, substantial research and knowledge resources exist in organisations in the voluntary sector. Donald Gorrie could partner up with them. I am trying to remember the names of some of the organisations—I am sure that people such as Martin Sime, who leads the Scottish Council for Voluntary Organisations, and others, would love to have the opportunity to help with such an inquiry. We may be able to do it nearly cost-free, with Donald Gorrie taking a co-ordinating lead.

The Deputy Convener: I would like to clarify what committee members are suggesting. Are we suggesting that we should consider one of the three proposals on the original paper for an inquiry while we do further investigative work and establish the remit and resources for a future inquiry on the voluntary sector or one that takes place slightly in tandem?

Andrew Wilson: That would be my preference.

Mr Ingram: I suggest that we can move ahead. Donald Gorrie can proceed with his initiative on the basis of our discussion this morning. I would be interested to hear what Donald thinks of the suggestion that he act as our reporter and deal directly with the Social Justice Committee and the voluntary sector.

Donald Gorrie: The committees of which I have been a member have not had reporters, so I have no experience of the system. I would be happy to talk to the Social Justice Committee. The clerk told me about its inquiry into charity law, but that seems to have nothing to do with the issue that I have raised. However, there may be some overlap, so I will talk to the people from that committee and return with a suggested remit for an investigation. I would be pleased if another member of the committee came along and helped. I am rather trying to swim the Atlantic, and it would be quite nice to have a pal swimming alongside me. If the committee empowers me to talk to the Social Justice Committee and return with some suggestions about a good remit that in no way overlaps with that committee's work, the committee could then decide about the remit.

Andrew Wilson: We should agree straight off that Donald Gorrie will work as the reporter and empower him to speak to people such as those from the voluntary sector. He can then submit a remit to which we can agree. We should appoint Donald, because that next stage is a while off.

The Deputy Convener: Are you happy with that, Donald?

Donald Gorrie: Yes, I am happy. As I am sure that other people have, I have worked to pursue the issue for a long time. Obtaining the facts is difficult, not because of ill-will, but because of the system. Even good research does not always produce figures, but we can pursue it.

The Deputy Convener: If Donald Gorrie wants to go off and have discussions with the clerk of the Social Justice Committee, that will be fine. Given that a couple of members are missing today, perhaps Callum Thomson could send out an e-mail to request whether anyone else wishes to accompany Donald, to give all members the opportunity to participate.

Do we need to decide now what our next main inquiry will be?

Dr Simpson: My preference is for a PFI/PPP inquiry. Such an inquiry would follow naturally from RAB, because it concerns what is being done with capital assets. PPP has been active in its modified form for a couple of years, so the time has come for a really good study to find out what it is costing us. The other ramification relates to where it fits in the budget. That is not yet clear to me. At levels I and II, there is no clarity about where the funding costs of PPP are. As that develops as an alternative to the capital stream, the effect on the revenue budgets will become greater and greater.

The Deputy Convener: I support that. At various times, many issues that concern PPP have been raised. At some of the Finance Committee's initial briefings, several interesting questions were asked about the implications of PPP.

11:45

Andrew Wilson: I am also enthusiastic for that to be an option. In the party political field, we have developed some work on that, which we would be happy to share with the committee.

At the very first Finance Committee meeting, I expressed interest in the Barnett formula, which ties in with RAB and has a continuing and important implication for the overall budget. I think that the committee's mood is to go with PFI, but I suggest that we add that our next inquiry may be into the Barnett formula. That would probably flow logically from some of the conclusions that we reach from our inquiry into PFI/PPP. The underlying problem is with the suspended and still continuing European inquiries, which require a positive relationship with the Treasury, which has yet to be grounded. That is a continuing problem for the committee, which we must address with some urgency.

The Deputy Convener: We would probably want to consider that at some point. From my experience on the Enterprise and Lifelong Learning Committee, I know that we should try not to get too tied up with too many inquiries. Perhaps at a late point in the PPP inquiry we might make final decisions about how we should logically proceed. As Andrew Wilson said, there may be more work on the European inquiry, and we have now decided to examine funding of the voluntary sector. We must be careful about our time commitments, as we must juggle them with the requirements that are associated with the Budget (Scotland) (No 2) Bill.

Donald Gorrie: May I make a cynical comment about all three proposals? It would be sensible not to take evidence from people until the election has passed, because I think that we will not get as honest an opinion on such sensitive political issues as we might. The press could twist things. You can imagine headlines such as "Leading official says PFI is rubbish" or "Trade unionist says X". It would be a pity for that to happen. Some politicians of a lesser order than those who are members of the committee might make political issues out of that.

I would be happy to pursue the PFI/PPP inquiry. We can do preliminary work on it, but I suggest that we do not take evidence on the issue. I am not clear about the extent to which we are committed to PFI/PPP because the Treasury says that it is the only game in town. For example, do the Scottish Parliament and the Executive have the power to scrap the system or modify it substantially?

The Deputy Convener: We could pursue such issues as part of the inquiry. I am reliably informed that the timetable for pursuing our next inquiry is unlikely to allow us to invite witnesses until after the general election, whenever that may be. Can I take it that the committee agrees that our next inquiry will be on PFI/PPP? That will allow Callum Thomson to put together a draft remit and structure, and start identifying potential sources of written and oral evidence. Is that agreed?

Members *indicated agreement*.

Andrew Wilson: Can we plan ahead for the Barnett inquiry that will follow the PFI/PPP inquiry? Can we test the mood of the committee and discover whether members agree to that?

The Deputy Convener: We might consider that when we are establishing the work programme for the PPP inquiry and have its outcomes. However, that is just my feeling.

Mr Ingram: I intend to support my colleague. Barnett has exercised many minds, not only here, but elsewhere. We must undertake an authoritative investigation of Barnett, to establish the view on it from this place. I agree with my colleagues that the natural extension of our RAB inquiry into PFI/PPP means that we should follow that route. However, thereafter, our first priority should be an investigation into Barnett.

Dr Simpson: I have no objection to that, other than to agree with the deputy convener that we do not know what will come up. Something of considerable political importance may arise. The voluntary sector inquiry would follow on from the PFI inquiry, and the formal part of that would take some time. Subject to no other major political issues coming up that the committee would have to address, I have no objection—we have agreed previously that we should inquire into the Barnett formula.

The Deputy Convener: That is correct—that is why the Barnett formula is suggested as a potential topic of inquiry. We have always said that we need to investigate it at some point. I suggest that, until we find out how the other inquiries pan out and how our work timetable progresses, we should perhaps not commit ourselves to definitely doing something. Does everyone agree with that?

Donald Gorrie: I agree entirely that we should not commit ourselves, and recommend that it be agreed for such an inquiry to be provisionally next in the queue. That could be upset by further events.

Dr Simpson: It is a matter of when, rather than if.

The Deputy Convener: Yes. Is that okay?

Members *indicated agreement*.

Housing (Scotland) Bill

The Deputy Convener: We now come to item 5 on the agenda. The Housing (Scotland) Bill has already come before the committee, and we were sent the financial memorandum with the bill. We were not entirely happy with the level of information that was given to us. We had been happy with the information supplied to the committee in connection with the Education (Graduate Endowment and Student Support) (Scotland) (No 2) Bill, but were disappointed in this case.

In response to the convener's letter to the Minister for Social Justice, we have now received a reply from her, which everyone should have in front of them. She has expanded on a number of points, and has been able to cost various factors relating to the bill. She says that it is difficult to have many precise figures at this point.

Mr Ingram: I recently visited a fairly new housing association. Its representatives indicated that one impact of the bill would be a need for some sort of hike in housing association grant in due course. I have been over the memorandum and have not seen any indication that that might be forthcoming. I would like to ask the minister a couple of questions about that before we proceed.

Andrew Wilson: Compared to the financial memorandum for the Education (Graduate Endowment and Student Support) (Scotland) (No 2) Bill, the financial memorandum for the Housing (Scotland) Bill does not take us forward to the same extent. Furthermore, I am not sure that there is much more information in it than there was before. There are five pages, but I cannot find much in the way of gems in those. I wonder whether an official from the relevant department, if not the Minister for Social Justice, might give us half an hour of their time at a future meeting. That would be the best way to proceed with this, given that many questions remain.

The Deputy Convener: I am told that we could invite an official to our next meeting if members want to pursue that issue. That would allow us to ask for more information. Is that agreed?

Members *indicated agreement.*

The Deputy Convener: Members should let the clerk know the specific areas that they would like to pursue with the officials, so that they will be adequately prepared and able to give full answers.

Financial Resolutions

The Deputy Convener: The clerk has prepared a financial resolutions update paper. On a number of occasions we have discussed an amendment to standing orders on this matter. The committee is still considering the financial resolutions for bills and we felt that it would be much more useful if the individual subject committees were to do that. I would like to know whether members are content with the proposal in the paper.

You will note that there is an issue relating to committee bills. Committee bill procedure is slightly different from that for Executive bills, in that there is no stage 1 report with accompanying financial resolution. The suggestion is that, for committee bills, the financial resolution should come to this committee.

Andrew Wilson: I do not want to upset the apple cart, but I think that some progress has been made with the additional memorandum that has recently been made available to give us more information. That is a facility that I would not want the Finance Committee to lose.

The only specific point that I want to make concerns rule 9.12.5 and the proposed revision to rule 9.6.3. Will we continue to see the financial memorandum and will we still have the opportunity to comment to the lead committee? According to the paper, rule 9.6.3 should be revised to read:

> "The lead committee shall also consider and report on the Bill's Financial Memorandum and shall, in preparing its report, take into account any views submitted to it by the Finance Committee."

My question concerns the capacity in which we are to give those "any views". Do we have a formal discussion at the committee, or is it just something that we should keep an eye on? I would like the opportunity to get the sort of information that we have had from the Executive so far on a future housing or student finance bill, for example. How will that work?

The Deputy Convener: I am not sure. The intention is that the Finance Committee should be able, where it wishes, to call in and look at financial resolutions.

Callum Thomson: Let me use the Housing (Scotland) Bill as an example. The intention is that, in future, the subject committee—the Social Justice Committee—will be responsible for teasing out some of the issues that the Finance Committee is trying to tease out in respect of that bill. As far as the suggested revised standing order is concerned, it would be up to the clerks to ensure that members are informed about when Executive bills or members' bills were being introduced and about the details of the stage 1 timetable. It would then be for members to suggest to the convener that the committee should specifically consider a bill and, if necessary, take evidence, before reporting to the lead committee in question. That would be the mechanism by which this committee would make its views known.

The Deputy Convener: Does that answer your point, Andrew?

Andrew Wilson: Yes.

Dr Simpson: I take on board what Callum Thomson has said, but if the sort of principle on which we operate is similar to the budget principle, I wonder whether that would be helpful. On the budget, the subject committees have been allowed to propose movements in their own areas of funding. If the financial memorandum proposes to meet that cost from within the general budget of that department, the subject committees would be better able to comment on that.

On the other hand, if a major shift of budget is involved, either from the reserve or another department—as with some of the major expenditure commitments, such as implementation of the Sutherland recommendations—it would not be appropriate for that to be a matter solely for the Health and Community Care Committee. Without imposing those principles, perhaps it would be helpful to include an addendum saying that that might be a principle on which we would generally operate if members felt that it was appropriate.

12:00

The Deputy Convener: That sounds like a sensible guideline for consideration of the financial memorandum. I take it that, with the inclusion of those additional comments, the committee agrees to the financial resolutions paper.

Members *indicated agreement.*

Reporter

The Deputy Convener: We now move on to consideration of a reporter on the Scottish Parliament building at Holyrood. Members will remember that Ken Macintosh was appointed originally, but he is no longer a member of the Finance Committee and is not available to act as a reporter for us. The Audit Committee has received a letter from Paul Grice about costs and inflation, which has been circulated to committee members. I invite members to make any comments that they might have on the letter and to consider who might be appointed as our reporter. David Davidson is not present today, but he has said that he would be quite happy to act as the reporter.

Donald Gorrie: I missed the appointment of Ken Macintosh. Could you please outline the remit of the reporter? Is it merely to monitor current events, or will there be any involvement in trying to learn lessons retrospectively?

Andrew Wilson: The remit is specifically not to consider the backward-looking audit, which was the job of the Audit Committee. Ken Macintosh's remit was to consider carefully, on a continuing basis, the implications for our budget of what is happening with the Holyrood project—which is interesting, given the contents of the letter that we have just received. The reporter's remit is to take a close interest in what is happening to the costs of the project.

I do not know how Mr Gorrie feels about this suggestion but, given that he has a continuing interest in the subject, he might be our reporter. He probably has more expertise in the matter than most committee members.

Donald Gorrie: Everyone knows that I have taken an interest in the issue. I accept the fact that the building is going ahead at its present site, and that the issue now is to get the best building possible within our resources. If the committee wants me to act as reporter, I would be happy to do so. However, if David Davidson has a particular yen to be the reporter, I do not want to put his nose out of joint.

The Deputy Convener: Are there any other comments?

Andrew Wilson: Given that David Davidson has a strong view on the matter, perhaps we should agree that he should be the reporter. Can we comment on this letter?

The Deputy Convener: Yes. Go ahead.

Andrew Wilson: What has occurred is fascinating and has certainly passed me by. I am an enthusiast for Holyrood, which places me in a different position from that of almost every other member of the SNP, and certainly from that of Donald Gorrie, and I want the job to be done properly. However—and I hope that this does not put Paul Grice's nose out of joint—I do not think that the fix that appears to be emerging from this memorandum is at all acceptable. The idea that we should apply a differential inflation factor when assessing a budget has been consistently thrown out of court by officials who have appeared before us and with whom we have agreed. We want to know what differential inflation is, but we do not want a differential deflator to be applied to any part of the budget.

When construction inflation rises at 10 per cent, it is in no way acceptable for us just to net that out and call it real terms. That is not making the Holyrood project accountable to the Parliament. The idea that when the budget has risen by a substantial amount, we can call that inflation, net it off and say that the cost really is £195 million, is not what we agreed on before. It is not what I voted on in the Parliament and it is certainly not what this committee understood would happen. David Davidson might want to examine that idea closely. We should not create a precedent and allow that to become the norm.

The Deputy Convener: The letter says that standard practices are being followed with regard to the construction of public buildings for which the total amount required for inflation cannot be known in advance.

Andrew Wilson: The key point is that at no point in any part of the budget should we net off inflation using anything other than the gross domestic product deflator. Here, it is suggested that we use the Building Cost Information Service Ltd national all-in tender price index, which is of dubious reliability and would be absolutely new to the Scottish budget. Does that mean that we must use the BCIS national all-in tender price index—which is not a public sector calculated index—for every construction project in the rest of the budget? I am bemused at the way in which this idea has been presented. It is quite new to me.

The Deputy Convener: The letter says that the index is nationally recognised. However, I think that you are right. If we appointed David Davidson as our reporter, I am sure that he would want to examine the matter.

Andrew Wilson: Did we not vote on a maximum cost of £195 million, and did not the Executive and the Scottish Parliamentary Corporate Body make it absolutely clear that that figure would not be exceeded? Now, we find that that figure will be exceeded, but that the additional money will be called inflation. That is bizarre. Maybe David Davidson can consider that in detail.

Dr Simpson: The difficulty is that a specific project must be dealt with realistically, and the reality is that the construction industry's inflation is X. I am surprised that there is not also a local factor. There is so much building going on in Edinburgh at the moment that getting businesses to tender at reasonable prices must have been a nightmare. However, I agree with Andrew Wilson that the matter needs to be examined.

The last time that we discussed the Holyrood project, on 31 October, we spent a considerable amount of time discussing the £14 million for extra construction costs, which came under a different heading and was not subject to the same controls. Ken Macintosh, as our reporter, referred to the matter. That money now seems to be being used to cover inflation, if I read this memorandum correctly. We need confirmation that the price will not rise beyond £195 million, because the other costs that were not specified will now be taken up by inflation. We need more clarity.

Donald Gorrie: I missed the earlier discussion. Is it the committee's view that £195 million means £195 million? I am not an expert on the meaning of the Executive's motion, as I led the debate against it. However, my understanding was that the £195 million meant £195 million: there was no rubbish about inflation, real charges or anything else. Did the committee take a different view, that the £195 million meant £195 million plus various imponderables?

Andrew Wilson: It would be legitimate to interpret the £195 million as meaning £195 million in real terms. When general price inflation rises, that should be accommodated, as the rest of the budget will rise by the same amount. I do not agree that we should allow an unusual price index to be used—no doubt for the first and last time—for this specific part of the budget, just because construction inflation is rising faster. Throughout the debate and the discussions, we mentioned the fact that the construction price inflation was high. People know that; it is not news. I think that it is questionable to employ a new index at this late stage. An inflation index can be used, but it should not be the one that is suggested in the memorandum.

Dr Simpson: Ken Macintosh stated:

> "The £195 million is a capped figure—which cannot increase unless an increase is specifically approved by Parliament—but the £14 million is subject to the Executive's negotiations and increases can be found from the Executive's budget."—[*Official Report*, *Finance Committee*, 31 October 2000; c 797.]

That is not totally clear to me.

Andrew Wilson: Is that £14 million not for the road around the Parliament building?

Dr Simpson: Sorry?

Andrew Wilson: That £14 million is not included in the Holyrood project. It is for the road and the landscaping.

The Deputy Convener: Yes.

Mr Ingram: There has been a fair bit of wriggling on this hook of £195 million. I seem to recall that, the previous time that we debated it, the £195 million was described by Paul Grice as a target figure. We need to have a reporter in place as soon as possible to report back to us on the issue.

The Deputy Convener: We have appointed David Davidson as the reporter, and he can pursue the matter.

At the beginning of the final paragraph on page 2 of the letter from Paul Grice, we are told that

"the Parliament had not explicitly agreed that the £195m should be treated as a real terms target".

The clerk has pointed out that, when we receive the draft budget from the SPCB, we can pursue the matter further, independently of anything that David Davidson might report back to us.

We now move into private session for agenda item 8.

12:10

Meeting continued in private until 12:22.

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ISBN 0 338 000003 ISSN 1467-0178