

# **FINANCE COMMITTEE**

Tuesday 8 May 2001  
(*Morning*)

Session 1

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## FINANCE COMMITTEE

11<sup>th</sup> 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

### THE FOLLOWING ALSO ATTENDED:

Murray McVicar (Scottish Parliament Information Centre)

### CLERK TO THE COMMITTEE

Callum Thomson

### SENIOR ASSISTANT CLERK

Anne Peat

### ASSISTANT CLERK

Gerald McNally

### LOCATION

Committee Room 2



## Scottish Parliament

### Finance Committee

*Tuesday 8 May 2001*

*(Morning)*

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

### Voluntary Sector Funding

**The Convener (Mike Watson):** I welcome everyone to the 11<sup>th</sup> meeting this year of the Finance Committee. I make the usual reminder about mobile phones and pagers. I have received apologies for absence from Adam Ingram, and apologies for late arrival from Elaine Thomson, who is attending a meeting of the Public Petitions Committee. As agreed, Donald Gorrie has supplied us with a briefing paper that outlines how he and Adam Ingram will conduct their research. I invite Donald to speak to his paper.

**Donald Gorrie (Central Scotland) (LD):** The paper is in official-speak, in which I am not an expert. I am therefore indebted to the officials who are expert in such language for writing it. I can assure the committee that the final report will be real-speak. However, the paper is useful for setting out the issues in a bureaucratically acceptable manner.

Members have been circulated with a copy of the Scottish Executive document "Review of Funding for the Voluntary Sector" which was mentioned at the previous meeting. The Executive's study of voluntary sector funding seems to be happening in two stages, one of which will finish by the end of July. That work will concentrate almost entirely on direct funding from the Executive to the voluntary organisations and will therefore omit the very important involvement of local government. Although the Executive's study is helpful and will provide good information, it does not cover the whole ground, which means that the committee can do something useful to supplement that work.

It would be helpful to get the committee's guidance on one or two points. Either we produce information on subjects the Executive is specifically pursuing or we try to fill in the gaps. For example, finding out the figures for overall funding of the voluntary sector from national Government, local government and other sources would be a useful exercise, especially if we went back a number of years. We should concentrate on the local government aspect of funding, because most smaller voluntary organisations

receive their funding from the local authority, not from the national Government.

We should also examine issues that the committee has already considered, such as core funding versus project funding; how we fill in the gap when short-term funding from the lottery or whatever runs out; whether the prevalent competitive system, in which the voluntary sector bids to provide services for local government and national Government, gives best value.

There is good scope for the committee to produce a worthwhile report before the end of the summer and to build on it by co-operating with the Executive in its longer-term report that will come out in the autumn. I am very happy to co-operate with Adam Ingram and would particularly welcome suggestions from colleagues about groups that we should contact with a view either to visiting them or at least asking them for written information. I am sure that we all have our own networks. If we can draw on them we will get a better overall picture.

10:15

**The Convener:** I will kick off questions with a point of clarification. On the first page of the briefing paper, the third last paragraph says:

"It is envisaged that the Committee reporters will undertake a paper exercise to build on the work already undertaken".

Who has "already undertaken" that work? Furthermore, your paper continues with the claim that

"a number of voluntary groups have already been contacted and visited".

Have you and Adam Ingram "contacted and visited" those groups, or are you referring to work that has already been undertaken by other committees? We have stressed the need to avoid any duplication.

**Donald Gorrie:** I am referring to private enterprise work—as it were—that I or other committee members have done as individual MSPs. We could follow that up by including such information officially in a committee report. I am sorry that the sentence is ambiguous; it refers to individual members doing individual work.

**The Convener:** But you do not mean any work that you and Adam Ingram have undertaken together.

**Donald Gorrie:** The two of us have not visited any groups as representatives of the committee; we have just shown private, individual interest in these matters.

**The Convener:** I think that the suggestion of a stage 2 process of feeding into the Scottish Executive's wider strategic review is worth while.

We should review the matter in June, after the committee submission to the consultation exercise has been completed. That said, the briefing paper is good and covers some important aspects of voluntary sector funding. I can think of two organisations that we should contact, although I do not propose to name them at this stage.

**Donald Gorrie:** Richard Simpson made some suggestions, although I cannot remember exactly what they were.

**Mr David Davidson (North-East Scotland) (Con):** I am sure that we will all point you and Adam Ingram in the direction of various organisations.

I refer to page 6 of the Scottish Executive consultation paper. In paragraph 10—headed “Principles for future funding”—the Scottish Executive says that it will make available funding for bodies and activities that

“demonstrably contribute to meeting the Executive’s priorities and objectives”.

That might not cover some voluntary sector bodies, which might have been set up to address a certain need. Such bodies are not really an arm of the Executive. Will the reporters take account of that when reaching a conclusion that the whole committee can support?

**Donald Gorrie:** We will try to cover that important philosophical and political issue. It has given rise to conflicting points of view. We need to seek the views of voluntary organisations on it. Organisations complain that when council officials say, “Our priorities are A, B and C,” the voluntary sector has to distort its activities to meet those priorities instead of receiving funding for its own priorities. There is room for both approaches.

**Mr Davidson:** On page 8 of the Executive document there is a reference to looking for “generic power” to fund the voluntary sector in Scotland. It is further suggested that legislation to that effect might be introduced. Will the report consider that issue?

**Donald Gorrie:** That is the sort of thing that this committee would certainly be interested in. Presumably, we would want to have a thorough discussion about any legislative changes.

**Dr Richard Simpson (Ochil) (Lab):** As I have already said to Donald Gorrie, I am particularly interested in situations in which the Executive provides money to local authorities who then provide money to the charitable sector to undertake work that the Government and local authorities want done. In that context, I moved an amendment to the Regulation of Care (Scotland) Bill last week to put in place an opportunity for the care commission to comment on funding arrangements. I did that because the present

situation is not joined up. I have suggested to Donald Gorrie that I would be happy to co-operate with him on this issue as I will be working intensively on it before stage 3 of the Regulation of Care (Scotland) Bill.

**The Convener:** Are we prepared to accept the proposal in Donald Gorrie’s paper with a view to a report coming back to this committee for us to endorse as our response to the consultation document?

**Donald Gorrie:** Would that be before the end of June?

**The Convener:** You mentioned mid-June, when we will be pretty busy. It must be done before the summer recess. We would like to see the report as early as possible if we are to give it proper consideration.

**Donald Gorrie:** That will give me a chance to sneak out of some electioneering.

**The Convener:** Do we agree to accept the proposal in Donald Gorrie’s paper?

**Members indicated agreement.**

## Financial Reporting Advisory Board

**The Convener:** Members have in their papers a letter to me from the Minister for Finance and Local Government. I understand that the same letter also went to the convener of the Audit Committee. In a sense, this item is unfinished business as we said last year that we would be happy for the Financial Reporting Advisory Board's remit to be expanded to build in a Scottish context. That appears to have been done. The clerk's note contains an issue that has also been raised by the Audit Committee: that the board should send its annual report not only to the Public Accounts Committee and the Treasury Select Committee in the House of Commons but to this committee and the Audit Committee. I am sure that members will not disagree with that suggestion.

**Dr Simpson:** I particularly welcome paragraph 3.2 of the draft terms of reference, which says that the independent chairman of the Financial Reporting Advisory Board will be appointed in agreement with the Scottish ministers. That is important. Perhaps the terms of reference should state also that the independent economist who is nominated by the head of the Government economic service should be appointed after discussion with the Scottish economic service or the Scottish treasury or whatever it is called these days. I am not suggesting that there should necessarily be the same level of agreement that would exist in relation to the appointment of the chairman, but there should at least be an opportunity for discussion.

**The Convener:** I am not sure that there is a Scottish equivalent of the Government economic service.

**Andrew Wilson (Central Scotland) (SNP):** We have a chief economist, but he is a member of the Government economic service. However, why not push for his having an input into the appointment of the independent economist?

**The Convener:** Is it agreed that we suggest that addition?

*Members indicated agreement.*

**The Convener:** Richard Simpson, do you have an idea of appropriate wording that we could suggest?

**Dr Simpson:** The wording should convey the idea that the independent economist who is appointed by the head of the Government economic service should be appointed after discussion with the chief economist in the Scottish Executive.

**Donald Gorrie:** I would like to raise a related point about statistics. I am sure that all of us have found that there is a huge black hole where there should be Scottish statistics. I am not sure whether we should comment on that or whether that would be being unrealistic. Presumably, the financial statistics are mostly UK figures.

**The Convener:** If you remember, Arthur Midwinter highlighted the difficulty of getting information on the Scottish deflator. I suspect that the information we need is not kept separately.

**Mr Davidson:** In the chamber, I have raised with several ministers the lack of a central database of many of the statistics upon which the Parliament makes policy. For example, statistics are dealt with at a health board level; no analysis of trends is performed centrally. About a year or so ago, this committee discussed that issue generally. Ministers make welcoming noises in response to my questions, but no action is taken. Perhaps this committee should raise the matter with the Executive on behalf of the Parliament.

**The Convener:** We need to know first of all what statistics are kept.

**Mr Davidson:** Very few, apparently.

**Anne Peat (Clerk):** A couple of new statistical publications started up last year, which might be useful. I will check up on them.

**Mr Davidson:** A lot of parliamentary questions have been asked about the fact that information that the Parliament would be interested in is not being held centrally.

**The Convener:** We will ask the clerks to research what statistics are available. Once that has been done, we can revisit the issue.

Do we accept the Financial Reporting Advisory Board's draft terms of reference, subject to inclusion of the addition that we will suggest?

*Members indicated agreement.*

**Donald Gorrie:** Is the fact that the annual report will be sent to this committee included in the document?

**The Convener:** Yes.

## Scottish Parliament Building

**The Convener:** The subject of our next item of business may explain why the press gallery is more full than usual.

David Davidson has submitted a report that I have not yet had a chance to go through fully. Would you like to speak about it, David?

**Mr Davidson:** I apologise for the fact that the report was e-mailed to members only at the weekend. I realise that some members may not have received it yet: I could get the home e-mail addresses of only two members. I apologise for that, but a member of my family is ill and that has distracted me somewhat.

This interim report lays out in simple terms the background to the project and was written after discussion with the political members of the progress group, the clerk to the progress group, Paul Grice and Stewart Gilfillan. I have tried to highlight areas in which variants might arise as the contract system is implemented. I do not think that enough people realise what is involved in the process.

I have highlighted the history of the project, the management process, the tender process, the fact that the MSP block—which is traditional building work—is virtually complete and the technical difficulties that arise from the construction of the chamber and the committee towers, which could lead to a variance in the outturn prices. I have made it clear that the contract system was in place when the Scottish Parliamentary Corporate Body took responsibility for the project. Members of the progress group have told me in informal discussions that tremendous work has been done to constrain costs on the part of the complex that is being built traditionally and which accounts for the first £50 million.

I am about to get access to the outturn figures for the contracts that have been let, which will become public knowledge anyway, and I will report back to the committee when I do.

The two areas in which there might be the biggest variance are Queensberry House and the chamber and committee towers, as there are technical difficulties associated with turning the concept of those areas into a practical working design. Also, as it evolves, the contract process will bring in technical changes and specification changes that could affect later parts of the process. A risk register is being maintained by the group. The fit-out of the building is being recosted, but there appears to be little measurable variance in it at the moment.

I have commented on the use of home sourced

materials, which will be of interest to the people who are trying to manage the project for us and to the public at large. There is a cost implication of using such materials. I am assured that the group is doing its best to incorporate home-sourced materials. A further report will detail that more specifically.

10:30

As part of the budget process, the Scottish Parliamentary Corporate Body will routinely convene a comeback to the Finance Committee in the autumn. Some reports may be made earlier than that, but I have been given no firm dates—the information could become available just before the summer recess or when we resume after it. I hope to meet all the members of the progress group this week. That meeting will be confirmed later today.

Members may read the rest of my report at their leisure; it merely reflects a position in time and has no definite numbers in it. I should like to make it clear that the motion—which is of some political concern but which was not my business in this report—was fairly naïve, especially as all the complexities of the project had not been worked out. That is not to say that the project may not come in at that price—I am not in a position to be adamant about that—but it raises concerns, especially as outside comment such as the Spencely report has cited a range of greater figures.

We also have the problems of a poor background for competition for technical reasons and the fact that property for construction in the Edinburgh marketplace costs about the same as property in the London marketplace, which is the top end of the spectrum. Inflation and the lack of competition have been difficulties that the group has tried to work with.

**The Convener:** Thank you, David. I have been able only to skim through the report while you were speaking and I would like clarification of a couple of points. In your conclusion, on the final page, you say:

“Further reports will be produced once access to firm figures can be obtained but it should be assumed that, if the project is to be delivered to the agreed timescale, then drastic redesign to make large savings would probably not be cost effective.”

I know that you do not have detailed figures, but does that mean—

**Mr Davidson:** That is the gist of the information that I have received from the people who are involved in the project.

**The Convener:** That is not your conclusion—it is what you have been told.

**Mr Davidson:** I have been told that there is a



huge risk because of the time scale of delivery—there is a set delivery time—and that if major redesign has to take place, the process will be very costly and fast-track construction work may have to be undertaken to cope with changes as they are made. I highlight that as an area that we cannot yet cost specifically.

**The Convener:** The costs are the most important issue, but another issue is the timing. Over the weekend, you will have read media reports about a book, which is apparently to be published later this week, that suggests that the completion date could be 2004. If there were a major redesign, that would surely put the completion date beyond the expected date of the end of 2002.

**Mr Davidson:** I do not know about the press report.

**The Convener:** I am using that as a backdrop. You have established that any redesign would make it impossible to meet the 2002 deadline.

**Mr Davidson:** No. From what I have heard from people and from my knowledge of the construction industry, I believe that a major redesign—for example an aesthetic choice to use cantilevers rather than pillars—would not necessarily involve a radical increase in time scale, but would involve a major increase in cost. The engineers' reports, planning permission and everything else would have to be acquired. The project has not used Crown immunity, but is going through the normal process. I am informed that the progress group is not in a position to say whether the project will overrun. It has made clear to me the fact that there could be problems and that one solution would be to throw money at the project to design out any difficulties, which would be costly. That is a possible variance, not a firm variance, and it is still to be discussed by the progress group and the SPCB this week.

**The Convener:** You said that you will meet the progress group later this week.

**Mr Davidson:** I hope to do so. I have asked to attend its meeting this week.

**Andrew Wilson:** Would I be correct in saying that the risks of cost variance that you have identified are the same as they were when Gordon Jackson's motion was passed? At that time, some of us argued that it was probably right to pause, given the attendant risks and the fact that it would be difficult to settle on a figure. Nevertheless, that motion was passed. Has anything changed since then?

**Mr Davidson:** What has changed—in qualitative, not quantitative, terms—is the fact that the first £50 million tranche of contracts are reasonable; I have used that word since someone

else was quoted. Cost savings and some practical changes have been made, of which I have referred to only one in my report—the Miralles light walls—which have not only made the building cheaper and easier to maintain, but have made the office blocks more useable. I am assured that there have been additional costs as well as savings, but that the first stage is more or less complete. It is the next stage that poses the largest query.

**Andrew Wilson:** Was that apparent before the motion was passed?

**Mr Davidson:** That is one of the issues that I shall raise with the progress group as a whole. Sir David Steel said that he is happy to meet the group on behalf of the corporate body, but that he wants me to sort out all the details with the full progress group first, which is a fair request.

**Andrew Wilson:** For the Finance Committee, the implications of the overall budget and the cost issues are separate. Will you give any consideration to what will happen to the forward budget if there are variances? Right at the start of the project, when Ken Macintosh was appointed as reporter, the question was asked: why is the project being paid for out of current budgets rather than through some other financial route.

**Mr Davidson:** Those are issues that I shall take up. I shall have another meeting with Paul Grice and Stewart Gilfillan, to follow through the practical implications of funding and so on. The point has been made that the construction will incur a cost for three years, after which the costs will be the normal maintenance costs of the Parliament. I have received an assurance, which I mention in my report, that the progress group has had its eye on future maintenance costs when it has considered the fine print in the pre-tender process and the post-tender discussions. However, I am not in a position to confirm or deny where the process will end up. It is an issue.

**Andrew Wilson:** I ask that consideration be given to how many of these costs are sunk capital costs and to what scope we have for examining different routes to financing future heavy capital costs to determine whether there is a better or cheaper way of financing them.

**Mr Davidson:** I touched on that issue with Paul Grice and Stewart Gilfillan and I intend to pursue it. Once the outturn figures for the first tranche of contracts are firmed up, I can enter into that discussion and report back to the committee.

**The Convener:** I would like to know the time scale for that discussion. The SPCB will not report to us on revised expenditure proposals before the summer recess.

**Mr Davidson:** It was hinted to me that we will

see the outturn figures for the first set of contracts over the next couple of weeks. That is a loose hint, as discussions are continuing between the progress group and the corporate body. As I say in my report, the progress group is the de facto management team that is making decisions, although it maintains full contact with the corporate body in the process. Once we move away from the more traditional building issues to the conceptual design—it is to be a unique building; I do not argue with that—we will need to get more closely involved.

**The Convener:** Does David Davidson expect to report again before the autumn?

**Mr Davidson:** Yes. I hope to report again before the summer recess.

**Dr Simpson:** As David Davidson rightly points out in the first section of his paper, the Parliament building's costs have risen significantly. Although there has been a decrease in the amount of car parking, the cost increase is associated with the Parliament's requirement for a substantial increase in size. Has the size of the Parliament stabilised, or are further changes in size planned—upwards or downwards—in any of the three parts of the Parliament building site; the MSP offices, Queensberry House or the debating chamber area.

**Mr Davidson:** At this stage, I have not been told that there have been any major changes to the volume of the building. The MSP block is virtually finished and is therefore an entity in itself. As far as I am aware, the costs that are associated with Queensberry House have not altered. However, what changed the expectation of costs was the state in which that building was found to be in. Although that is a major consideration, it is not one that has been affected by changes in volume. However, changes that are of a fine tuning nature might be made to some of the committee chambers and to other such parts of the building.

**Dr Simpson:** If David Davidson is going to ask further questions of the progress group, could he please focus on the Queensberry House side of the building. I have heard a number of rumours about Queensberry House. I do not wish to go into them in a public meeting, but I ask David Davidson to examine closely what is happening in that respect and what Historic Scotland is doing. I have heard rumours about difficulties in terms of cost and reduction in space at Queensberry House.

**Mr Davidson:** My report addresses the points that Richard Simpson raised. The progress group awaits a final response about Queensberry House from Historic Scotland, but I understand that discussions about it are on-going.

**Dr Simpson:** I hope that there will be a sensible conclusion to that problem. If Queensberry House

had been in any other country, it would have been demolished and rebuilt as a replica. Considering the state that Queensberry House was in, that would have been perfectly satisfactory and it would probably have been done at about a third of the cost. However, that is water under the bridge.

David Davidson referred to inflation costs as being at the top end of the banding levels, relative to prices in London. Do we have any concept of what inflation costs in the construction industry are as they relate to the current banding levels?

**Mr Davidson:** To date, I have been told that the Edinburgh market is very much the same as the London market, which is at the top end of the UK banding level. Regional variations exist, including the centre of Birmingham and the centre of Manchester, where building costs are also quite high. The financial controller of the Holyrood project is going to give me a further briefing on such matters. The report that members have from me is an interim report to set the scene. If members have areas that they wish me to examine further, I will be happy to do so.

**Dr Simpson:** It is probably too late to ask a specific question about the cladding costs of the rear wall of the MSP building, as the contract has probably been let. Given that the cladding is not going to be seen by anyone except people peering out of the flats next door to the MSP building, it would seem that savings could have been made on those costs.

**Mr Davidson:** I believe that cladding is still a live issue for the progress group.

**Dr Simpson:** In that case, I ask David Davidson to take a close look at the rear and side cladding on the MSP building, because cost savings could be made in that area.

**The Convener:** It is clear how Richard Simpson spent his May day holiday yesterday. Given the amount of detail that was evident from his questions, he has clearly walked the site recently.

I thank David Davidson for his replies to Richard Simpson's questions.

**Donald Gorrie:** Queensberry House did not come with grant aid for its rescue. At the time, that seemed unusual to me and that is still the case. Is it too late to try to get money from conservation sources to help with the costs? As Richard Simpson said, the Parliament has gone several extra miles to preserve the building.

**Mr Davidson:** The progress group is actively considering that issue. If I sound defensive, it is because the progress group has not been in a firm position and all that its members have been able to say to me is that that matter is under review. I will continue to ask those questions of the progress group.

10:45

**Donald Gorrie:** The progress group will continue to have to make a series of decisions to get a balance between cost and quality. From what he has seen so far, is David Davidson happy that it is achieving that balance?

**Mr Davidson:** The progress group aims to get as good a balance between cost and quality as possible. Whether it achieves that will become clear when we look at the outturn figures for the first series of let contracts. That will allow us to look in detail at the actual spending, to see where changes were made and to see what was the drift of the activity of the progress group during that phase.

I have received an assurance that, as part of the commonsense decisions that are being taken, the progress group has looked at the long-term maintenance of the Parliament building. For the sake of argument, let us take cladding as an example. Although there was an opportunity to use some cheap and cheerful cladding, in 10 years time that would require to be repaired. The progress group has been trying to weigh up that matter. However, given that the motion that went through the Parliament was for a cash sum, that has led to problems. In saying that, I return to the point that was made by Andrew Wilson about where the up-front costs are to be laid in the budget process.

I apologise for the problems that I have had at home. My interim report merely sets the scene for where we should dig deeper. As I said, if the committee suggests areas that it would like me to examine in more detail, I will be happy to do so.

**Donald Gorrie:** From the way that the contracts are let, can the progress group bring a clear-cut decision to the Parliament? Is it possible for the progress group to say to members that we can have Parliament building A, but it will cost an extra so-many million above the £195 million or, if we stick to £195 million, we can have a somewhat inferior Parliament building B? Does the system lend itself to allowing the Parliament to make that sort of decision, or is that suggestion too complicated?

**Mr Davidson:** The tendering system is done in stages and on a fast-track basis. That means that, when everything else is done, decisions will have to be made at the time that the chamber and committee towers are being built. The progress group has not told me that it wishes to come back to Parliament with a series of drawings and measurements. It is trying to operate within the concept, and it is looking at the practicalities of how the concept can be delivered in building terms. In the case of the Parliament building, it is not as if somebody designed something that could

be measured, which they then entered in a competition. There was a concept, which had to be turned into a design that could be measured and built.

At this stage, I am not of the view that the progress group has reached the stage of saying that it will have option A or option B. It is more concerned to maintain budgetary control over what has been done to date. At the same time, technical work is going on behind the scenes. Earlier in my evidence, I mentioned problems with one wall. That sort of technical problem might lead to questions about whether things are done one way or another within the concept. At the moment, that is how the progress group is developing the building.

However, until I have had a meeting with the full progress group including, in addition to the politicians, the technical people whom I have listed in my interim report, I will not be in a position to answer that question. I can certainly ask that question of the progress group.

**The Convener:** On behalf of the committee, I thank David Davidson for that interim report. He will give a further report before the summer recess.

## Budget Process 2002-03

**The Convener:** Item 4 is consideration of the budget process. I invite members who are reporters to other subject committees that are considering the budget to make interim comments. I am the reporter to the Justice 1 and 2 Committees, which have so far held only one meeting, so I have nothing to report at this stage. If other members want to make any comments, they should use this opportunity to do so.

**Mr Davidson:** I have been to one meeting of the Enterprise and Lifelong Learning Committee. It will have another meeting this afternoon, at which there will be detailed discussion. That committee will hold three meetings. The first, which I attended, was just to outline the process.

**The Convener:** Item 5 on the agenda is also on the budget process. We should consider the way in which the committee wants to develop the research that was carried out by Professor Arthur Midwinter, whose report was published last week. I apologise for not being at the launch—I was confined at home with a throat infection—but I understand that it went well. Media coverage was certainly more than we get for many of the reports that the committee publishes, so that is a positive aspect.

I have a comment to make about the research that we might conduct. We must consider that research in the context of how we work with the Executive. The Executive will have received a copy of the report, and we should certainly be looking for a response from Angus MacKay and his officials. No doubt we will get that in due course, but we should consider whether there are any specific aspects that we want to flag up. With the resources that it has at its disposal, the Executive might be better placed to proceed with some of the research than the committee would be.

Elaine Thomson flagged up the point that Arthur Midwinter made about encouraging the Parliament's committees to move away from focusing too much on information on inputs—such as the amounts that are spent and real-terms figures—and instead to concentrate on accessing output information from the Executive. He said that that would enable a better picture to emerge of the expected improvements to public services from additional resources. That is something that I would certainly want to highlight.

We should consider two aspects: first, what research we should be encouraging the Executive to do; and secondly, what we want to do ourselves. That could be bracketed with agenda item 6, on external research, which we shall be

considering next. Murray McVicar of the Scottish Parliament information centre is here and can offer comments at any time.

**Andrew Wilson:** The research was a worthwhile exercise. The report is substantial and we have a duty to translate the conclusions into deliverable outputs. Otherwise, the research will just sit on a shelf, and we should avoid that.

There are three areas in which we have a specific input to make to the continuing process. The first of those, as has just been identified, is the point that Elaine Thomson raised. Rather than conducting research that would be difficult for the Finance Committee, I suggest that we include in our guidance to subject committees on the treatment of the budget process the suggestion that they identify the key outputs in their own subject areas and how those outputs can best be measured through time. I think that conducting specific research would be quite difficult, but we can come back to that point.

The second thing that I think is important is the detailed research in the first half of the paper on cost inflation in the public sector. Again, we can feed that directly into the subject committees, so that they take cognisance of what is happening in their areas. For example, the two conclusions that were drawn were that, across the piece and across the past 30 years, cost inflation in the public sector has tended to be higher than general inflation because of the heavy preponderance of labour costs, which by definition run faster than gross domestic product inflation. Committees can keep an eye on that in terms of outputs. If labour costs are running faster than general inflation, one must spend more to stand still and to employ the same number of people. It is important to feed that in so that we can keep an eye on what is happening with pay negotiations in areas such as health.

My final point is about the general issue of the scope for change. I am not sure whether we reached a specific conclusion about how much scope there is for change. The most helpful conclusion that I was able to draw was that we are able to make an impact on new money—additions from the Treasury—as it comes in from the budget, rather than moving money about in the existing budget. That is something else that we should give guidance to the subject committees about, to let them know how they can contribute to the process.

Having made those three points, a summary note is called for from SPICe or from the clerks, in consultation with members, which we can give out to the other committees. It could contain the outcomes of the paper and our guidance to committees as a result of it. I would like that summary note to cover the three areas that I have

mentioned.

**The Convener:** It is a worth-while suggestion that we should give guidance to subject committees.

**Mr Davidson:** I agree with Andrew Wilson that there needs to be a user-friendly guide for committees on how to consider the budget process. However, I think that we ought to be fast-tracking something else in parallel with that; we should get from the Executive even a preliminary view of how it views Professor Midwinter's work.

**The Convener:** We will do that.

**Mr Davidson:** We need to fast-track it. I am talking about a preliminary view, rather than a detailed view. That will help us in looking at where we need to go and what we are going to do with the work that has already been done for us. There might be areas in which the Executive needs clarification, and I do not doubt that Professor Midwinter and you, convener, will be able to provide that. However, having had that work done, it is important that we hear an initial response so that, by the time that we get into the next budget round, some action has been taken or agreed on. We talked to the Minister for Finance and Local Government about the need to review our working arrangements, and what I suggest would be part of that.

**The Convener:** As I said, the results of the research have gone officially to the Executive with a compliments slip, but we should follow that up by saying that we expect a response as soon as possible. David Davidson mentioned fast-tracking. We should be realistic about that, but we certainly want to have something by our last meeting before the summer recess.

**Donald Gorrie:** It might be helpful to have joint discussions with the Local Government Committee about ring-fencing. As we all know, local authorities get very excited in opposition to ring-fencing, but central Government of any sort likes to ensure that its priorities are being delivered, which often involves ring-fencing. It would be helpful to pursue that.

We should pursue the issues of outputs and outcomes, especially in relation to the use of new money, so that we can get better information about the improvements in services that could occur and what they might cost. The Parliament can then make an informed choice, or it can comment to the Executive—which would, I presume, try to make the first choice—on whether, if more money is available, we should mend the holes in the road or improve nursery schools. However, we will need better figures on the cost of both options in order to do that.

We could also explore better ways of spending

existing money. To oversimplify the point, if we could get all the young people playing football incessantly, that would save on health bills, so perhaps a lot of the health money should go towards encouraging people to play football. That is an exaggerated example, but the principle is there. We should consider whether there are better ways of spending existing money to achieve the outcomes that we want.

**Dr Simpson:** I agree with most of the points that have been made, but I have two brief comments. The report deals with outputs, and I wonder whether we might formally ask the Audit Committee whether it has any helpful comments.

My second comment is on efficiency savings and relates to what Donald Gorrie said. The issue of efficiency savings is still around but it is not specified anywhere in the budgets. There are two ways of shifting money: one is to create efficiency savings and the other is to move the new money around. That is something that we should bear in mind.

We are left with the problem of how the various UK spending rounds link to us. The current issue is budget consequentials which, I presume, we will hear about in the not-too-distant future. They are a constant problem. It is important to get all those things right—in the right order and at the right time—and for the subject committees to say what they want the next piece of money to be spent on, should it become available.

11:00

**The Convener:** Are you suggesting that the subject committees should look ahead, rather than simply responding to budget proposals? I think that that is a good idea, but we have to bear in mind the pressures on the committees.

**Dr Simpson:** What we have said to the committees is that, if they want money to be spent on a particular area, they must indicate where it should come from. There should perhaps be a subtext to the effect that, if they cannot find where money might come from, committees can say what they want money to be spent on if there were budget consequentials.

At the moment, none of the subject committees has any input to the process. This committee has no formal input to budget consequentials, which are sizable chunks of money. We should try to find a way of making an input. The best way of doing that would be to say, for example, that the roads programme should be speeded up if additional money becomes available—if that was what we felt was appropriate.

**The Convener:** That is the sort of thing that should emerge from the committee's current

proposals. If, having examined our section of the budget, we say that we are not suggesting cutting anything, but that we think that such-and-such a project should be supported, I would expect recognition of that to emerge from the process—if not this year, then in future.

**Mr Davidson:** I want to follow up on Richard Simpson's point about efficiency savings. As part of our agreement with the minister—we will work on a new one—we should require that, if the phrase "efficiency savings" is used, it must be spelt out in real terms where savings will be made and what the implications will be. That has, since time immemorial, been a political issue, but we need to make some progress. If a committee says that it feels that efficiency savings could be made and the money spent on new football pitches, for example, it should be required to give details of where those efficiency savings would be made.

**The Convener:** We have to put that in the context of what Arthur Midwinter and Jim Stephen said—that the record of efficiency savings was minimal.

Donald Gorrie made two proposals. One was that we should meet the Local Government Committee to consider ring-fencing. I cannot remember, off the top of my head, what the second proposal was.

**Donald Gorrie:** I felt that we should examine the best ways of using the new moneys and outputs, and better ways of spending existing money. As I understand it, the Finance Committee could be a vehicle for the Parliament to help it to determine its views on the best use of new money, which would then be put to the Government. The Transport and the Environment Committee often says, "The roads are in a hellish state—we need to spend millions," and the Education, Culture and Sport Committee often says, "We need more nursery schools." The Parliament, I presume, must have some mechanism for deciding priorities. Would that be the province of this committee? Would we simply feed in options for the Parliament to vote on? At the moment, the Executive decides all those things while we merely sit back and accept its decisions. I feel that we should have some influence over the proceedings.

**The Convener:** If we received competing proposals from subject committees, we would be required in our report to say which proposals carried the greater weight. That would be a pleasant position to be in, because we have not had anything of that nature coming to us so far.

There is no formal mechanism for committees meeting jointly unless they are undertaking a joint report. It might be interesting to ask the Local Government Committee to respond on the issue of ring-fencing. I would be surprised if, in that

committee's inquiry into local government finance, ring-fencing was not at least touched on. We could write to the committee and draw its attention to our report. It might be premature to have a joint meeting at this stage, but it would be interesting to hear the Local Government Committee's opinions.

**Donald Gorrie:** Okay.

**Mr Davidson:** If we are to consider ring-fencing and ask one committee for its views, we should perhaps also consider other committees. Richard Simpson will be able to advise us on this, but the Health and Community Care Committee will have opinions on ring-fencing in health because it seems to be causing difficulties in some trusts. We do not want to have a full-scale inquiry, but other committees—not only the Local Government Committee—might have an interest in the matter.

**Dr Simpson:** I do not think that we want to involve the Health and Community Care Committee at the moment. It is considering a totally new regime of performance management which, we hope, will sort out some of the current problems with what central Government wants as opposed to what individual health boards want. There will be a new mechanism for determining how money will be spent in relation to national priorities, which will be a different ball game. A new contractual system might be of considerable relevance to other committees, such as the Local Government Committee.

**Andrew Wilson:** I make a plea that we do not fall into the academic trap of allowing research to produce ideas for other research. We should try to produce outcomes from what was a substantial bit of research that had a substantial cost to the Parliament's budget.

I suggest that we produce a short note on our conclusions on what the outcome of the research really means. Four or five specific points have been raised in the discussion so far. We must translate that into a way in which to make a specific difference in our guidance to other committees. We should not use the research to produce ideas for new research. At times, we run the risk of considering things that would perhaps be better considered by other committees. We should focus on the overall budget and movements within it.

I suggest that we ask the clerks, in consultation with the Scottish Parliament information centre, to produce a report that includes some of our main conclusions. We could fire that out with a note from you, convener.

**The Convener:** We have already said that we will produce a summary note of the committee's conclusions on the research. We could attach to that our view of what should happen, and that could go to the subject committees. That would be

helpful for them.

**Members** *indicated agreement.*

**The Convener:** Because of the time, and because—as reporter on behalf of the committee—I must attend the joint meeting of the Justice 1 Committee and the Justice 2 Committee, I will pass the chair to the deputy convener for the last item on this morning's agenda.

## External Research

**The Deputy Convener (Elaine Thomson):** The final item is on proposals for external research that we will forward to the conveners group. I have put in a number of suggestions, but I am not aware whether any other member has done so. Members have received a slightly more worked-up version of two of the proposals that I had provisionally suggested. I put in three proposals originally. One was to do with green economics and budgeting. One was on how we move towards outcome-based budgeting. Although we have spend a lot of time talking about that, a considerable amount of practical work must be done on how the Scottish Executive finance department deals with outcome-based budgeting.

My final suggestion concerned gender-based budgeting, and a worked-up proposal as to how that might be developed is included in the paper that members have in front of them. That would complement some work that is being done on that subject, partly by the Executive's equalities unit and partly through external research.

Those are the three suggested topics for research. I am not clear, however, about whether we must make a final decision today, or whether we must simply think about the proposals and make a final decision at our next meeting.

**Anne Peat:** The committee could agree at the next meeting whether to go ahead with a proposal; we do not have to do so today.

**Andrew Wilson:** You have given us three substantial suggestions for research, deputy convener. The equality and green economics issues are both valuable, and they would best be taken forward by the Equal Opportunities Committee and the Transport and the Environment Committee, respectively. Substantial research has already been produced in those areas, and my plea would be that we should repeat the exercise next year, with some research that would be useful for the whole budget and across the Parliament. We can then show that the Finance Committee is relevant to the entire process.

I have not been as diligent as you, deputy convener, in producing a suggestion in writing, but I have one here that I want to put orally. We need something that we can use as a marker, across the budget. The suggestions that have been made are very substantial, but I think that they are best dealt with by other committees.

My suggestion anticipates our inquiry following the inquiry on private finance initiatives—it is on our friend, the Barnett formula. Given the controversies about that formula, which will clearly

be on-going, work could be done in trying to get a reasonably impartial take on how the formula operates and on what it does to the budget, both historically and from now on. Such work would help inform the Parliament's ruminations and the committee's inquiry after the one on PFI. That is my suggestion; it is for colleagues to say what they feel about it.

**Mr Davidson:** When Andrew Wilson first brought up the question of an inquiry on the Barnett formula last year, I supported him, because it is important for us to have a working knowledge of its intricacies, and for us to transmit that knowledge to the Parliament. I do not think that a lot of people who stand up and come out with comments on Barnett actually understand its fine print or its basis. It will almost certainly become a subject for discussion, as I said when I was talking to Andrew Wilson about it at a seminar some months ago, at which the former Minister for Finance was present. Having spent part of my working life in the north of England, I know very well the tensions that exist down there. People there are going through similar angst. It is important that the Scottish Parliament gets a handle on the process.

To return to the comments on Callum Thomson's paper on suggestions for external research, I agree with Andrew Wilson that the gender-based issue and that of green economics are subject-committee specific at this stage. However, we need somehow to develop an outcome-based budgeting model. That will provide a way for the other committees to do their work in budget terms. They do not always focus on outcome-based budgeting as a front-line issue, but they are very much involved with the practical issues that come under their briefs.

**Donald Gorrie:** Following our earlier discussion, I felt that there might be some merit in somebody researching the state of play with regard to statistics. I think that it would be reasonable to get the Executive to do that, however, and for the committee not to spend our limited cash on that. I recommend that we press hard to get an accurate snapshot of the current position on statistics. That would be very helpful.

I suggest a strictly factual exploration of the Barnett issue after the UK general election to inform not only our colleagues, but the press, Westminster MPs and everybody else. In the public ignorance stakes, the Barnett formula must be pretty high up: it is the Celtic of public ignorance; it is easily the leader in its field. It would be helpful if a dispassionate view could be reached on Barnett, after which we could all get worked up about it politically. I think that the argument about inviting other committees to consider greenness and equal opportunities in

budgeting is reasonable. If they do not want to do that, we could perhaps return to those matters, because they are budgetary issues as well as being subject-committee issues. Either we or the relevant subject committee could pursue them.

11:15

**Dr Simpson:** I will put in my tuppence worth. The suggestion of research into outcome-based budgeting is the most important one. If we are going to progress the budget process, we must begin to understand what we want from the Executive with regard to outcomes, which is what it is now discussing. We need research and international comparisons. We have had some presentations on places where outcome budgeting already operates. We should get into that in more detail. That is the topic that I would like to support. The reason for my supporting an inquiry into outcome-based budgeting, rather than the Barnett formula, is not political. It is rather to do with the fact that, if we allow the budget process to go on without a further push next year, we will develop a set form for doing things, and I do not think that we have anything like the set form that I would like to see.

**The Deputy Convener:** For the next meeting on 22 May, we need to have a worked-up proposal for any external research. Two suggestions other than those on the clerk's paper have now come in, for which we do not have worked-up proposals.

There is apparently already quite a lot of research on the Barnett formula which, we should remember, is a fixed formula. We need to be careful that the things that we do are of value to us; Andrew Wilson made the point that it is not about producing more research, but about producing something that is useful to the Parliament. We need to be clear that we are not repeating things or doing things on Barnett that somebody else has already done better. In any case, decisions on the matter will be made next week.

In defence of my other two suggestions—on inquiries on green economics and gender-based budgeting—I agree that some aspects of the green economics inquiry would probably be better dealt with by the Rural Development Committee or by the Transport and the Environment Committee. However, I do not agree that other aspects should be handled by those committees. I say the same about gender-based budgeting, which is a cross-cutting issue that needs to be dealt with by all sorts of different committees. It affects budgets that cut across the work of a number of different committees.

I do not think that the Equal Opportunities Committee—although its members might be



interested in gender-based budgeting—would have quite the right focus, which this committee could give to the subject. The proposal for investigating gender-based budgeting is largely about a matter that we spend a lot of time discussing in this committee: cross-cutting issues. That is the case whether we are discussing rural affairs, drugs or the subject that Donald Gorrie talks about—the voluntary sector. This is the same sort of thing, and the way in which budgeting is developed reflects cross-cutting issues.

We need, based on final, worked-up proposals, to make a final decision on the three suggested inquiry topics at our next meeting.

**Murray McVicar (Scottish Parliament Information Centre):** I point out that our timetable for this is fairly tight. The next meeting is on 22 May, and the closing date for submissions to the senior research assessor is 25 May, in order for the proposal to go to the next conveners group meeting after that for final agreement on which projects will be selected. Ideally, it would be best if the committee could agree today on a final proposal, which we can then work up. The paper that gets signed off on 22 May will have to be the actual, final proposal—subject to comments and tweaking. It should not be a matter of members coming with five or six proposals for 22 May, after which we would be left with only a couple of days for tightening them up. We do not have the time to do that.

**The Deputy Convener:** We do not have any kind of worked-up proposal on at least two of the suggestions, although we do have some clearly expressed views from committee members.

**Andrew Wilson:** That leaves us on the horns of a dilemma. I am happy to work towards producing a worked-up proposal reasonably rapidly, but given that it is difficult to make a decision without having a proposal before us now, I am open to the committee's views. I am happy to go ahead and make a decision today, but I am also happy to work on a proposal. I am not sure what are other committee members' views.

**Mr Davidson:** On the basis of what we have just heard, the one subject on which there has been a common strand over the past few months has been outcome-based budgeting. That might not involve such a complicated piece of work, because part of it will be technical—on how outcome-based budgeting might be applied. We might be able to focus that work quite sharply. If there is a choice in the matter, I opt—marginally ahead of a Barnett inquiry—for doing that.

**The Convener:** It is indeed something that we have talked about a lot.

**Donald Gorrie:** I, too, would be happy to go with an outcome-based budgeting inquiry. I think

that all three ideas have merit, and could be passed round other committees, but outcome-based budgeting is central to our discussions and is worth pursuing.

**The Deputy Convener:** How does the committee feel? Are we happy to make a decision today? Based on what I have heard round the table, I think—

**Andrew Wilson:** I think that there is a clear consensus in the committee that research on outcome-based budgeting would be useful. My only plea on that would be for us to consider how practically to draw up a firm proposal that would be meaningful for the Finance Committee, which is why I did not support that proposal so strongly at the start, despite agreeing with it. We need expertise in each area of the budget in order to know the outcomes that we are looking for—with regard, for example, to the national health service or transport. I would like that question to be posed to the subject committees, and I would steer the proposal in that direction. However, we might get Richard Simpson to work up a proposal on the basis of the committee's consensus, if it was Richard who suggested it.

**The Deputy Convener:** I suggested it.

**Andrew Wilson:** We are in broad agreement that outcome-based budgeting is what we wish to push, but I am a wee bit leery about the fact that it will be more difficult to deliver than to suggest. That, however, is for the drafters of the inquiry remit to worry about.

**Murray McVicar:** I could work with whichever member will work on this in drawing up a draft final proposal, which we could then present at the meeting on 22 May.

**The Deputy Convener:** Do you want to take over on that, Richard? Although I stuck the proposal in originally, I am happy to let you get on with it.

**Dr Simpson:** Yes. I am happy to do that, and to work with Murray McVicar.

**The Deputy Convener:** It appears that we have agreement: we will go for an inquiry on outcome-based budgeting, and Richard Simpson will work up a proposal in conjunction with Murray McVicar, bearing in mind some of Andrew Wilson's comments. I am sure that we all want to be able to do good work or to commission good research that will be valuable and useful. We need to be clear that that is what we are doing. If, at our next meeting, we are not happy with the proposal as it is drawn up, we can make a final decision, although we could change our minds.

I thank members for their attendance.

*Meeting closed at 11:22.*



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