FINANCE COMMITTEE

Tuesday 22 May 2001
(*Morning*)

Session 1

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FINANCE COMMITTEE
12th 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:

Professor Brian Ashcroft (Adviser)
Alex Christie (Adviser)
Murray McVicar (Scottish Parliament Information Centre)

CLERK TO THE COMMITTEE

Callum Thomson

SENIOR ASSISTANT CLERK

Anne Peat

ASSISTANT CLERK

Gerald McInally

LOCATION

Committee Room 1

Scottish Parliament

Finance Committee

Tuesday 22 May 2001

(*Morning*)

[THE CONVENER *opened the meeting at 10:07*]

The Convener (Mike Watson): I open the Finance Committee's 12th meeting in 2001 and give the usual warning about mobile phones and pagers. We have received apologies from Andrew Wilson.

Agenda item 1 is to invite the committee to take agenda item 4 on our draft report on resource accounting and budgeting in private. Do members agree to take that item in private?

Members *indicated agreement*.

Budget Process 2002-03

The Convener: Agenda item 2 is on the annual expenditure report. I hope that colleagues have brought their copies as the agenda asked them to. We have with us Professor Brian Ashcroft and Alex Christie, who have given us a paper on the AER. I understand that Professor Ashcroft would like to say a few words to introduce the paper.

Professor Brian Ashcroft (Adviser): I am happy to do so and to take members' questions. The paper considers the level 1 data as presented in the AER and clears up some of the inconsistencies in table 0.1 as against tables 0.4 and 0.6 in the report. However, it principally examines the level 2 changes—absolute change, relative change and the change compared with "Making a Difference for Scotland", the previous budget document.

The level 1 figures that are presented in table 0.1 on page 7 of the Scottish budget report and in subsequent tables are inconsistent. The figures do not seem to hang together properly. We examined that and found that most errors were typographical. The presentation in our paper may be long-winded, but it includes the original figures.

As members know, total managed expenditure, which is the total budget and is outlined in table 0.1 in the budget report, is the sum of the departmental expenditure limit, the annually managed expenditure and charges levied or rents receivable. For most heads, TME is defined as the sum of DEL and AME, but when we added DEL and AME, we found significant gaps in comparisons with TME as shown in table 0.1.

The penultimate column on the right in table 1a in our paper shows the gaps that appear in the AER when DEL and AME are added and compared with TME. We studied and tried to explain the gaps. The portfolios that contain inconsistencies in the report are those for local authorities, the modernising government fund, the Scottish Public Pensions Agency, social justice, sport and culture, and transport.

For social justice and the Scottish Public Pensions Agency, the AME totals have been entered in the wrong lines. The correct figures are obtained by swapping the values. When that is done, the difference between TME and DEL plus AME drops to zero. The new computations are shown in table 1b of our paper. Members can see in the penultimate column in that table that the differences largely disappear on those two heads.

A similar mistake occurred in the AME for transport and in that for sport and culture. The information for transport was put in the line for sport and culture and the information for sport and culture was put in the line for transport. Swapping those figures removes most of the difference.

We spoke to the Executive about the difference with the modernising government fund. The Executive suggests, or admits, that that gap is caused by an error and that the figure for AME should not have been included for the modernising government fund.

By far the greatest difference is that of £1.5 billion in the local authority line. That is largely accounted for by non-domestic rates income. TME equals the sum of DEL and AME, but charges are also involved when an amount is receivable and, for local authorities, non-domestic rates income is the principal amount. That amount just about equals the gap. Non-domestic rates income is £1.577 billion and the figure that must be explained is £1.524 billion.

In total, most of the differences between the tables are due to typographical errors and misplacements, rather than anything substantial.

The Convener: Thank you. Page 2 of your paper says that "typographical errors" seem to have occurred and that that could be corrected by "altering the AME totals". You said that it was a question of reversing them. Is that what you meant by "altering"?

Professor Ashcroft: Yes.

The Convener: Most of what you have identified seems to point to the necessity for one more proofreading before publication.

Professor Ashcroft: I think so. The data on the modernising government fund might demand a bit more than that.

The Convener: There is also the £50 million discrepancy in central Government support for local authorities. That is a fair amount of money, although you say that the percentage is small. However, that is the biggest questionable amount that you have identified.

10:15

Professor Ashcroft: The sum is £50 million but the explanation is incorrect. We should not have deflated it, because we were looking at it in nominal terms. In other words, we presented it as being more complex than it really is. The non-domestic rate income is £1,577 million, the base is £1,524 million and so the difference is still £50 million.

The Convener: That is the point that I am making—£50 million is still a fair amount of money.

Alex Christie (Adviser): I contacted the Executive and it could not give me a definitive reason for the £50 million difference.

The Convener: Needless to say, we will pursue that.

Professor Ashcroft: Despite the fact that it is a small percentage against the aggregate external finance, it is not insignificant.

Dr Richard Simpson (Ochil) (Lab): Your paper has been most helpful—it sorts out some issues without difficulty. What about the modernising government fund AME? Where should that £13 million be?

Alex Christie: It should not be included in the first place.

Dr Simpson: Where should it be in the budget? It has to be in there somewhere.

Professor Ashcroft: We asked the Executive about that.

Alex Christie: I asked the Executive where I would find the spend for the modernising government fund, because it is not contained in any of the chapters, and I got the impression that it was spread across all Government departments. I am not quite sure what that money does, but it seems that each department gets a bit of it. Entering the £13 million in that table seems to have been a mistake.

Dr Simpson: Do you mean that the modernising government fund should be only £16 million?

Alex Christie: Yes.

Professor Ashcroft: That is what we think—it is difficult to get a straight answer.

Dr Simpson: We probably need to pursue that further. Although £16 million is not a huge sum, spent annually over 10 years it will become a fair bit of money. We should ask for some specific commentary on what is being spent where and what the effect of that is. I presume that modernising government means making it better, which would be a good thing.

The Convener: We will flag up that and other issues before we take evidence from the minister.

Mr David Davidson (North-East Scotland) (Con): On the same point, I was surprised by the fact that you did not know which department had responsibility for that spend. When Jack McConnell was Minister for Finance he claimed responsibility and talked to the sum during the first year of the Parliament. We need to know who administers that spend. In the chamber, Jack McConnell gave the impression that departments were bidding to him and that he was setting out the model for whatever it was that they were trying to achieve. At this early stage in the budgeting life of the Parliament, we need to have clear lines of accountability for all budget headings and to know who is responsible for discussions with different ministers and departments—ministers and departments do not always coincide. We need to clarify the position.

The Convener: David Davidson is right. Jack McConnell was described as the minister responsible for modernising government. I thought that he had retained that responsibility, although there would be logic in it passing to Angus MacKay. The clerks have checked the introduction to the report and there is no specific mention of responsibility for modernising government. If we pin that down, we should be able to identify where the costs fall.

Professor Ashcroft: It should be in the booklet somewhere.

Donald Gorrie (Central Scotland) (LD): I am never very good at understanding acronyms. What is EYF and what does it all mean?

Professor Ashcroft: EYF is end-year flexibility. The relevant tables are table 0.4 on DEL and table 0.6 on AME. When we add the figures in table 0.6 with those in table 0.4, the figures should amount to the totals in table 0.1. Tables 0.3, 0.5 and 0.7 show the capital budget and end-year flexibility. They are included in AME or DEL. One does not sum across all the tables. Tables 0.3, 0.5 and 0.7 are given for illustrative purposes and their headings are included in table 0.4 or table 0.6 and therefore in table 0.1.

Donald Gorrie: I am not too bright at these things. If I were a Government official examining the budget, would I consider the end-year flexibility to be a good thing? In other words, is it money in my pocket or money that I would have to find?

Professor Ashcroft: End-year flexibility is money that is brought forward from underspending in the previous year. As I understand it, the rule is that 75 per cent of the underspend can be carried over and 25 per cent goes back to the centre.

Donald Gorrie: So it is money that can be spent.

Professor Ashcroft: It is money that is available. Three quarters of the underspend in the previous year's budget is available to spend in the current planning horizon.

Donald Gorrie: I would also like to ask about the columns on capital charges and capital budget. We spent a lot of time studying resource accounting and budgeting, but I am not quite sure how far the annual expenditure report goes in that respect. Perhaps you could explain what is meant by capital charges under the current rules of play.

Professor Ashcroft: Capital charges are meant to cover the opportunity cost of having a capital asset. In other words, resources are tied up in capital assets, such as roads, and in principle that money could be invested elsewhere. The rate that is used to compute the capital charges is 6 per cent—the standard Government-set rate. That is applied across the system where there are asset valuations. The biggest head is transport—it has the biggest assets.

Donald Gorrie: So the capital budget is new expenditure. Is that being charged per year or spread out over the life of the asset?

Professor Ashcroft: No. The capital budget will be apportioned per year in terms of the 6 per cent capital charge plus any depreciation that is allowed for the current year. At the moment, that is slotted into AME, although once the Executive is happy about asset values, that sum will be included in DEL. That is the plan.

Elaine Thomson (Aberdeen North) (Lab): Am I right in thinking that the EYF is often committed expenditure, in that it is planned?

Professor Ashcroft: I do not know. If there is an underspend, in resource accounting, that is money that will not have been spent. It is not a commitment that cash that has not been spent will go out in the current year; it means that there are no contracts backing it. In that sense, the money is not committed.

Dr Simpson: I do not agree with that. EYF comes under the old system—it has not been brought into RAB yet. It should go into RAB next year.

Professor Ashcroft: In that case, it could be committed.

Elaine Thomson: Was that not the case with some of the health money last year?

Dr Simpson: Yes.

The Convener: It may be committed, although not formally.

Professor Ashcroft: Yes. There may not be a legally binding contract.

Mr Davidson: Professor Ashcroft, have you done any work on monitoring the rolling forward of end-year funding or do you know of any work that has been done? I would like to know how much of the 25 per cent that the Executive can retain has stayed in-programme and how much has been shuffled around.

Professor Ashcroft: I do not know of any such work. The system has been operating for only two years, so there is not much experience of it. Prior to devolution, all the money went back to the Treasury, which presumably then disbursed it through the Barnett formula. I think that the 25 per cent that can be retained goes into the reserve, but I am not 100 per cent certain of that.

The Convener: I wrote to the Minister for Finance and Local Government asking for that to be clarified. On 8 June, we will take evidence from the Deputy Minister for Finance and Local Government on the matter.

Mr Davidson: Thank you, convener.

Mr Adam Ingram (South of Scotland) (SNP): Does table 0.5 deal with 100 per cent of the end-year flexibility or does it focus on the 75 per cent that goes to the departments and programmes?

Professor Ashcroft: I think that it deals with 100 per cent of it, but I do not know for certain. It would have to be the whole amount, I think.

Mr Ingram: If it dealt with only 75 per cent of the total amount, that might account for some of the discrepancies that we discussed.

Professor Ashcroft: Yes, but I think that it must deal with 100 per cent of the total. If 75 per cent goes back to the departments, that will be in the departments' budgets. Tables 0.1, 0.4 and 0.6 all have lines for the reserve. The fact that the capital charges, the depreciation and the end-year flexibility are included in table 0.1 logically suggests that we are dealing with 100 per cent of the total amount. However, I am not sure.

Mr Ingram: I will need to check that.

Elaine Thomson: Last year, many tables did not add up and there were mistakes of one sort or another. What is the underlying reason for that?

Professor Ashcroft: I think that that is due to the fact that the document has to be produced, under a great deal of pressure, by 30 March. It needs to be thoroughly proofread by someone who knows what is going on. The fact that simple mistakes such as the juxtaposition of the transport AME with the sport and culture AME—between which there is a huge difference—were not spotted is quite surprising. That is the kind of mistake that is made when people are under a lot of pressure to produce a document such as this to a tight deadline.

Alex Christie: Any discrepancy that is less than £1 million could be due to the fact that sums have been rounded up and rounded down a lot throughout the document. Carrying such approximations through the document will add up to a difference of £1 million here or there.

The Convener: But the report does not say that the figures have been rounded up or down.

Alex Christie: The format of some tables means that a sum of £2,740,000 must be expressed as £2.7 million, which means that £40,000 has been lost.

The Convener: But the rounding up and the rounding down of various figures should virtually cancel each other out.

Alex Christie: One would hope so, but sometimes that will not happen.

Professor Ashcroft: There are other reasons for the discrepancies. Deflation affects how the figures add up. When the people from the Scottish Executive finance department gave evidence to the committee, they said that they rely on the evidence that is given to them by the departments. I do not know whether the computation of real-terms figures, taking account of the deflation aspect, is done by the finance department or by the individual departments. If it is done by the individual departments, that would allow an extra possibility for error.

The Convener: I will take that up with the Scottish Executive, but I would argue that, even if it is calculated by the departments, it should be checked.

Professor Ashcroft: It would help everyone involved if the departments provided the information in the form that the finance department wished, but it is not clear that that is always the case. The presentation in the report varies widely in certain places. One portfolio uses graphs to illustrate what is happening whereas most of the others do not. That is peculiar. There should be a common hand in the report.

The Convener: We have raised that issue before.

Professor Ashcroft: We should not be too negative about the report as it is a dramatic improvement on "Investing in You".

10:30

Dr Simpson: We are plagued by additional announcements, particularly in a comprehensive spending review year. It looks as if annual consequentials may be introduced. The Health and Community Care Committee has been discussing whether we should encourage the committees to suggest where further expenditure should be detailed. Obviously, it cannot feature in the budget as it has not been announced yet. We are faced with a sum of around £200 million of consequentials this year, which is not being announced because of the general election—the Executive does not want to upset the other parties by claiming that all these wonderful things that are about to happen. How might the committees deal with the consequentials, other than in the budget revision that we get in September or October?

Professor Ashcroft: There is a general problem because of the fact of the CSR, particularly because the three-year review occurs after the expenditure report. In a period of rising public expenditure, significant amounts of money effectively fall outside the scrutiny process as people have less time to consider them. The move towards an annual review rather than a three-year review complicates the matter in some ways.

There may well be a case for trying to get the Scottish budget process in sync with the UK process. That might be difficult to do because, traditionally, the CSR has been announced in July and the budget report comes out on 30 March. If at all possible, however, those two factors should be brought into line. That will be difficult because of the two jurisdictions that operate. If it is not possible to bring them into line, there should be a special provision to allow for repeat scrutiny in a CSR year.

The Convener: That will feature in our review of the process. We have considered asking the Chancellor of the Exchequer to come into line with our process, but that idea will probably not survive the final drafting of our report.

Seriously, we are aware of the problems that you are talking about.

Professor Ashcroft: The problems are particularly evident when public expenditure is rising quite quickly.

The Convener: Well, if there are no further questions, we will—

Professor Ashcroft: Did you want me to speak about the level 2 figures? I have been speaking about the level 1 figures, mainly.

The Convener: Of course; I am sorry. It would be more appropriate if you were to deal with the rest of the report.

Professor Ashcroft: We have conducted a simple analysis of the level 2 figures. The report splits the figures into four categories. Table 3 highlights the five greatest percentage increases and decreases. We detail the relative percentage change and the share of the budget, which correlates with the absolute change.

The report briefly compares the changes that have taken place between the budget documents to determine whether there has been a policy change in terms of the planned spend. Table 5 details the absolute change and members will see that we have identified five principal increases. As expected, the main increases are to the health budget—hospitals and community and family health services—the aggregate external finance increases of £253 million for local government, which is quite a large sum, and increases to the education budget for schools, as shown in table 5.

The Student Awards Agency's budget has fallen by £52 million, largely because of the removal of a £50 million provision for bad debt, although that provision was included in the budget for 2001-02. We take it that the fall in capital expenditure is associated with the Parliament spend falling out of the accounts.

We understand that the fall in spending on Scottish Enterprise is partly due to the transfer of the learndirect Scotland budget to the "other" enterprise and lifelong learning head and to some shifts in responsibility for Moray Badenoch and Strathspey Enterprise to Scottish Enterprise from Highlands and Islands Enterprise. Therefore, there is no real fall in Scottish Enterprise expenditure—it is more to do with shifts in the administration of responsibilities.

It is obvious that the main percentage change increases differ because health receives the greatest increase—it is a very large budget. The main changes are as shown in table 5. The increase in the homelessness expenditure figure is due to the implementation of the recommendations of the homelessness task force. Nothing was spent under that head in 2000-01, but £6.5 million is to be spent in 2001-02 and £16 million is to be spent in 2002-03, which is the year on which we are focusing. That is why there is a significant increase and a large percentage change—it is a small budget but it represents a new policy. I suspect that the same probably applies to fuel poverty.

Those are the main proportional changes. Equally, the main percentage changes are fairly understandable, but I am not sure about what is going on with capital expenditure in relation to the Food Standards Agency Scotland or, for that matter, the Scottish Tourist Board. Another aspect of the Scottish budget document is that it is occasionally helpful, explaining some of the changes, such as the responsibility shifts between Scottish Enterprise and Highlands and Islands Enterprise, whereas in other areas what is going on is unclear. It does not pick up the changes consistently.

The change in the share of total budget, which is covered on page 7 of our paper, parallels the absolute changes. It is obvious that expenditure heads with the biggest changes, such as health, also have the greatest share in the changes to the total budget. I do not have a great deal to add to that section of our paper.

I must apply a health warning to our comments on our final comparison, which is with "Making a Difference". As Murray McVicar said in the paper that he presented to the previous meeting of the committee, there are some difficulties with comparing "Making a Difference" and the current Scottish expenditure report because of the switch to resource accounting and budgeting. We assume that the definitions of the heads remain broadly the same so that we can compare them, but that may not be wholly correct. However, there is nothing to tell us that the definitions have changed. On that basis, the main changes are as are noted on page 9 of our paper. Community care, which falls under the health and community care budget, increases by nearly 78 per cent, which is due to a large increase to cover the funding of the Scottish commission for the regulation of care and the Scottish social services council.

There is a 19.6 per cent increase in central Government support for local authorities through the European structural funds. We believe that that is because responsibility for administering the budget has been partly devolved to local authorities—it is not a real policy change; the only change is to administrative responsibility. The other increase, of just under 12 per cent, is accounted for by the transfer of learndirect Scotland's budget from Scottish Enterprise to the "other" enterprise and lifelong learning head. I am not sure about the figures on Caledonian MacBrayne or about some of the other figures. That is all that we have been able to find out for our explanation of what has been going on.

The Convener: On table 3, under your analysis of level 2 figures, you mentioned the Student Awards Agency's £50 million provision for bad debt, which is no longer included in the budget. What is your impression of that? Does it mean that the bad debts did not accumulate as anticipated?

Professor Ashcroft: Yes. I think that those debts did not materialise, so that provision has been removed from the budget for 2001-02. However, one can see that spending on the Student Awards Agency increases rather than decreases.

The Convener: Murray McVicar's comparison with "Making a Difference" was useful this year, because there was nothing to refer back to for previous years. Will that sort of mid-term analysis remain valid or useful for future years?

Professor Ashcroft: The more we settle into RAB, the easier it will be to make comparisons across heads. There are some problems with making comparisons with "Making a Difference" because we are not sure how fully RAB-ed the document is.

The Convener: I was not thinking about RAB. That comparison was undertaken because you could not compare back to "Investing in You" in the same way.

Professor Ashcroft: That was because of the comprehensive spending review.

Murray McVicar (Scottish Parliament Information Centre): It was not possible to compare this year's annual expenditure report with last year's because of both the CSR and RAB. It was possible to make more of a comparison with "Making a Difference". I hope that we will be able to compare next year's annual expenditure report with the Scottish budget—it will be easier to track across years in future.

Professor Ashcroft: Ideally, we would have liked to compare this year's budget with "Investing in You" as adjusted by "Making a Difference", but "Investing in You" is not RAB-ed and no reconciliation is possible. It would be nice if we had a reconciliation of "Investing in You" into RAB terms. I think that such a reconciliation probably exists, but it has not been published—a non-publishable exercise was conducted last year. It would have been quite useful to see that work, but we cannot compare this year with last year; we can only compare this year with "Making a Difference", which is a more slender, less detailed document than "Investing in You".

Dr Simpson: I take it from your comments that our report should ask for a note to indicate the changes that have been made and what those changes are. Welcome explanations were given about the shifts in relation to Moray Badenoch and Strathspey Enterprise, the Scottish Tourist Board and the Student Awards Agency. Do you think that there is a level at which such explanations are appropriate? We could end up going into minutiae, so should we be looking for such explanations where changes affect something that takes up a big percentage of the budget or that takes up a large amount in absolute terms? Should we be looking for explanations in both scenarios?

Professor Ashcroft: That is the point: sometimes, explanations such as bureaucratic shifts of responsibility are given, but one is left to discover—as we have been trying to do, by ringing up departments and so on—whether there has been a change in policy in desired spend. It would be helpful if those changes were flagged up more often. The Executive should state, "The expenditure on this head is different because of A, B, C or D." That is done occasionally, but it is not generally done. Such an approach would better control the tendency to announce expenditures more than once, which happens occasionally.

Mr Davidson: I have a question on that point. In fact, Professor Ashcroft almost got to the punch line before me. I thought that we had discussed with Jack McConnell, in his previous incarnation as Minister for Finance, that when spending announcements are made, the announcement should include an indication of which budget will be affected. Perhaps we should discuss that when the Minister for Finance and Local Government next comes to give evidence. The lack of such indication is beginning to cause confusion, not just in the minds of politicians. Academia cannot cope with it. The accountancy institutions find it difficult to track spending. Indication of which budget a policy change will affect would get rid of the duplication of announcements and would be transparent government, in financial terms. The effect might be simply a transfer from one budget to another, the end of one budget and the beginning of another, or a transfer of unspent resources.

When we consider our future work, we ought to bear in mind how announcements are made and how their effects can be tracked by the committee and any relevant outside department.

10:45

Professor Ashcroft: I agree with that. When announcements are made, there should be an indication in any explanatory notes or press releases of whether the money has already been included in the latest Scottish budget report, is supplementary to the budget in total, or is a reallocation between budget heads.

Mr Davidson: I quite agree with you that that information should be included in the explanatory notes. It is not necessary for the minister to stand up in front of everyone on television and say where the money is going, but the information should be in the explanatory notes.

Professor Ashcroft: That is right. That would minimise the impression that money has been announced more than once.

Mr Davidson: That comes back to the point that I raised with Murray McVicar about tracking announcements as they are made, on a spreadsheet. Whether that exercise was done monthly or whatever, we would have some means of shadowing where money is coming from and going to and whether it is from the CSR, a fresh announcement, a budget consequential or a Barnett consequential. If we track all those, we can get a transparent exercise.

Professor Ashcroft: All that would be helpful.

Donald Gorrie: Presumably it is a coincidence that, in table 3 in your paper, the percentage change increase for capital charges on the Scottish Parliamentary Corporate Body is almost identical to the decrease in capital expenditure. That arouses suspicion—it may be unjustified—that there is something sinister.

Professor Ashcroft: The honest answer is that I do not know. Alex Christie does not know either.

You are right about the similarity. We had noticed it. Apparently, it is coincidental that the percentage decrease in capital expenditure is almost the same as the increase in capital charges.

Donald Gorrie: Perhaps the increase in what the SPCB will spend on the new building next year is, for some reason, equal to the 6 per cent on the additional expenditure that it has put in this year.

The Convener: We are getting into detail. You are inviting Professor Ashcroft to speculate. We will follow up the point in due course.

Donald Gorrie: In table 4, the percentage change in aggregate external finance for local government is 38.3 per cent. I understand that that is a change in the percentage of the budget that is given to local government.

Professor Ashcroft: Yes. That budget is large.

Donald Gorrie: You mentioned European funding. Has that been included in the percentage change? If it has not, 38 per cent seems a high figure.

Professor Ashcroft: It is high. The figure is for 2002-03. I suspect that an element of the increase is to cover salaries, principally the pay awards to teachers, but also to other local authority workers. I am not sure whether that accounts wholly for the change, to be honest.

Dr Simpson: Scrutinising the budget is a learning curve for us all. My question relates to one of the things that arose from the fact that the £50 million for student loans has been taken back out of the budget. I am interested in an area that is in parallel with that, which is that the risk allocation to the national health service has gone up from £4 million in 1996 to £80 million in 1999. Those are the latest figures to have been published.

In a balance sheet, risk provision is written in as a potential credit or debit; it can be seen in the balance sheet. However, in the way that we have budgeted until now, we cannot see what happens to that money. Where is it? Does it exist? Is it a nominal sum and how will it change with resource accounting and budgeting?

Professor Ashcroft: I am not sure, to be honest. That money would be a liability on the balance sheet. It does not affect real cash flows, as far as I am aware.

Dr Simpson: That is the point. The student loan money was in the budget, as in "Investing in You: The Annual Report of the Scottish Executive".

Professor Ashcroft: Yes, but the budget is a resource budget, not a cash budget.

Dr Simpson: Now?

Professor Ashcroft: Hang on. When we are comparing that with 2001, are we comparing it with "Making a Difference for Scotland: Spending Plans for Scotland 2001-02 to 2003-04" or are comparing it against the last cash budget? We must be comparing it against 2001-02, which is a resource budget; we are not comparing it against a cash budget. The cash budget will obviously be different from the resource budget.

I know that I am not answering your question properly. I am not 100 per cent sure. Irvine Lapsley is more of an accountant than I am.

Dr Simpson: What interests me is health. I am sorry, convener, that the discussion is getting a bit detailed; I will not go on too long.

The risk provision in the health budget has risen from £4 million to £80 million. We do not know where that will stop. It is a significantly smaller proportion of the budget than in England, but the sums are still significant. The pay-out is still only £4 million, so the cash resource that was required last year was only £4 million. It did not go up. It might actually have gone down slightly. It was below £4 million.

The amount of cash that is going out is not high, but there is an escalating risk provision in the background.

Professor Ashcroft: Is the increase from £4 million to £80 million a once-and-for-all increase or will it rise?

Dr Simpson: If we look at the Audit Commission for Scotland's report on that, we find that there is a steady, but quite steep, escalation.

Professor Ashcroft: In resource terms, it means that there is £80 million less to spend on real health services in each year because of the risk provision. To the extent that the risk provision is not claimed, it will presumably get back into the budget.

Dr Simpson: So in addition to capital charges, depreciation, EYF and consequentials, there is now a growing amount of risk provision.

Professor Ashcroft: That is right.

Dr Simpson: Wonderful. Thank you.

The Convener: Thank you, Professor Ashcroft and Mr Christie. You are welcome to remain if you want.

Murray McVicar has a few words to say about his paper on the Scottish Public Pensions Agency, which has been circulated to members. There is some discrepancy in the figures.

Murray McVicar: The committee expressed an interest in examining the SPPA. The paper is an attempt to give a brief factual background on what the agency is and how it is funded. The agency's main job—the vast majority of its work—is to administer the pension schemes for public sector teachers and NHS staff in Scotland. It also provides advice and information on pensions for other organisations.

The committee asked about the level of funding for the agency that is indicated in the budget documents. As I understand from discussions with agency officials, the bulk of the lump sum and pension payments that are paid to former staff are funded by employer and employee contributions. However, that is not enough to fully fund the pensions, because the SPPA does not invest in stocks and shares in the way that other pension schemes would. Therefore, the difference is made up by a ring-fenced grant from the Treasury to the Executive. The grant is decided by the Treasury; it goes to the Executive and the Executive passes it on to the SPPA. That is the line that appears in the Scottish budget documents.

There is some fluctuation. In 2001-02 and 2002-03, that is due to an increase in employers' contributions to the SPPA, which means that the amount of money that is required from the Treasury is reduced. The line that is shown in the budget is the difference between the income from employers' and employees' contributions and the amount that is needed to fund the pensions.

The Convener: Thank you.

That leads me on to the point in your paper, that "Such fluctuations are common." From my limited experience of pension funds, I understand that the question of surpluses emerges. Does that mean that there is a figure to which the Scottish Public Pensions Agency must be funded, and that, if contributions from employers and employees—or fund members—meet that level, there is no need for the Executive to provide such a high level of funding? Is not it possible to operate a standard level, whereby the contributions come in and, if there are greater contributions from fund members, that creates a surplus? Or is it impossible to have a surplus, as we have noted in relation to some company pension funds?

Murray McVicar: As I understand it, if all the requirements for funding the pensions were met, the grant from the Treasury would fall, as has happened for the two years in question. That would happen hypothetically, but, in practice, not enough money is coming in from contributions, so the difference is required—

The Convener: So there is a target level to which the fund must be funded. Either the contributions meet that, or the Executive ups its contribution. Is that the case? Perhaps I am being unfair to you, as this may not be your area of expertise, but is the basic point that there is a set figure, which is based on the number of employees, actuarial calculations on age, service and so on?

Murray McVicar: Yes, and the Treasury has to fund the difference between that figure and the contributions.

Mr Davidson: Let us put this in simple terms. There is a contribution that comes from the employer; the employer's contribution comes from the grant from the Scottish Executive; the top-up figure comes directly comes from the Treasury. Is that the case, or is there a ring-fenced amount within the block grant?

Murray McVicar: It comes via the block grant, but it is a ring-fenced amount.

Mr Davidson: In effect, the money that you are talking about is top-sliced, although it comes through different audit channels—from the Scottish budget—to get there.

Professor Ashcroft: No.

Mr Davidson: So the Executive and the employers cannot back out; the Executive cannot back out of giving a grant—

Murray McVicar: No—it is ring-fenced.

Mr Davidson: And the Treasury cannot back out either.

Professor Ashcroft: The key point is that the money has come through AME, not DEL, so it comes outwith the Barnett formula. Presumably, it will increase according to the needs of the specific budget and will not be taken from elsewhere.

Mr Davidson: So it is a direct grant from the Treasury.

Professor Ashcroft: As far as I understand it.

Mr Davidson: That, presumably, is based on the needs of the fund.

Professor Ashcroft: Yes.

Murray McVicar: The Scottish Executive cannot do anything with it: it is one of the aspects that Arthur Midwinter highlighted in his research, in relation to the £3 billion or whatever it was that could not, in theory, be adjusted by the Parliament. It is a direct grant from the Treasury.

Mr Davidson: How, then, do the employers influence what they are required to contribute, given that they are making that contribution from grant money from the Executive?

Dr Simpson: I have just been through the process, so I declare an interest.

Mr Davidson: Please tell us more.

Dr Simpson: I have been talking to the agency about my own pension from a grateful health service, after my 30 years of service, so I was interested in looking into the details. The whole thing is nominal from the employer's point of view, in that their contribution to the sum is only a nominal percentage. That percentage—I think that it is around six point something—is adjusted every so often by the Government actuary, depending on his perception of the fund that will be required in future. The employees' contributions are also adjusted; they are real contributions, in that they are real deductions from salaries. From the employer's point of view, it is like an ordinary pension scheme, except that the whole thing is nominal and there is no investment.

From time to time, there may have to be an adjustment if the actuary gets the calculation slightly wrong, or if more people retire, as has been happening with teachers and doctors over the past 10 years. It is because of early retirement that an adjustment has had to be made to the fund. However, the amount of adjustment is not significant.

I do not know whether that helped.

Mr Davidson: It did.

Professor Ashcroft: To return to one of the convener's points, the fund could go into surplus, if it is a pay-as-you-go system.

Dr Simpson: But what happens if the demographics change dramatically? The Government actuary immediately adjusts—as he has done on occasions—the Government's contribution, so that the employer's contribution is then reduced, which will take out the surplus.

The Convener: That covers the point that I was making earlier. Does Donald Gorrie have a different point?

11:00

Donald Gorrie: I have one point to make on what we have been discussing and then a new one. There have been problems to do with teachers, and possibly to do with medical people, on the funding package for early retirement. The Audit Commission, I think, reckoned that that had not been calculated adequately and so a yawning gap had appeared. That is an issue.

The police and fire service pension schemes, which are unfunded schemes, are paid for by the police and fire boards. They have the capacity to upset the budget seriously. Central Government ends up paying 80 per cent or whatever of council expenditure, which includes money for those schemes, so those unfunded schemes can have a serious indirect shipwrecking effect on central Government finances. I do not know whether it is in order to suggest that, in future, the Government's financial document should include such schemes, even though the Government does not provide the money for them directly. The unfunded police and fire service schemes are, potentially, a serious political issue and we should have information about it in our papers.

The Convener: I do not think that that point can be followed up today. We could consider asking the SPPA to provide written evidence, or even to come and give us oral evidence. We will certainly get the appropriate information. There is nothing more that we can do at the moment.

Donald Gorrie: In a sense, the agency has nothing to do with it. I note that it gives advice, which may be correct, but it is a struggle between the police board and the policemen.

The Convener: Whatever the appropriate authority is, we can get some answers to those points.

Elaine Thomson: Am I right in thinking that the pension fund can be considered to be partially funded or semi-funded—that it is not totally unfunded, like the funds that Donald Gorrie mentioned, nor fully funded, like a normal pension fund?

Murray McVicar: The agency does not invest in a normal pension fund.

Elaine Thomson: Is this like bookkeeping? Is it not real money? Is that why it is not invested?

Murray McVicar: From the point of view of the employer, it is not real money, but it is real money from the point of view of the employees.

Elaine Thomson: Yes—when it is handed out.

Murray McVicar: Because the money is not invested, there is not the opportunity to invest in stocks and shares or to make the profits that will enable the rest of the pension to be funded. That is why the Treasury steps in and pays the difference.

Elaine Thomson: What happens to the money that comes in from the employer and the employee?

Murray McVicar: That goes straight to the SPPA.

Elaine Thomson: And it just sits there.

Murray McVicar: I am not sure exactly what happens to it.

The Convener: We need to get detailed information. With all due respect to Murray McVicar, he is not a pensions expert. As anybody who knows anything about pensions is aware, the issue is very complicated. We need to get expert advice and answers to such detailed questions. We should really have been talking about ballpark figures, although we have gone a bit deeper than that.

We should probably leave things there and follow up the matter in other ways.

Professor Ashcroft: I am not sure whether I am correct in saying this, but if the system is pay as you go, the funding that would be available in cases where individuals are paying for their own pension through an investment fund would not be required. The present set of earners and producers pay for the current set of retirees and those who are retiring. The balance is funded by the Government. Obviously, as demographics change, the actuary will adjust the percentages.

Dr Simpson: The scheme is not difficult to run if there is low inflation, but it gets into real trouble when inflation stands at 25 per cent, as it did in the 1980s.

Professor Ashcroft: There will be nominal salary increases for teachers and NHS staff in 2003-04, which is presumably another reason—apart from early retirement—for the SPPA budget increasing from £261 million in 2002-03 to £301 million in 2003-04. Even though the rate of employers' contributions might remain the same, their level will increase because of those higher salaries.

The Convener: I thank the witnesses. That session completes this part of our deliberation on the annual expenditure report.

Outcome-based Budgeting

The Convener: Murray McVicar is staying with us for item 3, as he has been working with Richard Simpson on a proposal for external research on outcome-based budgeting. The paper has been circulated to members. Does either Murray or Richard want to make an opening statement?

Dr Simpson: Murray McVicar has done about 90 per cent of the work. We had a meeting and I drew up a rough schema, which we then analysed. The object is to distinguish between outputs and outcomes. We are used to getting a lot of announcements about outputs such as the number of new teachers or policemen. However, we want to get some outcomes into the budget, which is why we are undertaking this piece of research. There are two strands to the research. First, we need to find out what is currently happening by getting someone to examine "Investing in You" and "Making a Difference". We also need to consider time values, because one of the problems is that many outcomes will be longer term rather than immediate. I have a feeling from this committee and the Health and Community Care Committee that members of all parties want longer-term outcome objectives on which we can all agree.

Secondly, we want to find out what outcome data would be particularly relevant to which committee areas. That would allow the committee to help other committees to draw up some fairly practical proposals about the sort of data they might be seeking. To do that, we should invite researchers to consider not only the Scottish budget but comparisons with international governmental or—more appropriately—state budgets. For example, in the first year, we heard evidence on the Oregon and Washington state approaches, which contained long-term outcomes. The paper is fairly comprehensive and detailed, but Murray McVicar may wish to amplify some of my comments.

Murray McVicar: Richard Simpson has explained the matter quite well. As we are keen to make the research as practical as possible, we need to analyse what has already been done and find out how practical outcome-based budgeting is. We should then identify where it could be applied in the budget process, if it is not already being applied, and come up with some practical proposals on that aspect. This will not be some airy-fairy, theoretical exercise; it is a good idea to find out where outcome budgeting is being used and how it can be applied in future. The state of the art is fairly primitive; there are not many specifics on the subject as far as Britain is concerned and our suggestion is to move in that direction.

The Convener: Your pretty detailed proposal helpfully makes clear the practical application of the research. I particularly like the outline of the various stages.

I have a point about how the matter will proceed. Submissions for the current tranche of external research have to be in by this Thursday. However, the conveners liaison group will no longer consider the proposals on 5 June, as the meeting then has been postponed for obvious reasons. The group will consider them on 12 June instead. I do not think that that will affect the closing date for submissions.

Mr Davidson: If we can get the permission for it, I thoroughly recommend that we undertake this research as it will allow committees to work more efficiently. However, I have already lodged a parliamentary question about a concern relating to stage 3 of the research process. I know that, for example, some of the Scottish police forces are concerned that the same methods and diligence should be used in recording crime reports. That highlights a question that goes back to different Government departments and agencies, regardless of the subject. Are we applying common basic monitoring to every area, whether we are talking about hospitals, police forces or reported crime? We all want a drop in crime figures. However, is any drop in reported crime the result of correct reporting? Are we also considering crimes that are successfully prosecuted? That figure might vary according to the way in which the monitoring is carried out. I am not picking on police forces, as the issue can be raised for all public services. It is important that at some point we consider standardising the monitoring of the different public sectors in Scotland. Without that, it will be impossible to measure outcomes.

Dr Simpson: The data collection system is a problem. Of course, the best example is the changes in the collection of unemployment statistics that happened when Mr Davidson's party was in power.

Mr Davidson: We had better not get into politics.

Dr Simpson: I will not get into those 26 changes. However, the current data collection systems in all areas are quite problematic. We tend to ask for additional data instead of considering the data that have been collected. There should be a proper basis for data collection if we are going to examine long-term outcomes. It would be reasonable to include in the research some comment on the difficulties that might be faced in judging longer-term outcomes against a database that might be changing and on how we cope with such a variable.

Donald Gorrie: The proposal is very good and I am happy to support it. People of my children's generation who are into serious management and all that stuff tell me that it is a truism to say that if you cannot measure it, you cannot manage it and therefore you ignore it. Many of the best things in life cannot be measured, and I hope that the research will try to cover that aspect. It is not just a matter of motherhood and apple pie. If our education and social policies result in families operating better and being happier and in children being more cheerful at school and treating each other better, that might not be measurable in terms of highers and other examinations, but it is very important. I know it will be very difficult, but the researcher should not be bound only to things that are measurable.

Dr Simpson: A constant problem with research is finding out what are hard data and what are soft data. However, as a really soft example, it is possible to use properly conducted polls to find out about states of mind. We can test for whether families are feeling better and more cohesive. In health, some of the health boards conduct very good MORI polls not only on smoking levels, but on attitudes towards smoking, which provide both soft and hard data. As long as the measurement is relatively consistent, we can accurately judge the change even in soft data. We want the researcher to concentrate on such issues. What practical hard outcome data can be measured relatively easily, with current data provided? I also want to find out whether the committee could recommend some changes in data collection that might allow us to collect more soft data. However, that is getting close to utopia, and might be very difficult. The research should advise us on what is good, what is easy, what can be done immediately, what could possibly be done and what is too difficult.

Murray McVicar: That is right. Regardless of whether the data are hard or soft, the process must be robust and produce robust and justifiable outcome measures. The research will show whether the process contains many problems that we have not seen and whether it is more difficult than we think it is. It would be useful to know such information.

The Convener: As I said, the proposal will go to the conveners liaison group on 12 June. If it is approved, we will have only one full meeting before the recess to discuss the matter. Murray, will you be able to make some suggestions before the summer recess about who might carry out the research, or is that too tight? I know that the report will not be produced until the end of the year, but we will not be back in session until the beginning of September.

Murray McVicar: Assuming that the conveners liaison group approves the proposal on 12 June, it will then go through the procurement process and people will be invited to bid in a closed tender process. We will then have to give them a fair amount of time to respond because so many people will be on holiday.

The Convener: So nothing can really begin until after the summer recess.

Murray McVicar: I would not think so.

The Convener: If you will not be able to appoint anyone until September, are the target dates not a little bit ambitious?

Murray McVicar: We are aiming for the final research to be completed by February, with a provisional report on stage 1 by Christmas. That allows four months.

The Convener: Well, nearer three months. Will we receive a report before the research begins?

Murray McVicar: Yes, we will report back to the committee. A group of officials in the Parliament—including me, the research assessor in the Scottish Parliament information centre, a clerk and someone from the procurement office—will choose people to submit tenders and allocate the contract. I will then report back to the committee on who has been successful. We have laid down a strict series of criteria.

The Convener: Sure. I was just seeking clarification about meeting the time scale you have set out. However, if you are confident that it can be done within that—

Dr Simpson: If we are appointing staff to do the research, the timetable might pose a problem. However, might it be possible to circumvent that situation by allowing the convener and a representative from each party to approve the researcher during the recess instead of having to wait for a formal committee decision?

The Convener: I would be quite happy with that. However, the problem is the availability of applicants during the recess. If the invitations to tender are being sent out in the middle of June, we should catch them before they disappear for the summer.

Murray McVicar: I would not expect the people applying for the tender to reply until the end of July. We have to give them time to respond. The contract will be awarded in the recess. The position will be allocated according to a strict process carried out by a team of Parliament staff. No MSP has ever been involved in that process.

The Convener: If things can be done before we reconvene after the recess, so much the better, because there will be a better chance of meeting the deadlines.

I thank Richard Simpson and Murray McVicar. I take it that the committee approves the proposal, which will now go forward to the conveners liaison group. That completes item 3. We will now move into private session to consider our draft report on resource accounting and budgeting.

11:18

Meeting continued in private until 12:15.

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