

FINANCE COMMITTEE

Friday 8 June 2001
(*Afternoon*)

Session 1

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FINANCE COMMITTEE

14th Meeting 2001, Session 1

CONVENER

*Mike Watson (Glasgow Cathcart) (Lab)

DEPUTY CONVENER

*Elaine Thomson (Aberdeen North) (Lab)

COMMITTEE MEMBERS

*Mr David Davidson (North-East Scotland) (Con)

*Donald Gorrie (Central Scotland) (LD)

*Mr Adam Ingram (South of Scotland) (SNP)

*Dr Richard Simpson (Ochil) (Lab)

Andrew Wilson (Central Scotland) (SNP)

*attended

WITNESSES

David Palmer (Scottish Executive Finance Department)

Peter Peacock (Deputy Minister for Finance and Local Government)

CLERK TO THE COMMITTEE

Callum Thomson

SENIOR ASSISTANT CLERK

Anne Peat

ASSISTANT CLERK

Gerald McNally

LOCATION

Dewar's Centre, Perth

Scottish Parliament

Finance Committee

Friday 8 June 2001

(Afternoon)

[THE CONVENER *opened the meeting in private at 14:12*]

14:38

Meeting continued in public.

Budget Process 2002-03

The Convener (Mike Watson): I welcome everyone. Those who are involved both directly and indirectly in politics in Scotland would probably, in an ideal situation, have found other things to do, but we are under pressure because of the timing of the annual expenditure report and the budget process. We are therefore, unusually, meeting on a Friday. It is also quite unusual to be outwith Edinburgh for a meeting of the committee. We have established the intention of meeting outwith Edinburgh at both stage 1 and stage 2 of the budget process. We hope, on each occasion, to take evidence from the Minister for Finance and Local Government or the Deputy Minister for Finance and Local Government.

It is a particular pleasure to be in Perth, and I thank the Perthshire Convention Bureau and the Dewar's Centre council for their help in facilitating and hosting the meeting. This is our first such stage 1 meeting; of course, we had a stage 2 meeting in Aberdeen last year. I am very pleased that Peter Peacock, the Deputy Minister for Finance and Local Government, is with us today and I thank Mr Palmer and Ms Keirnan for assisting him.

Minister, we have a number of questions that we will put to you in due course. However, I understand that you have an opening statement, which I invite you to make.

The Deputy Minister for Finance and Local Government (Peter Peacock): Thank you, convener. I do have a few comments to make, but first I want to say that it is a pleasure to attend this committee meeting outside Edinburgh in what I gather is now a very marginal constituency after yesterday's venture. It is also a pleasure to attend the meeting on such a historic day in the life of our nation.

I will get down to business. As the committee knows, the annual expenditure report marks the

start of the 2002-03 budget round, and sets out our initial view of the likely allocation of resources for that financial year. The document does much more than simply list numbers. For a start, it sets out our broad strategy up to 2003-04, and it sets expenditure in the wider context of the individual items that relate to the much wider budget and the policy goals that such expenditure is intended to achieve. Furthermore, it provides the basis for allowing us to include other groups in the budget-setting process.

With the committee's assistance and input, this second AER is a much better document than last year's. I know that the committee was very active in making suggestions, which we have tried to accommodate in as many ways as we can. The most obvious difference from last year's AER is that there are now two documents—a summary document and a detailed document. We felt that it was necessary to publish a summary because of the size and complexity of the detailed document.

The summary was designed with a wider audience in mind and is a much more user-friendly document than we have seen in the past. Furthermore, we have taken steps to improve the presentation of the document. We have used an editor to ensure consistency, and have followed the plain English guidelines where possible with the use of everyday language and lists with clear headings in bold type. We have also improved the design, including the contents and the glossary, and have used a colour-coding system throughout the document. We have published the document electronically, with hyperlinks to associated websites that allow people to access a much deeper range of information if they so choose.

We have also developed the presentation of the figures, which are now on a planned basis to allow easy year-on-year comparisons. That brings a degree of consistency to the document. In response to requests from this and other committees, we have included the figures in cash and real terms, with additional information on capital expenditure, annually managed expenditure and end-year flexibility.

Having made all those changes, I was interested to read a summary of some of the information that this committee has fed back to us from the subject committees. Some committees are still making further suggestions about the structure of the document and, with the Finance Committee's co-operation, we are more than happy to consider any suggestions with a view to finding other ways of improving the content of the document.

As for the spending itself, the budget for 2002-03 is now £21 billion, which is an increase of £1.2 billion over the current year. That increase is distributed across all portfolios; however, in line with our priorities, it is concentrated on health and

local government services, the spending on each of which will rise by more than £400 million. There is also an emphasis on drugs and transport issues.

The £1.2 billion increase reflects the impact of spending review 2000, which added £1 billion, £2 billion and £3 billion to the Executive's expenditure plans. That figure has been further supplemented by budget consequentialia following on from spending review 2000. We will spend the majority—65 per cent—of the budget on the delivery of health, education, social work and the full range of local government services.

I am aware that the committee will want to ask some questions about reserves, as it has shown great interest in the subject. The reserves were created as part of spending review 2000. As for the AME reserve—which is perhaps better labelled as a fund, although we might want to probe that further—in the spending review 2000, the Chancellor of the Exchequer reached his decisions in July of that year, well in advance of our decisions in September 2000.

To finalise the Whitehall spending review, the Treasury had to make assumptions about the amount of additional AME that the Scottish Executive would require. The assumptions that it made were very generous. The AME reserve—or fund, as we should more properly call it—shows the excess of AME left over once we had allocated the AME that we required. We had to show that excess somewhere and have chosen to show it in these documents. We still have to double-check that all the allocations out of the original AME were accurate. The figure may be subject to variation if we discover that we have underfunded or overfunded some budget headings.

We created separately the departmental expenditure limits reserve as a specific policy choice. In an uncertain world, we think that it is important that we create a reserve to deal with unforeseen events. The reserve will operate where ministerial colleagues face insurmountable and unforeseen pressures. In those circumstances, they can make bids against the reserve. The Minister for Finance and Local Government will consider those bids and, where appropriate, will seek the Cabinet's agreement for the allocation of funding. The Finance Committee will have a chance to debate any such allocations as part of the normal revisions that we bring before the committee from time to time.

14:45

Having a reserve at the Scottish Executive level does not affect access to the UK reserve. Our reserve is for domestic use, to reflect Scottish Executive policy choices. We envisage the reserve

being used for one-off purposes, not to change or adjust permanently the baselines of other budgets.

I am happy to answer any questions that members want to ask.

The Convener: Before I begin the questioning, I should indicate that in my opening remarks I was remiss in two areas. First, I should have recorded the apologies of Andrew Wilson. Secondly, I should have warmly welcomed members of the public who are with us today. It is important that Scotland's Parliament should not be seen to be too firmly rooted in Edinburgh and that from time to time, where possible, its committees should meet outwith the capital. This meeting may not be everyone's idea of a fun day out, but it is here for people to connect with and to see in action. I hope that those who have taken the time to attend will find it a worthwhile experience.

We welcome generally the presentation and style of the documents that have been produced for the annual expenditure report and the AER summary document. However, as you said, minister, there has been considerable comment in the committee reports on the way in some of the information was provided. Our advisers highlighted a number of errors in figures, cases of figures being transposed and other mistakes in the main document that were not immediately obvious.

Some committees complained that key information was not available to them until after the publication of the annual expenditure report. How might that sort of problem be overcome? Can you say something about how the annual expenditure report may be further modified in years to come?

Peter Peacock: We view this as an evolutionary process. Only a couple of years ago, there was virtually no scrutiny of the Scottish budget or components of the Scottish budget at UK level. Now there is intense and proper scrutiny of that budget. We are all learning from that process. There is no perfect way of doing this. None of us has had to produce documents of this sort before.

We are more than happy to continue to review the information provided and how the supply, timing and presentation of information may be improved. We would be happy to receive from this and other committees a range of suggestions about we can improve the process further. We have a very open mind on that. There is everything to be said for having this information visible and well understood throughout the Parliament and by the wider set of stakeholders whom we all serve. It is good for people to understand the budget process and to feel that they can influence expenditure plans. For that to happen, the process must be visible.

I invite the Finance Committee to co-ordinate the

input from the other committees and to let us know what issues they would like us to address. We will earnestly seek to do that. We will not get the process right by next year. I suspect that it will evolve over the years until we feel that we have the process about right.

The Convener: As you know, shortly the committee will undertake a review of the process, which we hope will produce suggestions for improvement. We would like you and your officials to be involved in that process.

In the main document, the way in which the information is provided is not standardised across departments. Standardisation would help MSPs, the general public and those outwith the Parliament to make as much sense as possible out of the document and would assist this committee's attempt to encourage the subject committees to report to us in a standardised form to make it easier to pull together the information. Do you have plans to encourage or instruct departments to provide information in a standardised form?

Peter Peacock: Having delved deeply into the document, I understand the point that you are making. For example, performance measures are expressed quite differently in various areas of the work of the Executive and the executive agencies. Outcome measures and targets in some sections are more precise than they are in others. That comes back to the fact that everybody is learning. Hitherto, no one has been required to produce any information in the form that we are discussing. Inevitably, people are learning by trying out approaches to find out whether they work in their departments and divisions. At the end of that process, the finance division, which receives information in the non-standardised form that you describe, attempts to stitch all those figures together.

In principle, I agree with the point that you make about the desire for delivering a greater degree of consistency across all the ways in which we operate and gather information. I suspect that a greater degree of depth in the expression of the outcomes could be delivered in relation to some subjects rather than others.

Money flows from the Executive in various ways. For example, the money that is sent to local authorities is detailed in a few lines that deal with major sums of money, whereas there is a much greater degree of detail in relation to the areas of expenditure over which we have a much greater control. While such factors will mean that there will probably always be a degree of variation in the ways in which information is presented, I support the principle that you talk about and am happy to work towards it. It is helpful that the committee has expressed its view to us.

The Convener: Part of the problem is the question of the aims and objectives of the departments and the way in which the information is produced. The Local Government Committee said that the local government division's aims and objectives are general. The Enterprise and Lifelong Learning Committee said that the expenditure figures are relatively meaningless. There are other examples: I think that the Health and Community Care Committee said that information that it had asked for had not been provided in time to be included in its report to this committee.

Those problems might arise from the fact that the departments are coming to terms with the new process. You will appreciate that the Finance Committee wants to make available to the subject committees the maximum amount of information in as standardised a form as possible so that we can do our job of presenting a report to Parliament. I do not expect you to speak about those issues at the moment. I merely flag them up to avoid getting same comments from committees next year.

Peter Peacock: I was interested to read the comments from the committees. If committees are frustrated by the fact that they feel that they do not have sufficient information to allow them properly to scrutinise the budget, we will try to address that. We will communicate with colleagues across the Executive to ensure that we address that in as consistent a fashion as we can.

Mr David Davidson (North-East Scotland) (Con): You have mentioned outcomes. You will be aware that the committee hopes to commission research into outcomes as opposed to outputs—not how much money is spent, but what is expected to happen because of the spending. I appreciate that the Executive throws local government a lump sum that can then be divided up. Unfortunately, however, the system does not quite work. Local government representatives tell us regularly that new money is categorised as a new burden or something similar and that local government does not have much control over how the money is shifted around.

We have been told by various councils that local government has less flexibility than it used to. I presume that that means that ministers collectively are seeking to set a series of policy lines through the budget, following which you hope that certain things will happen on the ground. That creates an obvious tension between local accountability and local flexibility and the mission statement of the Government.

In order to assist the committee's thinking, can you tell me how much input ministers have into that process and how much attention they pay to outcomes in dividing up the budget before it is published as the annual expenditure report?

Information on that seems to be missing from the documentation, because there is nothing to suggest that ministers lay out a series of outcomes on which staff work up the outputs. What process does the Executive follow and are you considering making changes to that process?

Peter Peacock: We are entering an area in which both Angus MacKay and I are interested. We have spent a bit of time thinking about those issues and we want to spend much more time considering how we should deal with them.

David Davidson is right to point out that there is an inevitable tension between tiers of government—that is true not only in Scotland but throughout the globe. National or regional governments are elected with a policy manifesto and they are obliged to deliver on that manifesto on behalf of the people. For example, some of the issues that have arisen in the past few weeks have related to the delivery of commitments that were made at the previous election.

It is inevitable that Governments want to direct the outcomes of their expenditure in order to achieve policy objectives. That, almost inevitably, causes conflict with the next tier of government, which often delivers services at local level. That is why there has been a lot of tension between local government and central Government on hypothecation of expenditure. Hitherto, ministers ensured that certain things happened in areas such as education or transport by creating a fund for the narrow but specific purposes of effecting change in the local authority world, and bringing about the broad outcomes that the Executive wanted. The excellence fund in education is a good example of that. Local authorities argue for less hypothecation because they want the freedom to be able to do things at local level to meet local requirements. It is almost inevitable that that tension will continue.

We want to get away from hard hypothecation, because, for the most part, that defines the inputs into a service, rather than the outcomes. If we can achieve that change, we will be better able to focus on the outcomes that we can agree with our partners. We will be able to allow local authorities to decide how to deliver services within the local freedoms that they should have.

That objective is easy to express, but it is difficult to implement. We have commissioned pilot studies with a number of local authorities that are seeking to work with us on areas that currently receive hypothecated expenditure, in order to see whether we can reach agreement on outcome measures. If we can, we will be able to remove hypothecation and give them greater freedom and latitude. We are moving in that direction with local government. We will learn what we can from that journey of discovery and, as a result, we will

sophisticate our processes.

That is why I am particularly pleased—as is Angus MacKay—that the committee is to conduct research into outcomes. We are into comparatively new territory for governance in general. All politicians have a habit of simplifying policies for election periods, saying that they will employ X more teachers, doctors and nurses, for example. There is very little focus on the end product. As soon as one focuses on the end product, one starts to raise all sorts of questions about political language and definitions. That is challenging for us all, but we must explore it and I welcome the fact that the committee is going to do so. We will give the committee whatever co-operation we can in that work and we will consider closely the results of the committee's research.

David Davidson's second point was on how we divide up the budget in relation to the broad outcomes that we want. That is a political process, but it has two starting points; the first being the block of expenditure. In Arthur Midwinter's recent report to the committee, he pointed out that in any form of government, whether local or central, a huge amount of expenditure is predetermined each year. One must have teachers, doctors, hospitals, roads and buses and one can shift expenditure effectively only at the margins. Like other Governments, we inherited a position in which a huge amount of expenditure was predetermined. As members know, changing that expenditure was a major task.

The second principal determinant is that, in political processes at UK level—such as the election yesterday—politicians set out their priorities. They say that they want to do more about health, education and transport and so that is where priority expenditure goes. A political dialogue between colleagues takes place to get the broad shape of the process right, based on the political manifesto that has won the election.

Those are the two broad starting points: existing expenditure—which is difficult to change—and how new commitments are added to that, or change existing expenditure. Those issues are addressed through a political process. Beyond that, there is still a process within Government by which choices must be refined and made more sophisticated. It must be understood within the education, health and transport portfolios what the priorities of existing expenditure and new expenditure are. In the Scottish Government, we have a long way to go in that area; a sense of priority has not been fully developed.

Angus MacKay and I have discussed how we might begin to handle the next spending round and how we might sophisticate those processes. We want a greater sense of priority in the budgeting process so that politicians can make

real and informed choices about the impact of taking money from one part of the budget and putting it somewhere else. Currently, much of the data and the visibility are not as well developed as they could be. Most choices are made on the basis of political manifestos, clear political priorities and managing margins of the budget to effect change.

15:00

Mr Davidson: Does that mean that, currently, the Minister for Finance and Local Government expects ministers with a portfolio to come forward with a bid in total, or is it assumed that money will roll forward and they will discuss only the fringes? Are they obliged to come forward with a series of choices so that someone can arbitrate, or do they merely say, "That is my cake. I will argue at the fringes for more or less"? What is the difference?

Peter Peacock: Currently—and thankfully—more public expenditure is going into the system. I suspect that it is inevitably the case in such situations that more attention is paid to additional sums of money and how they are spent than to existing sums. I am not saying that that is correct, but that tends to be the way things happen.

We are considering with finance officials papers on different budgeting systems. The system that you have described is the classic incremental system where one starts with what one has, adds on inflation and then fights about additional growth on top of that. The main block of expenditure is never questioned. Our minds are moving much more towards a system of priority-based budgeting in which expenditure priorities are decided on the basis of the priorities that come from departments, as broken down between different matters within departments. Moreover, the information needs to be received from across the Executive so that highly informed choices can be made. That principle should be extended into the existing block of expenditure. It is never the case—it ought not to be the case—that because something was agreed 10 years ago as a priority, it continues in the baseline budget for ever without anybody casting an eye over it to see whether it is still relevant. We must get beyond that.

In all forms of government, we go through economic cycles. We are currently in a cycle that allows significant new expenditure on public services, but no one believes that there will always be such expenditure. There will be more challenging times in the economic cycle. One must have the capacity at such times to understand where existing expenditure goes and what the priorities are so that informed choices can be made. The Executive has some way to go in that area, but we are starting to consider it seriously. We are only two years into this new form of

democracy and new form of government in Scotland and it will take us a while to get that sorted out. However, we are clear about the direction in which we want to move. We want much more visibility and a greater sense of priority.

Elaine Thomson (Aberdeen North) (Lab):

Good afternoon, minister. I am pleased that you are thinking of moving towards priority-based budgeting or innovative budgeting forms. That will be exciting for the Parliament and for us all.

Obviously, transparency is important. One of the things that the subject committees are concerned about is that the budget at any time is just a snapshot. It is difficult to consider the budget meaningfully because there are often changes in the budget after the budget documents have been published. The subject committees wonder how we can deal more effectively with changes of policy or expenditure that are not reflected in the budget documents. The Enterprise and Lifelong Learning Committee has commented on that, as has the Transport and the Environment Committee. Some of the other committees feel that, when such changes in policy take place, the reasons for those changes and their impact on expenditure should be better explained. How might you be able to deal with that in future AERs?

Peter Peacock: Elaine Thomson picked up the point about the explanation from one of the documents that I read today. If a change has taken place, it should be relatively straightforward for the department or minister to give the reasoning behind that change. Such an explanation should be invited as part of the process.

We submit the changes in the budget to the committee in the autumn and the spring, as I recall. The committee therefore has some insight into those changes and, in principle, there should be no difficulty in explaining them. I suspect that it is more difficult to hold the budget steady enough at any point in time to allow consideration before any changes take place. Politics and life are full of events, as it is said, and events often require changes in expenditure.

I will give you two examples from the past few months. The foot-and-mouth outbreak has caused major changes in expenditure at a certain level. That is inevitable; such things happen from time to time. Fishing is another area in which, earlier in the year, an issue blew up to which we felt we had to respond. Resources were found for that, but those resources had to come from somewhere. Because of the way in which politics and society work, there will always be such pressures. I am not sure that it is ever possible to hold a budget process totally still while we consider it.

The budget is also somewhat iterative. Part of the purpose of the dialogue with the Parliament on the budget is to receive feedback and to inform plans, which are firmed up in September when we publish the budget statement. In ministers' minds, policy developments will be taking place all the time. Ministers will change their minds or develop their opinions on some issues once they see better information.

Inevitably, there is a moving picture. I suppose that we therefore simply must try to ensure that there is some mechanism to give the committees of the Parliament as much advance notice as possible of changes that are taking place. I need to take time to think about how precisely we will do that. However, as Elaine Thomson and members of other committees have raised the point, we are happy to consider such a mechanism and try to accommodate concerns so that the committees can feel that they are properly part of the process.

Elaine Thomson: Another matter that is outlined in subject committees' reports concerns whether, where there have been budgetary changes, departments should be encouraged to relate more fully what consultation took place that has led to those changes so that we can see how consultation has influenced departments' spending decisions.

Peter Peacock: I suspect that there is a variety of practice in that regard. Some changes that take place in budgets and planned expenditure will be managerial and administrative in nature—something happens to a contract, to a purchase of goods or in the recruitment of staff, for instance, that is different from the original plan. Such a change would not necessarily involve any consultation beyond the internal workings of the Executive. We would have to be careful not to imply that every change in a budget could be consulted upon.

However, where a change represents a development or change of policy or an additional policy of some kind, through the Executive's normal processes there will have been some consultation with stakeholders, albeit in the policy development process before the change. It may be that there are ways in which we can make that more visible—again I will have to think further about that—as part of explaining how we arrived at the expenditure decision following a period of consultation months previously in the development of the policy.

We must also be conscious of what that—if it was time-consuming—would add to the overall process. I do not know; I will have to think about that and I ask colleagues to do the same. We would not want to commit ourselves to doing something that was hugely expensive in terms of people's time and which did not add greatly to the

end product. Much of that sort of information can be gained by grilling ministers at committee meetings. We can consider the issue, and see how we can accommodate it.

Dr Richard Simpson (Ochil) (Lab): The minister has hinted at the details of central Government spending and the spending of other groups that are responsible for using the money. I am thinking particularly about local authorities, education and community care, which the Parliament has been debating. For the health boards, there is a single line of nearly £5 billion for hospital and community services and for expenditure by other non-departmental public bodies. Many committees have felt that the present process is not especially transparent in the AER. I appreciate what you have said about hypothecating and about leaving responsibility to local groups, but how can we get clarity into the very large chunks of expenditure in the budget process to allow us to get a real understanding of priorities and policies?

Peter Peacock: Much of this comes back to an earlier question and to the work that the committee will be doing on how outcomes can be specified. We need a more robust and sophisticated understanding of what precisely we are seeking to achieve with our expenditure. Our focus should be on the outcome, and not on the expenditure. I suspect that the focus in politics is too much on the expenditure, because it is easy to measure and because people can see it.

However, I suspect that people do not really understand the sums of money that we talk about. For example, people hear, "We have put an extra £1.2 billion into the Executive," or, "We are spending £X billion on this," or, "Such-and-such a party is proposing cuts of £X billion." I suspect that the general public does not have any real concept of what £20 billion or £1.2 billion is. The political language becomes meaningless. It just says that health is a priority, or education is a priority, or whatever.

Even if we cannot do so at election time, we have to move beyond that, at least for the purposes of managing Government. We need a more robust understanding of the outcomes that we are seeking from expenditure in health, education, transport or whatever. We will have to work at that, because there are no simple answers. Unless we address such questions, we will not be in a position to allow the local freedoms that health trusts or boards require so that they can tailor their services to their geography and social circumstances, while also meeting national objectives.

Another question arises—one that I dealt with to some extent when I was Deputy Minister for Children and Education. There is a conflict. To get

greater accountability and visibility, there is an argument for everything to be brought to the centre and for Parliament to scrutinise everything directly and to control everything much more. However, that runs counter to having some degree of local choice and accountability. The Parliament and the Executive are still wrestling over the correct relationship between the centre and the various devices that we have for developing local policy.

I will cite an education example from my experience—although I do not suggest that it has merit over any other example. In order not to draw administration to the centre, we have created a framework whereby Parliament, on the advice of ministers, agrees national priorities for education. Those national priorities are then fed down to local authorities, which have to create local priorities for their areas based on the national priorities. The local priorities are then fed down to school level where school-based priorities will be informed by both national and local priorities. That framework is our way of ensuring that decision making and local choice remains at arm's length from the Executive, while stating that the Executive and the Parliament have legitimate roles in saying what they want from the education system.

I suspect that we have to set up many more similar arrangements across all the fields of the Executive and that different practices will develop until we have the relationship right. It would be altogether too easy for the Parliament and the Executive to become a big council, in the sense of providing all services, or a big health board. That would not be desirable for a variety of reasons. Finding the right relationship is difficult. It comes back to the approach that there is a legitimate national view of what the outcomes of our expenditure should be. Once they are much more precisely defined, we can begin to give freedom to people to deliver, provided that those outcomes are met. That implies a need to monitor the outcomes and a need for some form of intervention if they are not being met, but we have to do much more work on that.

15:15

Dr Simpson: I agree. We examined the new performance framework for the health service, which moves away from a purely financial bottom-line assessment in its accountability review to seven different items, which include various elements of performance of clinical outturns and good clinical governance. That is appropriate.

During the budget process last year, I asked Norman Murray how the Convention of Scottish Local Authorities could be part of the process, and I did not get an answer. COSLA could not see a solution, except that it did not want hypothecation.

However, the same sort of assessment framework on a trend basis could be used. For example, in a single year, a local authority might not have to produce X or Y but would have to demonstrate a trend, for example on class sizes, which was one of the Executive's initial policies. The authority would have to demonstrate over a two or three-year period a budgetary process at the local level, which would indicate a move on a trend line.

I agree entirely that we must have a much more sophisticated approach, but it is also necessary that we should see those trends in the national budgetary process and that the framework should be laid out—perhaps in appendices, which should be a detailed map of what local authorities are doing with the education budget, for example.

Peter Peacock: Part of the issue is about having a mature dialogue and recognising that there is no perfect answer. There is legitimacy in local decision making, but there is equal legitimacy for national decision making over the same subject matters. It is about finding the balance. There is no point pretending that we can reach a perfectly clinical division between the two sectors, but we must have a mature debate between the sectors.

There are other devices at our disposal. For example, the education function of the local authority as a whole is inspected and budgetary and financial management issues are beginning to be covered in the inspection reports on that function. There are also inspection reports on the detailed operation of schools. Inspection is one mechanism of feeding back information to local populations, the Executive and the Parliament. There are also inspectorates for the social work, police and fire services, so there are devices that we can use, in addition to specifying more precisely the outcomes that we are trying to achieve. The outcomes that we specify give inspectors an idea of national priorities. Inspectors can report against the outcomes and say whether local authorities, health trusts or other agencies are responding adequately to the national priorities.

Dr Simpson: That is fundamental. The minister will know that the amendments that I lodged to the Regulation of Care (Scotland) Bill made it clear that while we set national standards, ultimately we are also the paymasters. We have to square that circle. That applies to many different areas. The Government cannot simply say, "We will give the local authority a chunk of money" and hold it responsible for certain standards in schools, only for the authority to turn round and say, "We haven't got enough money to do this." The partnership must be developed in a much more explicit way to demonstrate when there is a shortfall; if it is agreed that there is a shortfall, either the standards should be lowered and we

should accept those lower standards or different priorities, or we should find the money to meet the shortfall. We must have that national discussion.

The Convener: The Transport and the Environment Committee's report on the budget process says:

"The Committee is uncertain as to whether rail spending in the budget is sufficient to meet anticipated future development of the rail network".

I am not asking you to comment specifically on that, but I will relate it to another comment that that committee made about the frequency with which it was not made clear that public spending plans were tied to private finance. That committee asked for evidence on when such a link would mean that the spending of public money depended on the provision of private money. Will you talk about that in general terms? A similar point was made in the Health and Community Care Committee's report. Do you, like those committees, feel that that needs to be flagged up in the annual expenditure report?

Peter Peacock: The debate about capital spending on the roads network could equally apply to hospital or school building. The Executive recognises that there is a colossal legacy of underinvestment in our public infrastructure. That is why, as part of the expenditure plans, we have significantly increased capital spending on roads, and why more money will go into school and hospital building.

In the past couple of weeks, I have read newspaper reports from my area and others that estimates that the shortfall in the money required to bring the roads network up to a standard that engineers would recognise as modern and proper runs into hundreds of millions of pounds. To what extent can a tap of cash be turned on adequately to catch up with years of neglect? We are trying to put more money into all capital infrastructure, to begin the process of catching up. There will always be a political debate about whether that is the correct sum of money.

The Convener: With respect, I asked not what the spending proportions should be, but whether the need for private input into a project should be flagged up.

Peter Peacock: I was coming to that. Part of the way in which we are addressing how we increase the flow of funds into capital infrastructure overall is by using private finance obtained through public-private partnerships. We all know that the public expenditure rules score public expenditure in particular ways. If items can be taken off the balance sheet, more investment can be released than would be through the public sector. Much emphasis is placed on trying to secure private finance to help pay costs while keeping the sums off the balance sheet and obtaining best value for

money.

In the short term, that trend is likely to continue. That is a way in which we can make progress, which we see in hospitals and schools. We see it to a lesser extent in roads but, nonetheless, aspects of transport expenditure have the potential to involve private finance. The Finance Committee is about to start a pretty major inquiry into private finance, which will give everyone the chance to consider the detail of that more clearly than before. As a matter of principle, private finance is an important component of how we make progress in all the country's capital infrastructure.

Donald Gorrie (Central Scotland) (LD): I will take a slightly different line on one of the points that Richard Simpson made. I am not arguing about the validity of local democracy versus the validity of national democracy, because I recognise that that issue is difficult. However, I think that ministers should be able to explain how much money is spent, even if they do not personally control what it is spent on. Ministers should try to explain to the Parliament that enough is being done.

If a quango is responsible for beaches and many beaches are dirty, or health boards are responsible for hospitals and many hospitals are dirty, ministers think that they can answer questions by saying, "It wisnae me," or, as we are in Perth—I believe that Pontius Pilate was born not far from here, so I will drag him into the debate, as I occasionally do—by doing a bit of hand washing. Ministers should not be able to do that. Could we have a way in which ministers explained expenditure that was under the command of a devolved outfit, whether it is a local authority or a quango?

Peter Peacock: I do not want to say anything that would pre-empt the outcome of the quango review, which is almost complete and will be announced in the not too distant future. That review will address some of those points. As Richard Simpson described the situation and as I tried to say in relation to local authorities, a genuine dilemma is involved.

Central Government does not possess all the right skills nor is it best placed to make detailed operational decisions on matters that relate to health, education or transport. Those decisions are better made by people in councils, health boards, and the voluntary sector or—in some instances—the private sector who have the skills to do so. However, that creates tension: ministers allow those bodies to make decisions on their behalf and yet the minister is expected to have a detailed, day-by-day understanding of the expenditure. Ultimately, ministers are accountable to Parliament for all their actions and for the actions of the people whom they appoint to public

bodies to manage decisions on their behalf, but it is difficult for a minister to come before a committee of the Parliament and account in detail for the specific operational decisions that health boards or councils have made—that can compromise the ability of ministers to say that they are perhaps not the best skilled people to manage those areas. That continues to be a difficult area for ministers.

Donald Gorrie: We look forward with interest to the quango report.

Witnesses gave evidence to the Local Government Committee that their overall funding, as opposed to funding for priorities such as education, was worse than before. Perth and Kinross Council gave evidence about its recycling system, which was so admirable that people came from all over the world to look at it. However, year by year, Perth and Kinross Council has had to cut it back until it is a system that is barely adequate. Neither the Executive nor the Finance Committee wants that to happen. Does the minister agree that those hitherto non-priority areas of work need greater funding?

Peter Peacock: We have come through a period of substantial reductions in local authority expenditure. That has been the case particularly in areas that were not regarded as political priorities. The pattern of the immediate past has been for education to be well funded because it is a political priority. Increases in the pay bill for teachers and in the number of schools, teachers or classroom assistants affect local authorities' ability to increase expenditure on other areas. That is because the general rate of expenditure has not increased at the same rate as it has for those priority areas.

Richard Simpson rightly said earlier that a continuing part of local authorities' work in balancing their budgets is to look at their priorities. Not everything can be a priority and they have to make judgments. If we are going to give education and transport greater funding, the money has to come from somewhere. To some extent that means that other areas, which are of a lower political priority, get less funding. That seems an inevitable part of local authorities' scrutiny of their existing block expenditure.

That said, we have removed expenditure guidelines from local authorities. That allows a local authority to be freer to spend and tax at a local level and to be accountable for its taxation decisions. I was a councillor for 17 years before I came to the Parliament, and in all that time we did not have those freedoms; there was always a penalty regime, a clawback regime or a strict guideline regime. That position has gone, as we want to trust councils to make their own judgments and to be accountable at the local level for those

judgments.

To return to Donald Gorrie's example, if a local authority wishes once again to build up expenditure on recycling, it is free to do that, if it bears the cost in mind. The local taxpayer would have to bear part of the cost and the council would have to be accountable for the expenditure. We are trying to remove the straitjacket on councils. However, even allowing for the additional money that we have put in, I will not try to pretend that that will make up for years in which expenditure was squeezed. It will take a long time for local authorities to recover.

Donald Gorrie: Two committees that reported to the Finance Committee said in varying words that they feel that policy is being made with no idea of the costs of implementing it. Will the minister comment on that serious accusation?

Peter Peacock: There are two things: policy aspirations and outcomes. People have policy aspirations wherever they sit on the political spectrum—we are all here to improve the lot of our fellow citizens and to do that we must develop policies for better health care, education and housing and for faster, safer transport and so on. All policies are aspirational initially—then we tighten them up and ask how much they will cost and what precisely we are aiming for.

In that context, nothing in the budget process should be uncoded. We must be disciplined—we will not get approval for expenditure until it is clear what that expenditure will be. We must also develop greater discipline in being more precise about the outcomes that we expect for expenditure. Part of future discipline in sorting out what gets funding is making policy objectives explicit so that we can measure and cost them properly.

Part of the Parliament's bill process is the financial memorandum, which ought to set out the costs to the public purse of any new initiatives, so that accommodating that expenditure is part of the planning process. In a sense, the Local Government Committee's comment is both correct and unfair. It is inevitable that initially we will have broad aspirations that are not yet fully coded, but as we move towards setting a budget, those aspirations have to become fully coded, or we would not receive the budgets.

15:30

Donald Gorrie: I think that the Local Government Committee is referring to policy documents rather than budget documents. Your comments are correct, as the budget has some serious discipline, but some policy documents contain fairly serious proposals—not just aspirations—that are not coded. Nevertheless, I

thank the minister for his answer.

Mr Davidson: The minister suggested that local authorities now have the ability to make political decisions and to raise appropriate finance locally. Ministers may lay down a Government political priority knowing that local authorities will have to deliver it and that the only way in which they will be able to deliver their political priorities will be by raising the money separately. In effect, therefore, there would be a supplementary payment towards the Executive's policy line. How do you resolve that tension?

Peter Peacock: That is addressed on two levels. Annual discussions take place with the Convention of Scottish Local Authorities about shared priorities to try to get a high degree of consensus between central and local government and an exact fit where we can. To a significant extent, we have been able to match Government priorities and local government programmes and priorities.

If a council wants to grow its expenditure in a particular area to reflect a local priority, it is now much freer to do that than it was before. However, the council must justify that to the electorate by saying what its plans are, what they will cost and how that will be reflected in the tax bill. Councils have that choice, but they make it in the knowledge that the public will cast judgment at some point.

Mr Davidson: I accept that. The thrust of the question was about the agreement between the Executive and local government in the round. Will you drop me a note on how you intend to manage the agreement process?

Peter Peacock: If my answer does not satisfy you, please drop me a note and I will be happy to reply. At present, we have an annual statutory round of consultations with COSLA at which we are obliged to sit down and talk about our expenditure plans and to hear COSLA's views. We have a process of agreeing what additional burdens there are on the system and how they will be funded. There will always be items on which COSLA takes a slightly different view of the cost, so there will be some debate around the margins. However, before we enter a budget round, there is a high degree of consensus on the costs.

In the current expenditure plans that are part of the AER, the Convention of Scottish Local Authorities made a specific request to the Executive for additional funding, which we matched virtually pound for pound. On the face of it, we have met local authorities' requests in the current round of expenditure.

Elaine Thomson: How do you envisage progress on equality proofing the budget and the budget documents? The Equal Opportunities

Committee spent a considerable time considering the budget and produced a full, fairly robust report, which makes a number of recommendations. The committee feels that little progress has been made on equality proofing the budget and that there is little evidence in the budget document of an equality strategy or of any commitment to one. The committee hopes for some change there. It also feels that any mention of equality proofing is about aims and objectives but is not followed up with any identifiable money in the budget document. How can that be developed?

Peter Peacock: That is a taxing question. I was talking to a member of the public outside who is doing research into the subject. In our informal chat, we agreed that it is a difficult subject. At one level, it is easy to identify expenditure on equality issues, for example a budget for an equality unit or a particular equality project. The difficult bit is considering the impact of mainstream expenditure programmes—many of which are well established, without equality issues having been part of how they were established—on the sexes, on different minority groups in society and in relation to disabilities and so on. It is difficult stuff; I do not suggest that progress will happen overnight.

I may be wrong, but I am not aware that other Governments are considering the matter in the same depth as the Scottish Parliament is. It is to the Parliament's credit that the matter has been brought to the surface. We have said, "How we spend public expenditure may impact on different groups in society in entirely different ways. Are we clear what the immediate and the unintended, further removed consequences of certain types of expenditure are on different groups in our society?" It is a tricky question; it will take us some time to develop answers.

We have set out a timetable that commits us to developing equality performance indicators by the end of winter 2001. We want to go on to a first phase of work on equality impact assessments of budgets. That is timetabled for the end of 2001, with a pilot in the winter of 2002. Work is continuing to improve the quality of our baseline data, to try to work out what the expenditure is, where it is going and what its potential impacts might be.

We have set up an equality proofing budget advisory group, of which there has been one meeting; a second meeting is due next week. The group includes representatives of the Equal Opportunities Commission, the Disability Rights Commission, the Commission for Racial Equality, Engender women's budget group and various other organisations that are helping us to get under the surface of the matter and to work out the detail. I suspect that some complex policy questions are involved and that understanding the

issues requires us to adopt a subtle approach and to examine budgets in a way in which we have not really examined them in the past. There is a commitment to make progress. Progress is beginning to be made, but I do not underestimate the difficulties. This is a complex area, but we are intent on tackling it.

I noted the questions and recommendations of the Equal Opportunities Committee, which will hold us to account. We are taking the matter seriously in the way that I described, with a view to making steady progress.

Elaine Thomson: The Equal Opportunities Committee recently approved the commissioning of external research into mainstreaming, which will undoubtedly assist in a number of the initiatives that you mention. Is the budget group that has been formed a ministerial advisory group?

Peter Peacock: Some of the Executive's senior managers agreed to set up with external interests the ministerial management group to develop the whole matter. We are exploring areas that nobody in the Executive has any real, in-depth experience of. That included a discussion of outcomes, although those are even more difficult. We want other people to bring their experience to bear on the situation, so that we can move forward together and work out the impact of all expenditure priorities. I suspect that it will not be possible to look across the whole of the Executive's expenditure on an equal basis; we will have to work out ways of doing that.

Dr Simpson: Cross-funding is about mainstreaming issues, but it is also about identifying them in each area of the budget. I am impressed by the response on equal opportunities. I know that some stuff has also been done on drugs, in drawing the budget together, which helps us to understand expenditure on drugs in different departments. I know that it is difficult, but I hope that you will extend that. For example, it has been suggested that the health impact of budgets should be examined carefully to see what impact housing policy, education policy or diet in schools have. I know that those are quite sophisticated and difficult things, but if we are to change the face of Scotland, they have to be tackled seriously. Do you have any comments on cross-funding issues?

Peter Peacock: We are keeping that under review. An internal group has been examining effective implementation of policy, which raises all sorts of questions about how we link budgets to target specific issues. You mentioned drugs as an example. Quite a lot of thinking is going on in the policy unit and across the Executive about how we can continue to do that. There are questions about whether we should create a discrete budget that is cross-cutting in nature, or a virtual cross-cutting

budget that is fed from existing Executive budgets. A balance must be struck. A lot of the expertise is in the existing departments and there is an argument for keeping it there and taking a virtual approach, with people contributing to a budget and discussing the priorities within it.

We may choose to create some cross-cutting budgets as things develop or we may decide to maintain the current position; the idea is firmly under review. We have a lot further to go in joining up Executive expenditure at community level to make a big impact on social problems. I quite often hear that there is a sense in the community that there is an overload of initiatives. Thank God that there is and that so much is happening. At least we are trying to address the questions.

The view at community level is that although funding streams such as the excellence fund, the new community schools fund and social inclusion partnership funding are coming from the Executive, there is a need to join them up at local level much more than we have in the past. We need to find mechanisms that will allow that to happen. A lot more progress can still be made in that area.

Dr Simpson: Robert Black's essay on joint funding is quite relevant in that context, as it made an interesting start on considering that problem.

That takes me on to my question on data. A number of committees have expressed concerns about whether we are collecting appropriate data. If we are genuinely going to move towards outcomes, we need to devise data collection systems to ensure that we cease to collect a lot of the data that we collect at the moment, which looks nice but is irrelevant, and start to collect the data that will be appropriate to the sort of outcome-based budgets that we all want in the long term. What central effort is being made to consider data collection systems, either at the level of the Government as a whole or at the level of individual departments? Is the modernising government programme dealing with that?

Peter Peacock: The modernising government programme has not hitherto dealt with funding for changes in data collection. My officials will keep me right on this point, as statistics and data collection are by no means my fields of expertise, but two things come to mind immediately. First, the central research unit within the Executive has developed with ministers and officials a work plan to tackle issues that arise within ministerial portfolios and to collect data and evidence on which to base policy development. The CRU has a major research task. Secondly, and separate from that—although the CRU may contribute to this as well—there is an annual statistics plan. We are part of a national framework for collecting and publishing statistics. The administration of the

statistics falls to our department. My recollection is that the statistics plan is open for consideration by the Parliament. If I am not mistaken, I answered a question from Donald Gorrie about this in Parliament not very long ago.

Members who have ideas about what ought to be in the CRU's work programme or in the statistical set that we need to collect ought to make those ideas known to us and we will feed them into the process. I am pretty sure that there is provision for the statistics plan to be scrutinised by parliamentary committees so that they can say, "Look, there are not any data on this," or "The data are wrong, so the data sets must be refined on that specific area of endeavour." I will confirm that and write to the committee to set out the procedures.

David Palmer might want to add some comments about statistics and data sets.

15:45

David Palmer (Scottish Executive Finance Department): In general, what the minister says is right. The central research unit handles the broad stream of research that goes through the Executive. We also have economists and statisticians who do their own research and publish a lot of economic and general statistics. A series of scientific advisers provide a research capacity.

If my memory serves me right—I am not 100 per cent sure on this either—the statistics plan is open for consultation. Getting a handle on the massive step change in the data that are required, due to devolution and the scrutiny of the Parliament, is a big issue.

Dr Simpson: One of my serious concerns is that in seeking new data to make good policy decisions we will overload the system. When one talks to clinicians or teachers at the front line, they say that they collect data from which they never see any benefit—the data are irrelevant to their micro-management, are not a lot of use to management at the local delivery system level and so they do not understand why they are being collected. They know only that bureaucracy is increasing almost exponentially. That could be a major problem. We must prevent the overload from becoming absolutely intolerable.

Peter Peacock: I happily undertake to come back to the committee with some research that answers Richard Simpson's questions.

The Convener: I refer the minister to a matter that was raised at our meeting on 22 May, when our advisers, Brian Ashcroft and Alex Christie, were with us. You may have noted, from the *Official Report* of the meeting, that issues about

the modernising government fund had not been satisfactorily resolved, after advisers had asked questions of the Executive. Specifically, it was asked why the modernising government fund is mentioned within the AME figures on page 12, in table 0.6 of the main version of the report, yet we could not trace where it appeared department by department. Our advisers suggested that the figures for the modernising government fund may have been wrongly placed and should not have been in the table. Can the minister or his officials clarify the position?

David Palmer: The figures in table 0.6 are wrong. They should not be there. The modernising government fund is a pool of expenditure against which departments bid, so it sits there until there is a series of bids, after which decisions are taken on the allocation of the money.

The Convener: So there is no way of examining where you intend that expenditure to go in the future. How can we track it?

David Palmer: It is slightly cumbersome. In either the autumn or the spring revision last year, we indicated that certain amounts had been allocated out of the modernising government fund into the departments. That is how the committee could formally track the money.

The Convener: This is more a matter for the Audit Committee than for the Finance Committee. However, there is a trail that can be followed.

David Palmer: There is a trail, through the documents.

Peter Peacock: It falls to Angus MacKay and me to administer the modernising government fund. The answer to your question depends on whether you want simply financial information or whether you want information on the outcomes of the expenditure, which covers local government, health and the police—a range of different interests. We would be more than happy to say where the expenditure has gone and what the projects are. We have a system in place to monitor that, because we are intensely interested in the impacts of the expenditure. We would be happy to give the committee those details.

The Convener: That was going to be another question—if questions were asked on this subject in the Parliament, which ministers would answer them?

Peter Peacock: Either Angus MacKay or I would answer them.

Mr Davidson: You talked about a fund to which departments bid. That brings us neatly on to the reserve and end-year flexibility. Under the rules as explained, departments can bid to retain 75 per cent of EYF—without too much difficulty, at the moment. Is there a formal bid process for

departments that want to retain the remaining 25 per cent? I assume that when you say the money goes back to the centre, it goes back into the Executive's pool. How is that money managed? Are departments encouraged to look for things? Does that happen mainly when departments get the numbers wrong in the first place and need more to finish funding a programme that has been approved?

Peter Peacock: EYF is an interesting phenomenon. The underlying principle is that Parliament, through the process in which we are involved today, will ultimately approve a budget bill. Parliament will vote on money for all the Executive's different areas of interest. That includes money that flows out to health boards, money that is spent directly by the Executive and money that goes to local authorities. Our job is to ensure that that money is spent on the purposes for which the Parliament voted.

However, because it would be a big crime for departments in the Executive to overspend, there is a tendency to underspend, which creates a bit of what we call end-year flexibility. On top of that, there is inevitably slippage. A department may have tried to recruit staff and that may have taken a month longer than expected, which means that there is extra money in the budget. There is nearly always slippage in capital programmes—for example, because the winter has been particularly bad and the money cannot be spent as was envisaged originally.

Currently, so much new money is coming into the system that departments are taking a while to be able to spend it. It is taking longer than one would wish to get the programmes geared up, to get the staff in place and to get everything sorted out. That is adding to the pool of EYF.

A further complication is that, because decisions on EYF are not made until well into the year, departments receive a large tranche of money back into their budget, in addition to the new cash that they have, which is on top of the slippage and the other money that I have mentioned. That means that there is a lag in expenditure. In the short term, the committee can expect there to continue to be significant sums of EYF. Our objective must be to reduce that as a percentage of total spending. Parliament has voted on the money for expenditure purposes, and it is our duty to ensure that it is spent. We are working on better management of budgets, to ensure that over time we squeeze down the amounts of EYF.

Over the summer, Angus MacKay and I plan to take a hard look at EYF, to see how the system is working and to consider some of the questions that have been raised about bidding and so on. At present, the rules are that departments automatically keep 75 per cent of EYF. Twenty-

five per cent comes back to the centre, on the basis that if the money has not been spent the Executive as a corporate whole should have the opportunity to consider whether a new priority for baseline expenditure has emerged to which the money can be attached. The aim is to allow an opportunity for review. Much of that 25 per cent will go back to the spending department, because it is felt that any intended expenditure that has not yet occurred is still to occur and therefore the department still requires the money. At that point, when we have some idea of the totals and the 25 per cent-75 per cent split, it will be found that during the year certain departments will have made a bid to keep 100 per cent of their EYF, or a proportion of the 25 per cent that they would normally send back, because it will be used to catch up with a lag in expenditure.

There is no formal bidding process, just a series of discussions between the finance ministers and the individual ministers on that subject. Over the summer, we will enter a series of bilateral discussions with colleagues to tidy up issues such as what they are seeking from the EYF pool and their justifications for those requests. As yet, there has been no specific invitation to participate in a separate bidding round, although we might get to that point.

Mr Davidson: Does the EYF go into the departmental expenditure limit reserve?

David Palmer: Yes. We could hold it in the DEL reserve.

Mr Davidson: I am sorry, but that was not the question. I asked, "Does it go into the DEL reserve?" not "Could it go into the DEL reserve?"

David Palmer: Yes. That would be the logical place to put it.

Mr Davidson: The minister is aware of the letter we received from his colleague, Angus MacKay, in which he says that he does

"not expect to receive agreement to the level of the Scottish Executive's EYF from Treasury".

Why is the Treasury involved in the process if the money is part of the funding that has already been passed to the Executive, allocated to departments and returned to the DEL reserve through slippage?

David Palmer: Technically, the EYF is drawn from the UK reserve. When we spend money, we draw down from the UK consolidated fund every month. If we are not spending as much as we might have budgeted for, we do not ask for that money, so it simply sits in the consolidated fund. At the end of the year, there is a lump of EYF left in the UK consolidated fund, which means that

when we ask for EYF, it comes out of the UK reserve.

Mr Davidson: So it does not go into the Scottish Executive's DEL reserve.

Peter Peacock: We account for any excess through the DEL reserve. However, we do not have a bank account with the EYF sitting in it.

Mr Davidson: So it is an audit trail process instead of an actual reserve fund.

The Convener: But it is a Scottish consolidated fund.

Mr Davidson: Precisely.

David Palmer: The Scottish consolidated fund draws down from the UK consolidated fund.

Peter Peacock: But that is done on a cash-flow requirement basis.

The Convener: So when Mr Palmer said that the money sits in the consolidated fund if it is not used, he meant the UK consolidated fund, not the Scottish consolidated fund.

David Palmer: Yes.

The Convener: From the looks on the faces round the table, I am not the only member of the committee who had not previously appreciated that point. It is a bit of a revelation.

Mr Davidson: You are right, convener. We did not appreciate that fact.

In point 5 of his letter, the minister uses the phrase "returned to the centre". Should we also assume that when he says "centre", he means the UK consolidated fund?

Peter Peacock: Are you talking about the 25 per cent?

Mr Davidson: Yes.

Peter Peacock: The "centre" that would keep the 25 per cent of EYF refers to the whole Executive, as opposed to its departments.

Mr Davidson: Not many departments and very few parliamentarians seem to appreciate that fact. There needs to be more clarity on the issue.

Peter Peacock: If it would help to clear up confusion, we could review that note.

The Convener: I take it that there is no Treasury influence over the 25 per cent-75 per cent split. Is that an internal decision for Scottish Executive finance?

Peter Peacock: That is right.

Mr Davidson: I have one final supplementary that will move the matter along. What consultation do the minister and his team propose on the use of the reserve and applying to the UK reserve?

What contact will the committee have before or during that process?

Peter Peacock: Are you talking about the DEL reserve?

Mr Davidson: Yes, but I am also referring to applications to the UK reserve if there is a major problem. For example, the committee was not consulted about the help towards the foot-and-mouth outbreak.

Peter Peacock: I suspect that, when we make transfers between budgets as part of the process, that will be picked up in the supplementary estimates, which will come before the committee.

Foot-and-mouth disease is a good example to take in relation to our discussions with the Treasury about the UK reserve. Obviously, discussions take place all the time between UK Treasury officials, officials from departments south of the border and our officials. We have had constant discussions about foot-and-mouth disease and, for example, the rates relief scheme, where we receive money as a consequential from the UK on the back of the Treasury's decision on rating relief. We received a corresponding consequential, which, as I recall, came out of the UK reserve. Those are automatic processes, which for the most part are dealt with by officials who keep ministers informed about their discussions. Occasionally, a minister may have a bilateral discussion with a colleague from south of the border about those matters.

16:00

Leaving aside the UK reserve, ministers who wish to make a call on our DEL reserve would simply write a minute to the Minister for Finance and Local Government, saying, "Look, we think that this issue is one for the Scottish DEL reserve, against which we want to make a bid of £X." That would be followed by a process of dialogue and scrutiny involving the relevant ministers and the Minister for Finance and Local Government, until a resolution was arrived at. That process is not a firm, annual bidding process; issues are dealt with as they arise.

Mr Davidson: I accept that, but will the committee be included in the loop of information during that process?

Peter Peacock: I would not have thought that the committee would be involved in our dealings with the Treasury, much of which take place automatically as a consequence of matters that arise at a UK level. Transfers of resources from the Executive's reserve to an Executive budget come out in the committee's twice-yearly discussions about supplementary estimates. Such transfers would be identified—we would indicate

that we had taken £X from the reserve and put it into a particular budget.

Dr Simpson: On EYF and reserves, it seems to me that the preposition in paragraph 5 of Angus MacKay's letter is the one that is at fault. From the way in which it is written, it looks as if he must seek agreement with the Treasury on the appropriate level of EYF, rather than simply advise the Treasury of the level of EYF. At least, that is what I understood you to say. Surely all you will do is inform the Treasury of the amount of EYF that we have not drawn down?

David Palmer: The process is one of informing the Treasury, which checks its records to ensure that we have got it right—it is no more than that.

Dr Simpson: That is where the agreement—

Peter Peacock: We will go back and double-check the text of the letter to clarify that point.

Dr Simpson: It would be helpful if you would do so.

We still have problems with the various reserves. Paragraph 6 of the letter that we received from Angus MacKay talks about consequentials of draw-downs by English departments, or

"Barnett consequentials of money received"

from the UK reserve. It appears that we automatically receive that element, because departments in England that have similar functions have received certain amounts of money.

However, tourism has been extremely badly affected by foot-and-mouth disease, and Scottish tourism may have a disproportionate number of problems arising from foot-and-mouth. I assume that we are still able to make applications to the UK reserve for additional amounts, rather than simply receiving the Barnett consequentials of amounts received by English departments. That is my first question—I will stop at that point.

Peter Peacock: The rules are not absolute, although Dr Simpson is correct to say that we could make a case at any time to the UK Treasury that a particular situation in Scotland is of national significance and should be funded by the UK reserve. That would be followed by a process of discussion and either we would come to an agreement or we would not. As I understand the position, therefore, Dr Simpson is correct to say that we could make applications to the Treasury, but whether we would always get a positive response is a separate matter.

The finer point would arise if we were to choose to respond differently to a UK problem—that is, if we were to make a policy choice to take additional steps to those that are being taken in England and Wales. The foot-and-mouth situation gives an

example. In Wales, the agreed rating relief levels were different to those in England and Scotland. The National Assembly for Wales will have to fund that from its own resources, because it was the Assembly's policy choice. The same would apply here. If we made a clear policy choice to respond in a different way on tourism, for example, and if our choice was more expensive than was considered necessary at UK level, we would bear the cost. If, on the other hand, we consider the impact on Scottish tourism to be a UK issue, we are free to apply to the UK reserve, saying that we feel we should get something from it.

Dr Simpson: I have residual anxiety about the creation of our reserve. If I were sitting in the Treasury with another hat on, I would be saying, "Well, you've created your own reserve—use that first." That is a serious concern. You have described the relationship clearly. If we put ourselves in the position of having a pocket of money, and if that meant that we did not have to go to the UK Treasury for things that every other department, incurring the same kinds of expenditure, would expect to get from the UK reserve, that will put us in an extremely weak bargaining position.

Peter Peacock: A balance has to be struck and a judgment has to be made. I think I said earlier that Angus MacKay would consider reserves and EYF during the summer. We have a series of questions to answer on how we can best handle all those matters. That has not been motivated by the reason that Dr Simpson has given, although it was an interesting point. We will take a closer look at those matters.

We have not had the experience of the Treasury saying, "Because you have a reserve, you must access that before you come to us." All that the DEL reserve does is to bring to the surface and make visible reserves that were previously held within departmental budgets. There will be more visibility, and therefore more potential for scrutiny, than we have had in the past.

We spend a lot of time considering the timing of certain decisions. We consider when we expect UK decisions to be made. That is for precisely the reason that has been suggested. If we made a decision in advance of a UK decision from which we may have received consequentials, that would be our policy choice and we would fund it. I can therefore assure members that, before we make final decisions, a lot of attention is paid to the timing and to close contact with departments at the UK level to work out when similar issues are likely to be decided south of the border.

The Convener: Angus MacKay, in his letter, talks about the UK reserve in the first sentence of paragraph 6. Then, in the third sentence of the same paragraph, we see the phrase "On the

reserve generally". I presume that that is the Scottish reserve. He talks about how ministers would bid for money from that reserve. In a situation such as the one that you have described—where something has a UK significance—would it still be up to the Scottish Executive minister to go to Angus MacKay and yourself and say, "I believe we should have some UK funding." Would there have to be Cabinet approval for that?

Peter Peacock: At the Scottish level?

The Convener: No, at the UK level—before a bid was made to the UK reserve.

Peter Peacock: A lot of the bidding for the UK reserve is simply done administratively by officials. Ministers will say, "Look, we ought to try that. Let's see if we can get something." Or they may ask, "Are they about to make a similar decision south of the border from which we may get consequential?" The issue would not necessarily have to go to Cabinet. It would depend on the nature of the problem.

If, on the other hand, an incident of UK significance happened in Scotland—disproportionately severe weather, or whatever—we could bid to the UK reserve. Whether it went to Cabinet or not would depend on the scale.

The Convener: I want to press you on your use of the term "UK significance". Lockerbie would be an obvious example of something that had UK significance—but what about the difficulties in the fisheries? That could be said to be a specifically Scottish problem. I am sure that you will say that it should be done on a case-by-case basis, but do you define cases?

Peter Peacock: That is right—you would do it on a case-by-case basis. You have mentioned an example in which the Executive came to the decision that it wanted to act quickly in Scotland, with the proposal for a decommissioning scheme. We made that choice, so we bear the costs.

On the other hand, if a similar position were arrived at at the UK level, we would probably have had a series of discussions to work out precisely the nature of the likely UK decision before we made a decision. In that context, we may have received consequential that would therefore not have been borne at the Scottish level. In that instance, it was clear that there was a divergence in the approach that Scotland, England and Wales were taking. We made our decision and we will pay for that.

The Convener: I think that the minister can sense the interest that the question of reserves has sparked in the committee.

Mr Davidson: My next question follows on from the previous question. What role, if any, does the

Secretary of State for Scotland have in any bid process that we make to the national reserve?

Peter Peacock: As in all matters where we are dealing with the UK Government, we will perhaps have close contact with the Scotland Office and enlist the support of Scotland Office ministers as and when we see fit and appropriate to help to argue our case. If we felt that something was happening predominantly in Scotland but was of UK significance, the Scotland Office would be part of the network of information between us and the UK level. The Secretary of State for Scotland is a member of the UK cabinet and has clear contact with Treasury ministers, so the Scotland Office is an important part of the fabric. However, many UK reserve dealings are conducted simply between officials of Executive departments and the UK Treasury.

Mr Davidson: So the secretary of state has no formal role.

Peter Peacock: I am not aware of a formal procedural role, but that is not to say that we do not seek to involve the secretary of state. I will have that double-checked. I am not clear that there is a formal procedural role.

David Palmer: I think the secretary of state has to make the formal application against the UK reserve. We have no locus in that.

Peter Peacock: The discussions would tend to be done by our officials.

Mr Adam Ingram (South of Scotland) (SNP): I would like to return to your opening remarks, minister. You talked about much more intensive scrutiny of the Scottish budget since the Parliament began. In the foreword to "The Scottish Budget", the First Minister talks about

"a more open, inclusive budgeting process"

and says:

"It aims to give people from across the whole spectrum of Scottish society a say on how the resources at the Executive's disposal should be spent."

It was noticeable from a number of the reports that we received from the subject committees that those committees were not sure where or what consultation had taken place on their departmental budgets. Will we get a formal report on the consultation and the outcomes of the consultation process that the Executive is undertaking in respect of this year's process?

Peter Peacock: There are several levels of consultation. The documents are published and are in the public domain. Any member of the Scottish public—or anybody else—can get copies of those documents, write to us and make representations. That is one level.

There is access to further information through

websites. There are the normal committee processes. People can make representations to committee members who will raise those representations with their committees and ministers in committees as part of the process of illuminating what is in the budget.

We are also engaged in a small number of public meetings this year. That process was started last year. There will be a meeting in Dundee, one in Kilmarnock and one in Inverness. In those meetings, we will get feedback about the budget from agencies and members of the public.

I am advised that last year we answered a parliamentary question to reveal the outcome of the consultation and we will be happy to do something similar again.

The way in which people impact on the budget is varied. Different routes are taken. I do not know whether we can give a single comprehensive report, but we can certainly make a basic stab at what has been done by us, what representations we have received and what processes we have gone through.

I was interested in the comments that were made by a number of the other committees to the Finance Committee about the stage 1 process and about whether the departments should be doing more consultation. That is an open question that we would want to raise with colleagues at some point, particularly if the committee recommends that action to us. We would happily take up the issues with Executive colleagues to find out what the approach to that might be.

The Convener: I thank the minister for a comprehensive session and for answering our questions so fully. We have gained considerably from the past hour and a half. We shall now put your comments together with the committee reports and prepare our own report, which will be the subject of the debate in Parliament on 27 June. I thank the minister and his officials for assisting us.

Peter Peacock: Thank you. I will try to get more sleep before the next meeting of the committee.

The Convener: We will try to choose a more suitable day for stage 2.

As there is a further item on the agenda, there will be a brief adjournment.

16:15

Meeting adjourned.

16:28

On resuming—

Protection from Abuse (Scotland) Bill

The Convener: Item 3 on the agenda is consideration of the financial memorandum for the Protection from Abuse (Scotland) Bill. Members will be aware that the bill is the first to be introduced by one of the Parliament's committees. That is why the committee is considering the financial memorandum, despite the changes to standing orders on consideration of the financial memorandums of Executive bills. We have considered a few financial memorandums over the years, but I do not remember one that ran to 12 pages. It is pretty comprehensive and much of it is also pretty subjective.

We must particularly examine the tables on pages 20 and 21. It strikes me that the grand total in table 1, which shows the annual cost to the Executive of implementing the bill, varies by my calculation between £780 million and £1.95 billion—*[Interruption.]* Sorry, I mean £782,000 and £1.95 million, which is a fair amount. The total additional one-off cost, which is shown in table 2, is £372,000.

Those are the sorts of figures that we are dealing with. Members who have read the sections that deal with when interdicts might be sought will agree that the amount does not appear to be unreasonable. However, there is quite a gap between £782,000 and £1.95 million. We must decide whether we want to ask any questions or whether we are prepared to accept the financial memorandum as it stands.

Mr Davidson: We can operate only on a worst-case scenario basis. We cannot limit the amount of money. Given the potential for complaint and so on, the amount is almost uncappable. The Executive has not accounted for the potential cost of additional police time in court. Many police forces have raised that problem with me. Officers who are sitting in court are not out doing their jobs. Often, at great expense, a police officer must write off a day to attend court—which is not paid for by the hour, because somebody else might have had to be called in to cover that officer's duties. I cannot tell members what the costs of that would be, but we need to have firmer evidence on it. I am not convinced that we have enough evidence to accept that £372,000 will be simply a one-off cost.

The Convener: I am not sure that the point about the police that Mr Davidson made is relevant. It is true that a certain amount of police

time will be taken up by officers' appearances in court. However, the police do not normally get additional resources to compensate for the time that officers spend in court.

Mr Davidson: That is a problem for the police, which they raise regularly with me.

The Convener: It is a general problem; it is not one that is specific to the bill. No additional costs would be incurred as a result of the Protection from Abuse (Scotland) Bill. The police would not be expected to seek compensation for the time that their officers spend in court because officers already spend a lot of time in court.

Mr Davidson: Yes, but we are talking about additional time.

The Convener: I accept that, but I do not think that it is likely that they would be compensated in the way that you suggest.

Elaine Thomson: Paragraph 92 quite correctly talks about potential cost savings from the bill. The bill will be of massive benefit to many women. As David Davidson points out, it is probably difficult to determine at the moment how the costs will work out because there is a significant degree of underreporting of the crimes with which the bill is concerned. The use of the power of arrest should provide considerable savings and might assist with the court costs.

Mr Davidson: I accept that—because we have no idea of the degree to which the powers will be used—the cost is unquantifiable at the moment. I do not argue with the fact that the bill will provide good protection, but today we are concerned with the cash aspects of the bill. I do not think that many of the figures—particularly those that relate to the police—are firm enough for us to allow them to go through and remain in that form for ever and a day, allowing for inflation.

The Convener: We are able to ask questions if we want to do so. I understand that the appropriate person to invite would be Alasdair Morgan, who is convener of the Justice 1 Committee. We could do that at our meeting next Tuesday if members want, but we shall decide that after one or two other points have been raised.

Dr Simpson: I have two points, the first of which follows from what David Davidson said. The question of police time is important, because its costs are additional. It should be possible to quantify it, at least to some degree, on the basis of the amount of police time that is currently spent on enforcing the Matrimonial Homes (Family Protection) (Scotland) Act 1981, which already affords minimum protection to some people. We should be able to quantify the amount of time that is spent on that and we should at least be able to hazard a guess at it. It is a serious omission from

the figures, because it is an important area of additional time.

The detention element is quite interesting. It is estimated that fewer than two people will be detained in at any time. The cost of detention is £28,000 per prisoner per annum for a male and £36,000 per prisoner per annum for a female, and the bottom level of the table suggests that there would be fewer than two detentions at any time and the top level suggests that there would be five. I am not quite clear about the basis for that, or about whether there is evidence from elsewhere that those are the sort of detention figures that could be expected.

If my notes are right, the breach of interdict is mentioned in paragraph 81 of the explanatory notes. My notes say that there were 54 applications for legal aid between April and December 2000, grossing up to an annual figure of 70, but that the figure for

"court actions ... could be as low as 30."

However, only two detentions are expected as a result of that. That could be right; it may be that introducing a law will have a significant preventive or deterrent effect. That would be extremely welcome, but we must improve matters by introducing a caveat about the basis on which that figure is determined.

Elaine Thomson: I take on board what Richard Simpson says. It seems to me that the Executive has tried extremely hard in the financial memorandum to give us the most accurate figures possible. I welcome that; the memorandum is a considerable improvement on some of those that we have had for previous bills. I notice that Enough is Enough and Aberdeen sheriff court have been used as the basis for some of the national figures. There might be some uncertainty in some areas, but a reasonable stab has been made at quantifying matters. My main problem is with the horrifying number of incidents that are referred to, with nearly 35,000 incidences of domestic abuse coming to the attention of the police in a year. It is appalling.

The Convener: Indeed it is.

Donald Gorrie: It is not our job to say that it will all cost too dear and should not be done. We should merely say to the Justice 1 Committee, "It is your policy and, if you do it, it will cost X."

The Convener: There is a need for a financial resolution. However, as we have done frequently in the past, we can invite ministers, officials and other appropriate witnesses to clarify certain aspects.

Donald Gorrie: As has been said, some matters are unquantifiable and if the bill represents the desired policy, we shall just have to live with that.

The Convener: Do members feel that there are sufficient questions on which we require clarification to invite Alasdair Morgan to give evidence?

I can see some heads shaking and some heads nodding.

Dr Simpson: I would hate to see the process being held up, because the bill is very important. If we can ensure that we can fit in an evidence session and get the answers rapidly, we should do that. However, I do not want the operation to be underfunded and I do not want people to be able to say, "You didn't allow enough for legal aid, so there will be a hold-up on legal aid for this sort of thing." That would be totally unacceptable.

The Convener: Those are sentiments that every member of the committee would agree with wholeheartedly, and there is no question that evidence sessions will slow up the process. I understand that the stage 1 debate on the bill is set to take place before the summer recess. The clerks have already been in contact with Alasdair Morgan and I understand that he will be available to give evidence at our meeting next Tuesday should members want that. Is it the view of the committee that Mr Morgan should attend?

Members indicated agreement.

16:39

Meeting continued in private until 16:55.

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