FINANCE COMMITTEE

Tuesday 23 October 2001
(*Morning*)

Session 1

£5.00

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Tuesday 23 October 2001

FINANCE COMMITTEE
20th Meeting 2001, Session 1

CONVENER

*Mike Watson (Glasgow Cathcart) (Lab)

DEPUTY CONVENER

*Elaine Thomson (Aberdeen North) (Lab)

COMMITTEE MEMBERS

*Brian Adam (North-East Scotland) (SNP)
*Mr David Davidson (North-East Scotland) (Con)
*Donald Gorrie (Central Scotland) (LD)
*Alasdair Morgan (Galloway and Upper Nithsdale) (SNP)
*Dr Richard Simpson (Ochil) (Lab)

*attended

THE FOLLOWING ALSO ATTENDED:

Professor Brian Ashcroft (Adviser)
Norman Flynn

WITNESSES

Dr Ingrid Clayden (Scottish Executive Corporate Services Department)
Paul Gray (Scottish Executive Corporate Services Department)
Graham Owenson (Scottish Executive Finance and Central Services Department)
David Palmer (Scottish Executive Finance and Central Services Department)
Craig Russell (Scottish Executive 21st Century Government Unit)
Ian Walford (Scottish Executive Finance and Central Services Department)

CLERK TO THE COMMITTEE

David McGill

SENIOR ASSISTANT CLERK

Anne Peat

ASSISTANT CLERK

Gerald McInally

LOCATION

Committee Room 1

Scottish Parliament

Finance Committee

Tuesday 23 October 2001

(*Morning*)

[THE CONVENER *opened the meeting at 10:08*]

The Convener (Mike Watson): I formally open this meeting of the Finance Committee and I welcome members. We have received no apologies, so I reckon that the Aberdeen train is running a bit late again. I remind everyone to switch off their mobile phones and to set their pagers to buzz.

I want to ensure that all members have seen the new version of today's agenda, which was issued yesterday. The only change to it is the addition of the names of the officials from the Executive who will give evidence in a few moments. Richard Simpson looks rather puzzled, so perhaps he has not seen it.

I take this opportunity to remind members that we will have an informal meeting with the Minister for Finance and Local Government, Angus MacKay, at 1.30 today. From the minister's point of view, that meeting cannot go on past 3.15. I propose to consider questioning for that session before we finish this morning's meeting, rather than convene the meeting with the minister earlier than 1.30. I am sure that members have commitments at lunch time that would make it difficult to convene this afternoon's meeting early, so I intend to do as I have suggested.

Items in Private

The Convener: I regret that, even before we move to formal business, I must ask members to agree to discuss items 2, 5 and 6 in private. It is unfortunate, but if members consider those items, they will see that there is no alternative. I have had a word with the clerks about trying in future to deal first with the committee's public business, although that will not always be possible.

Do members agree to discuss items 2, 5 and 6 in private?

Members *indicated agreement.*

10:10
Meeting continued in private.

10:29
Meeting continued in public.

Budget Process 2002-03

The Convener: I am pleased to welcome an impressive array of officials from various offices. They are trying to outnumber the committee and have nearly succeeded.

David Palmer (Scottish Executive Finance and Central Services Department): That would not be possible.

The Convener: We were notified of who would attend, but I ask the witnesses to introduce themselves for the record, before we ask questions. I would appreciate that.

Dr Ingrid Clayden (Scottish Executive Corporate Services Department): I am the director of personnel and pay.

Ian Walford (Scottish Executive Corporate Services Department): I am the director of corporate development.

David Palmer: I head finance co-ordination.

Graham Owenson (Scottish Executive Finance and Central Services Department): I head finance administration.

Craig Russell (Scottish Executive 21st Century Government Unit): I am the deputy head of the 21st century government unit.

Paul Gray (Scottish Executive Corporate Services Department): I am the director of information technology.

The Convener: Thank you. We are covering chapter 15 of the draft budget, on areas that the subject committees do not scrutinise, generally. We want clarification on several matters.

My question is for any of the witnesses, but it may be most appropriate to Mr Palmer. The witnesses will be aware that we subject the budget process to continuing review. We will have an informal meeting with the Minister for Finance and Local Government this afternoon. I would be interested to hear the impressions of any of the officials about the budget process as it has operated, because we seek ways of making it more effective. Do you have any suggestions for developing the process? The review is continuing and I do not want to place officials in any difficulty with political questions. My question is not meant to be political; it concerns the process.

David Palmer: The great advantage of the present budget process is that it works. By the end of the process, a budget bill is produced that has

been more widely consulted on and on which more information is available. I am not sure whether a huge amount of scrutiny takes place, but the information is a damned sight more available for scrutiny than before.

On the downside, the budget process is quite long. It is a painting the Forth rail bridge job. For instance, we are talking about the draft budget document today, but we are already commissioning next year's annual expenditure report. The process has become a bit of a juggernaut. From my perspective, we may have to consider refining the juggernaut to make it more focused and to streamline it a bit. To pursue the juggernaut analogy, perhaps we need to make it easier to turn and to move in different directions.

That said, the process allows a range of opportunities for getting information out to people and for consulting people. We do budget roadshows in various locations and receive immediate public input. The process is a bit of a curate's egg. It has had advantages and is an improvement, but there is no doubt that we could make further improvements.

The Convener: I will stick with the juggernaut analogy. I understand your point about the process being year long, but some committees feel that although the juggernaut moves slowly, there are so many other demands on their time that it is difficult for them to jump on it and seek to influence its direction. How might such problems be dealt with in a shorter process, which would leave the subject committees with even less time to deal with the budget process and make meaningful suggestions about alternative budgets?

David Palmer: That is a difficult question that demands a more carefully thought-out answer than I can give at present. It strikes me that we are close to having too much information for it to be readily accessible to the committees and wider groups. I was struck by Mr Morgan's predecessor's comment, about six to eight months ago, that we should move back from the level of information that we provide to strategic, slimmed-down documents that bring the key facts and figures into play and allow committees to consider the options from that point, rather than take the present telephone-directory approach, which we took with the committee's agreement. That may be a way forward, but there is some benefit in taking the telephone-directory approach. However, that is a fairly ill thought-out response to an important question.

Dr Richard Simpson (Ochil) (Lab): I would like to bring in Paul Gray. The balance is between having a fairly slim publication and being able to drill down to information through an IT system. On the two biggest bits of the budget—local

government and health—it is almost impossible to determine whether the outputs, far less the outcomes, meet the Government's agenda. We need a combination of a strategic overview publication that is not the size of a telephone directory and a document that offers the ability to go into greater detail than at present, particularly in the two areas that I mentioned, in which we cannot determine what is happening.

David Palmer: We made a significant improvement this year with the annual expenditure report, which we put on the web with associated links to non-departmental public bodies. I am not sure whether we can provide links in the next AER to all local authorities, but we ought to explore that. I do not know whether all local authorities have websites. We could also link to all health boards; I am not sure whether they all have websites. Providing such links would begin to allow people to go into our document and have access to local government and health information for comparison purposes. Another problem is that a distinct boundary exists between the Executive and local government. Less of a boundary exists between us and the health boards or health trusts.

Paul Gray: At a simplistic level, we are conscious that the ability to search information that is presented on the web, for example, could be better. That may go some way towards addressing the point that Dr Simpson makes. People with an interest in a subject could obtain a more refined view of that subject without having to accept information at a strategic level that may not give them the detail that they want and without being provided with the telephone directory of information that contains much detail that is irrelevant to the subject. The point is well made and I take it on board.

Donald Gorrie (Central Scotland) (LD): I am a bit confused about the budget items that relate to civil service reform. The modernising government fund seems to be a capital fund, but civil service reforms and 21st century government initiatives are mentioned without money being specified for them. Will you give some examples of what has happened or is happening under the modernising government fund, especially in central Government? Central Government is good at telling other people what to do and not quite as good at putting its own house in order. That is a common human failing. I would like examples under the modernising government fund and under the other headings that I mentioned, so that I have a slightly clearer picture of what you are aiming at.

The Convener: Mr Russell would probably be the appropriate official to answer on that subject. Why do the words "modernising government fund" appear only at the start of chapter 15 of the draft

budget? There is talk of the 21st century government fund and of initiatives that that involves, but nothing about the modernising government fund. Is there a reason for that?

David Palmer: I will answer that question. We set up the modernising government fund as a central portfolio that is, in effect, a holding bank. The fund receives various tranches from Whitehall as it is a UK-wide programme. We then use it as a feed into local and central Government projects and other areas of the office—the 21st century government unit—to cover the cost of activities.

We have not described the modernising government fund in a separate chapter of the draft budget because it is simply a holding line; it just holds an amount of money and we do not have much else to say about it. As I said when I met members of the committee informally, we will consider describing it in a separate chapter in future.

Craig Russell: The term "modernising government fund" does not appear often in the draft budget because it is used interchangeably with "21st century government initiatives". That reflects the fact that the 21st century government unit—a rather unholy name—was set up only in April or May 2000. Initially, the modernising government fund was held and administered by the private finance unit. We took over the fund in order to apply seedcorn funding to drive forward the agenda for better services for citizens and the delivery of services in general.

By and large, the funding is all wrapped up in the term "modernising government fund". That embraces a variety of projects, all of which are on the web. Future projects will be added to the 36 that are running when we have decided what they will be. The projects cover a variety of activities, but all are within the general vision of improving services.

I will give one or two examples. In the Aberdeen City Council area, we are running a trial project for the Accord card—a citizen's account card, if you will—to allow simpler access to public services in Aberdeen using a smart card. One of the benefits has been that the payment of school meals, particularly for those who receive benefits, becomes a social inclusion issue because the individuals can pay for the meal without being identified as being in receipt of benefits. We hope to expand that project in the second round of the modernising government fund.

The original round of the modernising government fund was announced to the Parliament in May 2000. It originally came under Jack McConnell's budget, but now comes under the budget of the present Minister for Finance and Local Government, Angus MacKay.

Donald Gorrie: You gave an interesting example. If such projects now come under the modernising government fund, am I right in thinking that they would cover revenue expenditure as well as capital expenditure?

Craig Russell: No. Your original question queried civil service reform and the modernising government fund. The fund had a bidding process that was open to all, but in its current form it does not cover civil service reform, which is one of my colleagues' interests.

There were originally 104 bids to the fund, which would have exceeded considerably the £26 million over two years that was available. The number of bids was whittled down to the 36 current projects by a process of criterion application and scoring.

Donald Gorrie: I do not fully understand the fact that civil service reform is outside the system. Is the reform driven purely by ministers, who say that in their experience X and Y are not working and that we should do them differently? Does the civil service have an internal mechanism for deciding that it should allocate money differently between different departments or merge them? Is there an engine within the civil service that is driving reform?

10:45

Ian Walford: The civil service reform programme is a long-term programme that is designed to improve the workings of the central Government machine—the interior workings of the Executive. It is designed to make those workings more efficient and effective so that we can deliver ministers' priorities and generally improve public services throughout the country.

Chapter 15 of the draft budget talks about the invest to modernise fund. A certain amount of money is set aside for particular projects over and above the general expenditure of the administration of the Executive. All of that is designed to improve the way in which we operate so that we become more effective.

The Cabinet Office allocated £3.6 million as additional money on the basis that the Executive would supply a discrete 25 per cent addition for projects—13 projects are running. The permanent secretary and senior managers make decisions about how the money is allocated, bearing in mind what the aims of the Executive are and what the programme for government sets out. A range of projects are running. The extra money has been allocated for the period to the end of March 2003. A number of projects are designed to improve training and to modernise the systems and processes of the Executive. One example is the intention to employ an outreach worker to encourage more people from ethnic minorities to

join the civil service.

The Convener: Page 249 of the draft budget refers to the £3.6 million. It states:

"We are obliged to provide 25% of the cost of the projects."

Does that mean that the Executive is obliged to provide £900,000 over and above that figure? If so, where is that money coming from? You would not have known that you would get the £3.6 million.

Ian Walford: David Palmer might want to say something about that. The money is from within the existing administration resources and is covered in the figures.

Graham Owenson: That is correct. When the bid was made, we would have earmarked funds from within the administration budget.

The Convener: In anticipation of—

Graham Owenson: In anticipation of that bid being successful.

Mr David Davidson (North-East Scotland) (Con): I refer to objective A of the 21st century government action plan, which is about working in partnership. Presumably that refers, in layman's terms, to a joined-up experience in which linkages are made throughout the departments with a commonality and sharing of systems.

Targets A2 to A5 are quite interesting. Can you give examples of action that is being taken? What costs are being entailed? What investment is being made and what kind of savings do you think will come out the other end?

Craig Russell: One of the primary criteria for the modernising government fund was that work should be done in partnership. A number of the original bids were joined together. For example, an e-care project was run jointly by the Scottish Executive health department and a number of local authorities to bring together health services in a single location.

In Dumfries and Galloway, a number of projects to set up kiosks to provide information to the disadvantaged were brought together. We encouraged and encourage the joining together of projects.

The modernising government fund has to be seen to some extent as a project that rolls items together. The original 36 projects will be further combined in the next round to develop the lessons that were learned about sharing data and services and joint partnerships within single buildings. We will bring those projects together so that the idea of sharing gets across to local authorities and other public services and they no longer see themselves in silos. The primary underlying message is that the priority is the delivery of services to the citizen and not the benefit to the deliverer.

Mr Davidson: Is that model of thinking applied to the Executive's interdepartmental working? The Executive rolled forward an underspend of £9 million out of a total £191 million. That means that next year there will be an increase from £212 million to £221 million, which is fairly substantial. Where is the evidence of joining together in the administration of the Executive?

Craig Russell: I will add fuel to your question and then answer it. You asked what the likely savings from the modernising government fund projects would be. Our best estimate in the first year was that the net positive value of £8.9 million would be achieved. I entirely agree that the point and the thrust of interdepartmental working— certainly from the 21st century government unit's perspective—are to get across the fact that joining up and sharing can produce savings.

In my view, data sharing—one of the projects that, last Friday, we agreed should be progressed—is the biggest thing that can be done to produce savings internally or externally to the civil service. The number of times that the name and address of each person in the room is held by a number of agencies is astonishing. The amount of time that is spent entering, cleaning and reapplying those data is also considerable. I am sure that Mr Gray will also have a view on that. We are well aware of the issue and a number of others that require to be pursued vigorously.

My only slight concern is that we are in the early stages of the process. It takes considerable time to get across to people that they have to think about services in terms of delivery to citizens, not how we currently do things.

Mr Davidson: Will Mr Palmer pick up the second part of my question?

David Palmer: Mr Owenson will cover end-year flexibility.

Graham Owenson: The £9 million underspend relates mainly to the replacement of the Scottish Executive accounting system and modernising government fund money, which relates to an e-procurement system. The delay in that spending was a result of contracting routes and appropriate timing for letting the contracts.

Elaine Thomson (Aberdeen North) (Lab): Wendy Alexander recently announced a strategy for the provision of broadband. One of the things that underpins that strategy is aggregation of public sector demand for telecommunication services to persuade the telecommunications companies to provide broadband. To what extent are you working with Wendy Alexander's

department on that?

I am aware that Aberdeen City Council, which Mr Russell mentioned, is pushing hard in producing its Accord card. The council has mentioned the difficulty of trying, when it brings together different public sector agencies, to aggregate demand and develop joint procurement strategies. Does the budget for 21st century government also support and underpin the work to aggregate telecommunications demand throughout the different agencies and feed into and support the broadband strategy?

Craig Russell: To be accurate, it probably did not at the outset. I will give the committee a little bit of history. Digital Scotland and 21st century government were originally one project under one minister and were eventually split. However, we work closely with the digital Scotland unit and provide it with information on the output from the current round of funding from the modernising government fund. More importantly, we have been providing the digital Scotland unit with information about the likelihood of projects such as data sharing projects, in which the transmission of data would clearly have an impact on the demand for broadband.

The short answer to your question is "Yes".

Paul Gray: I do not have much to add to what Craig Russell has said, except that I am responsible for all the wide-area network communications that the Scottish Executive uses. I work closely with the Executive's director of procurement, who is part of the team that reports to Wendy Alexander, to ensure that all the Scottish Executive's requirements are aggregated with whatever other public sector requirements arise.

We are keenly aware of the opportunities to make savings through aggregation. However, as you have pointed out, a key issue is brigading procurements. Everyone has contracts that end at different times. That is one of the challenges that we face. We are determined not to say that aggregation of procurements is too difficult. There is a substantial gain to be made through aggregation. We know that those in the 21st century government unit and in the digital Scotland unit, and those who work on the information systems strategy have to work together on aggregation because there is value to be had from it.

Elaine Thomson: The project is obviously split between two ministers. Angus MacKay looks after the 21st century government side of it and Wendy Alexander looks after other aspects. Does the fact that the project is strung across a number of different departments cause extra difficulties? Would there be benefits to having it all under one hat?

Paul Gray: For me to comment directly on the allocation of ministerial portfolios would be remiss. However, the Scottish Executive has recognised firmly that being able to work in a cross-cutting way is extremely important to service delivery.

At official level, there is no difficulty. Ms Alexander and Mr MacKay are both on the digital Scotland committee and the ministerial committee on 21st century government. Therefore, also at the ministerial level, there is visible commitment to joined-up working.

Craig Russell: It is also important to differentiate between—if you will excuse the vernacular—pipes and plumbing on the one hand and the services that go down those pipes and that plumbing on the other. We use technology to stay in close contact. The two units have a weekly meeting on a Friday by video conference, as the digital Scotland unit is in Glasgow and we are in Edinburgh.

It is vital that joining up services and improving service delivery do not get hung up on the argument about whether broadband should be introduced. That argument is essentially between the telcos.

Although I take the point that aggregating services is the issue, we are at an early stage of determining what the aggregation of services will tell us. Because broadband is important, I would not wish the modernising agenda to stall. From my perspective, information technology is an enabler. Delivering better services to citizens is at the heart of the modernising agenda. That is not always a technological matter.

We keep in close contact with the digital Scotland unit, but that is not essential to certain elements of our agenda.

Elaine Thomson: Most people would accept that. What we do with IT is important, not the IT itself. Nevertheless, there has been heavy criticism from a number of directions at a United Kingdom level, not just a Scottish level, of the plans for the provision of broadband, the speed at which they are being implemented—or, rather, not being implemented—and the way in which that might handicap other areas of the economy, quite apart from the provision of Government services. I am keen to know that we are set up in a way that will let us move as fast as we possibly can.

Craig Russell: We are, in that regard. The clear focus of the enterprise and lifelong learning department on that subject is probably helpful. That department does not have to split itself between the telcos and trying to persuade 32 local authorities about the provision of better services. It can concentrate on the telcos and trying to put the infrastructure in place. The enterprise and lifelong learning department has committed considerable

resources to that. That department would have to be asked the question about progress and how willing the telcos are to meet the desire to have the infrastructure in place.

The Convener: We are keen on the cross-cutting aspect, so it is helpful to have examples of it working and in progress.

Alasdair Morgan (Galloway and Upper Nithsdale) (SNP): I will bring the questioning back to the budget process, which is where we started. There is a fair slug of capital—£57 million—in the modernising government fund. The way in which the information is presented to us—even accepting that we now have a telephone directory-sized document—makes it difficult at any stage in the budget process, in the subject committees or this committee, for us to find out whether the way in which that £57 million is spent meets any of the objectives that the minister has set out. It does not seem that the process that we are going through at the moment will establish that. How might that be addressed?

The Convener: Before the witnesses answer that question, I will ask another. I would have thought that the draft action plan, which was published at the end of last year, would have been pretty important in determining objectives and what the modernising government fund and the 21st century government unit are trying to do. However, the action plan does not seem to be mentioned in the annual expenditure report or the draft budget. Is there a reason for that?

Craig Russell: To some extent, that may reflect my personal view that strategies, papers and action plans deliver nothing and that the measure of our success will be whether the people in the street detect a difference in the delivery of services.

The modernising government fund figure is £26 million. Each project has its funding arrangements set down and they are outlined on the web. Each project was funded to the extent of no more than 25 per cent of its total cost, so the leverage of funds into the projects was quite considerable. Although it does not appear in the document, there is ample information on how the projects are being run, where they are and what their spend has been. That information is all on the 21st century government website.

11:00

Alasdair Morgan: I was looking at the 2002-03 figure, which is £57 million. A figure has been announced for specific targets. I assume that this is now the action plan rather than a draft action plan. When a sum as large as £57 million is allocated, we should not necessarily have to consider the detail of every little project to find out

whether the Executive is making a success of the general objective.

Craig Russell: I will deal with the first part of that question. From my perspective, the budget so far is £26 million—that is all that we have spent. Mr MacKay is deciding what the spend will be for the modernising government fund No 2. We have not committed anything on that. I believe that the amount of money was reduced for other contingency purposes, which I do not think is shown in this document. One of my colleagues might pick that point up.

Dr Simpson: Are you referring to the £15 million that was taken off the figure in Angus MacKay's statement at the end of June? Is it £57 million minus £15 million?

David Palmer: No. The £15 million came off the figure for 2003-04.

The modernising government fund is run as a bidding process, so all that has been committed so far is about £26 million.

Craig Russell: It is £25,985,632 to be absolutely accurate.

David Palmer: That is the running total of what is committed out of the bidding rounds. The £57 million has not been touched yet; there will be a separate bidding process for that. At this point, we can give the committee very little information about which individual projects will receive that money.

I accept the general point. We have accepted the previous criticism of the documents that we have not cracked tying what we spend back to output and outcome measures; we are working on that.

The Convener: Three other members have indicated that they want to speak. I will ask one question. Mr Russell mentioned that he was not terribly impressed with action plans and that he was aiming for outcomes. We accept that and wholeheartedly endorse it. Nonetheless, we saw what we understood to be a draft action plan. We are not even aware whether it has been made into an action plan. If so, I would have expected one of the two documents to mention objectives and targets, but we cannot find those in either document. Why is that?

Craig Russell: The answer is that the plan is being finalised now. It has gone back on a number of occasions because, as with many such papers, what was updated in the actions that were taken were simply changes in adverbs. We did not want to produce another plan that showed no more than a change in adverbs. A final plan is now in its final stages. I emphasise again that to meet the programme for government we believe that it is more important to push the projects forward. The

action plan is useful for showing the range of activity in the public sector across the whole of Scotland, but it is not the primary vehicle for the delivery of change. The modernising government fund is the vehicle that will deliver change.

David Palmer: We should ensure that the document on the web links to the 21st century government website. That would be a start to providing the information. We can certainly do that.

Mr Davidson: I want to pull us towards the Scottish Executive administration costs.

The Convener: I am keen to do that. Are there other points on the modernising government fund?

Elaine Thomson: You said that the modernising government fund is a bidding process and that the Executive puts up only 25 per cent of the costs. For 2001-02, the Executive is putting up £25 million, so the total amount that is being spent is £100 million.

David Palmer: On occasions the total varies. You are quite correct: we commit no more than 25 per cent of the total cost of a project, up to a maximum of £2 million.

Elaine Thomson: People with whom you are working may or may not spend the 75 per cent from other sources.

David Palmer: The point of the modernising government fund No 1 and, more important, the modernising government fund No 2 is to attempt to lever funds in. A question was asked earlier about partnerships. In the modernising government fund No 2, the line will firmly be that there will be a commitment of funds by ourselves, the private sector and the people who are running the project. Several companies are keen to help to deliver a change in services, such as data sharing in the national health service, which is a project that will deliver considerable results.

Alasdair Morgan: So the Executive will put in a maximum of 25 per cent of the funds. The total cost of projects that we are discussing must be a minimum of £100 million and I presume that it could be more.

Brian Adam (North-East Scotland) (SNP): The example was given of the Accord card system in Aberdeen. I take it that no private finance is involved in that and that the additionality will come solely from the council.

Craig Russell: Not entirely. A number of organisations such as SchlumbergerSema are involved and are likely to contribute funds. The first stage was a limited pilot, but the next stage will certainly attract funding from companies such as Microsoft and Sony.

All the project titles must have "21st century government" something or other in front of them, which makes them somewhat unwieldy, but we have a 21st century government reference group, which comprises five local authorities, a national health service trust and companies such as Microsoft, Sony, SchlumbergerSema, IBM and ICL. Last Friday, we put the proposed projects for the next round to them and sought their help in funding them. In other words, we tried to plunder their pockets. They are keen, as are we, to pursue quickly projects that allow joint funding by local authorities, the private sector and central Government.

Donald Gorrie: Does central Government have anything equivalent to best value, which it expects local government, hospitals and so on to deliver? If there is a similar concept, how is it applied in central Government?

David Palmer: Yes. There is a similar concept. A branch of the division in which I work is developing best value in central Government. It is considering how it might apply best value to central Government departments. It is using the experience of local authorities and health boards to gain an insight into how the process works best. There is a high degree of ministerial commitment to it. Angus MacKay chairs the steering group on best value, on which the permanent secretary also sits. We are at the start of the process, but we have that concept and we are developing it.

The Convener: Is that the body that was set up at the beginning of the year? I think that the Minister for Parliament sits on it as well.

David Palmer: Yes. I think so.

The Convener: I have not heard it called the best value committee, but I recognise the body that you are talking about.

We will move on to the Scottish Executive administration.

Mr Davidson: Some sort of breakdown of the figures is included on page 249 of the draft budget document, but the administrative costs seem to be in one lump sum. There is no indication of the costs of running each department, the staffing level in each activity and what that costs or what it costs to run a minister and an adviser. The document does not contain those figures. I presume that you have that information.

Graham Owenson: We hold that level of detail and I can provide it.

Mr Davidson: Why do those figures not appear in the draft budget document, or do they appear somewhere that we do not know about?

Graham Owenson: Within the annual budget documents there is a line by department stating what is spent on administration, so there is a

departmental breakdown.

Mr Davidson: But there is nothing that pulls the figures together so that someone can take one look at the cost of administration in the Executive?

Graham Owenson: That is what the figure of £200 million for 2000-01 shows—that is the Executive's administration costs. It is broken down into pay, special advisers, advertising, information technology, capital and so on. Further breakdowns are given below that, but the question is where to draw the line. How much detail should we provide?

Mr Davidson: I appreciate that. Our experience of dealing with the budget is growing and we are learning as much as anybody else at this side of the process. However, it is difficult to obtain that sort of information. Some of it comes out through parliamentary questions, but there is an art form in them and we are all learning how to use the system. Specifically, the cost of the administration of the Executive is rising. What is the underlying reason for that increase? It is not just staff numbers and staff pay and conditions.

Graham Owenson: I think that the increase is explained by staff numbers and staff pay and conditions.

Mr Davidson: Is that it?

Graham Owenson: Yes, that is the bulk of it. There are some blips, for example on capital because of the St Andrew's House refurbishment project coming to an end. However, essentially we are spending more money on better pay and conditions and all the services that support that.

Mr Davidson: And that relates directly to the delivery of service? Can that be accounted for?

Graham Owenson: Absolutely.

The Convener: On contracted-out services, what proportion of the administration costs are staff salaries?

Graham Owenson: Slightly over half the costs go on pay.

The Convener: Are those core staff?

Graham Owenson: Yes.

The Convener: What about contracted out staff or contractors?

Graham Owenson: I am sorry, but I do not have those figures to hand.

Alasdair Morgan: On the various objectives and targets, I was struck by the first objective, which is to

"Contain spending on the administration of the Executive relative to the total Scottish budget".

At a time when the budget is growing, that is not much of a target, is it? It means that your administration costs can go up in proportion to the total budget.

Graham Owenson: Year on year, starting with 2000-01, the administration budget is growing by 6 per cent, 1.13 per cent and 1.77 per cent, compared with the total managed expenditure— the Executive's total budget—which is growing by 7.85 per cent, 3.42 per cent and 2.94 per cent.

Alasdair Morgan: So should your target not be to shrink the proportion of the total budget?

David Palmer: We may have expressed the objectives badly, but that is in effect what we are achieving.

The Convener: How were the objectives and targets developed and who determined them? There are about a dozen of them on page 253. To what extent have they lived on from the days of the Scottish Office and the old departmental report, "Serving Scotland's Needs"?

Graham Owenson: I do not think any of those targets have lived on from that—we did not publish targets before.

The Convener: You did not publish targets, but I am sure that you had them—someone somewhere had them.

What is the process by which targets evolve and are eventually adopted?

Graham Owenson: In the context of the budget exercise, and in particular the previous spending review, targets will have been discussed at departmental level and through the permanent secretary. They are subject to the same level of scrutiny as any other programme budget and are agreed with Mr MacKay. The bottom line is that the administration budget and its targets, objectives and outputs are subject to exactly the same level of scrutiny as other budgets.

11:15

Ian Walford: There is a business planning process in the Executive that takes as its starting point "Working together for Scotland: A Programme for Government", which is what ministers publish as their high-level objectives and targets. That bottom-up planning process is the starting point throughout the Executive and the administration budget is no different. It gradually builds up into this document and runs parallel with the budgeting process.

The Convener: I presume that it is a rolling process that is updated annually?

Ian Walford: Yes.

Donald Gorrie: In the same table of objectives and targets I see that 2000-01 is still a forecast.

We could make a lot of money on horses if we were allowed to forecast races that had already taken place. What is the reason for that?

David Palmer: I suspect that it is simply because the gestation time of the document is so long.

The Convener: Could you tell us a little more about that?

David Palmer: We are now commissioning the annual expenditure report for March, which is in five or six months' time. Similarly, we have to kick this document off early. It may be that the table came in early and we have not gone back to update it. In that sense it is like painting the Forth bridge. It is about the stage at which we get information and when we publish it, and the process of having to collect it throughout the various departments.

Alasdair Morgan: Is this is a good set of targets for your department? It strikes me that some of them are fairly vague and woolly. Even if they were met, it would not necessarily indicate whether the administration was being conducted any more efficiently.

David Palmer: If I were to comment honestly on them—

Alasdair Morgan: We would appreciate that.

David Palmer: To some extent, the targets are too cost and input focused. There are a couple that are quite useful. The number of

"days lost to sick absence"

is usually a good indicator of an organisation under stress. Our target is a reduction. I suspect that the "efficient deployment of staff" is also a reasonable indicator, and "more flexible working patterns" is useful. The first figures, on cost, are something we should collect, but I am not sure that they should appear as a target. It is monitoring information that we should be collecting. As a list of targets and objectives, it is not great. There are some useful things in there, but as with most of the document there is definitely room for improvement.

Dr Simpson: The average cost per telephone extension is £95. Presumably, if you install another couple of dozen extensions in your modernisation of old St Andrew's House you will have met your target. What does that mean? You asked about data. It seems that there is a whole lot of stuff—strategy and so on—in the table that repeats what other documents have said. It could be cut out completely because it obscures the stuff we really want to see. Apart from sick leave, which you mentioned, this table is probably a good example of meaningless targets. How many people can you shoehorn into a square metre? I

do not understand the target of getting more people into less space. Is that a good thing? Are you gradually going to increase the number of people sitting in a room?

David Palmer: In the context of an open plan office it is important that space usage is maximised. Advances in technology—flat screen monitors—allow that to be done. That is in effect what that target picks up on. Having said that, I do not disagree with your analysis. The data on costs are important pieces of monitoring information, which it would be derelict of us as an office not to collect sometimes. We ought to know how our costs are performing.

Dr Simpson: Yes.

David Palmer: The last three targets are the more important indicators of how much stress the organisation is under. However, I presume that there are indicators on the number of green folders and the number of parliamentary questions that we have answered over the past six months that show a six-fold increase.

Dr Simpson: Those are much more important targets. The achievement of targets on how long PQs take to turn round or how long it takes for letters to be answered is crucial to the working of the Parliament. It recently took six months to receive a reply to an urgent letter of mine, albeit with profound apologies from the department, which could have cost an £18 million investment in my constituency. Those targets are just—we have agreed on that, so let us not amplify that point. Let us have other targets on things that are relevant to the Parliament's operation and which are meaningful. Let us find out how they are met and what progress is being made, as that will help us to understand the problems that you undoubtedly have, certainly in health, in turning round the huge number of parliamentary questions.

David Palmer: As you say, we are agreed.

The Convener: I wish to return to the point that Donald Gorrie made and which I followed up on, on forecasts for the year. I accept your point about the timing for putting together the AER, but in various sections of the draft budget there are forecasts for objectives and targets for the National Archives of Scotland and the Scottish Public Pensions Agency. I accept what you said, Mr Palmer, but on page 264, for example, under objectives and targets, there is a 1999-2000 actual figure, which does not appear in the examples on pages 253 and 260 to which I referred. The actual-figure column is helpful. Can a column on how 2000-2001 turned out be included in the other tables, so that we can see what the outturns were?

David Palmer: Yes.

Brian Adam: I wish to follow up on the same area. We do not have outturn data at the moment. Perhaps they are only of interest in following where money has gone. Perhaps outcomes are more important. However, in light of the fact that we have access to wonderful information technology solutions these days, why has it taken so long to get the outturn data? If all we end up doing is chasing forecasts, I do not know that we will get anywhere.

David Palmer: On the outturn in general, the Audit Scotland timetable for auditing the accounts determines when we deliver the outturn figures. On the Scottish Executive administration data, I hold up my hands and say that I do not know. The data do not have a lot to do with me, apart from appearing in the book of which I have oversight.

Paul Gray: We have the outturn data on the targets on space, costs of network personal computers and telephone extensions, and energy usage per square metre. I bear in mind Dr Simpson's point about the usefulness or otherwise of that data, but that information is available. It is not in the document because the document is bound and published to a certain timetable. I am more than happy to make the information available to the committee if members would find it helpful.

Brian Adam: That would be useful. I am interested in Mr Palmer's response that you are following Audit Scotland's guidelines. I presume that what you are trying to do is beat the deadline. Would it not be better to try to have the data available as soon as possible?

David Palmer: Yes.

Brian Adam: The mainstay of a finance department is the production of accurate and timely information. I suggest that the information is not as timely as it might be, especially as we have IT solutions.

I wish to ask one more question on objectives and targets, for example the target for net internal area per occupant, a point which Dr Simpson perhaps laboured a little. I am much more interested in whether you are spending a disproportionate amount of your budget occupying prestigious accommodation, whether we need to have all the civil service administration in high-cost buildings and whether you currently lease or own properties that are not being used. However, the objective in the document does not tell me anything about that at all. The question that we should ask is whether you are making the best use of your facilities, especially as civil service dispersal is the policy of the Administration.

Graham Owenson: That is a fair point. I do not wish to labour the point, but perhaps the target for area per occupant is too specific. A better target would be something about the rationalisation of the estate, what we are doing on accommodation and what our strategy is.

Brian Adam: There are major differences in rental costs and how the actual cost is assessed if you are based in St Andrew's House compared with Clackmannan.

Dr Simpson: That is the other point that I want to make: I cannot see the word "dispersal" in the document. I know that it is one of the objectives that is being examined, but there is nothing in the document to indicate that there is dispersal to areas of high unemployment, such as the centre of my constituency in Clackmannanshire. That is another objective that is worth while, and there should be consideration in the budget of where we are. Even if there is no expenditure this year, it would be helpful to state that and say where we are with the process.

David Palmer: We will consider that for the next document.

Mr Davidson: The figures on the first line of the table on page 253, on the percentage of the budget spent on administration, do not mean a lot, because if you suddenly had a lot more money, 1.07 per cent as opposed to 1.13 per cent could represent an increase in the actual cost of running government. In private business, one would not apply a notional percentage to turnover for the cost of administration. Normally, one would set targets for what it would cost in real terms, and for what managers would have to work with.

It would have been helpful, as the committee has always said, to have had the real-terms budget for running the administration—that is, hard figures—and an indication of why it is not coming down. As Craig Russell said, the name of the game is delivering public services, not increasing administrative costs. Obviously, no one denies that there are costs, but there are ways of reducing the costs.

The First Minister made a statement in the chamber about a new department, which would be headed by Angus MacKay and which would be a rigorous pursuer, with other ministers, of driving down the costs of running departments. Talk of that seems to have quietened down a bit. I do not know if the department still exists, because parliamentary questions do not elicit much information. While the table shows that percentage costs are being reduced—which is reasonable— are you reducing the actual cost?

Graham Owenson: In real terms, the budget shows a blip in 2001-02 and then falls over the following two years. It goes from £199.8 million in 2000-01 to £206.6 million in 2001-02 and falls in subsequent years to £203.9 million and £202.4 million.

Mr Davidson: And those are real-terms figures?

Graham Owenson: Yes.

Mr Davidson: Is the target good enough?

11:30

Graham Owenson: In a period in which our work load has increased, particularly since devolution, the figures show that we are operating more efficiently in real terms—one of my colleagues can give some hard examples relating to PQs and ministerial correspondence, which we refer to as "green folders". That is against the background of a total budget that has grown dramatically since the most recent spending review, which I think added £1 billion or £2 billion or £3 billion, in comparison with which our spending on administration is falling.

Mr Davidson: That is a good thing—I do not argue with that—but is spending falling fast enough? There seems to have been a very large increase in staffing at the beginning. I understand why some of that occurred, but bearing in mind the fact that staff costs are probably the biggest component, do you have a vision for containing the increase in the number of staff? I am not talking about quality or about how staff are looked after; I am asking whether you see an end to the growth in the number of staff.

Dr Clayden: We would indeed envisage an end to the growth in staffing. Mr Davidson is right to point out that there was an initial increase. That will tail off over the next year to two years. We have a fairly substantial plan to review the way in which we work and how to make better use of technology and so on. We would hope to combine the two aims to cap the increase in staffing.

Mr Davidson: Are there targets for that?

Dr Clayden: There are no specific numerical targets, but there is a budgetary target. Staffing costs will need to be contained within that.

Brian Adam: I wish to pursue that. When the Parliament was set up, the new Administration inherited most Scottish Office staff. How much of the transition required to recognise the needs of the Parliament has now been dealt with? Dr Simpson rightly highlighted the concerns of members about getting answers to questions and letters. The Minister for Parliament has told us that staffing is the problem. Have we built enough into the system? Is the period of growth that was caused by the transition over, or is there more to come? If so, how is that reflected in the budget?

Dr Clayden: I do not think that the growth in staff is over; I think that we still need to increase the number. For example, there is considerable pressure in band B, which comprises junior and middle managers. We have made requests to recruit more staff in that band, in particular to cope with the work load generated by parliamentary questions, green folders and so on.

In 2000-01 we had an increase in staffing of just under 5 per cent, compared with a sixfold increase in the number of parliamentary questions and a multifold increase in the number of bills. If we consider how the figures stack up, we see that we still need to increase the level of staffing to cope with the pressures of work.

Brian Adam: How much of that increase in staffing will come about as a result of pressure from the likes of Dr Simpson and me, who are keen to have questions and so on turned around quickly, and how much of it comes from the administration associated with the plethora of Executive initiatives, with their grand names, such as "21st century government"?

Dr Clayden: I am not sure whether we can be specific in defining how many staff deal with each area, but the pressure of work created by the Parliament and by the Executive's accountability to Parliament is significant in terms of the need to increase the number of staff, particularly in band B. Policy development tends to involve more senior staff, many of whom are in band C. There may be differences in the pressures on different grades; it depends on the work. I hope that many initiatives and the things that Ian Walford mentioned, such as the invest to modernise fund and civil service reform, are geared towards reducing such pressures. I mentioned the use of information technology to speed up and smooth out processes, which would mean that fewer staff were required.

Brian Adam: Where in the process is information about the requirement for more staff to address particular needs or the reduced requirement for staff arising from service improvements or efficiencies made available? I am not aware of that information coming to us or to the subject committees. Could that information be made available?

Dr Clayden: We have some way to go in developing our work force planning processes. The pressures are generated through the business planning process: departments may recognise that they have certain amounts and types of work to do and that they do not have the staff to do that work. That generates a demand for staff, which we need to deal with across the organisation.

We are quite a flexible organisation in getting to grips with what that demand means in terms of new staff or increases in numbers. It is not entirely straightforward, because work will come and go in certain areas. For example, if a bill is being drafted and amended, a bill team will be required, but only

for a period of time. The people involved in that can then move on to other work. The moving of staff around the organisation confounds the picture.

We estimate that the annual movement of people around the organisation is 30 per cent. That figure shows how much churn—as we call it—there is. In other words, through new starts, moves of job, promotions and progressions, a third of staff move from their existing post to another post every year. That is a considerable level of churn.

Brian Adam: I think that explains why, when Elaine Thomson and I attended a meeting with voluntary sector workers yesterday, we heard that one of the problems for the sector is building any kind of relationship with people in the Executive.

I do not think that you quite answered my question. You identify additional or reduced costs caused by moving staff in and out. To whom is that reported? Who sanctions that? Does the Minister for Finance and Local Government deal with that or is it dealt with internally? What is the bidding process? Who signs off the decisions and how is that ultimately reported to the Parliament?

Dr Clayden: The bid for staffing resources initially goes to our management group; it is signed off by the Minister for Finance and Local Government.

The Convener: I seek clarification on that 30 per cent churn rate. Does that apply within departments?

Dr Clayden: It is in the core Scottish Executive, and takes into account new starts, leavers, changes in job, promotion and so on.

Alasdair Morgan: How does that rate compare with that of a normal industrial or commercial organisation?

Dr Clayden: We do not have that information, but we ought to look for it. My instinct tells me that a 30 per cent churn rate is high.

The Convener: So does mine.

Do members wish to discuss any further aspects of the draft budget that we have not so far covered?

Alasdair Morgan: I want to discuss the associated departments and the difference between the annually managed expenditure figures in the annual expenditure review and in the draft budget. The figures were running along at about £5 million each year. They have now dropped to about £1 million. Is that to do with capital charges? What has caused that significant percentage change?

Graham Owenson: The only means at the associated departments' disposal are capital charges.

Alasdair Morgan: Can you say why the annual capital charges have dropped from about £5 million to about £1 million?

David Palmer: We will have to investigate that and write to you about it. I do not have an immediate answer.

Alasdair Morgan: That is fine.

Dr Simpson: I have a general question about procurement, referring to page 252 of the draft budget. I am aware that there are at least three e-procurement companies in the health service, which either have or are about to have software. Here we are, however, setting something up nationally and spending money on it.

Do we work with those groups? I wonder whether we are re-inventing a wheel that has already been invented commercially. Does the concept of partnership mean that the e-procurement project will take those groups on board?

Paul Gray: There are representatives of the national health service trusts on the project board that is responsible for the e-procurement project. We are conscious that a number of diverse systems exist—wherever one starts someone will always have started another somewhere else. The main lever for getting the public sector to join in the e-procurement initiative will be the benefits that will be available from aggregated procurement. We will need to demonstrate those benefits to get a public sector-wide commitment to the initiative. We accept that people will not be able to stop buying things immediately. Getting people on board will be a process rather than a big bang.

Dr Simpson: If trusts can buy in effective centralised NHS procurement systems from the three commercial groups that are already functioning—I think there are two in England and one is about to start in Scotland—should they not do so now, rather than wait for the development of software projects? In my experience in the health service—I am sure that your experience is similar—although we say that such systems will take two or two and a half years to produce, by the time they have been tested it takes four years for them to come in. What relationship do you have with the private groups? Do you examine what they are doing? Do you think about buying over a company if it has a good procurement system?

Paul Gray: A Government department would not think of buying over a company. That is a straight answer to the question. Because there are representatives of the health trusts on our steering

group, we would expect to be able to link effectively with the initiatives that the health trusts have in hand. When we appoint a supplier—which will be subject to the minister's approval—we will need to engage with other potential suppliers, but as that is commercial I would not want to go into particular details in this forum. I accept Dr Simpson's point that e-procurement cannot be done in an isolated way. If there are opportunities elsewhere we shall not re-invent the wheel.

The Convener: On behalf of the committee, I thank our six witnesses for the time that they have given us and for the way in which they have answered our questions. There is no doubt that we shall see them at the same stage of the budget process next year, by which time—if they are a microcosm of the Executive—two of them will have moved on to other positions. We shall wait and see. Thank you very much.

We will now have a brief pause to allow the officials to leave and to allow Mr Flynn to prepare his overhead projector.

11:43

Meeting adjourned.

11:50

On resuming—

External Research

The Convener: We move on to agenda item 4. I am pleased to welcome Norman Flynn to the committee. As members know, he is carrying out external research on outcome budgeting. We have all received a copy of his initial note.

If you would like to say a few words first, please do so, otherwise please move on to the presentation that you have prepared for us.

Norman Flynn: Thank you. I preface my presentation by saying that it is a privilege to work for the committee. It is nice to be involved not in re-inventing or reforming a Government but in inventing one. I find it refreshing to work on a new Government because, for many years, I worked to help change Governments that had been around for a long time.

I will outline my method—my presentation is really a summary of the proposal that I made when I was hired to do the work for the committee.

What do we expect from budgets? Given the committee's request for this piece of work, I think that one of its problems is that although the budget seems to be reasonably good—better than I thought, until this morning—at controlling and planning expenditure purely in financial terms, it is less good at reflecting priorities and resource allocation. At present, it does not seem to be much good at all at evaluating performance—least of all policy performance. The purpose of my research is to try to move the budget process towards a focus on outcomes and to make it better as a way of reflecting priorities—not in terms of spending but in terms of required outcomes—and, ultimately, as a way of evaluating whether policies have worked well, as we will see whether or not the outcomes have been achieved. That is my interpretation of the committee's brief.

That approach leads us to an examination of the other planning and evaluation processes. I want to undertake an examination of best value in local government and of the efforts that have been made to introduce best value into central Government. I also want to examine the residual comprehensive spending review, the process of outcome definition in the health service and so on. That work will allow us to see how many of the planning and evaluation processes are in place already—as I said, we do not need to re-invent them—and to incorporate them in some way into the budget process. Therefore, my focus is not simply on the budget process but on the other

work that is taking place to allow those planning and evaluation processes to happen.

Other jurisdictions have experimented with this sort of work for rather a long time. Part of my research will be to draw together work from other jurisdictions, mainly from secondary sources and from personal experience and contacts. For example, the USA passed its Government Performance and Results Act in 1993, following which every federal agency was supposed to produce an outcome-based budget, starting in April 2000. Although that did not happen, sufficient experience in federal programmes exists to be of use to us.

Probably more important, all but three states in America—47 out of 50—have had experiments with outcome-based budgeting over the past five years. Those experiments provide some useful stuff. Although we could not necessarily adopt the individual measures, we could take lessons about the process, the number of measures and how they are incorporated into the legislative and executive processes.

I included New Zealand partly because the Finance Committee seems rather keen on it. I understand that the committee had a videoconference with June Pallot and I thought that we should build on that. Everyone in the world looks at New Zealand's resource accounting and budgeting, which Andrew Likierman introduced to the Westminster Government after visiting New Zealand. It would be foolish not to take account of New Zealand.

Nobody considers Sweden at all. In our research, we discovered that Sweden has had executive agencies for 300 years. We should draw—nobody else seems to—on that country's useful experience of trying to get outcome-based agreements between Government departments and agencies.

I chose Singapore partly because I know it. It is probably one of the tightest-run Governments in the world, whatever members might think of its style of government. The Singapore Government rejected outcome-based budgeting altogether and went for something called performance-based budgeting, on the ground that outcomes should be dealt with elsewhere. I wanted to include Singapore as an interesting counter-example of somewhere that rejected resource accounting and budgeting after examining what New Zealand was doing.

I do not know what to call the Westminster Government. I have called it "England" in the paper, but it could be called Westminster, Great Britain, the United Kingdom or whatever. It is that lot south of the border.

The Convener: That could spark a debate in the committee.

Norman Flynn: I hope not. It could spark a debate, but I will not join in.

At Westminster, the incorporation of outcomes in the formal budget process has been given up, but outcomes are being incorporated through the spending reviews and the public service agreements. The details of the public service agreements are good. Whether it is desirable to keep them separate from the budget process in such a way is for the committee to decide, but I will report on that.

The experience at state level in Australia—especially in the more populated states—is probably the most useful to study. New South Wales, Victoria and Queensland have been experimenting with outcome-based budgeting for about five years.

The Queensland budget is an example of that—it is not included in members' papers but I have a slide on economic development to illustrate it. There is a hierarchy, with a big overall outcome of economic prosperity at state level. There are then some supporting outcomes, without numbers attached, and an outcome indicator. The supporting outcomes are: a skilled work force; cost-effective assistance to small business; and regional industries being strengthened and expanded. The simple outcome indicator—rate of employment growth—is broken down into the different departments: education and training, state development and tourism. Each of those has specific output targets that must be met: numbers of apprenticeships and traineeships, numbers of businesses supported and so on. The departments are then held to account for those figures. In that way, rate of employment growth supports the various outcomes, which support the overall outcome of economic prosperity.

It has taken Queensland five years to arrive at what looks rather simple. The process, however, was not simple. That illustrates how overseas comparisons might speed us up.

That is my sample of experiences in other jurisdictions, some of which have implemented outcome budgeting, some of which have not—for good reasons.

When it comes to what to do in Scotland, it seems that it is crucial to develop commitment to outcome budgeting among the people who will be asked to do it. My plan is to talk to as many people as possible in the Executive, in executive agencies, possibly in local government and certainly in the health service to get their views and to state my view and, in the end, that of the committee. I intend not just to work technically on what kind of outcome indicators and process we want, but to establish that outcome budgeting is a

good idea. I will also talk to people who are not directly involved in the budgeting process. For example, yesterday I spoke to the deputy inspector of prisons about the outcomes that exist in prisons. I will talk to as many people as possible in the short time that is available.

12:00

We should not try to do everything all at once next year. It took the USA from 1993 until 2000 to get outcome-based budgeting in place in the federal Government and it took the Australian states at least five years. We should be selective in our approach and concentrate on where the big money is going and where the increments in the budget are. It is sensible to ask what the results of any extra money have been rather than what the results of all of the £20 billion have been. However, the situation becomes a bit obscure when one starts to examine the increments.

The budget document that the committee has been discussing shows big increments in certain areas: central support for local authorities has risen by 13.6 per cent; support for children and central Government education has risen by 14 per cent; support for health has risen by 15.5 per cent, which is nearly £1 billion; justice has risen by 8.4 per cent, which is £56 million; social justice has risen by 16 per cent, which is £118 million; and transport has risen by 14 per cent, which is £188 million. Members will be aware of those numbers, which show where the money is going. The question is, what are we going to get for all those increments between now and 2003-04? I will concentrate on the extras. Of course, once we start asking where all the extra support for local authorities is going, we will be led to think about the McCrone report and so on and we will realise that it will be difficult to pin down which particular programmes the spending has gone towards.

The other point of the sample that I will take is to discern the areas in which outcome-based budgeting is not already well developed. In certain areas, such as economic development, it is rather well developed—for example, Scottish Enterprise and Highlands and Islands Enterprise have targets that are tied to output in a well-organised way. I will report on the areas that are well developed— for example, the health service tells me that it is in the process of producing outcome targets—and will try to do more work on the areas that are less well developed.

My sample will deal with 10 services: prisons; universities; health; schools; police; children and young people, including pre-school children; further education; social inclusion, specifically Scottish Homes; rural development; and environmental protection. I will also deal with existing processes that seem to have some focus

on outcomes, such as the comprehensive spending review. I will examine best value in local government to determine whether it is being applied at the Executive level. I will also examine the ministerial working group on best value and budget review, which was referred to this morning—I do not know what it is yet, but I found the person who is in charge of it.

The first five interviews and meetings will take place in the week beginning 5 November and the second five will take place two weeks after that. Members will note that my deadline is soon after the end of my meetings. The report that I have been asked to produce on 23 November will definitely be an interim report as some of the interviews will have been conducted only two days before then. The final report, with implementation plans and so on, will be available in February.

The Convener: We all understand why New Zealand has become the international reference point in this matter, but you said that Sweden is also a good example. Why does nobody take any notice of it, particularly as its system has been in existence for such a long time?

Norman Flynn: That is partly because not many people speak Swedish. The Swedes produce a budget summary in English—

The Convener: Most people in Sweden speak English.

Norman Flynn: They do and they are helpful. However, the Swedes have never wanted to make themselves famous in the same way that New Zealand politicians—who promoted themselves as world leaders in reinventing government—have. Nonetheless, the Swedes have good experience.

The Convener: Is that accessible?

Norman Flynn: It is quite accessible. The whole budget cannot be obtained in English, but a summary of how it works can. The budget process is available in English.

Dr Simpson: I hope that there are about 35 hours in your day, Mr Flynn, because the programme seems incredibly ambitious for the short time that has been set. I do not know how it will be completed in the allocated time unless you already have a lot of data on international comparators. I wish you luck and hope that the programme is realistic as well as ambitious.

Paragraph 1 on page 2 of the submission contains some of the hard meat of the matter. Our system is all about inputs. There are some targets, but they are not related to outcomes and they inevitably tend to relate to the longer term. There are some long-term health targets, including some that are set for 2010 and, I think, a UK child poverty target that has been set for 2020. However, I can never find out how budgets relate

to outcomes. The link is difficult to follow. Paragraph 1 on page 2 refers to the difficulty of attributing outcomes

"to the actions of a specific agency over a short time period".

We hinted that we far too often think of budgets in terms of one year. A programme of expenditure should be designed for an outcome and we should see an incremental improvement over a period.

An example of a target that is not being reached is suicide rates. Since 1992, targets have been set to reduce suicide rates, but rates are rising. New strategies are therefore produced, which is great, but what happens? I do not know whether I am making sense, but realistic outcomes are needed. We have been great at setting targets, but we have not linked things up. We cannot see where money is spent in the longer term. Can you help with that?

Norman Flynn: Would you like me to reply to the question, convener, or shall I simply make a note of it?

The Convener: I have an additional question. Paragraph 1 on page 2 of the submission mentions "high level outcome indicators". Does that mean long-term indicators? Morbidity rates, educational attainment and environmental quality are mentioned.

Norman Flynn: There is a hierarchy in time and identifiable accountabilities. If the suicide rate increases, we cannot point to one person and say that it is their fault. Many people would be at fault. However, if the suicide rate in prisons increases because prisoners are banged up for 23 hours a day, one could say that the increase is the prison governor's fault. The overall rate should be broken down into, for example, suicides in prisons, suicides by drug abusers and suicides by mentally ill people who are not cared for in the community. That is what I mean by high level and low level.

In terms of time frame, many of the policies will be long-term ones. For example, the Singapore targets would be to transform the country from a manufacturing economy to a knowledge-based economy in 10 years, which has been achieved.

It is worth having long-term targets but then it has to be decided whether it is the job of the education system to get 50 per cent of people into higher education within three years, for example. That is the same problem—the target is both long term and high level. It has to be broken down into accountabilities and actions.

We should be holding managers and the people who work for them to account for outputs. However, it is our job to ensure that we are buying—to use the New Zealand jargon—the outputs that are relevant to the outcomes that we

want. Therefore, returning to the prison suicide example, we cannot hold prison officials accountable for overall suicide levels, but we can hold the prison governor accountable for a 23-hour in-cell regime in his or her prison. Everyone knows that a 23-hour in-cell regime leads to suicides—that is not controversial—so the governor should be held to account for time spent in the cell.

Brian Adam: Your submission mentions trying to get outcomes as a consequence of the additional money or growth in the budget. There is a difficulty with that because almost all of that money will be spent on initiatives and we will end up monitoring those initiatives rather than the delivery of core services. I understand that that might be easier because, while the programme is being set up, the mechanisms for monitoring the outcomes could be put in place. I can see some value in that. However, it works on the assumption that the rest of the money is always going to be used for the same things, which is not the case. Some programmes will come to an end. There is more flexibility in the overall budget than just in the growth part of it. Have you any thoughts on that? Moreover, do you have any thoughts on the point that we will end up considering the plethora of initiatives as opposed to the generality of what government is about?

Norman Flynn: The shorthand in my presentation might have misled you. What I meant to say was "incremental", which means the bits that change—they could go up or down. For example, what would the consequences be of cutting common agricultural policy spending over the next five years? What would the consequences be of increasing spending on pre-school education? I am not just talking about growth; I am talking about any change in the budget from one year to the next.

It is difficult to find those changes in the draft budget. You can find the bits that are growing and you can apply some sort of deflationary indicator but, as Arthur Midwinter's report shows, the general deflators do not apply across the board. It is hard to see the difference between one year and the next in the draft budget in what an economist would call real terms. However, I take your point.

Mr Davidson: Some aspects of your approach leapt out at me. How are you going to develop a model such as the one in Singapore, for example, in which Governments decide that they are going to be around to see out the long-term planning and make commitments that would have to be either dismantled or not touched if there was a change of Government? That is an issue about the way in which we operate our democracy. I am not arguing about the principles because, in business, there are long-term objectives and short-term objectives.

Obviously, if an outside force comes along, one has to respond in some way and one needs flexibility to do so. However, that cannot all be done from a reserve fund. How do you take account of that in your modelling?

Norman Flynn: Diplomatically, I would say that the differences between the policies of the parties in Scotland are no greater than the differences within, for example, the People's Action Party in Singapore. There is dissent within the party in Singapore, although that does not get into the newspapers. There is agreement that all Singaporeans want economic prosperity and they achieve that by moving up the value chain. There is also agreement that there should be a compulsory provident fund to look after people in their old age. There is some consensus but there is also some disagreement about how to achieve the Government's big objectives. My guess is that none of the parties in Scotland is arguing for lack of economic growth. There may be some fringe Greens who say that economic growth is a bad thing, but in general we all want prosperity, decent education and a health service that works. I honestly do not think that members of the committee disagree very much about what the high-level, long-term goals are.

12:15

Donald Gorrie: Do you believe that, because of your contacts, important civil servants will be honest with you? They would certainly never be honest with us, so it is a big plus if they are prepared to be honest with you.

You mentioned a target of getting X per cent of people into further or higher education, for example. I do not know whether this is true, but there is a widespread view that the experience of the average student in the average university is distinctly worse than it used to be, because of cuts and so on. Presumably you should measure the quality, as well as the quantity—I know that measuring quantity is much easier. The ultimate goal of Government is 5 million—or whatever the figure is—happy Scots wandering about smiling broadly. Has any country tried to measure such a factor? Are we delivering happiness to the people? Perhaps an election measures that.

The Convener: I would be worried if I saw 5 million Scots going about smiling.

Norman Flynn: I shall tackle the second question first. People have drawn up happiness indicators. One can establish satisfaction-with-quality-of-life indicators and monitor whether they go up or down. I am not suggesting that we do that for Scotland as a whole, but it is worth doing in local areas, and I have done such work. We base the indicators on people's own criteria, asking what makes them smile and whether those things are getting better or worse. That is quite fun, but it requires large-scale social research.

The first point, about honesty, is a great philosophical question. "If you ask civil servants a question, how do you know whether their answer is true? Discuss." I have experience of talking to civil servants in many jurisdictions and I think that I am reasonably skilled at finding out when they are pulling the wool over my eyes. In fact, I had good fun for the first two hours of this morning's meeting listening to the committee's discussion with civil servants from the Executive, wondering which answers I would follow up. Other than that, I cannot say whether civil servants are honest with me. I take the point that they may attempt to mislead, but I am not easily misled.

Donald Gorrie: I also asked about measuring quality as well as quantity.

Norman Flynn: Singapore is an interesting case in point. The Singapore Government said that it wanted a knowledge-based economy by whatever year it was—it has virtually got it now—and that it would need a certain proportion of people to go through higher education to achieve that. It did not stop there, of course. It decided which courses should be done at the technical universities and which should be done at the National University of Singapore, and what those courses should be in. The Singapore Government has a level of control that the Scottish Executive frankly does not have.

I am going to meet the bloke in charge of higher and further education—the same person is in charge of both, which is a wonderful appointment—to find out how priorities are made about which courses to run and whether that fits in with national priorities about what should be done. In Singapore, if 10,000 people who can design circuit boards are required, we can be pretty damn sure that in three years the Government there will have them.

As a supplementary answer, I think that the levers of control or modes of governance are many and varied. It gives me a headache thinking about the fact that we whack a huge amount of money to local government with virtually no plan and a similar amount to health, but that we have an explicit agreement with the Scottish Prison Service, for example. It must give committee members a headache wondering how they can ensure that any indicators—never mind those of quality and quantity—will hit the citizens in the street. It is easier to control the executive agencies, which are a relatively minor part of the budget, than it is to control the 32 local authorities and the local health boards. Different answers on quantification and quality will be necessary depending on the mode of governance of the services.

The Convener: I want to follow on from Donald Gorrie's point, although I do not have such a jaundiced view of civil servants as he does. Your paper says that

"the process requires the involvement and commitment of those providing services to make the process effective and workable."

That could mean civil servants. Elsewhere, you say more precisely that one of the

"features of the Scottish governance system is that a large part of the budget is distributed in grants in aid"

and that managers and workers need to be

"involved in the process of outcome definition."

Do you have reason to believe that either civil servants or professionals, for example in the health service, are not likely to provide that sort of co-operation?

Norman Flynn: That depends on how one goes about it. In my experience, if one tries to hold people accountable for outcomes that are a result of variables over which they have no control, they get terribly nervous. My research will not organise the process, but the process that I propose in the implementation plan will have to involve people who know what works on the ground so that they can say that they are accountable for one thing and not for another. One person cannot be accountable for the morbidity in a health board area, but he can be accountable for the death rates from a certain procedure in hospital.

The problem is that if people are hit—without discussion—with an outcome target for which they will be held to account, they give up; they start cheating and lying, they have bad faith and they will come to the committee and say, "Yes, boss, we are on target for 2020; we are all going to be fit and healthy." As it happens, in 2003 we might all be dying of suicide and lung cancer, but we are told, "Don't worry, the outcome will be fine." That is not helpful to anyone.

I did some work on outcome measures with the fire brigade in Hong Kong, which, before I became involved, had an outcome target of no deaths from fire. That might be achieved through prevention and intervening in the building process, but neither of those is a fire brigade activity. The fire brigade is happy for there to be no deaths from fire, but its target is to put the bloody things out once they have started. The fire brigade's strategy had to be to get fire engines with tall enough ladders to put out fires in the new buildings. A lot of people further up the system should be held accountable for fires. Before I got involved, the fire brigade was told what its target was and that, if it did not reach it, it would be in trouble. The result was cynicism.

The Convener: If there is cynicism in the system, we will not achieve what we want. We must ensure that such cynicism is rooted out.

Norman Flynn: We should design the process of arriving at outcomes so that it generates enthusiasm rather than cynicism.

The Convener: We note your point about the interim report on 23 November and we look forward to receiving that. It occurs to me that it might be useful for you to have a committee member with whom to liaise.

Norman Flynn: That would be great.

The Convener: You can liaise with the clerks when necessary. As Richard Simpson suggested the subject, does he have the time to take on that responsibility? I do not think that it would be terribly onerous.

Alasdair Morgan: He has bags of time.

Dr Simpson: I will make time.

The Convener: Does the committee agree that Norman Flynn should liaise with Dr Simpson?

Members *indicated agreement*.

The Convener: We will see Norman Flynn again when he has produced his interim report.

Norman Flynn: I will be a lot thinner and I will have less hair by then.

The Convener: The time scale is only a month, so you have a lot of shedding of hair to do. Thank you for your presentation.

As agreed, we will now take items 5 and 6 in private.

12:24

Meeting continued in private until 12:31.

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