

FINANCE COMMITTEE

Monday 19 November 2001

Session 1

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FINANCE COMMITTEE

23rd 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 :

Alex Fergusson (South of Scotland) (Con)

David Mundell (South of Scotland) (Con)

WITNESSES

Margaret Burton (Dumfries and Galloway Chamber of Commerce)

Julian Cowie (Dumfries and Galloway Council)

Bob Carruth (National Farmers Union of Scotland)

Mrs Norma Hart (Dumfries and Galloway Tourist Board)

Tony Jakimciw (Dumfries and Galloway College)

John Kilgour (Federation of Small Businesses)

Angus MacKay (Minister for Finance and Local Government)

Russell Marchant (Barony College)

Mike McLurg (Nithsdale Council of Voluntary Service)

Laura Morrison (Dumfries and Galloway Health Board)

David Palmer (Scottish Executive Finance and Central Services Department)

Ruth Paterson (Stewartry Council of Voluntary Service)

Colin Williamson (Scottish Enterprise Dumfries and Galloway)

ACTING CLERK TO THE COMMITTEE

David McGill

SENIOR ASSISTANT CLERK

Anne Peat

ASSISTANT CLERK

Gerald McNally

LOCATION

Kirkcudbright Town Hall

Scottish Parliament

Finance Committee

Monday 19 November 2001

[THE CONVENER *opened the meeting at 10:00*]

The Convener (Mike Watson): As the clock strikes 10, I call this meeting of the Finance Committee to order. I issue my usual warning to everyone in the hall that mobile phones should be switched off and pagers should be switched to buzz.

It is a particular pleasure for the committee to meet in Kirkcudbright. I thank all the staff of Kirkcudbright town hall and Dumfries and Galloway Council for facilitating the meeting. It is nice to have two local members—David Mundell and Alex Fergusson—with us.

The Finance Committee and I believe that it is important that the Scottish Parliament reaches out to some of the further-flung parts of Scotland. It is Scotland's Parliament. It meets predominantly in Edinburgh, but as often as is reasonably possible—much more often than is publicised—committees go out to various parts of Scotland.

We are pleased to be in the south-west. We would have been here earlier in the year, for our June session on stage 1 of the budget process, but for reasons associated with the serious foot-and-mouth outbreak, we felt that it was inappropriate to visit at that time, so we delayed our meeting by five months. As I said, we are very pleased to be here.

Item in Private

The Convener: Agenda item 1 is to ask the committee to agree to take agenda item 3, which is preparation for our afternoon session with the Minister for Finance and Local Government, in private. Is that agreed?

Members *indicated agreement.*

The Convener: We will take agenda item 3 at 2.15.

Budget Process 2002-03

The Convener: We are in the second year of the new budget process. An important aspect of the process of year-long scrutiny of the Scottish Executive's spending plans for the year ahead is engaging as much as possible with the people of Scotland. The Minister for Finance and Local Government holds public meetings to discuss the budget proposals. We held a meeting in Perth at the end of our stage 1 process and we are now in Kirkcudbright at stage 2. It is important that, whenever possible, we meet local organisations to hear what they think of the budget, how accessible they think the budget is and their comments on the spending proposals.

In three sessions this morning, we will hear from a range of organisations that are based in south-west Scotland. For the first session, our witnesses are Norma Hart, chief executive of Dumfries and Galloway Tourist Board; John Kilgour, chairman of the Dumfries and Galloway branch of the Federation of Small Businesses; Colin Williamson, chief executive of Scottish Enterprise Dumfries and Galloway; Margaret Burton, chairperson of Dumfries and Galloway Chamber of Commerce; and Bob Carruth, regional policy adviser to the National Farmers Union of Scotland—I hope that I pronounced his name correctly.

I invite the witnesses to make opening statements, but ask that they be relatively short, to enable as many questions as possible in the session, which is scheduled to last until 11.15. As Mr Williamson is sitting in the middle of the witnesses, I invite him to go first.

Colin Williamson (Scottish Enterprise Dumfries and Galloway): It is great to see democracy at work. On behalf of Scottish Enterprise, I thank the committee for the opportunity to give evidence.

I will identify some of the region's key characteristics and give details of how the Scottish Enterprise network budget allocation process operates and how it supports our priorities. I will pay particular attention to measures that have been taken in conjunction with partners in support of the economic recovery of the area following foot-and-mouth disease. We have submitted written evidence and I am happy to supply further evidence following the session.

Dumfries and Galloway is the third largest geographic region in Scotland. It has 147,000 inhabitants, which means that it has one of the lowest population densities in the United Kingdom. Forty-two per cent of the population lives in communities of fewer than 1,000 people. The area is rural and is reliant on traditional industries, particularly agriculture, forestry and tourism.

Dumfries and Galloway compares less favourably with other parts of Scotland in terms of gross domestic product and wages, which is typical of rural areas.

Scottish Enterprise Dumfries and Galloway is part of the Scottish Enterprise network, which is the Scottish Executive's agent for economic development in lowland Scotland. The majority of the network's funding comes from the Executive. Scottish Enterprise and the Executive agree on funding according to the priorities set out in the strategic document "A Smart Successful Scotland: Ambitions for the Enterprise Networks", which lays out clearly the priorities of the Executive, Scottish Enterprise and local enterprise companies. Scottish Enterprise holds discussions with the Executive and budgets are set out at the beginning of a three-year period. There is ongoing dialogue during the spending period to ensure that budgets reflect changing priorities and circumstances.

Scottish Enterprise operates a funding system that disaggregates to meet needs and opportunities in local areas. Like the 11 other LECs, Scottish Enterprise Dumfries and Galloway is preparing its operating plan for the next financial year. Collectively, those plans form the basis for decisions on how the network's budget will be allocated to ensure that the ambitions of "A Smart Successful Scotland" are appropriately funded throughout the network. The system allows for extra resources to be made available to LECs to deal with disproportionate events that are not covered in the baseline budgets. Scottish Enterprise Dumfries and Galloway has made several successful bids for such resources, most recently to fund a foot-and-mouth recovery action plan.

The Scottish Executive made £5 million available to the network in April, shortly after the first case of foot-and-mouth was reported. Of that, £4.5 million was allocated to Scottish Enterprise and the remainder to Highlands and Islands Enterprise. Scottish Enterprise Dumfries and Galloway submitted a foot-and-mouth recovery action plan, which was endorsed by several local partners, to Scottish Enterprise and the Executive. We received £500,000 from the Scottish Executive allocation immediately and an additional £5 million from Scottish Enterprise, which represented a significant increase in network funding, given that our average baseline budget in recent years has been between £8 million and £9 million.

Scottish Enterprise Dumfries and Galloway received more than other LECs, which reflects the impact of foot-and-mouth on the local economy. To date, the funding has been used for immediate and short-term measures, but the recovery plan has objectives for the short, medium and long

term. Scottish Enterprise Dumfries and Galloway's operating plan for next year will reflect the longer-term recovery needs of the economy.

What is important is how the resources are put to use. In November, we reported to our board a spend of £2.8 million and a commitment for a further £1.3 million to help address the immediate needs of the local economy following the foot-and-mouth crisis. For example, we provide marketing and financial advice to local companies, restart grants to the self-employed, a range of interest-free loans at preferential rates and interest-relief grants to local enterprises. The local action plan is intended to ensure that support is allocated according to need and the circumstances of the business or individual.

As agents of Government, Scottish Enterprise and Scottish Enterprise Dumfries and Galloway will continue to support the region to help towards full recovery from foot-and-mouth. All partners, including the Executive, recognise that there will not be a quick fix and that they will have a role.

Foot-and-mouth is not the only challenge facing the Dumfries and Galloway economy. The partners have a responsibility to recognise the region's characteristic challenges and to work together to address them. The framework for economic development in Scotland calls for an inclusive economy that reaches all parts of the community. That has connotations for the rural area of south-west Scotland. We must work together to ensure transport for everyone in rural areas which, in Dumfries and Galloway, means addressing the issues that surround the A75, the A77 and access to and from the ferry services in Stranraer.

We must continue to work together towards digital inclusion through improved telecommunication networks. It is also necessary for Government and all its agents to raise the profile of the south of Scotland as a rural area and to ensure that future funding mechanisms recognise and cater for its particular needs.

Mrs Norma Hart (Dumfries and Galloway Tourist Board): Dumfries and Galloway Tourist Board has found itself at the heart of the foot-and-mouth epidemic. It has been a year of tremendous upheaval for us. It is important to remember that this year's downturn in figures comes hot on the heels of falling numbers of tourists, not only to Dumfries and Galloway but to Scotland. Foot-and-mouth disease was a further body blow to the tourism industry in the region.

It is important to reiterate the point that Colin Williamson made. Tourism represents 8 per cent of the local economy and employs several thousand people, directly and indirectly. At the moment, it is impossible for us to be precise about

the exact impact that foot-and-mouth has had on the region. We are working with the enterprise company and VisitScotland on studies to try to establish what the impact has been. We know that the figures for March, April and May, in particular, were down considerably—we estimate by up to 50 per cent. That represents a loss of revenue to the region of about £15 million, just for those three months. The end figure for this year is likely to be considerably more than that. The tourism industry in the region faces a real problem.

Initially, VisitScotland, with which we have worked closely, gave us £300,000 to tackle the short-term public relations issues that were generated by all the dreadful images of burning carcasses and so on that were broadcast around the world. Dumfries and Galloway Tourist Board has worked closely with our colleagues in the other statutory agencies and the private sector to produce a recovery plan for the longer term.

The tourism section of the recovery plan accounts for £6.2 million over three years. It is made up of 13 different measures and draws on four different funding sources. Members will be glad to know that I will not go into the detail of that line by line. I emphasise that VisitScotland gave us what we asked for for the first year, which we are delighted with. So far we have used that money almost exclusively on public relations, advertising and marketing campaigns. We hope that the end-of-year figures, which we will know in the next financial year, will show that those campaigns have made a difference to the number of people who come to the region and the amount of money that they spend.

I emphasise that the foot-and-mouth recovery plan includes resources for monitoring and evaluating the impact of what we are doing—it is something that we take very seriously. I have had discussions with the new senior management team at VisitScotland on monitoring the outcomes of its investment. A significant chunk of the £6.2 million comes from the south of Scotland objective 2 programme. I am sure that members are aware of the emphasis that the European Commission places on monitoring outcomes. We hope to be able to demonstrate one way or another that the money is being put to good use.

Next year, the second year of the programme accounts for approximately £2 million. It draws on four different funding sources. I will not go into how much we hope to receive from VisitScotland, but I hope that it is something that members will want to ask me about.

John Kilgour (Federation of Small Businesses): Good morning. I will stick to a script, because if I do not, we will be here all day.

I hope that we are all agreed that, when

considering any budget, the basic principles that we need to take into account are best value and good fiscal management. Nowadays, there is also the need to consider the legacy of all expenditure. Those are the three issues that create a better business environment, business confidence and, I hope, a level playing field for all businesses.

Particularly in rural, remote and coastal regions of Scotland, two key strategic concerns can be highlighted: transport and information and communications technology. Both are major issues that can be addressed only through Scottish Executive funding support.

On transport, Dumfries and Galloway agencies continue to make valiant representations to the Scottish Executive regarding the A75 and A76, but have had limited success to date.

ICT is a very different ball game. The Crichton site in Dumfries has excellent communication facilities, but only a few miles from there, it is a major communications lottery. Despite Radio Scotland's daily spin line, "Across Scotland, across the world," 80 miles down the road from Glasgow it is a lottery whether Radio Scotland can be picked up. Plenty of other radio stations can be picked up, but Radio Scotland is not available throughout Dumfries and Galloway. Similarly, people who have a telephone in their home or business, especially to the west of Dumfries, are by no means assured of access to the web or e-mail. I am not talking about places way out in the hills; I am talking about Castle Douglas and other populated areas.

10:15

We are in an era of changing marketplaces. If we are to believe, as I do, that the opportunities for business, including tourism, are open to all, no matter where they are based, we must have rapid and reliable communications—that is the essence of that philosophy. I understand that a project worth tens of millions of pounds is under way to provide a broadband pathway through the east of the region. I am no expert on the issue, but it has been described to me as being similar to building a motorway. Like a motorway, the pathway will only be as good as the access to it. We believe that the vast majority of the region will be excluded.

On the FMD recovery plan and the micro-business sector, hindsight—which is a marvellous gift—identifies two areas of major concern. The first is the Scottish Enterprise Dumfries and Galloway loan scheme, in particular the £5,000 loan scheme. In April and May, the impact of FMD cut off the revenue streams for many businesses within a matter of hours, with no notice. The business liabilities that were there remained. Government bodies offered deferred payment of

money due to HM Customs and Excise and the Inland Revenue and in VAT, but the money still had to be paid sooner or later.

With the eventual phasing out of FMD restrictions and the return to some form of normality, we see that many businesses are facing mounting debts in a highly competitive marketplace and are producing reduced margins with which to serve their total debts. We believe that the only way we can alleviate the situation is by converting the £5,000 loan scheme into a direct grant.

The second area of concern relates to statistics. We know, for example, that agriculture represents 23 per cent, I believe, of GDP in the region. All statistics used in relation to small businesses are only estimates. No one knows how many small businesses there are in Dumfries and Galloway, what their combined sales are or what proportion of GDP the sector accounts for. We believe that such solid statistical evidence is vital to allow decision makers to make balanced decisions and ensure a level playing field for all businesses.

I am happy to try to answer any questions that come up.

Margaret Burton (Dumfries and Galloway Chamber of Commerce): Good morning and thank you for inviting me to attend the meeting.

As the president of Dumfries and Galloway Chamber of Commerce, I am honoured to have been involved in the foot-and-mouth disease recovery plan and to deliver evidence to the Scottish Parliament. In a way, the chamber's work was a great culture shock for me, having come from private practice and worked as a lawyer locally.

I find that, working in partnership, all things are possible. I see the way forward for my members as being support through the business development programme that we are currently running and which will run until October 2002. The members of the chamber of commerce consider that, following the outbreak of foot-and-mouth disease, from which they all suffered, they must pick themselves up and go forward. I hope that funding will be available to allow them to do that.

Through the Scottish Chambers of Commerce, I have been involved in parliamentary consultation regarding small business rates relief. We hope that something will come out of that. I see that it is in the budget and I welcome that.

We put a lot of our own unpaid time and effort into the private sector. I have left my practice to be here today. I thank the committee for inviting me. I will take any questions.

Bob Carruth (National Farmers Union of Scotland): Good morning. I confess to being a

parliamentary committee virgin, so I hope that you will all be gentle with me today.

I will give a brief run-down of the National Farmers Union of Scotland. Nationally, we represent roughly 12,000 farmers, crofters and growers. In Dumfries and Galloway, we have more than 1,200 members. We have a particularly strong membership in this part of the world, which has been of great use in the past few months.

As I am sure the committee is aware, even before the outbreak of foot-and-mouth disease, agriculture in Scotland was in something of a crisis. In 1995, the total income from farming for agriculture in Scotland was £739 million. The figure for last year was £239 million. That is a drop of almost 70 per cent in farm income over five years. From the Government's figures, the average income per farm was £73 a week before personal drawings. We have a long-term issue to deal with. It was unfortunate to say the least that an industry that was in crisis had to deal with foot-and-mouth disease. The impact was felt most acutely in Dumfries and Galloway, but every farm business in Scotland was affected if not infected.

That is the background. The industry wants to move forward again. Dumfries and Galloway has been particularly forward-thinking. We seek to meet the challenges that the Executive identified in "A Forward Strategy for Scottish Agriculture".

Without commenting on individual figures in the budget, I will give the committee an idea of the current issues with the Scottish Executive environment and rural affairs department's funding of Scottish agriculture. The rural stewardship scheme, which is part of Scotland's rural development plan, came into operation this year. Compared with other countries, Scotland has little money available to help farmers to carry out environmental work on farms. The budget for old and new projects, which includes support for organic farming, is around £30 million annually. Compare that with, for example, Ireland, which currently puts £100 million annually into its environment budget.

Once previous environmental projects are accounted for—incidentally, Dumfries and Galloway has had little success in securing funding for such projects—the rural stewardship scheme has residual funding of only around £4.5 million for new environmental works. In response to a parliamentary question, the Scottish Executive said that it has received 476 applications for new projects in the current round of funding. The total cost of the projects that have been applied for is £28.5 million. That shows the underfunding. The meagre budget of only £4.5 million will be awarded competitively. Very few projects will succeed, which is of great concern to Dumfries and Galloway, which has a poor history of securing

money for environmental work.

Plenty farmers come up with good ideas and want to make environmental improvements, but the funding is not available. The NUS believes that the Government is not taking the environment seriously, despite the fact that biodiversity action is an international obligation.

As I mentioned, the Executive's environment budget is due to rise from £30 million this year to £37 million in 2006. We are all agreed that spending on the environment is in the wider public interest. However, much of that small increase in funding will be found from farmers through a process known as modulation.

Modulation is essentially the taxation of support payments. This year, if a farmer receives support for a cow, a sheep or an acre of barley, 2.5 per cent of that support will be removed and used to support other schemes. The NUS is opposed to the taxation of farmer support payments, especially at a time of economic crisis. We recognise that environmental schemes are an essential part of modern agriculture and there is a demand for farmers to enter those schemes, but the schemes should be funded in their own right, as happens in other European nations.

The following point is a key point for Dumfries and Galloway: the competitive element of agri-environment schemes means that, although all farmers will have their payments taxed to part fund those schemes, not all farmers will be successful in entering them. The Executive is therefore robbing Peter to pay Paul.

Another key issue for the region is that, this year, the less favoured areas support scheme, which is designed to support those who farm in disadvantaged areas, has been altered significantly. For the first time, payments are based on the area that a farmer farms as opposed to the number of livestock that he has. That has resulted in some people gaining money. However, by the Executive's own calculations, two thirds of farmers are now losing out under the new scheme. The scheme is flawed and I think that the Executive recognises that. We are looking for extra expenditure to be put into the scheme to start addressing the obvious flaws.

Farmers in general, and farmers in Dumfries and Galloway especially, have been encouraged and are keen to enter environmental schemes, which are currently woefully underfunded, despite the fact that the industry will be forced to provide funding through modulation. LFA support scheme funding must also be addressed. The problem will not be solved simply by throwing money at it. There will be an option to improve the lot of farmers by increasing payments.

"A Forward Strategy for Scottish Agriculture" will

have budget consequences. The industry has recognised that document as the template for moving forward. In Dumfries and Galloway where, before foot-and-mouth, agriculture contributed almost one quarter of the gross domestic product, the Executive has an ideal opportunity to put in place funds to develop its rural development model, which could then be rolled out to the rest of Scotland.

I thank members for the opportunity to address the committee.

The Convener: I thank all of you for your opening statements, which have helped to set the scene for the questions that the committee would now like to put.

The committee is here as part of the budget process. We are interested to know the extent to which, prior to being notified about this meeting, your organisations were aware of or had had sight of the budget, or had been approached by any of the Parliament's committees to make comments on it.

By way of explanation, there are eight subject committees in the Parliament and they, along with the Equal Opportunities Committee, scrutinise each stage of the budget process in detail and take evidence or write to people for evidence. Have any of you had that sort of contact?

John Kilgour: Not at this level. Contact is usually through our Glasgow office, which participates in that kind of thing.

The Convener: In doing that and formulating a response, would the Glasgow office consult you and equivalent parts of the organisation in Scotland to obtain advice or comments?

John Kilgour: Absolutely. There are 43 branches of the Federation of Small Businesses in Scotland. The Scottish affairs committee meets every quarter and all the information is then passed on to the branches. What we cannot guarantee is what happens in the branches.

The Convener: The federation is certainly assiduous in keeping in contact with MSPs. I know that personally.

Would any of the others like to comment on that?

Bob Carruth: As an organisation, we have quite a lot of input to the Scottish Parliament through our head office in Edinburgh. It is probably fair to say that we are aware of the budget, but have little input to consultation on how the budget is allocated.

Colin Williamson: Similarly, a number of meetings take place between Scottish Enterprise and the Scottish Executive and the Parliament's committees. Scottish Enterprise Dumfries and

Galloway would provide whatever information Scottish Enterprise required to continue those discussions.

Mrs Hart: I am not aware of having been asked to comment formally on the VisitScotland budget, which would be my particular interest.

10:30

Dr Richard Simpson (Ochil) (Lab): When you look at the budget documents—the annual expenditure report or the draft budgets—can you identify the areas of spend that will impact on Dumfries and Galloway? The committee has been concerned about whether people in the regions of Scotland feel that they can participate in the budget process. The convener's first question hinted at that.

We want to know whether the documents that are produced can be interpreted and whether they are helpful for considering what comes out of the budget for local areas.

Bob Carruth: I mentioned the less favoured areas support scheme as an important source of income for agriculture across Scotland. This is the first year of the revamped scheme. Not only was there an underspend nationally, but there was huge variance in who were the winners and losers. A breakdown of the scheme enabled us to identify where the LFA budget had gone through local SEERAD offices and what those offices had paid out under the old and the new schemes.

If budgets could be broken down regionally, in the manner that they were for the LFA scheme, we as an organisation would find that more useful than looking at a global figure.

Dr Simpson: Two of you mentioned the importance of ICT to an area such as Dumfries and Galloway. Is there an indication through the budgetary process that ICT is being considered appropriately? Do you get any feel for that?

Colin Williamson: I do not necessarily get a feel for that through the budgetary process. However, ICT is being identified as an important infrastructure issue for Dumfries and Galloway, to the extent that we now have the south of Scotland pathfinder project, in which both councils and the two enterprise companies in the south of Scotland participate fully. The feeling that you described comes down not necessarily through the budget process, but through a specific initiative that involves both councils and both enterprise companies.

John Kilgour: The vast majority of us get a feel for things via the web. The question then is how understandable and readable the material is that comes off the web and whether we can interpret it. Once the web comes on-stream, many more

people will start using it and will get their information from it—it is an important source of information.

The advantage of this morning for people like me is that we can see the whites of your eyes. I am seeing in the flesh people whom I have only seen before in pictures in the paper.

Dr Simpson: The Executive is concerned about producing more and more documentation. We are cutting down forests already—which might benefit your forestry industry, but will not do a lot for anyone else. Elaine Thomson has been pressing for much more information to be made available in electronic form, so that we can drill down into the budget information and ask questions such as whether the pathfinder scheme is working and how much money is being allocated to it. That information would not be on the face of the main budget papers, but it should be possible for local members to drill down to that level—in electronic form—so that they can get a feel for the budget.

I am interested in your comments about the web. What level of information are you getting to? You mentioned the importance of ICT—did you manage to look at the pathfinder scheme and find it connected up?

John Kilgour: The truthful answer is that I did not find it.

The Convener: You tried and could not find it?

John Kilgour: For sure.

The Convener: That is an important point.

Elaine Thomson (Aberdeen North) (Lab): That is an interesting comment on the Scottish Parliament website, which is probably where you looked for the budget information.

I wish to ask about access to broadband. You mentioned the importance of ICT to your area. What percentage of the population in Dumfries and Galloway has access to ISDN? That is related to distance from BT exchanges. What are the figures for small businesses, or other businesses for that matter?

John Kilgour: I am sitting here thanking God that I said I was no expert on this subject. I honestly cannot answer your question. What I do know is that in Dumfries and Galloway the federation has 500 member businesses. The vast majority of those businesses have problems, but in particular those to the west of Dumfries have problems. I have no doubt that there are also problems on the east side of Dumfries; I am not suggesting that everything is hunky-dory. It is all to do with the old style analogue system, which is what we have. Until that is all changed and a new system is installed, we will go no place. Our great fear about this new motorway—for want of a better

word—is that if we are not on it, we will not go anywhere, and we will be no better off sitting here in the rural remote areas of Scotland 10 years down the line. That applies not just to Dumfries and Galloway, but to large tracts of remote and coastal regions in Scotland.

There were many good points in the paper from the Enterprise and Lifelong Learning Committee, which identified things about which the people whom I represent are asking us, “What can be done about that?” We asked for satellite communications for Dumfries and Galloway, and I understood that that argument was being progressed favourably with the Scottish Executive. Nobody said that we would get the money, because it is expensive, but I am told now that we are getting a different system. Unless we are on it, we will not be any better off.

The Convener: Alex Fergusson has indicated that he wishes to speak. Perhaps he has some local knowledge on this matter.

Alex Fergusson (South of Scotland) (Con): Thank you for welcoming me here, convener. I point out that I am a regional member and not a local member, which is an important distinction.

To follow on from Mr Kilgour’s comments, I have a question for Colin Williamson in his role as chief executive of Scottish Enterprise Dumfries and Galloway. We were at a seminar the other day when the chief executive of Dumfries and Galloway Council said that the lack of up-to-date information technology in this part of the world meant having to play catch-up, which is probably correct. How much of a disadvantage is it to have to play catch-up when you are trying to attract new businesses to rural areas, such as those that are epitomised by Dumfries and Galloway? I also ask that question of anybody else who would like to answer.

Colin Williamson: A previous question concerned the proportion of businesses that have ISDN connections. I am not sure of the answer, but I can find out and pass that information back to the committee.

As John Kilgour has flagged up, we are keen to ensure that this region is as competitive as it can be. That applies not only to individuals having access to the latest technology—perhaps for participation in lifelong learning—but to businesses. We want as many businesses as possible, if not all businesses, to be able to access the internet and to start to trade through the internet. That is one of the priorities in our foot-and-mouth recovery plan.

As Alex Fergusson identified, having a modern, advanced telecommunications infrastructure to attract the most value-added inward investors that we can is important in terms of adding to the

employment opportunities in the region and increasing and improving wage levels. It is important that we get as sophisticated an ICT infrastructure as possible.

In addition to the pathfinder project, which John Kilgour mentioned, we are working with the Scottish Executive on examining alternative technologies to broadband in the region, including satellite and wireless technology. Those discussions are on-going, but we are optimistic that we might be able to run pilot projects on those two technologies in Dumfries and Galloway. Together with Dumfries and Galloway Council and our partner enterprise company in the Borders, we are also examining developments on the broadband pathfinder project with the Executive.

Mrs Hart: I would like to reiterate a point that was made by my friend Mr Kilgour, who expressed concern about the state of the general ICT infrastructure in the region, rather than just the new broadband technology that is being considered.

I can speak with knowledge only about the tourism industry and the difficulties that we have in persuading the tourism businesses with which we work that the internet represents a significant way forward for their marketing strategies. About 50 per cent of our accommodation businesses do not have an e-mail address, which is quite a concern. The problem is not simply that they need to be persuaded to acquire one, although we need to continue to raise awareness, conduct training and introduce facilities. For some businesses, using the internet is not a practical option, because the basic IT infrastructure in the region does not allow it.

The Convener: I am keen to move on, but members have indicated that they have further questions on this issue.

Mr David Davidson (North-East Scotland) (Con): I want to return to Mrs Hart’s comment about the budget process. One of my concerns has been reflected in different ways by our witnesses this morning. I would expect the major agencies, such as Scottish Enterprise, to have a feed into HQ. However, Mrs Hart highlighted the fact that many organisations that are active in the economy of this area do not seem to have any opportunity to make an input to agencies that are government agencies—albeit at arm’s length—when those agencies are formulating their budgets. You may correct me if I am wrong, but one assumes that you feel that you have no input into the thinking of the Minister for Finance and Local Government when he is producing his draft budget. Is that how you feel?

Margaret Burton: I am not sure how much input we are able to make into the budget, but Bob

Leach from Ayrshire, who is the parliamentary officer for the Scottish Chambers of Commerce, is able to provide us with feedback.

Mr Davidson: I appreciate that. Bob Leach visits all of us, as does John Downie from the Federation of Small Businesses. I am not asking about whether businesses are able to speak to us, but about the formal budget process. Do you think that your organisations have adequate opportunity to input to the formulation of agencies' budgets, which are then passed to the minister? Would you like to have more opportunity to do that?

Margaret Burton: We would. As I stressed before, to some extent the public and private sectors work together. Anything that would assist that would be appreciated.

Mrs Hart: I do not want to give the committee the impression that VisitScotland and the area tourist boards do not discuss a wide range of issues of mutual concern. However, as far as I am aware—and I cannot think how it would have escaped me—there is no formal opportunity for us to comment on the formulation of VisitScotland's budget.

Brian Adam (North-East Scotland) (SNP): I want to return to IT. Concern has been expressed about access. Do you think that the Executive should insist on universal set-hours provision? What representations have you made along those lines? You have talked about satellite and wireless technology, but I understand that the wireless technology is licensed to Atlantic Telecom, which has gone belly up. Is there not a danger that, because the new technology sector is in such a shaky condition, providing access in rural areas will not be a high priority? How could the Executive overcome that problem?

John Kilgour: One simple thing would be that someone could talk to BT. BT tells folk in Dumfries and Galloway that they can have BT Highway, when it knows damn fine that there is no way that BT Highway is available in the vast majority of places in Dumfries and Galloway. I take gross exception to that. It took me three days on the telephone to the BT call centre—where you speak to machines rather than to people—before anyone there would accept that we could not get BT Highway down here. As soon as I spoke to the local people, they told me, "Look, Kilgour, you won't get an e-mail address or a website until something is done about the exchange in Dunscore." They told me that they were not going to bother with me—there was no intention to do anything about the situation because the system is analogue from there to Dumfries and they would have to spend a fortune to change it.

First, BT must get its act together when it gives out information. If BT can provide only a selective

service, it must say so.

Secondly, the Government must take control of the service providers. If companies are going to provide a service, they must provide it across the board. I am sure that Alex Fergusson will also know that, up at the head of Scar Water, BT wanted £54,000 to install a telephone. In fact, the work was covered under BT's charter, so BT had to install the telephone at the second last house and it cost the owners £100, but BT did not tell them that.

10:45

The Convener: That is an important point. It is not strictly within our remit to do so, but we will ensure that your comments are brought to the attention of BT.

The foot-and-mouth outbreak is a big issue locally. David Davidson will ask the first question on the subject.

Mr Davidson: The context is how the budget is pulled together and how the document is produced. We want documentation that is accessible for your organisations. How clearly do the current budget documents show the expenditure on the foot-and-mouth crisis, both for picking up the pieces and moving on, and for the future? Would you like any improvements to be made to the way that you can get information from the budget documents on a subject such as foot-and-mouth?

Bob Carruth: My short answer, as someone who represents an organisation that works down here, is that it has been difficult to pull out figures from the budget documentation.

Margaret Burton: The Scottish Chambers of Commerce did a Scotland-wide survey on the foot-and-mouth crisis. That survey, the results of which were handed to the Executive, showed that foot-and-mouth was a real problem. However, I hate to say this, but I feel that we have to move on from there. Our businesses that were, and still are, struggling, have a good relationship with other people in the area and I hope that pulling together has brought everyone back on track again.

Colin Williamson: Throughout the foot-and-mouth process, the majority of our dialogue took place directly with Scottish Enterprise, which in turn was in discussion with the Scottish Executive about additional funding. We have always been clear, as additional funding has come through from the Executive for foot-and-mouth, about the areas to which that funding should be applied. An additional £500,000 was allocated, during this calendar year, for Scottish Enterprise Dumfries and Galloway to help with business advisory support in the early days. I am clear that our

primary dialogue is with Scottish Enterprise on matters of additional funding.

John Kilgour: At a local level, the vast majority of our information comes from Colin Williamson, who has sent us regular updates since the recovery plan was passed. That is our main source of information. We also get information from the press, but detailed information comes from Colin Williamson's updates.

Mrs Hart: I have looked at the pages relating to VisitScotland in the draft budget for 2002-03 and I read them with great concern. If I have done my sums correctly, the budget for this year includes a figure of £11.9 million, which was allocated in addition to the usual budget to deal with foot-and-mouth. The total for this year was £36.7 million. The total budget for next year is £22.8 million. If I take £11.9 million from £36.7 million, the total should be £24.8 million, which suggests that VisitScotland's overall budget has been reduced by £2 million.

That is a concern on several levels. I am sure that VisitScotland would agree that it needs at least as much money as it had this year to counteract foot-and-mouth and to deliver the marketing strategies to make Scotland competitive in the world tourism market. Apparently, there is no provision for combating what we expect to be the continuing effects of foot-and-mouth. Certainly, our foot-and-mouth recovery plan includes between £500,000 and £1 million—I cannot be specific yet—from VisitScotland to be used for that end, as we set out to the Scottish Executive earlier this year.

The Convener: Thank you for that point. The Enterprise and Lifelong Learning Committee raised the £2 million cut in the VisitScotland budget in its report to us. The matter has been drawn to our attention and will appear in our report, so it will be drawn to the minister's attention.

I want to ask about your statement, in which you say that Dumfries and Galloway Tourist Board received £300,000 from VisitScotland as a temporary measure to deal with the public relations effects. Later, you said that you got what you asked for. Was that in reference to the £300,000?

Mrs Hart: I should have mentioned the further £850,000 that we received from VisitScotland this year. In total, we have received £1.15 million from VisitScotland for this year.

The Convener: Is that out of the £6.2 million that you mentioned?

Mrs Hart: The £300,000 does not come out of that total. That money was given to us in the very short term, before we completed the foot-and-

mouth recovery plan.

Mr Davidson: Was any of the money ring-fenced? Was it tied to specific things or were you given the freedom to decide what to do with it locally?

Mrs Hart: It was ring-fenced to marketing. The foot-and-mouth recovery plan covered activities in addition to marketing, but VisitScotland was very specific that any short-term moneys that it gave to us were to be spent on marketing.

Alasdair Morgan (Galloway and Upper Nithsdale) (SNP): I have two questions. Norma Hart has talked about what Dumfries and Galloway Tourist Board is doing and I read in the paper today some leaked comments to the effect that the area tourist board network was not particularly effective and that the number of ATBs should be substantially reduced. Does Norma Hart have any comments on what should happen in Dumfries and Galloway if that strategy were to be pursued centrally?

Secondly, in relation to the foot-and-mouth recovery plan and the money that was channelled into the region, mostly through the enterprise network, considerable controversy arose about differences between Dumfries and Galloway and the Scottish Borders. In particular, concerns were raised about the amount of money that was given out in low-interest loans in Dumfries and Galloway, compared with the straight grants that were made in the Borders.

John Kilgour suggested that a retrospective transfer into grants be made of loans that had already been agreed. Although philosophical differences might exist between using loans and using grants, I would be interested to hear the business perspective of the witnesses on that suggestion.

We have now gone down the route of giving loans and, in the larger part, they will be repaid. Where will that money go? Will it stay in the region to be given out again in yet more loans? We should be looking at longer-term recovery, because that will have a beneficial effect on the economy in the long term. How might that happen?

Mrs Hart: Although the proposals are being covered patchily in the press, they have been considered by all the ATBs in Scotland, including my own. The ATBs say that they are not resistant to change. They recognise that every effort should be made by all publicly funded organisations to be as efficient and effective as possible. However, as the proposals stand at the moment, they do not provide sufficient detail for Dumfries and Galloway Tourist Board to be able to take a rigorous view on issues such as boundary changes.

The board would wish me to say that, in the three years that followed a period of some difficulty, we have made every effort to restore the industry's confidence in the tourist board and to restore the balance of the books. We now have an organisation that runs efficiently. The board would not want to make changes that would undermine that position.

The Convener: A figure of £6.2 million was mentioned in respect of the recovery plan. Does that figure apply over a three-year period?

Mrs Hart: It is a three-year recovery plan. The £6.2 million is only one part of that—it covers the tourism part. The recovery plan has a budget of £40 million.

Alasdair Morgan: I asked a further question about the difference between loans and grants, and the future for that money.

Bob Carruth: I will have a go at answering that question. The committee should be aware that farmers were not eligible for loans. State aid issues are involved. If the farmer had an ancillary business, such as contracting or fencing, he would have been eligible for some loan support in that respect.

Two types of grants were made available to farmers through the recovery scheme. One was a grant to look at farm business restructuring. A farm business adviser would be made available to the farm business to help make the decision as to whether the farmer remained in farming, left farming, or diversified. The other grant was a small-scale environmental grant, whereby a sum of up to £5,000 was made available to the farm business to help it to undertake environmental improvements such as creating paths, hedging or protecting historic sites.

A measure of how keen Dumfries and Galloway farmers were to move forward is the fact that both grant schemes were heavily oversubscribed. There is now a waiting list for both schemes.

The Convener: In your opening remarks, you mentioned 476 applications and a sum of £4.5 million. Were those figures for this area?

Bob Carruth: No. They are national figures. That said, when the rural stewardship scheme was called the countryside premium scheme, the number of successful applications in Dumfries and Galloway was in single figures.

Margaret Burton: We are involved directly with our counterparts over the border in the chamber of commerce in Carlisle. We know that the foot-and-mouth recovery money was paid out in grants. I cannot say that I do not believe in that—that would probably not be the right expression. The Cumbria chambers of commerce found that a first-come, first-served basis—as was used in the Borders—

meant that the money disappeared from the chamber. Money is not available for the people who are suffering now—people in Cumbria have suffered the impact of foot-and-mouth for longer than we have.

If and when the loans are repaid, I hope that we will be allowed, through Scottish Enterprise, to keep that money in Dumfries and Galloway and to regenerate the economy with it, to help businesses again.

11:00

Dr Simpson: I have a small supplementary question for Mr Williamson and Mr Carruth. Farmers have not paid their bills from a specialist feed supplier in my constituency. That is understandable, given the pressures that they are under, but the company is small—it is not a major supplier that can absorb such debt. Has any attempt been made to consider the effect of foot-and-mouth on supply and distribution systems? Do you have any input into supporting external structures?

Colin Williamson: We are considering that, but we have prioritised other forms of assistance—to businesses or farm businesses, as Bob Carruth said. Such work continues, but I have nothing specific to say on our progress so far. We recognise what you say as an issue in this rural area.

I will return to Alasdair Morgan's original question. There has been much publicity and discussion about the package that is available in Scottish Enterprise Dumfries and Galloway's area and in the Borders. The packages in both areas have been broadly the same. They both involved loans and grants to businesses and were based on discussions with individuals and companies.

Let me pick up on Margaret Burton's response to Alasdair Morgan's second question. Our board has asked me to ask Scottish Enterprise and the Scottish Executive to consider taking repayments from the loan fund, consolidating them into a new rotating loan fund and recycling that money in the economy. It must be borne in mind that the foot-and-mouth crisis will have an impact on the economy for some years. That submission has not yet been made to the Scottish Executive or Scottish Enterprise, but I hope to send it to them by the end of the calendar year.

Brian Adam: Mr Williamson said that the available money was intended to deal with loans and grants, which you have covered quite well. What is the balance between loans, grants, marketing and financial advice? Considerable concern has been expressed that provision of advice is almost a consultants charter and may not offer good value for the public purse. Would you

care to comment on that?

Colin Williamson: I do not have the breakdown of the money that we have spent on or committed to the categories that you mentioned. However, through our recovery plan, we have sought to give the broadest-based range of financial, practical and other advice. I said at the beginning of the foot-and-mouth crisis that we would not use consultants extensively and that we would give as much funding as possible from the Scottish Executive and Scottish Enterprise straight to business in financial support of one form or another.

We have not sought to use consultants extensively. We have had to use some consultants in some areas, because they have specialisms, but we have used our existing structures whenever possible and minimised financial support that is provided through consultants to businesses. The amount of money that is spent on consultants in Dumfries and Galloway is relatively small. We try to make information and support available through our existing resources.

John Kilgour: The FSB's policy is that there should be a small business loan fund. However, as late as last night, no one could tell me whether it was envisaged that the enterprise system should handle that fund.

It seems strange to set up such a fund and loan money to small businesses when their backs are up against the wall due to foot-and-mouth disease. For every cause, there is an effect—and there has been an effect in Dumfries and Galloway. As I said, firms are going back to the traditional sources from which small businesses could get funding and advice: their solicitor, their accountant and their bank manager. However, those sources are now telling them that, although they will do their books and so on, they do not advise the course of action that is being taken. Likewise, to the best of my knowledge, banks were never consulted about whether the loans would compete with the service that the banks themselves provide.

I am not here to knock the enterprise system or the project that we are discussing, because I support anything that gives assistance to small businesses. However, we have to be careful that the scheme does not blow apart the traditional basis on which the small business community operates.

Alasdair Morgan: Are you saying that you have evidence that banks are saying to customers that they will not consider them for a loan because they have taken a loan from the enterprise system?

John Kilgour: No, that is not what I said. I will explain further. If someone who normally has an overdraft of £15,000 is suddenly £37,000 in debt,

they will not be able to service that debt, which means that they will no longer be viable. In such a case, no one could fault the banks for refusing to lend them money to get themselves out of a mess that they should not have got into in the first place. The bank could quite properly say that, if the debtor had come to it in the first place, the debt could have been structured differently. As I said, for every cause, there is an effect. We have to be careful that, in putting in place any new system, we do not blow apart the old systems.

Colin Williamson: I would like to reassure John Kilgour that we consulted all the major banks in the south-west of Scotland on the original loan fund. As we make progress with the proposal—I stress that it is only a proposal at the moment—we will engage fully with the banks to find out what they think and to ensure that they are aware of what we plan to do before we put together a formal proposal.

The Convener: We could usefully spend the rest of the morning on this subject, but I would like to move on to one or two other areas in the short time that we have left.

Donald Gorrie (Central Scotland) (LD): I am sure that we have all found helpful the detailed suggestions that the witnesses have made on a range of issues. I would like you to help us to focus on the important issues. I think that the Scottish Government has an attitude problem in that the south-west of Scotland and Ayrshire do not figure on its radar screen. I know from personal experience that politicians from the south-west do a lot to promote the area and I am sure that organisations such as yours do, too. Despite that, the area still does not get treated fairly. Is there anything that this committee could do to get the Scottish Parliament to ensure that the right amount of attention is paid to Dumfries and Galloway?

My second question relates to specific financial priorities. Is the top priority IT, about which we have had a lot of discussion? Is it a better road system, which is an issue that my council colleagues keep on raising with me? Or is it local public transport or helping the economy through tourism? If we are going to say to the Minister for Finance and Local Government, "Right, here are four things you've got to do," what are those four things?

Colin Williamson: In my opening remarks, I mentioned that there are some issues concerning the image of the south of Scotland, by which I mean Dumfries and Galloway and the Scottish Borders. The councils and enterprise companies from both areas have come together partly to examine those problems and to raise our profile and the issues that affect us. As the south of Scotland is a quintessentially rural area, there is

an important need for the Scottish Executive to continue to review its funding mechanisms and to consider how, for example, our funding compares with funding mechanisms for the Highlands and Islands. We are working on a strategy between our two respective areas to draw the attention of the Executive, the various funding organisations and the people of Scotland to the issues that affect the whole of the south of Scotland as a rural area.

Mrs Hart: I have one or two comments, purely in relation to tourism. We are familiar with the concern that Donald Gorrie expressed. It would be appropriate for me to say, on behalf of my board, that we are concerned that Scotland's tourism agenda is being driven by the central belt. It is fairly well-known that 80 per cent of visitors to Scotland visit Glasgow and Edinburgh, with the rural areas receiving their share of the rest. As far as volume is concerned, that is fine. Nevertheless, the quality of visitors' experience to the central belt is intrinsically linked to the image of Scotland as a rural place. Even though people visit Scottish cities, they still come to Scotland because their image of the country is defined by its rural areas. Because of that close link, we allow the rural tourism industry to decline at the expense of the cities. I do not know whether I have expressed that terribly well, but I think that you get my point.

Although the Highlands is the classic image of Scotland for tourists, the south of Scotland has a great deal to offer. As long as the national strategy is developed on the basis of marketing Scotland as an experience as well as a destination, we will be able to benefit by trading on the other areas. However, we would be concerned by any move to make the decision-making structures more remote from the south of Scotland than they already are.

The funding formula for the tourist board network—whether in its present or future form—should be far more transparent. I have asked about the formula before and have never received a satisfactory answer.

Margaret Burton: What I would like to see, especially from a chamber of commerce point of view, is an airport in the area. For example, Ayrshire Chamber of Commerce has Prestwick airport; Glasgow has Glasgow airport; and Edinburgh has Edinburgh airport. An airport would really help the area, although I do not know where the money will come from to build it. However, I know that it would bring tourists into the area and would help the businesses in the area to export. People can put their business on the web, but where do they go from there? They have to sell worldwide, not just to the UK. If I had a dream, it would be to have an airport in the south of Scotland.

The Convener: I have to draw this session to a close. I thank our witnesses for their initial

statements and for fully answering our questions. We have taken a great deal of evidence and are very glad that you have participated in the budget process. We will now take a short break.

11:14

Meeting adjourned.

11:23

On resuming—

The Convener: I welcome to give evidence Julian Cowie, director of finance at Dumfries and Galloway Council, Ruth Paterson from the Stewartry Council of Voluntary Service, and Mike McLurg, who is the director of the Nithsdale Council of Voluntary Service. I invite the witnesses to make an opening statement.

Mike McLurg (Nithsdale Council of Voluntary Service): This is a joint comment on behalf of the voluntary sector in Dumfries and Galloway. Ours is a rural perspective—I am sure that many urban voluntary sector people can make comments elsewhere.

A number of the issues that we want to talk about fall outside the social justice parameters, although we know that that is where voluntary sector money comes from. I will talk about Scottish Enterprise, sustainability and social inclusion and my colleague Ruth Paterson will talk about the other issues that fall under the remit of the Social Justice Committee.

I want to highlight issues relating to Scottish Enterprise from the voluntary sector's point of view. There is an important role for Scottish Enterprise within the voluntary sector, particularly through its new futures funding, which is one of Scottish Enterprise's successes in the social economy. I think that the minister announced new futures funding of £15 million over three years. That will take people who are mostly excluded from employment along the pathway to employability. We welcome the fact that £800,000 from that fund has been allocated to Dumfries and Galloway over three years, although, to be truthful, I do not think that £800,000 will cure all the problems of those people in Dumfries and Galloway who are furthest removed from employability, whether through homelessness, drug or alcohol addiction or any other exclusion issues.

I could not identify this in the Scottish Enterprise budget papers, but we would like more money for the social remit to be delegated from Scottish Enterprise down to local enterprise companies. Scottish Enterprise Dumfries and Galloway has a remit for developing the economy. It also has a remit for developing those people who are most removed from economic activity. We also want

identified spending plans within Scottish Enterprise and local enterprise companies of how that money is spent in local enterprise areas.

The voluntary sector in Dumfries and Galloway was concerned to see in the budget specific funding for drug initiatives only within social inclusion partnerships. That budget would exclude people from Dumfries and Galloway. I am not sure that we were excited about that exclusion from drug initiative moneys. Research last week from the University of Glasgow pointed out that Dumfries and Galloway has a high level of drug abuse. That budget will exclude Dumfries and Galloway because we do not have a social inclusion partnership.

The social inclusion budget refers to 48 social inclusion partnerships, two city alliances and the coalfields regeneration fund. We certainly recognise that the regeneration fund is applicable to small parts of Dumfries and Galloway, but I am not sure that rural areas elsewhere in Dumfries and Galloway have the same access to the moneys as is available to address social exclusion.

We need to widen the areas on which money that is identified for social inclusion can be spent. To date, Dumfries and Galloway has been outwith many of the areas of money that should be available to it or has been unsuccessful in achieving funding. In a bid competition or bid environment there will always be winners and losers. At the moment, Dumfries and Galloway is losing in terms of social inclusion partnerships and other initiatives.

We would like the budget for sustainability to be widened. Sustainability within the budget tends to concentrate on the environment—the green issues. We need sustainability to refer to more than the environment and green issues. We need to talk about the sustainability of community life and rural villages, which is dear to the heart of those who live in Dumfries and Galloway.

11:30

Ruth Paterson (Stewartry Council of Voluntary Service): Thank you for the invitation to address the committee today. We should bear in mind the aim of long-term funding for the voluntary sector in the Convention of Scottish Local Authorities compact on the relationship between the voluntary sector and statutory bodies. If we read the “Head and Heart” document, which the Scottish Council for Voluntary Organisations produced some time ago, we see that not much has changed. One of the main problems for the voluntary sector is short-term funding—it is not consistent with the long-term change that the Scottish Parliament wishes to achieve. That is a general comment, but it perhaps sets the scene.

Mike McLurg alluded to the fact that communities have long-term problems with mental health and drugs, for example. We need long-term funding to allow strategic planning and the retention of quality staff. That particularly needs to be recognised in rural areas, where services are harder to deliver. Much of the voluntary sector is sick and tired of having to jump through hoops to obtain core funding for the jobs that it does best—working with people at the coalface and with excluded groups across the board. The sector is continually asked to apply for new project-based funding, which means that it has to think of new and innovative ideas all the time. In fact, the core business that it is getting on with is innovative; that represents the sector doing its job. We should not have to rely on top-slicing from projects to support our core activities.

The committee had an interesting discussion on digital inclusion. That is an area that concerns me, particularly with regard to the voluntary sector. Research by the National Council for Voluntary Organisations and BT states:

“Small organisations have the greatest need for online services but lack the IT know-how and capabilities to meet that need.”

Similarly, a Scottish consultancy on the councils for voluntary service network indicated that there was a lack of sufficiently up-to-date hardware and equipment and a lack of awareness of what information and communications technology can do. I suggest that, if the private and public sectors in Dumfries and Galloway are lagging behind in terms of digital know-how and digital inclusion, the voluntary sector will be lagging even further behind. Although the voluntary issues unit recognises that that area is important, the amount of money that is being budgeted for it is terribly inadequate in relation to the number of applications that were made to that budget last year.

I would also like to point out the implications of the Disability Discrimination Act 1995, particularly the capital resources that will be required by small organisations to implement the requirements that will come into force shortly. The Scottish Commission for the Regulation of Care regulations will also have considerable resourcing implications for small voluntary sector organisations that deal with caring in the community. I want us to look into those resourcing implications.

Those are some core-funding issues. I want now to mention the thorny issue of European funding and the voluntary sector. We had great hopes in Dumfries and Galloway during the previous structural funds programme that access for smaller community organisations would be made easier and that there would be more emphasis on community economic regeneration. However,

because of events in Brussels that were out of our control, the bureaucracy associated with European funding has probably doubled. There is a need, particularly in relation to the objective 3 programme in Scotland, to get that money down to small communities, small community groups and voluntary organisations. To do that we must recognise that the resource implication for the sector in terms of capacity building is not being adequately addressed.

We feel that the money that is passed down to local authorities should be earmarked or ring-fenced to resource participation by the community and the voluntary sector in partnership work. That would encourage active partnership rather than pay lip service to it.

I have two further specific points—

The Convener: Can you bring those out during the questioning? We have limited time and have still to hear from Mr Cowie.

Ruth Paterson: I have two further points on the Mortgage Rights (Scotland) Act 2001 and the Housing (Scotland) Act 2001, which are part of the committee's remit. However, we can come back to those points if you want.

The Convener: I thank both our witnesses. I invite Mr Cowie to make a statement.

Julian Cowie (Dumfries and Galloway Council): Good morning. I have spotted a couple of council members on the benches behind me, so I had better play it safe and give a little disclaimer to the effect that anything that I might say today is my view of the world as a council official and would not necessarily be endorsed by the council.

During the stage 1 consultation on the Executive's 2002-03 expenditure plans, the Scottish Parliament Local Government Committee invited Dumfries and Galloway Council to provide comments. The council could not take up the invitation because officials were engaged in foot-and-mouth disease firefighting duties. My colleagues from COSLA, the Chartered Institute of Public Finance and Accountancy and several councils gave evidence to the Local Government Committee, which drew to the attention of the Finance Committee the various issues that were identified. I do not want to waste members' time today by repeating those issues, but you can take it as given that I largely agree with what was said about the adequacy of the settlement, the unnecessary ring fencing of the resources, the need for further capital investment and the gearing effects that give rise to disproportionate increases in council tax.

When the Scottish Parliament was established, it embraced a number of principles to anchor its accountability to the people of Scotland. Among

other things, the Parliament was to be

"accessible, open and responsive and should develop procedures which make possible a participative approach to the development, consideration and scrutiny of policy and legislation."

There could be no better expression of that principle than a budget process that clearly outlines the nature of, the reason for and the purpose behind the spending intention, and that gives rise to informed debate and, ultimately, robust decisions.

I note from the parliamentary debate on the Finance Committee's report on the stage 1 budget process that

"No committee felt able to recommend a redirection in the spending proposals"—[*Official Report*, 28 June 2001; c 2057.]

that were detailed in the Executive's annual expenditure report. Subject committees complained about the lack of standardisation in the presentation of information, the vagueness surrounding the sources of funding and the need to develop output and outcome measures to increase transparency and accountability. The Finance Committee stated in its report:

"The budget process can only be as good as the information presented."

I was particularly interested in a contribution to the debate by one of our local MSPs—he is sitting not too far away from me—who referred to his

"increasingly high council tax bill from Dumfries and Galloway Council".

He also said that he had received

"a leaflet that explains the council's expenditure, but it is pretty incomprehensible."—[*Official Report*, 28 June 2001; c 2076.]

I can assure him that the leaflet fully complies with the requirements of the code of practice on the publication of financial and other information by local authorities that was issued by the former Scottish Office. However, I would be the first to agree that it is pretty incomprehensible.

As the council's chief financial officer, I have been banging on for years about the need to present our spending plans in terms other than simply money terms—to talk about budget outcomes and to describe properly what will be produced from the funds that councils and the Government collectively demand from taxpayers.

In Dumfries and Galloway, we are steadily advancing the production of performance measures and, through the medium of activity-based costing, we are shining a torch on the mysterious work of departments. I echo the sentiments of the Minister for Finance and Local Government who, in response to the stage 1 report, said that developing outcome measures for

spending was “easier said than done”. I am confident that, in time, the processes that we have set in train in the council will give council members a clearer picture of service provision than they have at present. That in turn will allow for better-informed consultation with the public and will ensure that the council's spending reflects, as far as possible, the wishes of the community that it serves.

I note that the committee has commissioned work to develop better outcome measures, to assess spending impacts from a gender perspective and to ensure that spending is fully reflective of policies. I hope that that work will give rise to better-informed consultation and decision making.

I go back to the committee's stage 1 report. The report said:

“The budget process can only be as good as the information presented.”

As a local government officer, I am not too concerned with the information presented; of more interest to me is the process that lies behind the production of the expenditure plans.

In the chapter on local government in the latest annual expenditure report, I note that the Executive's overall aim is:

“To make sure that the highest quality services are delivered, and to work together to modernise local government.”

The “together” relates not to working together with local government but to the working together of the coalition partners.

Earlier this year the Scottish Executive and COSLA signed a partnership agreement, which was an explicit recognition by the Executive of the importance of local government, its legitimate democratic base and its vital role in developing the future of Scotland under the devolved Parliament. As members well know, COSLA is presenting evidence to the Local Government Committee's inquiry into local government finance. In doing so, COSLA is calling for the Scottish Parliament and the Scottish Executive to work with local government in true partnership and to deliver the national and local priorities together.

COSLA is proposing a new planning framework that should allow for a full and open assessment of how much money is needed for local government to spend on local services and of how that money can be raised. A collaborative approach to the development of the Executive's expenditure plans, coupled with the clearer presentation of information that the subject committees have called for, will allow for a more meaningful public consultation with the participative citizen, while giving the non-participative citizen some comfort

that his or her taxes are being wisely spent. In that way, the Parliament will realise the principles that it embraced and will anchor its accountability to the Scottish people.

The Convener: Your contributions have reflected the fact that you have all considered the budget and are aware of what is being proposed. Apart from being invited to give evidence today, have your organisations been able to participate in the past, by commenting either on stage 1 of this year's process or stages 1 or 2 of last year's process?

Julian Cowie: As I said, we had to decline an invitation from the Local Government Committee. We have certainly been involved with the CIPFA directors of finance working parties and I am aware of CIPFA's input.

Mike McLurg: I wanted to comment on this; I felt that it might have come up in questions to previous witnesses. There has been no consultation with the voluntary sector in Dumfries and Galloway. If consultation has taken place with the SCVO, it has failed to come down stream. Even if such consultation did take place, many organisations in the voluntary sector are not affiliated to the SCVO. Those organisations would want an input to the process, too, so my answer to the convener's question is no.

The Convener: I take it that both the Nithsdale and Stewartry CVSs are affiliated to the SCVO.

Mike McLurg: Yes.

Dr Simpson: The Finance Committee has been concerned about the level of information that we supply and the way in which we supply it. Can our witnesses identify areas of spend that will impact on Dumfries and Galloway? Do the budget documentation and the electronic information that is available allow you to comment on or understand how the budget will impact on this area?

Ruth Paterson: The budget information that I was able to read on the web was very general. It was not possible to extrapolate from that what resources would be available in Dumfries and Galloway. It did not provide much detail on what had gone before or what would be available in future budgets.

11:45

Dr Simpson: So you would be limited to making general comments. We know about the tension between ring fencing, which voluntary groups want, and not having hypothecation, which Mr Cowie would support.

Ruth Paterson: The section in the budget on the voluntary sector and equality does not include

a breakdown that would indicate how much money is allocated to councils of voluntary service, to local volunteering development agencies, to the unemployment voluntary action fund or to equality and ethnic minority issues. There is a budget of £10 million that is not broken down for us. I know how much is allocated to IT, to CVSs and to LVDAs, but I do not know the rest.

Dr Simpson: So you would like there to be appendices in electronic form that would allow you to see how the money was distributed, even if those did not include exact sums.

Ruth Paterson: Yes. I find it difficult to get a handle on the funding that is provided to the voluntary sector because it comes from many different sources. However, we should be able to have a better picture of the funding that comes from the Scottish Executive. That includes funding from the transport budget, from the environment and rural affairs department and from other departments. I would like that money to be brought together so that we could see what input the Scottish Executive is making as a whole.

Dr Simpson: The committee has taken on board the point that has been made about the need to draw together strands of the budget and to provide information of the sort that Ruth Paterson has requested, either in separate chapters or under the main subject headings. We will continue to work on that.

Mike McLurg: Dr Simpson mentioned ring fencing. If I have a disagreement with Julian Cowie, it is on that. The voluntary sector sees ring fencing in some arenas as a valuable measure that ensures that, at community level, money that the Scottish Executive has made available goes where it is meant to go. Julian Cowie indicated in his submission that ring fencing was not the preferred option of Dumfries and Galloway Council. However, it is our preferred option. In some cases, ring fencing is justified.

Alasdair Morgan: I note that Julian Cowie talked about unnecessary ring fencing. The implication of that remark is that if money had not been ring fenced the council would have spent it in other areas. Can you give us some indication of where the priorities of Dumfries and Galloway Council might have been different from those decided by the Executive?

Julian Cowie: Ring fencing can lead to a distortion on the ground. Although it may be a wonderful idea to have integrated passenger transport networks linking up taxis, buses and so on, that does not do much good if the roads are full of potholes. The crux of the issue for local government is that it should be accepted that national priorities can be delivered with local variations. Local authorities are quite different from

other types of spending organisations, as they have a legitimate democratic basis to their operations.

Alasdair Morgan: One point that we made at our previous meeting was that the second biggest single spend within the Executive is for local authority education, but none of the subject committees felt able to comment on that, largely because in this document it disappears under the local government heading. I understand that councils have democratic responsibility and want to make local variations, but do you think that it is good enough that the Scottish Parliament does not seem to be able to scrutinise education spending?

Julian Cowie: The Parliament must be assured that public money is spent well. Having said that, the same responsibility to ensure that money is spent well lies with the local authorities. There is a debate to be had here. What does the Parliament want from local government? Does it want local government to be an administrative arm or does it want local variations in service provision? The ability of local authorities to respond to the needs of their communities is greatly constrained if the responsibility for funding lies with another body.

At the moment, local government is asking for a change in the balance of funding to a 50:50 split between local and central Government. That could easily be achieved. I am aware that Arthur Midwinter is presenting a picture to the Local Government Committee of achieving that balance by removing services from local authorities. He is saying that, as a large part of the expenditure of local government relates to education, and the Scottish Executive wants to control that expenditure—as it currently tries to do through ring fencing and so on—we could remove that service from local government. Similarly, local authorities do not have that much discretion over the joint boards, particularly with regard to police expenditure, so we could remove that function as well. In one fell swoop, without the return of any other funding scheme to local government, we would have achieved that balance. It is for the Parliament to think about the role that it wishes for local government.

Brian Adam: There has been a tension between local and central Government for some time. Central Government says that it is giving local government a 3 per cent raise and local government points out that that money has been ring-fenced, which means that the raise is really a cut. How can we introduce clarity into that aspect of the budget process, which leads to significant debate every year? Do you think that the three-year budget process will do anything for that, or is that another matter?

Julian Cowie: You asked about clarity and the presentation of information. The annual

expenditure plans are a good attempt at getting some picture of outcomes. In all sorts of ways, less is more. It is a terrific task to present the finances of the whole nation in one document. There are deficiencies in the document in relation to identifying the sources of funding. However, I tried to make the point in my introduction that it is not really the presentation of the information that is the critical issue, so much as the processes that lie behind the figures that are arrived at. COSLA is currently presenting evidence to the Local Government Committee, calling for a new planning framework, where local authorities enter into a true partnership with the Scottish Executive to talk about national and local outcomes. That is the way to improve the budget process.

Mr Davidson: Given that we are pressed for time, I will roll a couple of questions into one. I want to thank Mr Cowie for his robust presentation of the council's position. How content is the council with the idea of three-year budgeting and will the process be effective? The second part of my question applies to the panel as a whole. Does three-year budgeting provide a more stable budgeting framework which ensures that those who wish to have a piece of pie can have input into and access to that framework?

Julian Cowie: We certainly welcome a three-year finance settlement as it gives us some stability and allows us to plan ahead. At a local level, it has allowed council members to agree to introduce budget flexibility arrangements which mean that departments can be a bit more creative about how they operate. In turn, the council has been able to give assurances to the voluntary sector about its longer-term funding. I am sure that Mr McLurg would welcome three-year settlements for his funding.

The Convener: Before Mr McLurg comes in, I want to ask Mr Cowie about whether Dumfries and Galloway Council intends to allow the three-year budgeting settlement to filter into its approach to voluntary organisations, in order to give them some of the sustainability that Ruth Paterson mentioned in her opening remarks.

Julian Cowie: If my memory serves me right, the council has already agreed to inflation-proof its funding to voluntary organisations. However, before the council fully extends that measure, it would want to assure itself that the operation of the organisations is sound. Through our new scrutiny processes, we will examine all the external bodies that we fund to ensure that the proper service level agreements are in place and that there are proper outcome measures.

The Convener: I fully accept that. However, as voluntary organisations in my constituency have asked me, how can the voluntary sector begin to plan ahead if it is not given something more long-

term than the typical one-year grant? Surely, even within the parameters that you outlined, the council now has the flexibility to give the voluntary sector a bit more leeway than it had before.

Julian Cowie: Patently, the sector needs that stability and the assurance of future funding to allow it to plan adequately.

Mike McLurg: Although we certainly welcome the three-year guarantee—if that is the right word—of core funding, that has not yet been turned into practice. I hope that when we receive this year's funding allocation, there will be some indication of three-year funding, but that hope has not yet come to fruition.

That said, one of the challenges for the committee is to look further than that. If we are to deal with long-term problems such as social exclusion and addictions, or the problems associated with mental health, some voluntary sector organisations need long-term funding to help them to plan strategically, not for next year, but for the next five years. We should consider long-term strategic planning and funding—perhaps over five or ten years; I will not pick a figure—in order to deal with long-term problems. That is what we are challenging the committee to think about.

For example, project funding from Scottish Enterprise lasts three years. However, six months before the funding runs out, staff are looking for jobs elsewhere because they are not sure whether they will have continuity of employment and whether the project will continue, even though it might be doing a good job in the community. We have to look after the morale and long-term interests of staff, as well as the organisation's core funding. As a result, the challenge is to find out how to provide funding and ensure planning for more than three years.

Ruth Paterson: I want to pick up Julian Cowie's point about service level agreements. Along with a wide range of voluntary groups, we met members of the Social Justice Committee. One of the issues that was raised was the amount of regulation of the voluntary sector—the consensus was that the sector is already over-regulated. We also made a great plea that voluntary organisations should be involved from the very beginning with the local authority in drawing up service level agreements instead of having those agreements imposed on us. Some distinguishing features of the voluntary sector are independence, the ability to take risks and the ability to work and achieve results with excluded individuals. We feel that going into service level agreements without respect from the statutory sector for those features would be detrimental to the work in the long term.

Mr Davidson: In answer to my question about three-year budgeting, Mr Cowie said that the

council enjoyed the flexibility and creativity that it gives, but in his evidence, he mentioned a concern about council tax increases. Will he explain the relation between the projections for council tax and the ability to have creativity and flexibility in the three-year, nominally-fixed budgeting?

12:00

Julian Cowie: We know how the grant from Government relates to our total expenditure, so we can fix our council tax. Our budget model has a number of nuances for new policy development moneys that are available for services and efficiency savings for departments. The budget flexibility allows service departments to draw down a bit of money from the following year's budget. In effect, they have a planned overspend in one year, which is financed from our balances without impacting on council tax. [*Interruption.*]

The Convener: Sorry for that slight interruption.

Mr Davidson: Are you saying that the council tax projections are the prime driver in driving down spending in specific areas—if that is necessary—to allow stable control of council tax? I am concerned about that relationship.

Julian Cowie: I do not follow the question.

Mr Davidson: Do you project ahead from your three-year budget, decide to cap council tax and use the flexibility to ensure that it continues to be capped when demands arise in the budget?

Julian Cowie: The idea of flexibility is to allow service departments to try to change service provision. If there is a need for a bit of spend-to-save to be incurred by a service department, the flexibility provides an opportunity to spend a bit more than is in the budget, with a view to realising savings in the future.

Donald Gorrie: The witnesses made some useful points about local government and the voluntary sector. We are aware of some of them because, through me, the committee has had a preliminary look at the funding of the voluntary sector. If we can find time this year to fit it in, we hope to have an inquiry into the funding of the voluntary sector.

We keep coming up against ring fencing. When central Government wishes to improve something money is provided, but if it is left to councils that does not happen. That might be for good reasons—Dumfries and Galloway Council might spend money on mending the roads that the Government thought should be spent on youth work—the decision is taken locally. On the other hand, inadequate core funding—which tends to be short term and involve jumping through hoops to get—is debilitating to the voluntary sector. Do you think that there could be a partnership approach in

which money would be allocated and the council and the local council for voluntary service could work together to allocate that money in a sensible way? Is the choice one between ring fencing and complete freedom, or is there a sensible way through the middle?

Mike McLurg: If we carry out our community planning process correctly and work in partnership, as we are doing in Dumfries and Galloway, there should not be a great gulf between us. Having said that, the local authority knows that the Scottish Executive will give it money year after year, even if the level of the funding changes slightly, while the voluntary-sector organisations are concerned that the council, on a whim, could cease funding them altogether. That has happened to voluntary organisations across Scotland for various reasons.

I hope that, through the community planning process, the council, the voluntary sector, the health board and the local enterprise company can work together and arrive at an agreed formula that will ensure that we can secure long-term funding. I advocate ring fencing. If the community planning process worked correctly, we might not need the ring fence, but until it is proven to work correctly, we will need ring fencing as a safeguard.

Elaine Thomson: You mentioned money for dealing with drugs problems. Around £100 million of such money was allocated earlier this year, not through social inclusion partnerships, but through health boards and local authorities. That money was not ring-fenced, although ways in which it might be used were indicated. What settlement has been arrived at locally? Has the voluntary sector seen that money?

Mike McLurg: Some of the money that came through the drug action team was allocated to social services to pay for rehabilitation work. That money has not been spent yet, as the social services are going through an open tender process. We are at the end of the first year of that funding and we are yet to spend a penny of it. Hopefully, that situation will be rectified shortly.

The voluntary sector does not have an automatic right to that money. The allocation of the money that came through the drug action teams ended up involving a bid process. We put in a bid for that funding, but we accept that when there is an open bidding process anyone can apply. There is a chance that the voluntary sector will be able to access that money, but there is no guarantee, even though I would argue that voluntary organisations are in the strongest position to deliver the relevant services in the community.

Dr Simpson: One of the sums from the Executive that was not ring-fenced was the money for carers. However, it was stated that the

voluntary organisations had to be told where that money was going to be spent. Were you aware of that? Did you know that you had the right to ask the local authority for information about where the money was going to be spent?

Mike McLurg: There is a forum in Dumfries and Galloway for continuing discussions on how that money is spent. Where the council or the health board spends that money is not a secret. I want to point out, however, that I would argue that the voluntary sector would use the money most effectively. Consultation does not automatically equal influence. There is a balance that must be struck.

Dr Simpson: Are you aware that the Scottish Executive is supposed to conduct an analysis of the local physical assets to find out what is needed to meet the requirements of the Regulation of Care (Scotland) Act 2001?

Ruth Paterson: No.

Julian Cowie: All sorts of mixed messages come from the Executive about funding.

I am aware of certain funding streams being within the block grant system, as part of grant-aided expenditure. The green book tells us that GAE is not an expenditure guideline and that local authorities are free to use their money as they choose. In Dumfries and Galloway, our budget philosophy is to say that if an initiative has been announced by the Government—even if it is within GAE—we will try to put it into the service. It is there for the service to use as it sees fit and, I hope, in the manner in which it is intended to be used.

The voluntary sector's working with local government boils down to trust in the outcomes. I am saying that you should trust local authorities to deliver on national priorities and that we should have some sort of partnership working arrangement. The same applies to the local authorities and the voluntary sector. They should talk to each other about the outcomes from the resources that are there and trust each other. We are in a mixed economy of service delivery and local authorities accept the fact that there are partners to work with in the delivery of services. Local government officers are not necessarily the best avenue for service delivery all the time.

The Convener: Again, we are against the clock, but I have a final question. An inquiry is being undertaken by the Social Justice Committee—which visited Dumfries and Galloway a fortnight ago to take evidence—and the Executive is undertaking a review of the funding that it gives, although only a minority of voluntary sector funding comes from the Executive. Have any of you been involved in either of those inquiries?

Mike McLurg: We met the Social Justice Committee in Lockerbie three weeks ago and put across our points of view, some of which we have reiterated today and some of which are wider than the remit of this committee. We have been consulted in that process.

Julian Cowie: I have not been involved, but my colleagues in social services may have been.

The Convener: We must move on to our third set of witnesses. I thank the previous witnesses for giving of their time to be here today. The information that you have given us will be valuable when we compile our report on stage 2 of the budget process.

I welcome Laura Morrison, who is director of finance at Dumfries and Galloway Health Board; Russell Marchant, who is principal of Barony College in Dumfries; and Tony Jakimciw, who is the principal of Dumfries and Galloway College, which is also in Dumfries. I invite you to make short, opening statements.

Laura Morrison (Dumfries and Galloway Health Board): My statement will be very short. I am not familiar with the proceedings and have prepared no formal statement. I came expecting just to be questioned.

The Convener: That is fine.

12:15

Russell Marchant (Barony College): I will give a brief introduction to Barony College. It is a specialised, land-based college that was established in 1953 to deal with agricultural education. Since the early 1980s, we have diversified to serve a wide range of land and animal-based industries, such as engineering, forestry, horticulture and veterinary nursing.

We are the smallest further education college in Scotland and we service a Scottish, British and international market. Fewer than 50 per cent of our students are from Dumfries and Galloway, although we believe that we have a vital role to play in that rural region. As a specialist college that is focused on a market niche, we do not fit the standard model of a Scottish further education college—that is, one that provides general further education to a local community. We consider our local community to be all Scotland's rural communities.

To appreciate the impact of the 2002-03 budget on my organisation, it is important to understand our recent funding history. From 1997 to 2000, our grant in aid decreased by 14 per cent while our educational outputs increased by 26 per cent. In the first year of the Scottish Further Education Funding Council, the move towards real-time funding linked to target outputs produced a 24 per

cent increase in funding, followed by a 13.6 per cent increase in the current year. Our outputs have continued to grow by another 29 per cent over that two-year period.

We have benefited greatly from the new funding methodology, but we believe that it has merely righted the wrongs of the previous years. Without it, we would have been in severe financial difficulty. The significant increase in FE funding that the Executive provided for the previous financial year and this financial year has enabled us merely to get back on an even keel. We have been unable to generate significant surpluses, to accumulate reserves or to avoid cash shortages.

Barony College believes that enormous demand exists for its services, as is evidenced by its sustained growth in recent years. There is great potential for further growth and development in serving rural industries and communities, but SFEFC's funding methodology is a limiting factor. We are, in effect, capped on our outputs. Barony College exceeded that cap last year and will do so again this year, but we cannot afford to keep doing so and will have to limit our outputs in the absence of change. The sector achieved 98.3 per cent of its target output in 2000-01.

FE colleges are funded via SFEFC, whose interpretation of the letter of guidance that the minister issued impacts on colleges. Recent public investment in FE colleges has funded a major expansion of available college places, which has averaged 10 per cent per year. Barony College has certainly contributed to that and would do more if it were given the funding.

The investment has also funded a programme of modernisation of colleges' fabric and facilities, which has started to redress the historic underfunding of the sector. Barony College has many excellent facilities, but more than 50 per cent of our teaching is still carried out in portakabins that are more than 20 years old.

Public investment has also funded the introduction of a period of greater financial stability and security—or so it is claimed. The Auditor General for Scotland's recent report on the FE sector clearly identifies its current state: 34 of the 43 colleges record operating deficits. Although Barony College is not identified as having financial health problems, we are constantly managing cash flows and are not robust enough to withstand a financial downturn. We do not feel that we have entered a period of financial stability and security. Colleges have been advised to use the increased funding of last year and this year to build up reserves, but that has not been possible. Indeed, to be told—as we were this year—that commercial and public organisations should have planned for foot-and-mouth disease in their risk analyses and therefore should not expect special financial

support is frustrating, to say the least, and demonstrates a lack of understanding. The Executive's desire to achieve greater social inclusion is understood and accepted. However, the use of an outdated postcode analysis that is based on morbidity and mortality rates does not help rural Scotland. There are only three qualifying postcodes in Dumfries and Galloway and none in the Borders.

We must address rural deprivation and rural inclusion issues. The delivery of education and training in a rural environment is often more difficult and more expensive than it is elsewhere. If the Executive wants equality of opportunity throughout Scotland, that must be addressed. As the Scottish Further Education Funding Council recently pointed out in its evidence to the Enterprise and Lifelong Learning Committee's inquiry into lifelong learning, it is far less expensive to recruit and deliver to new learners in large cities than it is to do so in rural Scotland.

Added to the cost of rural provision, which is the core of everything that we do, is the cost of specialist land-based provision. Scotland has only three colleges that specialise in land-based further education. The current activity-based funding methodology is under review. If the consultants' initial recommendations are followed, we will see the demise of specialist facilities such as ours. Although I would never deny the need for general FE colleges, Scotland also requires specialist centres of excellence. If land-based colleges do not survive, experience suggests that they will be replaced with low cost, low-quality provision.

Further education in Scotland should consist of a mix of colleges that reflects the mix of communities and industries in Scotland. We need successful, well-resourced general FE colleges in cities, but we also need them in rural areas. We need specialist centres of excellence, not only in microelectronics, but reflecting the wide range of industries in Scotland. There must be a place for specialist high-quality provision.

Student funding is a confusing mess and inequalities persist. Bursary funding for FE students is still distributed on historic grounds. Many parents are still worse off sending their children to FE colleges than they would be if their children went to university.

In conclusion, while the Executive has rightly increased FE funding in recent years, it must continue to increase it if we are to achieve the goal of creating world-class further education in Scotland. The budget for 2002-03 and for the following year is cause for concern, because it allows for no further improvement to the current position. The further education sector can help Scotland to achieve real social inclusion and rural inclusion, but it needs the resources to do so.

Tony Jakimciw (Dumfries and Galloway College): Although I share my colleague's pain, I will try not to repeat some of his comments.

Dumfries and Galloway College is a general purpose FE college. We serve a very large catchment area of 2,500 square miles. Consequently, we provide a wide curriculum, because if we did not do that, nobody else would. I will confine my comments to the overall impact of the budget. The budget is skewed by the fact that it is allocated through the mechanisms of the Scottish Further Education Funding Council, so predicting how effective that budget—or its impact on the college—would be depends upon decisions that SFEFC might make.

My first reaction is that growth of 2.8 per cent will have a serious impact on payment of staff at the college. The college has already lost two members of staff this year, who have decided—because of the McCrone settlement—to retrain as primary, not secondary, teachers. One was a graphic art designer and the other was a lecturer in business studies. The differentials are ever widening and—with those settlements—will widen further. That is of great concern to the college in relation to recruitment and retention of staff. That is also a sector-wide issue.

The budget, as described on the Executive's website, is intended to achieve growth in certain areas—those that are related to widening access. The target groups that it is intended that growth should reach are the most expensive, costly and difficult people to engage and continue to support. On the funding methodology, funding is always offered in return for growth. Although we might get more money, we must produce more, but that is increasingly difficult to achieve. It will be extremely challenging for the college and the sector in general to meet those needs in future.

As Russell Marchant said, that is even more challenging in a rural environment, because we have the same problems of social disadvantage, but they are not concentrated in a specific postcode area. We are one of two regions in the UK that has declining incomes per family, but that does not show up in any of the indices that are used. The costs of meeting those needs are real and they are extreme.

Although we are told that we can use things like information and communications technology, which we do, the cost of implementing that infrastructure is immense and it is beyond the budget of any one college in Dumfries and Galloway.

Like Russell Marchant, I welcome the increase in student support. That has been important in helping the college to achieve growth, which it has done over the past three years. However, that has

not led to significant increases in income—our growth targets always exceed our income. Student support is important, but it is also important to note that it involves costs. The college administers at least eight funding streams on behalf of the Executive. Those streams are all extremely complex and require an immense amount of time with and support for individuals to help them to unravel whether they are entitled to student support. I have had to employ three additional staff to administer and support that. Other than delegated funding, we get no additional recognition for those costs. The funding is not ring-fenced as an additional cost and we are not allowed to use student funding for bursaries or student support. We must therefore find it from our core budget.

If I apply the objectives and targets that are identified in the draft budget to Dumfries and Galloway College, I have no doubt that we will continue to achieve the growth that has been projected for us. However, that will be at an increased cost that will have a direct knock-on effect on our budget.

We are a college in financial difficulty. Two years ago, our deficit was nearly £1 million. During the past year we have reduced that deficit by £600,000 and in another two years we expect to have a small surplus. However, achieving that will involve restructuring and downsizing the college. We are in a catch-22 situation because we must grow to get more funding. I do not believe that the target of 85 per cent of colleges reporting a surplus is achievable under the current funding regime.

In conclusion, I have no doubt that the sector will continue to meet the Executive's targets. However, we are now stretched to the limit and a funding methodology that involves continued growth for less money can continue only so far. I do not think that the sector can go much further with it.

The Convener: This question is for both principals. Is your college a member of the Association of Scottish Colleges?

Tony Jakimciw: Yes.

Russell Marchant: Yes.

The Convener: To what extent has your organisation been asked for its views by any of the committees of the Parliament that are dealing with the budget? Have you engaged with the budget process by offering your views prior to giving evidence to the committee today?

Tony Jakimciw: I have not been involved in that process.

Russell Marchant: I have been involved only through the Association of Scottish Colleges.

Laura Morrison: This is my first engagement with the process.

The Convener: Does that apply to Dumfries and Galloway Health Board as a whole?

Laura Morrison: Yes.

The Convener: As ever, we are short of time. I will move straight to questions on lifelong learning in particular.

Mr Davidson: My question is for the two college principals. You both made reference to SFEFC and to where you see some of the difficulties coming from. In the strategic interest of lifelong learning in Dumfries and Galloway, do you feel that the structure of two separate funding bodies—one for higher education and one for further education—delivers for your area?

Tony Jakimciw: The answer depends on what the alternative would be. The focus needs now to be on FE and it is important to maintain a separate focus. I believe that the intention is to merge the two funding councils in the future. I do not believe that the time is right to do that because there are many difficulties to be resolved.

Russell Marchant: I agree with Tony. At the moment, the further education sector is better served by having a further education funding council to concentrate on FE in the short term. That is in spite of the problems and disagreements that we might have with some of the methodology coming out of SFEFC.

Mr Davidson: You both say that separate funding councils doing their own thing would be more useful.

Russell Marchant: Separate funding councils are more useful in the short term. The change to a tertiary funding council in the medium and long term is harder to judge.

Mr Davidson: My second question is on how colleges cope with budgeting. We have heard a clear exposé of the difficulties that you face. Given what you said, would it benefit you to have direct input into a process of longer-term budgeting? That would mean that you did not jump from year to year on short-term contracts, particularly staff contracts, which would avoid difficulties in recruiting staff.

12:30

Tony Jakimciw: That is strategically important. We work increasingly in collaboration with partners from the voluntary sector, other public sector bodies and the private sector. Each partnership seeks sustainability, but the college cannot provide guarantees for longer than a year. Even from that point of view, longer-term budgeting would make a tremendous impact on us.

Having some certainty about the amount of money that we will receive and, more important, what we can spend it on is a huge issue for us. The SFEFC ring-fences much of our funding. From year to year, we do not know what it will ring-fence. If the council gives us money for ICT, we do not know whether we will receive the same amount of money or none the next year. The three-year picture would be helpful.

Russell Marchant: I agree. We are asked to submit three-year strategies and three-year financial plans, but we do not know more than 12 months ahead at best what our core funding will be. Anything that gave us more predictability would improve the quality of planning and management in our organisations.

Alasdair Morgan: Mr Marchant said that the SFEFC said that foot-and-mouth disease should have been factored into his college's risk analysis. That is the first time I have heard that story. When was it said? Who said it? Were they being serious?

Russell Marchant: I assume that the comment was serious. It was written in a response from the chief executive of the SFEFC to a local member of Parliament who asked, on behalf of Barony College, what was the funding council's attitude to the foot-and-mouth outbreak. I think that that was in August 2001. We have consulted the funding council about the foot-and-mouth outbreak since March, because the outbreak severely affected our operations and our students.

Alasdair Morgan: Has the funding council since responded more positively than it did in the letter that you mentioned?

Russell Marchant: No. We have received no positive responses. On 22 September, SFEFC asked all colleges to submit reports on how the foot-and-mouth crisis had affected them. We did that and I am sure that Tony Jakimciw's college did it. We have heard nothing since then.

Donald Gorrie: Because of the financial system, I am not clear about the extent to which decisions in colleges and perhaps nationally are made on financial grounds or on policy grounds. Do you run courses that will allow you to obtain a certain amount of money, or do you decide that society demands that you should run certain courses, for which your money allocation will pay?

Tony Jakimciw: It is the local board of management's responsibility to establish the curriculum provision of the college. The board works with other agencies to identify demand. The policy steer comes through the funding council's ring-fencing mechanism. For example, the council has decided that the funding allocation will contain a premium for social inclusion based on postcodes, so the board will set a target for

increasing the number of students that come from those postcodes. Some policy steers are aided by the funding methodology, but policies and strategies are largely local decisions. The problem is that, although we write three-year strategic plans, the funding allocation that we receive does not necessarily bear any resemblance to those plans.

Elaine Thomson: I wear two committee hats—my other being that of a member of the Enterprise and Lifelong Learning Committee, which is carrying out an inquiry into the future of lifelong learning in Scotland. Various people to whom I have spoken say that there seems to be no overarching Scottish strategy for lifelong learning. Do you have any views on that?

Russell Marchant: It is certainly of concern within the further education sector that in the early years of the new funding council the concentration has been on funding methodology and producing equations to distribute funds, rather than on providing the sector with strategic direction or on rewarding colleges that are able to accept strategic challenges and can move things forward. That vacuum does exist to a certain extent within our sector.

Tony Jakimciw: Although Russell is correct about the methodology, I believe that a strategy is increasingly apparent, which is associated with achieving lifelong learning and is about upskilling and targeting certain areas. I would not necessarily say that all the agencies are working from the same sheet to achieve that, or that we are achieving either the best fit or the best value for money. However, more and more cohesion is developing as time goes on.

The Convener: We should move on to health matters.

Elaine Thomson: I wanted to ask about the Arbuthnott review, which changed the method of funding for health boards throughout Scotland. That review was about moving to a needs-based approach, as opposed to a demand-based approach. How has that impacted on you?

Laura Morrison: We gained about £1.2 million through the first redistributions of the Arbuthnott allocation, which was welcome. It is hard to imagine how we would be managing now if we had not gained that. Day to day, we feel the impact of having quite a dispersed population and of the cost of providing services in locations that are far apart. There are not the same economies of scale as elsewhere and there is always conflict between local access and efficiency. We welcomed Arbuthnott.

Elaine Thomson: Has it been a generally positive move for you?

Laura Morrison: Yes.

Elaine Thomson: Obviously, Dumfries and Galloway is a very rural area and—as you say—because the population is scattered you do not have the same economies of scale. Does the current Arbuthnott formula and the way in which it distributes funds cater adequately for rurality?

Laura Morrison: In the initial Arbuthnott calculation we were set to gain more than £4 million—obviously we liked that one a lot more. It is difficult to answer the question. Despite the high rate of growth in health funding, we are experiencing cost pressures in next year's budget. We are still finding it difficult to balance the budget and if that is caused by rurality, we would welcome more account being taken of that factor.

Elaine Thomson: In general, the Finance Committee has been trying to have a more open budget process—being here today is part of that. Has the health board moved toward having a more inclusive budget process and toward trying to involve people in setting strategic priorities?

Laura Morrison: Our budget process has, in effect, been about anticipating the cost of what we provide so far—those things that are already committed to. That has not left any money for future prioritisation. We have had prioritisation exercises using the development money, in which we have invited the health sector, the local authority, the voluntary sector and the public to participate; however, that money is just the marginal funds. We have not got round to long-term strategic redistribution of resources between programmes. We can see that that is the direction that things will go.

Brian Adam: I want to return to the Arbuthnott formula. What was your or your organisation's involvement in the discussions on the original Arbuthnott report? You indicated that you preferred that report to the final report, as did a number of health boards. Were you involved in the discussions on the final Arbuthnott report? Was the process open and welcome?

Laura Morrison: We submitted comments on both stages of the Arbuthnott report. I imagine that every health board lobbied for a special area in which it felt disadvantaged. It would have been up to the committee experts to try to balance things out.

Brian Adam: I have an unrelated question. In the past year, the Scottish Executive had a significant underspend of £718 million. Were you involved in any way in discussions on how that additional money might be used, taking into account end-year flexibility? Should you have been involved? Do you have the capacity to spend additional moneys at relatively short notice? That question should also be put to the further

education sector. Can priorities be thrown into play? We heard that new drugs money in Dumfries and Galloway has not been spent this year because there is no system through which to spend it.

Laura Morrison: There was about £1.5 million involved. All of the money that had been allocated to Dumfries and Galloway for ring-fenced purposes had not been spent by the end of the year. That was because of the time taken to get projects running, particularly from the health improvement fund. The participation of community planning partners meant that it took much longer to get consensus on projects. Community care moneys were allocated late in the year and could not be spent meaningfully before 31 March. We had a large ring-fenced carry-forward into this year, which was part of the general underspend. We will spend that this year. We are hoping to carry forward into next year some of the additional large tranche of money that has just been released because of the perceived forthcoming financial difficulties. We want to balance between the two years.

The Convener: I think that you were in the room when the drug action team was mentioned. Is the ability to spend that money specifically on the drug action team still a problem?

Laura Morrison: I am not aware that it is. There has been some slippage in the money, but it is being considered for something else that is non-recurring this year.

Alasdair Morgan: There is a specific problem in Dumfries and Galloway in that it has the lowest dentistry coverage on the mainland. Would extra cash help to improve matters? If so, is there any mechanism whereby extra cash can reach dentistry?

Laura Morrison: The primary care trust has asked for a salaried dentist to be set up to supplement the provision of private dental practitioners. That would be one mechanism. Other matters, such as local training to attract students back to the area, are being considered.

Alasdair Morgan: Do you simply address the issue within your own resources or do you need extra funding? If so, what is the mechanism within the Arbutnott formula to get such funding?

Laura Morrison: Extra funding would not come through Arbutnott. General dental services are non-cash-limited, so the budget is, in effect, managed centrally. If we do not have as much national health service provision, we do not claim so much against that budget. It is for the centre to divert money to a salaried post to equalise what we are getting.

Donald Gorrie: I wonder if you could help crack

a problem that MSPs face. When we ask questions about health, ministers say that they do not have the information, but that the health boards have it. Could things be more open? For example, I understand that nobody can say how much is spent on cancer in Scotland. Everybody agrees that things are not done well, but nobody has any idea of how money is spent. We do not have the factual base to improve matters. Do you think that there could be a more open way for the health board to explain things? How are you accountable? Are you accountable to the minister or the health department? What is the system and how could you improve it?

Laura Morrison: On the lack of information—and you have probably had this rehearsed to you before—I could tell you what we spend on specialised treatment for coronary heart disease, including coronary bypasses and drugs specifically for heart disease. The trouble is that we do not have the same detailed information on how time is spent in a general medical or surgical ward, in a general practice or by district nurses out in the community. To collect that information would be a huge exercise.

12:45

To improve the situation, information systems would have to be introduced to make it easy to extract that information. However, asking front-line professionals to fill in lots of sheets of paper and to try to collate them would detract from patient care and would be somewhat arbitrary in the end. It looks as though it could take three to five years to get the basis for proper information on our care programmes. They will be required to be specified clearly in advance and not changed if we are to gear up our information recording.

We are accountable to the health department and the minister through an annual accountability review process, which has recently been strengthened by the issuing of a performance assessment framework that cuts across a range of different areas. Some of those are to do with health outcomes, and others are to do with how we achieve health outcomes such as inclusion, consultation and staff governance. That is a more robust system than the one that was in place in the past.

Dr Simpson: There is a tension between the desire of the Executive to have its national priorities driven forward and the needs of the local health boards to maintain their services in line with local demand. You seem to be hinting that you are going to use EYF to cope with pressures next year. You are aware of pressures that are coming up, which will require you to carry forward some money. Given the amount of additional money that is being invested in the health service, do you feel

that you are meeting the expenditure on junior doctors' hours, the working time directive, the underspend on capital reinvestment in equipment over the past X years and the under-provision and under-establishment of staff—all the things that have not been addressed because of underinvestment in the past? Is there going to be any money left for developments in the next year?

Laura Morrison: There will be developments next year, such as the new day-case and maternity project, which are commitments that were entered into previously. However, as well as the pressures that you have alluded to, the increase in the employers' superannuation rate will cost us more than £1 million next year and is absorbing all surplus funds. There will be some core developments over the next year or two, but the other pressures—especially pay pressures—are absorbing anything that is left. We predict a very difficult financial year next year, but by 2003-04, if the indicative allocation that we have been given stands, we will be in a position to start considering the use of new, non-ring-fenced money in some areas. New ring-fenced money has already been received for example for cancer and health improvement.

Dr Simpson: In effect, you are saying that all those pressures—you mentioned an increase in the superannuation rate—mean that, although the figure for the increase in funding is around 6 per cent, which is supposed to be making things better, the significant increases in the first two years will be absorbed in just standing still, except for the opening of the maternity unit.

Laura Morrison: We have introduced other services, such as a new old-age psychiatrist and boosts to the service in that area. There are small areas where we have developed, but we are not considering anything fresh for next year on top of the commitments that we have already entered into, because of the financial projections.

Dr Simpson: What are your worst problems regarding waiting times?

Laura Morrison: The biggest pressure is on the orthopaedic waiting list. People are approaching the 12-month stage. We are just managing to keep on top of the situation, but that will become more difficult as the population ages.

Dr Simpson: Is there any prospect of that situation improving before 2003-04?

Laura Morrison: We are in discussions regarding how we can bring in another orthopaedic consultant. We are trying to find ways of financing that.

Dr Simpson: My final question is on delayed discharges, which are another pressure on the system. Do you have a problem with your local

partners in ensuring the adequate use of money in the local authority GAE and resource transfer budgets for community care? Is all the money spent on what it is supposed to be spent on?

Laura Morrison: We have worked well in that area. The augmented support team for delayed discharges was funded from social services money in the first year, although there was some NHS money, and there have been examples of things going the other way. That is an area in which we are working quite well. We do not have a significant problem with delayed discharges partly because we have so many community hospitals.

Mr Davidson: How is your demand trend running here? Do you feel that it has any impact on the way in which the national budgets are produced?

Laura Morrison: I do not think that we are out of line with other areas in the demand for health services.

Mr Davidson: Are you talking about a 10, 12 or 13 per cent a year increase in demand?

Laura Morrison: No. Those figures are probably correct for accident and emergency services, but the figure for other areas is between 2 and 5 per cent.

Mr Davidson: Do you feel that enough attention is being paid to the demand side of the health service in the way in which national budgets are pulled together?

Laura Morrison: I have concerns about the introduction of high-cost drug treatments and about the technology pull as well as the demand pull.

Elaine Thomson: You said that you have a high number of community hospitals here, which is reducing the pressure from delayed discharges.

Laura Morrison: It certainly helps to have that capacity. At the height of winter, when almost all the beds in the infirmary are full, there is the opportunity for step-down care.

The Convener: There are no further questions. Perhaps the morning session is beginning to take its toll on the committee. We shall meet the Minister for Finance and Local Government this afternoon, and I invite the witnesses to stay for that if they are able. Thank you for the evidence that you have given to us and for answering our questions in full, which we very much appreciated. We feel that that is an important part of the process, and we hope that you feel that too.

12:52

Meeting adjourned.

14:16

Meeting resumed in private.

14:34

Meeting continued in public.

The Convener: I am pleased to welcome Angus MacKay, the Minister for Finance and Local Government, and David Palmer from the Scottish Executive finance and central services department. Thank you for being with us today for part of our outreach on the budget process. We have two items to deal with this afternoon, and I intend to have a five-minute break between them. On each item, I will invite the minister to make an opening statement before we move to questions. The first is the budget process for 2002-03.

The Minister for Finance and Local Government (Angus MacKay): Thank you for the opportunity to attend today to provide evidence on the draft budget.

The draft budget, which has been circulated, outlines the Executive's spending plans following consultation with committees, the Parliament and the wider public. In this year's budget, we have begun the process of trying to produce a suite of documents in a consistent format, to ensure that our spending initiatives are transparent and accessible. The draft budget rolls forward the plans that were in the detailed version of the annual expenditure report. I am determined to build on current momentum to ensure that our spending plans are focused, flexible and effective, so that expenditure is allocated in a manner that matches the priorities of the Executive and the people of Scotland.

My budget statement of 28 June, which followed stage 1 of the budget process, presented a package that not only allocated the extra £200 million from the Chancellor of the Exchequer's budget statement but included an extra £289 million as a result of realignment within existing budgets. The reallocation demonstrates, I hope, how serious I am about ensuring that all departments in the Executive contribute to our spending priorities and are prepared to make hard choices.

Almost 90 per cent of that £489 million has gone on the Executive's top priorities of health and education. That includes allocations of £231 million to health to boost services and pay for free personal care; £99 million for education and children; and £9 million for further and higher education.

Realignment is continuous. It is a rolling process and reflects the Executive's flexible and focused response to spending as a means of delivering our key priorities. In my statement on 28 June, the

budget consequentials that were allocated for drugs were carried under the justice banner. Of the drugs allocations, £6 million went to assist other programmes in the fight against drugs, and details were published on 19 September: £4 million went to health, to help with additional treatment of drug-related conditions and to go towards the Scottish communities against drugs project; and £2 million was transferred to education, to go to the voluntary sector and to be used to fund anti-crime, sport, leisure and recreation projects for the young.

Such reallocations support the Executive's cross-cutting approach to drugs. In particular, we are seeking to combat drug-related problems on three fronts: we want to reduce the level of drug-related crime; to treat addiction; and, through health and youth education projects, to prevent addiction.

I hope that what I have said shows that our continued revision of spending allocations—year-round and throughout the three-year comprehensive spending review period—is central to a responsive and flexible fiscal policy.

Turning to the Scottish spending review 2002, the early stages of a UK spending review have already begun and are due to be completed in July 2002. During our spending review, we intend to ask each department to scrutinise its existing expenditure as fully as possible. That means that each department will have to justify its spending. Again, hard decisions will have to be made. I am certainly encouraging my colleagues to use, wherever possible, a priority-based budgeting approach—we discussed that matter previously during a private session.

The process of using such an approach will, I hope, help us to move towards an output-based and outcome-based system. It will take time to specify fully all the outputs of our spending and to agree sensible definitions with departments. I would expect my colleagues to make good progress in defining key outputs for most programmes by the end of the review in autumn. The development of key objectives and measurable targets by which departments' performances will be judged is an incremental process, as I have said before.

The spending review for 2002 will be completed only after the next budget round is well under way. The newly commissioned annual expenditure report has requested that particular attention be paid to improving the aims, objectives and targets that are set out in the document. I hope that progress towards the better framing of performance measures will be much more evident in the next budget round.

I turn now to the format of next year's budget

documents. I am pleased that the committee has acknowledged the improvements that we made to this year's annual expenditure report. Many of those improvements will be carried forward into next year's budget documents. We will continue to produce both a detailed and a summary budget document. The summary document will again be designed with a wider public audience in mind. We intend to use a style editor to ensure consistency and to follow the Plain English Campaign guidelines. We will again publish the document electronically, with hyperlinks to associated websites. At the committee's request, we intend to include extra information in the document.

The private finance initiative/public-private partnership table containing information on the capital spending on private sector projects will be reinstated in the annual expenditure report, as requested. For each capital programme we will provide an annual statement of the extent of existing commitments. Beyond that, we will provide an estimate of the scale of resources that are available for reallocation across programmes, as requested, and we will publish a table that brings together our sources of funding, again as requested.

I agree with the committee that the content and presentation of the budget documents should emphasise what we are achieving and intend to achieve with expenditure, rather than the amount that we spend. I hope that continued dialogue with the committee will ensure that our shared objective is achieved and that there is progress both on specific initiatives and on ensuring a general movement towards output-based and outcome-based budgeting. I hope that the committee agrees that the discussions that we have had so far, although not always resulting in complete agreement, have resulted in changes and improvements at each step of the way.

The Convener: Thank you, minister. The committee agrees that over the past two years considerable improvements have been made. It is very pleasing to hear you presage the changes that will be made in the 2002 annual expenditure report.

You talked about achieving consistency in the presentation of budgetary information. Does that mean that you intend to address the point that the committee has made to you about asking departments to present information in a common format, so that comparisons can be made across departments? Is that what you had in mind?

Angus MacKay: There are a number of ways of ensuring that the information that is available can be read across clearly and is transparent. We need to explore those. I am not entirely sure what progress departments have made towards being able to present their information in the way that I

have described, but I recognise that you have made an important point, convener. We want people to be able to get into the bowels of the budget documents and to be able to read across them consistently. We need to establish an operating regime that applies to all departments as well as to the document as a whole. I am broadly in agreement with what you said, convener, and we intend to move forward on that front.

The Convener: We accept that there are differences between departments. We will come on to those when dealing with departments' responses to stage 2 of the budget process, which were far from consistent.

Brian Adam: You referred earlier to your announcement on 28 June of realignments of £289 million. Can you give us a breakdown of those realignments? Which ones resulted from efficiency savings that allowed services to continue and which from cuts that led to services being scaled back or discontinued?

Angus MacKay: None of the realignments led to a reduction in services. All were the result of savings that did not involve cuts in services.

Brian Adam: So there were no cuts in services.

Angus MacKay: That is correct.

Brian Adam: Were any of the realignments a consequence of programmes that were delayed or deferred?

Angus MacKay: Some of them were. I can run through some of the areas where realignments were made. We made savings of £40 million in the schools curriculum IT budget, for example. That reflected an entirely changed approach by the Executive to the way in which it intends to deliver broadband infrastructure to schools. That investment will now come from the capital modernisation fund, rather than from mainstream education budgets.

That does not result in a net reduction in expenditure in education or in the loss of the broadband infrastructure project or proposals for education. It allows us to free up the £40 million that was within the education budget and to use the capital modernisation fund instead. The capital modernisation fund and the modernising government fund are two closely related policy action areas for which we received in-year additional funding from the Treasury. In the example I have given, there has been no reduction in service and no damage to the intention of the policy proposals, but the change in approach has allowed us to free up expenditure.

The transport budget is another example. I am sure that members are familiar with the lively debate about the trunk roads maintenance contracts; we are now seeing that being played

out and the level of service being put into play. The award of those contracts has resulted in savings of £45 million over the three years that we are talking about. We have been able to deploy that £45 million elsewhere in the budget. There has been no reduction or cut in service. The savings have been freed up by the award of those contracts.

14:45

Most of the savings in the justice department's budget—£20 million—are from funding that had been set aside to deal with claims under European convention on human rights legislation. It became clear that the amount of money that is needed for claims is much lower than had been anticipated when that budget head was set. We were therefore able to make savings from that area without any damage to either service delivery or the award of money for claims.

We were fortunate to find £30 million of savings in the enterprise and lifelong learning budget, which arose from an accounting change in the way in which student loans are scored, which was agreed by the Treasury. Again, that does not change, damage or reduce the way in which student loans are structured or available for use, but it frees up £30 million to reconfigure into other services.

A range of areas right across the departmental budgets allowed substantial capital to be made available without damaging services or reducing the level of service provision.

Brian Adam: Do you see this as a regular exercise that might realise such savings at no expense to programmes or services? Is it just a one-off successful realignment as a result of close scrutiny?

Angus MacKay: By using the term "realignment" you are talking my language, literally, Mr Adam.

I hope that we will revisit the exercise on more than one occasion; this was our first attempt. Given that it was the first attempt, it was relatively easy to find resources with which to make additional investment elsewhere in the budget.

Throughout the budgeting process—whether through the CSR rounds in the new year or through the annual budgetary adjustment process—I expect the departments to look constantly at their baseline budgets to see where underspend might be occurring; where resources that have been allocated are no longer needed; and where policy priorities have shifted and what might have been a priority two, three or four years earlier is no longer a priority.

In a budget flow of around £20 billion it should

be possible most years to find a degree of flexibility. That flexibility should be relatively painless, although sometimes it might reflect harder choices that have to be made.

Your question was about whether we will always be able to carry out the exercise without cutting services or affecting the way in which services are structured. The difficulty in answering that is that it will be determined by the level of moneys that we wish to take and move from one budget area to another and how much resource we want to shift around for whatever purpose. If there were a short or medium-term policy priority that required substantial investment, trying to switch substantial amounts of investment across budgets may well result in difficult decisions having to be taken. That is determined entirely by how much money we choose to shift.

Brian Adam: Do you have it in mind to formalise the process in the same way that the health service was given the challenge of achieving efficiency savings—of 3 per cent, I think—year on year? Do you envisage the Minister for Finance and Local Government—either you or a successor—adopting that approach? Are you going to set goals and targets?

Angus MacKay: I have in mind the formalisation of the process in so far as we want there to be a clear, consistent and understandable approach to annual budgeting. However, I do not intend to require departments to find a percentage of efficiency savings or budget savings.

That is the sort of exercise that arose from time to time in the past, both in the old Scottish Office and in local authorities, when substantial budget reductions were being contemplated. We are not, by any stretch of the imagination, in those circumstances. In fact, our difficulty is to cope with the large volume of additional resources that are flowing into the public sector at the moment. I do not envisage imposing an annual percentage reduction on individual departmental spending levels. However, I hope that the responsible ministers and senior departmental officials will regularly evaluate their budgets to see where they can make turning room in their budget headings. That is quite apart from the additional resources that may be available as a result of allocations from the Chancellor of the Exchequer's budget or from corporate savings across the Executive as a whole—whether as a windfall from accountancy changes or for other reasons.

I hope that there will be rigour in how we set budgets and how the budgetary process is conducted. Beyond that, departments will try to find pockets of expenditure within their own budgets that could be realigned.

The Convener: Thank you for that helpful and

clear explanation of the situation, which I know will be welcomed.

Dr Simpson: Those were helpful answers, but I have a supplementary question. As part of the process of clarification that you are adopting, will it be possible to distinguish between budgets that are realised on a one-off basis, such as the £40 million capital modernisation fund switch to education, and the realisation of permanent structural money—in other words, constant revenue? For example, you said that £231 million has gone into the health budget, some of which must have come from the realignment. If that money is to be spent on permanent structural revenue that cannot be altered much, as opposed to one-off capital, we need to know whether that money is coming out permanently. I welcome the fact that you are not setting efficiency targets, which were very destructive latterly in the health service, but efficiency gains clearly have to be made. However, if they are one-offs and are transferred into revenue, that will give us a revenue problem in future.

Angus MacKay: None of the switches is a one-off. They are all switches within baseline budgets, so the decisions that are taken are recurring and durable changes. Let me be clear about this. If I understand you correctly, you are asking whether, in that three-year period, there are any one-off switches whereby, once that £40 million is spent in year 1, the money is not available in year 2. The answer is no. There are no switches of that sort.

Dr Simpson: Can I elaborate a little on that? In the transport example that you gave, we have saved £45 million on a maintenance contract over three years, so there is £15 million to be switched somewhere else for three years. Suppose that it goes into the health service to employ nurses. At the end of the three years, unless we find the money from somewhere else, that funding for nurses would come to an end.

Angus MacKay: No.

Dr Simpson: I know that the money goes into the general budget, so it will be lost. Do you follow my point?

Angus MacKay: David Palmer looks as if he would like to comment on this point. The reason why we have been able to make a £15 million saving is that, compared with what we currently have in our baseline budgets to pay for the cost of providing that service, the awarding of the trunk roads maintenance contracts is £15 million cheaper. Therefore, £15 million in our baseline budget is freed up and is available on a recurring basis.

Dr Simpson: The £40 million modernisation fund was switched to provide information technology in education. Was that not a single

switch?

Angus MacKay: No, because—

Dr Simpson: It balances, so that is fine, but is it not a single switch?

Angus MacKay: No. David Palmer will keep me right, but I understand that the £40 million that was available to pay for broadband infrastructure was within baseline budget. It is therefore available on a recurring basis. The £40 million that was put into the baseline education budget to pay for broadband infrastructure is switched to something else, and the project is paid for from the capital modernisation fund instead. Although the £40 million is transferred into another budget, it is still there. It does not disappear.

Alasdair Morgan: Does that mean that the capital modernisation plan was not sufficiently defined for you to be able to allocate different projects to it and that the £40 million was for something that has since been scrapped? Is that why there was £40 million spare to switch to something else?

Angus MacKay: Nothing was scrapped in the capital modernisation fund. We were at a fairly early stage in deciding how it would be used. One of our internal discussions was about what it should be focused on.

We came to the conclusion that the capital modernisation fund should be used almost exclusively to meet the challenge posed by broadband and the digital divide. Putting in place a broadband infrastructure, especially for education—although also for health—is a critical part of what we needed to do. It was about joining up thinking across departments, as there was the opportunity to kill two birds with one stone.

As I mentioned, we got an additional in-year award from the Treasury as part of the consequential from UK spending, which boosted the amount of money available for the modernising government fund and the capital modernisation fund. The additional resources enabled us to cover the education spend.

Brian Adam: Although you have offered an explanation as to why the shifts are not one-offs but can be built into the budget, surely you are using your development funds to underpin future core activities. Even if you had the money again, you would have little or no flexibility in the future. You have no development money for the future, unless the budget is continually growing. Once you have spent the £40 million that you assigned in this year's budget for broadband in schools, it has gone and will not be available to spend again. You are saying that it was in the base budget; presumably it was there as a one-off, as you will not be doing that all the time. If it was a one-off

and you have moved it into core spending, your flexibility for new developments is bound to be restricted.

Angus MacKay: I do not accept that point. In every budgetary round, we take decisions about what the priorities are in that round. If we had left the position unchanged, we would have been funding the £40 million of expenditure in education infrastructure from within the education budget. Once the education budget had paid for the implementation of broadband infrastructure, there would be no reason for us to say that that £40 million must remain within education for ever and a day. That is precisely what I have been talking about. We are ensuring that the political priorities and policy objectives are always matched by where the funding is focused. Whether the money was parked in education or somewhere else, the important point—this is what we were talking about earlier—is that we do not get hung up on the amount of money, or where it is, but rather focus on the outputs and outcomes that we are buying.

Once we have bought the output or outcome of broadband infrastructure for education, we then have to decide what that pocket of money—regardless of where it is parked—gets used for in the future. We must decide what our priorities are at that stage. The money is still available and relatively flexible.

Mr Davidson: We will turn to the DEL.

Angus MacKay: Sorry, I am having difficulty hearing you. I am not sure whether it is the acoustics of the hall or because I am coming down with a cold, but I did not hear what you said.

Mr Davidson: That is okay. When we compared the draft budget comments on the departmental expenditure limits with the June 28 statement, we noticed that the DEL rises by £18 million in 2001-02, by £31 million in 2002-03 and by £18 million in 2003-04. Why have those differences occurred?

David Palmer (Scottish Executive Finance and Central Services Department): The major difference is the increase in the modernising government fund. We got additions of, I think, £11 million, £41 million and £24 million in the modernising government line.

Mr Davidson: Is that the money from Westminster that the minister commented on a moment ago?

David Palmer: Yes.

Mr Davidson: So there is no other reason for the difference.

David Palmer: Professor Ashcroft's table shows that there are a range of changes across the portfolios. The bottom line is, as you have said, £18 million, £31 million and £18 million. The major

component of that increase is the addition from the Treasury.

Mr Davidson: In the draft budget, there are planned falls in the DEL reserve of £33 million in 2002-03 and £20 million in 2003-04. What accounts for those falls?

David Palmer: Those falls should match exactly the increase in DEL for the Scottish Parliament. They do not do so. I suspect that the answer to that is that at a later stage we were informed that some of the parliamentary increase was annually managed expenditure and we have tried to make adjustments to pick that up. I hold my hand up and say that those two figures should be precisely the same. However, if you look at table 0.1 in the document—the total managed expenditure table—you will see that the changes in the DEL reserve and Parliament lines are precisely the same. The figures came in late and we tried to adjust them for AME, but without much success.

Mr Davidson: Are there likely to be more calls on the DEL, from the Scottish Parliament Corporate Body or elsewhere? Is anything else coming up that you are planning for?

Angus MacKay: That is difficult to predict. We are at the mercy of Parliament as a whole in terms of the Holyrood project. We have to respond to that.

Mr Davidson: In other words you are acknowledging the top slicing from your budget by the demands or needs of the SPCB?

Angus MacKay: There is no sense in trying to deny that there is a top-slicing element for the Scotland Office, the SPCB, the running costs of keeping us in jobs and doing our business, and for the Holyrood building project.

15:00

Mr Davidson: Have you had discussions with the SPCB about likely future trends in their financial calls, so that you can build those into your future process?

Angus MacKay: Yes. We have had one or two discussions with the Presiding Officer's office to try to get a clear steer as to where they think things are going. There was not a tremendous amount of information available, but enough to give us some kind of general steer as to where the budgets will probably go. It is fair to say that we are over the hump of the kind of unpredictable variables that we see in the document. We do not expect that those factors will cause unreasonable variation in future budgets.

Mr Davidson: You are just looking now not so much for the building costs, but at areas such as the refurbishment of IT, staff salaries and conditions, and staffing levels?

Angus MacKay: Yes. There was a fairly substantial EYF carry-forward for the Parliament project that deals with many of the capital costs that one might have expected to have caused substantial changes. They are adjusted for in future years. The bulk of the remaining expenditure lies in the areas that you mentioned.

Brian Adam: With regard to the planned falls in the departmental expenditure limit reserves, are you content that what is left is enough to cover contingencies—especially if, for example, the Administration is unsuccessful in getting the £18 million or £20 million back from Westminster for some of the costs for care for the elderly? Can you give us some idea of how much might be left in the reserves and what relative impact another £18 million to £20 million in that area might have on the them?

Angus MacKay: I am happy to do that, but perhaps in the meantime David Palmer can fish out the reserve figures for you.

There has been much overlap of the implementation costs of free personal care for the elderly and of its junior partner—the £20 million figure that you mentioned. In the context of a £20 billion budget, those figures are not enormous amounts of money. More substantive issues for consideration by the committee and by the Executive are the longer-term demographic trends, particularly across the health expenditure area as a whole. Free personal care dwindles into insignificance in comparison with the inverted age pyramid, which will impact heavily on demand for health services. It behoves us to spend more time considering that age factor in the short to medium term to see how we can plan for it and to ensure that we have budgets that can cope with it and other demographic changes that will put heavy demands on our budgets.

In respect of the reserve as a whole, I have made no secret at any stage during my time as the Minister for Finance and Local Government that I believe we should be aiming to build up more substantial reserves over time. It is prudent for any organisation to carry a reasonable level of reserves to cope with the unpredictable and to resource the unexpected. My strategic objective is to increase our reserves, but it will be a two to three-year project to get our strategic reserves to a comfortable level. David Palmer might want to say something about our current level of reserves.

David Palmer: The current level is £18 million this year; the figure will be £20 million next year and £33 million the year after.

Brian Adam: My question was whether you thought that that was enough. It is not a particularly large figure. Do you think that that is going to be sufficient? Could it be increased

through EYF?

Angus MacKay: As I have said, I think that the reserves need to be bigger than they are. I would like the Parliament to agree a strategic objective of increasing the level of reserves over two or three years.

There is a debate to be had about whether the reserves should in essence be a capital fund that could be topped up from EYF, or whether they should be a baseline figure that in effect recurs each year. A reasonable discussion can be had about which of those options—or perhaps whether a mixture of the two—makes most sense. The difficulty is that, if the reserves are simply a cash pot that is topped up most years by contributions from EYF, once we use up the cash pot, it is gone and is not there next year. If it is baseline expenditure, that baseline expenditure is not being used elsewhere—and we know plenty of areas in which we all would like more resources to be spent. Even if it is baseline expenditure, once it is committed, it is presumably committed as baseline expenditure and is therefore non-recurring.

There are some interesting questions about what kind of reserve we should have as well as what size it should be. I would like a bigger reserve than we have at the moment. Fortunately, we could hope to look from year to year on a short-term basis to other areas in budgets to find flexibility within them, should we require more than is currently carried in the reserves. I hope that that is demonstrated by how we took forward some of the £289 million realignment this year. In the medium term, to be sensible and prudent, we need to consider building up our reserves to a more substantial level.

The Convener: You said that you aim to have a larger reserve. Is there an optimal level—perhaps as a percentage—for the reserve?

Angus MacKay: I do not want to set a target as a percentage of the budget. We need to judge what kind of unpredictable events with cost consequences we are planning for. Anything with financial requirements of significant magnitude would probably require £50 million to £150 million. That is a substantial amount of expenditure. To build up such a reserve would take a while. For anything below that, we can imagine how we could find the funds required in the short to medium term relatively straightforwardly from the existing reserves and from a range of other budgets. If we are to have a strategic reserve that is genuinely big enough to cope with substantial unforeseen circumstances, a figure of between £50 million and £150 million seems about right.

Mr Davidson: Is the finance and central services department actively examining all the departments' budgets to find out whether they are

sitting on anything that could technically be considered a reserve and which you could pull back to the centre?

Angus MacKay: Mr Davidson makes a scurrilous allegation against the departments.

Mr Davidson: I only asked the minister whether he was examining the budgets.

Angus MacKay: During the budget round that led to the announcement of the figures about which we are now talking, we pushed departments hard on what exactly each expenditure line constituted, what it was set against and what the intended expenditure was. At no stage did I find anything that I could describe as a reserve or a hidden reserve. There were areas in which underspending could be predicted confidently or in which demand would fall short of the budgeted level of expenditure, but one has to allow for a degree of such flexibility in the budgetary year. Any budget that is set and expected to come in with absolute precision will run into difficulty. A margin of flexibility up and down and across individual departmental budgets is needed. At the end of the year, we look for an equalisation across all the budgets to bring the overall Executive budget in on line.

In the CSR round that starts next year, we will of course scrutinise each area of spending again to try to ensure that we get value for money out of the whole budget. I have two things to say about that. We are talking about a system of priority-based budgeting. That should make the individual departmental budgets more and more transparent as we go through the budgeting process. If, by chance, there were reserves such as Mr Davidson described, that would become more obvious and we would be more able to bear down on them directly.

I have also established the budget review and best value group. That group considers thematically a range of issues, for example, the property portfolio of the Scottish Executive and the wider public sector, and the funding of further and higher education. In the course of the roll-out of the work of the group, which will take time to cover substantial ground, we will bear down more and more on the detail and nitty-gritty of individual items and areas of departmental spending. That also gives us an opportunity to expose any hidden reserves. If any exist—I doubt whether they do—they are probably small and fairly legitimate margins of error within departmental lines.

Mr Davidson: Can you confirm that that is done as an annual exercise, not as a continuing process?

Angus MacKay: The exercise is twofold. We do it annually during the budget process in order to examine the budgets and see where we can find

flexibility. However, the best value in budget review group considers policy areas and specific areas of work done within the Executive and in the rest of the public sector. I hope that that group will identify better and more efficient ways of doing things. It could ask direct questions such as: why do we do a particular thing in a particular policy area? Is it any more relevant? Is it funded in the right way? Should we be doing more or less? Should we be joining up our thinking across departments or agencies? I hope that that will produce better services and more efficiency in the future.

Mr Davidson: I return to your comment, with which I agree, that the demographic trends are cause for concern. Is there a unit charged specifically with pulling that kind of information together or is that something that you will be doing in future?

Angus MacKay: The best value in budget review personnel have done some work already. We hope that that work will help to inform the work of the comprehensive spending review at the beginning of the new year. Individual departments—the health department in particular—have started their own work and are doing some schematic planning for the way in which demand will impact on their budgets. Again, there is a twofold approach.

The Convener: Let us move to end-year flexibility. From memory, last year's EYF announcement was made in July and was included in the draft budget. This year, the announcement was made in September but was not included in the draft budget, even though that came out at the same time. Why were the two kept separate? Why could they not have been put together?

Angus MacKay: There are a number of reasons. First, as we were working on the budget of £489 million that I announced, there would have been a slight strain on resources and a possible delay had we done both exercises at the same time.

Secondly, because of the scale of EYF and our approach to it, it was my view that we should be clear about where the EYF had come from and why it had arisen. We also needed to conduct a rigorous exercise to consider how the EYF should be used. For example, a formula should be in place that allows departments to retain 75 per cent of the EYF that is generated. However, this year we asked them not just to keep that 75 per cent; we wanted them to tell us what they intended to spend it on. The 75 per cent became conditional on their proposing to spend the money on areas and issues that reflect the Executive's priorities. That was a time-consuming process.

The remaining 25 per cent was put into a central pot. We invited departments to bid for funding from that pot for worthwhile projects that would again underpin the Executive's policy priorities. That process also took some time.

I am not sure whether, in previous years, those steps were taken in quite the same way. The procedure this year was a bit of a learning process for the departments and for ministers. It was reasonably successful in that the spread of the share of EYF seems to be about right. In future, we hope to make clear the mechanism for reallocating EYF earlier in the process. We are also seeking to make the announcements earlier so that Parliament has more time to consider them and departments have more time to implement the decisions.

On reflection, the date of the announcement was rather later than I would have wished. However, another factor in the process was the long fallow period of parliamentary recess. There is an issue about completing the process before recess but still achieving the rigour that we want.

Alasdair Morgan: A significant part of EYF arose either as a result of departments not being able to organise projects or procurement early enough in the year or as a result of the procurement process taking too long and projects not getting to the starting line. What steps are you putting in place to ensure that the planning, procurement and spending cycle can be speeded up? Presumably the point of having a budget is that what is planned for the year is executed. Given that a lot of the money that goes into EYF is then bid for by departments, how much confidence do you have that departments, which by definition have been unable to bring all their projects to fruition anyway, can realistically bid for yet more money on top of what they have been unable to spend during the previous year?

15:15

Angus MacKay: You raise an important point—what happens to the apparatus of the public sector in the context of a period of real spending growth and boom in public sector finances following a 20-year period of spending restriction, when that public sector apparatus shrank and became less used to administering and delivering that volume of expenditure? That is one of the substantial reasons for this year's level of EYF. The apparatus must power itself back up and become more used to a time of plenty and what that means in terms of the demands on time for individual officers and the relationship between the Executive and a range of public sector organisations. We expect to see that apparatus executing the service delivery end of the expenditure.

We have instituted a system of quarterly reporting back to ministers from departments so that from this year we have a clearer picture of the underspend in departments. That is for two reasons. The first is to check which departments may be having difficulty in getting the expenditure out of the door. We will want to ask them the reasons for that. The second is to ensure that where there are difficulties we fix them quickly, if they are fixable. On the other hand, if there are legitimate reasons why the expenditure is not going out of the door, we will ask how else the money should be used in order to match our policy objectives and priorities. That means that we should be able either to have in-year spending revisions, which we can bring before the committee and the Parliament to ensure that the money is used in ways that are sensible and necessary, or to construct more quickly the kind of EYF bidding round that we had this year to get the money into alternative projects.

You asked me about my confidence in the ability of departments that cannot manage the volume of spending to bid sensibly for the money. The system that we have put in place requires them to demonstrate that expenditure on the projects for which they are bidding for money will go out of the door in the current year and that those projects meet the Administration's policy priorities. If they do not meet those two criteria, we are not likely to sign up to that use of EYF.

The key issue is the conflict between the desire that public expenditure should buy the service outcomes that we all want and the fact that there can be too much impetus just to get the money spent, which takes us back to the bad old days when people said, "Let's paint some rooms and buy some new carpets." We have to avoid that. We need a judicious balance between the two. The pressures from all sides to get the money out of the door as quickly as possible do not necessarily lend themselves to that kind of sensible and judicious process. That is the tightrope that we are trying to walk.

Alasdair Morgan: Given that we do not want to pressure people into just spending the money for the sake of it, is there some notional figure of EYF at the end of next year with which you would be more comfortable? What kind of figure would begin to make you feel uncomfortable that what you are preaching to departments was not working and that they had not got their procurement and spending mechanisms in place?

Angus MacKay: The short answer to your first question is no, I do not have a figure. I do not believe that it is sensible artificially to set a figure. What is important is not the level of underspend but the reasons for the underspend. If the reasons are legitimate, the underspend should be regarded

as legitimate. If the reasons are not legitimate, serious questions need to be asked about the difficulty in spending that money.

For example, the vast majority of the £718 million this year was relatively legitimate underspend. Substantial amounts of capital were tied in with the Glasgow housing stock transfer, which has hit some slippage in time because of the negotiations. A variety of factors make it understandable that that money has not yet been spent. In future, when we are considering an underspend—whether it is £200 million or £1 billion—if there are not clear reasons, such as capital slippage or planned underspends, why the money has not gone out of the door, I should become concerned; that is when the committee and the Parliament should also become concerned. The issue for us is the reasons for the underspend and not the volume of the underspend.

Dr Simpson: The 75:25 split of underspend between departments and the centre is also slightly crude, because if the underspend is a result of capital delay, for example, it will be spent, although the time at which it is spent may slip a little. That money does not even return to the department to be spent. If short-term contracts are involved, even on a revenue rather than a capital basis, the whole programme may slip, but it will still cost the same. No money returns to the system.

Money becomes available only if the beginning of a long-term revenue spend is delayed, but all that one is left with is a one-off amount of money. The 75:25 ratio is helpful and gives departments an idea of the position. However, when most of that money is returned, it becomes a one-off spend again. Should not the money be directed mostly to an initiative such as invest to save? In other words, should not the departments be encouraged to have ready a programme that allows invest-to-save elements to use EYF more rapidly?

Angus MacKay: Richard Simpson makes several important points. He is right that the 75:25 split is in one sense arbitrary, but nevertheless important. If the centre could reclaim 100 per cent of all underspend, I have no doubt that departments would be tempted to spend their money on anything so that they could retain expenditure in their baselines. By and large, all political argument is mediated by the bottom line and increase or decrease, but we want to depart from that and focus more on outcomes and outputs.

The 75:25 ratio encourages departments to think more constructively about how sensibly to use resources that will not be part of a baseline budget and long-term committed revenue spend. I would

be reluctant to put a straitjacket on how that money is used, because once or twice that one-off money has been useful in the way that Richard Simpson described—that is, when a long-term revenue commitment is about to be entered into and the resources are available but not entirely for year one or part of year two. In that context, EYF is useful in bridging a gap. I do not remember the circumstances in which it has been used in that way—I think that it might be for free personal care.

David Palmer: It was used with the McCrone settlement.

Angus MacKay: Thank you. The 75:25 ratio can be useful in managing short-term budgetary differences.

I agree with Richard Simpson's comments on spend to save. In other circumstances, spend to save is a much devalued concept. Members may have had their own experiences of local government before they came to the Scottish Parliament and will know that spend to save was a device that departments often used to try to grab more money generally.

Spend to save holds the prospect of having value attached to it. In the medium term, I would like EYF to be used to establish a fund that allowed a more organised approach to spend to save. Structural problems are built into parts of public sector budgets, but those would have a good chance of being seriously addressed if we could build in such leverage, which need not be big. Such money is often just gap funding, but EYF could allow us to deliver that.

Dr Simpson: When you ask departments to make bids for EYF, I presume that they tell you about all the elements that I mentioned, which I will not repeat. Can the subject committees be given some information on the commitments that have been held up, or should that come from ministers individually?

Angus MacKay: I do not know, but I will check that out and return to you with the detail.

Dr Simpson: Thank you. That will be helpful.

Brian Adam: Underspends tend to be associated not with a department's core activities, but with delays in new projects. How rigorous is the process for planning how money will be spent? The spend almost always has a capital element and a revenue element. Organisations are often too ambitious about the start dates of new projects, which can slip. If the planning process were more rigorous, artificial slippage would be less likely. Will you build an incentive into the scheme that would reward delivery at the appropriate time? That would be not an incentive to deliver early or a disincentive to deliver late, but an incentive to deliver on time, which would allow a proper budgeting process to be used.

Angus MacKay: We are considering the possibility of incentivising more accurate and realistic forecasts of underspend within departments earlier in the year, so that we can plan with more confidence on the basis of the level of underspend. There is no point planning on the basis of a £200 million underspend and then finding that the underspend is £800 million. We need to make our forecasting more rigorous and more accurate, and we are working on that.

I am not sure that I accept that all—or even the majority—of underspend comes from new projects.

Brian Adam: It has this year. You said that the money for housing stock transfer was a significant proportion of the underspend, and that is new spending.

Angus MacKay: It is, and it is a substantial part of the underspend. However, it is not possible or sensible to say that, if we could fix that problem, everything would be fixed. During my time in this brief, I have been struck by the fact that the Executive, this committee and the Parliament spend a hugely disproportionate amount of time concentrating on marginal extra money or on the marginal reductions in spending that take place in bad times. Not unnaturally, we have focused a great deal on the £489 million that was announced before the summer recess. That is an important sum—it is almost half a billion pounds. However, we should remember that our core expenditure is almost £20 billion. We should ask ourselves what process we can put in place that would give us a better chance of understanding and drilling down into the £20 billion that constitutes the bulk of our expenditure.

I hope that priority-based budgeting, which we are starting to introduce, will give us a much more flexible and powerful mechanism for doing that. Essentially, we are asking departments to examine their budgets as a whole and to set out their priorities, in order, from top to bottom. At some stage a line will be drawn, depending on what resources are available. Everything that has been prioritised above that line will be funded and everything below it will not. That is very crude way of describing the approach that we are taking, but it will serve for the purposes of this discussion. Priority-based budgeting forces departments to think rigorously about their priorities—what is most important, what it costs, what they want to do and in what order. Following the chancellor's spending decisions and the budgetary exercises that take place in the Executive, which may or may not free up additional resources, we can inform departments of the size of the overall cake and how the resources will be distributed.

It is of key importance that at the beginning of every budgetary process we decide what our

political and policy priorities are, as it is those that must drive the budgetary process. There is no point in asking departments to prioritise before our political and policy priorities have been set. At the beginning of the process, we must reach agreement on the areas that we are trying to expand, develop, complete and prioritise.

Brian Adam: Surely you must be able to deliver those priorities within a time scale and a budget in which you can have confidence. That is the point that I was trying to make. Surely having the capacity to deliver priorities and the confidence that that can be done within budget and within an agreed time scale are a key part of any budget exercise.

If you are right and I am wrong, new projects are not the sole cause of underspend. I would have thought that new projects are the most likely cause of underspend, because systems that are already in place tend to tick over. In the health service, for example, each year people will do an increasing number of the same kind of things. The same is true of local government. Spending in those areas is fairly predictable and can be controlled. It is more difficult to control the budgets for new projects.

When drilling down into the overall Scottish budget, we need to know how confident we can be about being able to deliver priorities within budget and within an appropriate time scale. If we cannot be certain about those things, it is inevitable that budgets will not be met.

Angus MacKay: Both the priority-based budgeting approach and the quarterly reports back to ministers will increase confidence that we have the information that allows us to judge whether the system is working.

Earlier, I gave the committee examples of where savings were made in individual departments. Those included the £30 million windfall from student loans accounting, the £20-odd million that was saved in the enterprise and lifelong learning budget because of a decrease in inward investment and the £20-odd million that was saved in the justice budget because there were fewer claims than expected under the European convention on human rights. Those are substantial savings, adding up to about £75 million. Without trying too hard, I can come up with an underspend from existing budgets, rather than from new projects, of nearly £100 million. The picture is a mixed one, but I take the point that we have to be confident that we can manage the expenditure.

David Palmer will keep me right, but issues that are either capital slippage or planned underspend amount to the best part of £450 million, which is more than half of the £718 million. The balance is around £300 million, which, from a budget of £20 billion, is relatively insignificant. I do not think that

we should be overly concerned that our budget is out of control or that we are not managing our expenditure properly, although we have to ask ourselves questions now, to ensure that we do not have problems in future. However, we can be optimistic that the budget is well in hand at the minute. We are not missing anything that we should not be missing.

15:30

Alasdair Morgan: That is made more difficult because of the biggest elements in the Executive budget—support for health boards and local authorities. That support comes in the budget like big slugs. How can you draw a line through those elements? You were talking about going down a list and drawing a line above which things would get through. That may have been put a bit crudely, but how can you draw such a line in those two budget elements when almost everything is taken up with one item?

Angus MacKay: I am not sure that the problem is any more difficult in those budgets than it is in others. The vast majority of expenditure that takes place as a result of Executive decisions does not take place at our own hand; it takes place through third-party organisations, be they local authorities, health board trusts, local enterprise companies or quangos. In each of those cases—and with our own in-house expenditure—we have to consider how money is being spent, line by line if possible. Ministers and departments must have dialogues with local authorities and health boards. The vast majority of the expenditure in those cases goes on wages. If we wanted to change those budgets around, serious challenges would arise. However, that does not mean that we cannot go through a rigorous exercise to consider the expenditure lines.

Alasdair Morgan: We have to monitor you as you go through that exercise. With most departments, we have figures that are in a similar format to those of your department but are perhaps aggregated up a level. However, in relation to health boards and local authorities, we have only a very large figure, which is a huge percentage of the overall Executive budget.

Angus MacKay: That leads to a question about the relationship between those organisations and everyone else. I am always conscious of demarcation lines, especially the line between the Executive and local authorities. We say that we want more information and more responsiveness and that we want local authorities to deliver the policy objectives of the Executive, but I hope that we all jealously guard and treasure the value and independence of local authorities. I profoundly believe in that. The demarcation line between the Executive telling local authorities what to do and

local authorities having a proper degree of autonomy is a hard one to draw. It is even harder to stick to. I do not have an instant, magic answer.

Elaine Thomson: Given that organisations such as local authorities and health boards have the more detailed financial information, should they be encouraged to present that information in a way that reflects the Executive's priorities? That would allow local people to see how their health board, for example, had spent money. If the Executive's priorities were cancer and cardiac disease, people would be able to see, under broad headings, how their health board had dealt with them.

Angus MacKay: The way in which those bodies use funds must be transparent, so that local people are given a clear picture of how money is spent, whether that money is Executive money, money that is raised through the council tax or money that is raised through non-domestic rates, which is sent back to the Treasury before being redistributed.

You asked whether bodies should have to present that information in a way that shows whether they are meeting the Executive's priorities. That would probably constrain them a little too tightly. We are trying to move away from hypothecation and ring fencing to local outcome agreements. Instead of giving local authorities £20 million and telling them what to spend it on, we want to say, "Here is £20 million. The outcomes that we want are X, Y and Z. Can we negotiate and reach agreement on those?" If we can, the local authorities can go and deliver the outcomes. How to get to the outcomes is up to the local authorities—we simply want the outcomes to be reached.

That is a rough and ready description. There is a tremendous prospect of further reducing ring fencing, which, I contend, accounts for only about 8 to 10 per cent of local government money. That figure is still too high and I want it to be reduced. If we can do that, I believe that the Executive's priorities can increasingly be met over time, that local authorities will have more financial flexibility to serve the interests of their local residents and electorate and that residents will have a clearer picture of how successfully funds are used at local level.

As far as possible, the same should be true in respect of all other public sector bodies. The quango review was not simply about smashing up and destroying a large number of public bodies. More substantively, it was about opening them up and making them more transparent, accountable and accessible. If that is done, we will have performed a great public service and people will have a closer relationship with the organisations that govern them.

The Convener: Elaine Thomson's question has taken us into the next area—the amount of information that is given and the draft budget. You may be aware that we have the stage 2 reports from the committees. The reports have not yet been published and I do not expect you to respond to them.

In general, there has been a positive response from departments to subject committee reports at stage 1, but two committees—mainly the Health and Community Care Committee—had complaints. There is a recurring problem with that committee. We do not know whether that is the result of its relationship with the Minister for Health and Community Care, but the committee makes regular trenchant responses.

At stage 1, the Health and Community Care Committee asked for further information. The Minister for Health and Community Care said that she thought that that information could not be produced at a reasonable cost. You said that there is a price tag on producing additional information and you talked about more cost-effective solutions to producing information. Have you thought further about that? I accept your point about not wanting to constrain health boards too much in respect of the information that they are required to provide. However, there is a feeling that more information must be made available to the committees in particular so that they can make informed judgments on the budget.

Angus MacKay: Perhaps the best response to that is to speak about the incomplete circle in Scottish government. There has been a traditional model. The Scottish Office had a relationship with the public sector that was a bit like Christmas. Once a year, people lined up, got their cash, went away and were not seen for another year. Sometimes Christmas was good; sometimes it was bad. In between, not terribly much necessarily happened. We need to evolve a culture in which there is a closer, on-going relationship between the Executive and agencies out in the field that are performing the core tasks that have been given them and that are substantially the service-delivery arms of the policy that we seek to support.

It is interesting that the Accounts Commission and Audit Scotland are involved with a range of those agencies and are likely to be involved with more in the future. They produce reports about many things, from what has happened in the Borders in respect of the education budget to anything else that one cares to name. Once money goes out from the Executive and is spent by those bodies, with the occasional intervention of bodies such as the Accounts Commission and Audit Scotland, the question is what happens further round the circle to complete it. What is the line of accountability that ensures that we are

getting value for money as the budget is spent year in, year out? What ensures that, where agencies have a role and comments, those comments are acted on and something materially changes in policy and management within individual public sector bodies?

The final part of the circle is rather sketchy and could be much stronger. The issue is not that more intervention or direction is needed, but that a forum must be found in which we can ensure that we learn from what we are doing and that what we have learned feeds through into future practice. There could be intervention by Audit Scotland or simply dialogue with the appropriate Executive department with the involvement of COSLA or a collective of the health board chairs, for example.

To go back to your question, a number of bodies have not been fully engaged in the process of making their business as transparent as it needs to be, whether that is because of the way in which they take decisions within their governance structure, the involvement of their local communities, the transparency of their budgetary decisions or the ways in which their budgets flow through to service delivery lower than level 1. We need a systematic cultural change in the way in which we complete the circle. We require it not to be the case that cash goes out, the bodies come back the next year and more cash goes out. Cash should go out, results should come in and there should be change, improvement and excellence. I do not know whether that answers your question, but it is certainly my thinking.

The Convener: That is helpful. I will quote from the Health and Community Care Committee's report. That committee is wary of additional costs, but the report states:

"While the Health Committee recognises this is a constraint, it believes there are cases where the 'value-added' in terms of improved scrutiny and accountability"—

that is, flowing from additional information—

"will justify these costs."

You seem to be saying that you agree with that. You talked about the forums that might be set up. Those might be a way of improving the flow of information, which would satisfy the Health and Community Care Committee.

Angus MacKay: When we spend either extra public money or large amounts of public money, whether on health or anything else, we must find effective mechanisms that allow us to make judgments about whether we are buying valuable outcomes. If the Health and Community Care Committee is saying that because the information is not on the table it cannot make a judgement, that problem needs to be addressed. Whether the problem is addressed by health trusts, by health boards, by the Minister for Health and Community

Care, by the Executive corporately or by the finance department, we must find a way to get that information on the table.

The Convener: I call Dr Simpson to speak. I ask him to remember that he is wearing his Finance Committee hat, not his Health and Community Care Committee hat.

Dr Simpson: I thank the convener for asking the difficult question about the Health and Community Care Committee's statement, which was fairly aggressive. The matter is not about the relationship with the Minister for Health and Community Care—if I can correct that comment—it is about the system. It arises from what Alasdair Morgan talked about, which was that the health boards are responsible for all the funding and we see the amount of funding at a certain level in the centre.

I will give specific examples to flesh out the problem and put the issues on the record. We know that next year health boards must continue to produce funding for junior doctors' hours, because that is a major problem. They must continue to implement the working time directive and to restore the underspend on capital equipment, which has been massive over the past 20 years. They must fund a 9 per cent increase in drug expenditure and they must spend money on staff increases. The increase in the employers superannuation rate—which we heard about this morning for the first time—will, for example, add £1 million to the Dumfries and Galloway budget, which is almost as much as it is getting under Arbutnott. That is a substantial recurring revenue expenditure. We cannot see any of those items in the budget.

We are stoking up expectations that the new money that the Executive is providing in level 1 expenditure in the budget is going to produce massive changes on the political agenda, which is about waiting times and delayed discharges. If the five or six items that I have listed will take up the vast bulk of the money—that is what we hear anecdotally—we will not be able to address the political agenda. The policy priorities will be so out of kilter with the political agenda that it will cause great difficulty. That is why members of the Health and Community Care Committee appear to be repeatedly irritated by what we hear and by the fact that we do not seem to be able to get information. That might be peculiar to the Health and Community Care Committee in that—as with the Local Government Committee—the responsible agency is not reporting in budgetary terms to the centre in a way that the Health and Community Care Committee can see.

Angus MacKay: I am struggling to think why that should be peculiar to that committee.

Dr Simpson: It might not be, but the Health and Community Care Committee is the only subject committee that I am on.

Angus MacKay: Perhaps the committees should put their heads together to share information about what they are getting or not getting, and about ways in which to improve the flow of information. It seems to me that information will be required about a number of parallel bodies. Local government is one such area, as are local enterprise companies, which are of interest to the Enterprise and Lifelong Learning Committee. I would have thought that institutions of further and higher education would be of interest to the Enterprise and Lifelong Learning Committee and to the Education, Culture and Sport Committee. Bodies that are distinct from the Executive, about which members of different committees will want information, perform important core functions in Scottish public life.

I am slightly at a loss regarding the frustration that Dr Simpson is articulating, because I have not had direct experience of the Health and Community Care Committee. I can only undertake to try to raise the issue in the Executive and to badger the relevant minister to see what more might be done. I do not know whether the Health and Community Care Committee has tried to bring before it representatives of the various health boards and trusts in order to question them to determine whether there is any way of eliciting information more directly. However, I am happy to do what I can to help to provide the information.

15:45

The Convener: Let us move on to the stage 1 responses. The committees have been instrumental in pushing for gender-proofing of budgets and policy. Both the Equal Opportunities Committee and the Social Justice Committee refer to that issue. The Equal Opportunities Committee's draft report states:

"The Committee notes the omission of any explicit high level commitment to, let alone reference to, equality or equal opportunities and regrets the impression this creates."

We have raised that matter with you previously. Can you give us any additional information about what you plan to do or what you plan to ask the departments to do to introduce gender-proofing and gender issues at the policy stage, so that that consideration of those issues filters through to the budget?

Angus MacKay: I stress that work is under way to try to make progress. The time frame is important—it will not happen overnight, but will require some time investment. The experience in other countries suggests that it can take several

years to get the process of gender-proofing powered up to the level at which it makes a substantive contribution to the budget process. We are trying to ensure that incremental progress is made year on year, but as fast as possible. The equality-proofing budgets advisory group has acted by commissioning research, which will be completed in the autumn. We hope that that research will map the current budget process across the Executive. From that, we hope to develop tools that will aid mainstreaming of work on equality-proofing into the budget process. The tools that should emerge from that mapping process will allow us to build in what you would like to see at the policy level, not just as an add-on or afterthought.

An expert seminar was held earlier this month to inform some of the work that has been done since last we met. Once those tools are developed, we will try to ensure that they are used in individual departments, and there will be an opportunity to have a fuller discussion with the Finance Committee about what that work has produced. I am optimistic that we are making good progress, but the process will take time.

The Convener: It is accepted that work on gender-proofing is in progress. The point that the Equal Opportunities Committee is making is that there still seems to be no mention in budget documents of what has been done. Even an update on work in progress would be helpful.

Angus MacKay: We will make a note of that and see whether we can address that point.

Mr Davidson: The Rural Development Committee's draft report talks about a desire for the development of robust impact analysis of spending on rural development. You mentioned earlier—you have mentioned it several times this afternoon—the role of outside bodies that receive money from the Executive, which those bodies must distribute. One of the witnesses who gave evidence this morning mentioned the environment and tourism recovery grant scheme, as it applies in Scotland. That grant is administered by Scottish Natural Heritage and is match-funded by local authorities and local enterprise companies, which are outside bodies. A question was raised concerning how the fund is managed. The committee is considering robust accounting of what happens in that regard. It appears that, although the Executive said that it would provide matched funding for the package, it has not done so. Will the new impact assessment reflect not only on the outside bodies, but on the Executive?

Angus MacKay: Which impact assessment are you talking about?

Mr Davidson: I am talking about the environment and tourism recovery grant scheme,

which was mentioned this morning. Other committees are talking about what happens when money is distributed and is passed to another agency. On the scheme that we discussed this morning, we heard that the money went round three agencies. It also came to light that the Executive has not played its part. There is a breakdown between the Executive and those outside departments. What work are you doing to address that?

Angus MacKay: You have me at a complete disadvantage. I am quite happy to go away and look at that example to see what information I can scare up. I am not sure that I accept the charge that the Executive has not played its part, but I shall certainly examine that to see whether there is a substantive issue.

Mr Davidson: I take your point, but I am concerned with the linkage between, and impact assessment of, the Executive and outside bodies.

Angus MacKay: I am happy to go away and look at that, but I cannot say more at the moment.

Mr Davidson: Thank you.

Elaine Thomson: You talked about improvements in cross-cutting policy areas. You, your predecessor and the committee share the desire for all the budgetary figures to be brought together. Drugs is one area in which we would like that to happen. Foot-and-mouth disease is another. What progress do you see in those areas?

I wonder about the way in which the budget has been reported in terms of 21st century government and in relation to the modernising government fund and the modernising capital fund. The Enterprise and Lifelong Learning Committee examined provision of broadband technology. We found it a little difficult to see, on a cross-departmental basis, what money is being invested in broadband and ICT in order to modernise all aspects of Government and other organisations. It is quite difficult to see from the budget document what is being spent. There is a top-level figure, but when one digs down a bit, it can be difficult to see what is going on.

Angus MacKay: Your question covers two points: cross-cutting in general and the specific example of how broadband expenditure is set in budgets.

On cross-cutting, I think that we take the right approach at the moment, which is effectively to mainstream cross-cutting expenditure. Perhaps we could do more to make it clear where cross-cutting expenditure is part of an individual budget. I am happy to consider that. When I was Deputy Minister for Justice and looked after the drugs portfolio, although I wanted a substantial additional

investment in tackling drugs—we eventually secured £100 million, which was a dramatic increase—nonetheless I never wanted that money to be ring-fenced. I knew that, as soon as we ring-fenced that £100 million or identified a single budget, we would not get a single penny from any other departmental budget. We would have been told, “There’s your drugs money. You can do what you want with it, but don’t come to us for any more money.”

We had a similar debate about ring fencing in local authorities. If we ring-fence money for Scottish Executive priorities in local authority budgets, the first thing that local authorities say is, “If we are forced to spend money on that, we will not spend a penny of our own money on it.” That sets up hard barriers and boundaries that are not necessarily advantageous. The important thing is not whether we are setting up discrete budgets, but whether we have the transparency to allow us to see what money is available and how it is being used. If more work can usefully be done on that, it should be done. We shall certainly examine that.

I do not know when the Enterprise and Lifelong Learning Committee considered broadband, but I guess that one of the problems that members faced in trying to get a clear picture was that the Executive was still having an internal debate about how to structure and fund the implementation of a broadband policy. We touched on that when we talked about the budget revisions, the movement of money from the education budget to elsewhere, replacing that with the capital modernisation fund and additional money becoming available in-year for that fund. What that committee experienced partly reflected the fact that the Executive was still coming to a final conclusion about funding that policy area.

That said, it is important to note that the issue is a bit like the local government distribution formula, in that there is no perfect answer. There is always a debate and a search for the holy grail, but there will never be a perfect answer. We will never get all broadband money parked in one clear, discrete and visible area, even if we try to make it clear where money is parked. I hope that we will be as successful as possible in revealing 80 or 90 per cent of funding. However, we are never going to scare up in absolute detail all the expenditure that will contribute to broadband. That is simply because a vast range of organisations are seeking to make a contribution in that area. Yes; we must join up policy and we must identify resources as far as is possible, but it will not always be possible to be absolutely clear about the total amount of resources that are being delivered throughout Scotland.

We need to seek the level of transparency that allows us to make sensible operational and

evaluational judgments about how budgets are being structured and spent. However, we must not hope always to identify 100 per cent of expenditure in a given area because, with the best will in the world, I do not think that we will do that.

Elaine Thomson: I do not think that the committee is asking for discrete budget headings for any of those areas. The issue is about how budgets are reported and how to track money that is spent under many different departmental headings, but on the same area, such as drugs. We must develop good reporting systems that are accessible to whoever wants the information and that show how the money has been spent.

Angus MacKay: I accept that; it is an important point. This is not a criticism, but we spent a lot of energy in the first two and a half years of the Parliament on considering—particularly in the context of the increased spend that has been available to us—where and how the money should be spent and through what organisations. That is the kind of outward flow that we are traditionally used to focusing on—let us measure how successful we are by how much money we are spending. We have spent very little time considering how we check, after the fact, whether the money that we are spending has bought the outcomes and outputs that we need. I think that that is what Elaine Thomson is driving at in terms of looking for visibility and transparency about where the money is going, what it is buying, what we got for it and whether that worked.

We are in a slow but clear evolutionary process. We are looking increasingly to structure budget decisions, budgetary documents and feedback from the far end of budgets. That touches on what I said about completing the virtuous circle. We are examining a process whereby we will get a clearer, more comprehensive picture of the outcomes and outputs that were bought. That will better inform us for successive years about whether that is the path that we should have gone down in the first place.

I agree with the point that Elaine Thomson made.

Alasdair Morgan: I will stress to the minister where I think that approach would be helpful. The budget of the environment and rural affairs department—about which it is appropriate to talk, given that we are in Dumfries and Galloway—is £625 million this year. When we take away the money that is allocated to the common agricultural policy and fisheries support, we are left with only the rural development budget line, which is for schemes that are open only to farmers. Nothing in that budget line is available to the broader rural community. Nobody is suggesting that money for development should not go to rural communities, but it is not included in the rural development

budget. The then Rural Affairs Committee had a problem with that when I was a member of it. That is an area that would occasionally benefit from a different form of presentation.

Angus MacKay: I do not want to trespass too far on to Ross Finnie's ground. I know that he has engaged with the issue in the past and that he has clear views about what it is and is not appropriate to break down.

If there is a substantive issue that people feel could and should be addressed in a way that it is not currently addressed, I am more than happy to take that up and see whether we can make more information available.

Alasdair Morgan: I am trying, as I always do, to be helpful to the Executive.

The rural development department was set up north of the border and its equivalent was set up south of the border in an attempt to bring a more holistic approach to rural development. Given that that has happened, it is strange that the entire budget is still taken up by agriculture and fisheries—as it was before the department was set up.

Angus MacKay: I am happy to consider that to see whether we can, with colleagues in the rural development department, develop a more complete picture. That will take time. We will do that as long as members do not accuse us afterwards of double-counting moneys.

Alasdair Morgan: As if I would.

The Convener: I raise a point that emerged this morning when we took evidence from two voluntary sector organisations from Dumfries and Galloway. The point is about the three-year budgeting that local authorities now have and the effect of that, particularly on funding voluntary organisations. I want to test your expectations, as Minister for Finance and Local Government. We do not advocate greater ring fencing, but is it intended that three-year budgeting should filter through local authorities to give voluntary organisations greater ability to plan ahead and plan strategically on the basis that their budgets will be allocated over three years?

Angus MacKay: That is not dissimilar to an issue that we touched on earlier. I do not want to be over-prescriptive about what local government does but, having said that, I think that we all agree that, by and large, the voluntary sector performs an excellent service. It provides substantial value for money and tremendous flexibility. Just as local authorities are substantial service delivery arms for Executive policy, so the voluntary sector is a service delivery arm for local government in key policy areas throughout all 32 local authorities in Scotland. That being the case, we must find

additional stability for the voluntary sector. We know that, when budget cuts are made in local government, people who are not employed directly by the local authority—that is, those who work in the voluntary sector—are traditionally the first to suffer. That means that local authorities do not have to face down a fight with their trade unions, and that savings can be made relatively easily.

16:00

In the wider scheme of things, it is ironic to note that voluntary organisations' total budgets are not so enormous when one compares them to local authority budgets as a whole. I hope that we can find a way to ensure that the stability that we brought into play with three-year budgets for local government can feed through into stability for voluntary organisations. I do not want to be prescriptive with local government on that point, but I want further debate and dialogue to take place with local authorities. If we fail to deliver meaningful stability for voluntary organisations, we will be undervaluing the organisations that perform substantial services for local authorities in helping them to deliver local authority services.

Brian Adam: In the light of the proposed inclusion next year of capital charges in the departmental expenditure limits, what steps does the minister propose taking to prevent funding comparisons at stage 2 being hindered by what the Transport and the Environment Committee suggested most people regard as technical changes in accountancy practice? I imagine that the inclusion of annually managed expenditure in DELs applies not only to expenditure on transport and the environment, but to expenditure across the board.

David Palmer: We split DEL and annually managed expenditure in the tables at the beginning of the budget documents—that is the only place in the documents where those figures were split. All the figures for the portfolios are a mixture of DEL and AME, and there will be no difference in next year's budget documents.

Brian Adam: Do you think that the fears of the Transport and the Environment Committee are totally misplaced?

Angus MacKay: It should be possible to make direct comparisons, because the information will be displayed consistently from year to year. If the Transport and the Environment Committee can give us clearer detail, I will be happy to consider that point further. The information might be seen as not being level and I am concerned that that might misinform the debate. However, if there is a substantive issue, I would be happy to look at it.

David Palmer: Any level 2 figure that you pick out from the documents should already be a

composite of DEL and AME.

Brian Adam: Let me give an example. On 28 June, the minister announced the realignment of moneys, but his announcement covered only adjustments to DEL, because there were no AME adjustments. Was that because there were no consequential capital charges?

David Palmer: I am not aware of any adjustments to AME.

Angus MacKay: We would need to check that, but I do not think that there were any such adjustments. We will come back to the committee on that point. However, if any AME adjustments were made, that would raise an issue that would underpin your concern.

Brian Adam: Perhaps you could examine what the Transport and the Environment Committee had to say on that point.

David Palmer: Are you talking about that committee's comments on stage 1 of the process or its comments on stage 2?

Angus MacKay: Yes—when were those comments made?

The Convener: The comments are in the Transport and the Environment Committee's report on stage 2, which will be published along with the Finance Committee's report.

I thank both the minister and David Palmer for answering our questions so fully. We have concluded our discussions on that agenda item, so we will have a brief break—no more than five minutes—before we move on to the next agenda item.

16:03

Meeting adjourned.

16:10

On resuming—

Budget (Scotland) Act 2001 (Amendment) Order 2001 (SSI 2001/draft)

The Convener: We reconvene for the last part of the meeting. Agenda item 5 concerns the Budget (Scotland) Act 2001 (Amendment) Order (SSI 2001/draft). I invite the minister to make an opening statement and remind him to move the motion at the end of his statement. I am informed that, under standing orders, the debate can last no more than 90 minutes and I intend to keep within that time.

Angus MacKay: Thank you for the opportunity to give evidence on the autumn budget revisions. As I am sure members are aware, the autumn budget revisions are the means by which the Executive seeks parliamentary authority for the various changes in expenditure in the current year.

The budget revisions include changes in expenditure to meet the Government's priorities, for example: the spending allocations from the 2001 budget that were announced on 28 June and which were discussed earlier today; the allocation of EYF that was announced on 28 September; and access to the Whitehall reserve. Technical changes relating to basic in-year management are also covered. An example is the transfers between votes in the Scottish Executive and in other UK Government departments.

The major elements of change in the autumn revisions are made up of: the take-up of EYF of £718 million; budget 2001 additions amounting to £200 million; and £5.6 million of Treasury reserve claims covering forestry and flood and coast consequential.

I turn briefly to end-year flexibility. EYF was introduced to improve the effectiveness of public spending and to stop the end-of-year spending spree that took place prior to devolution. The money involved is not lost; spend is simply delayed until the next financial year. The full amount of underspend will be used on the things we said it would be spent on.

As we have discussed, the total underspend was £718 million, or 4 per cent of the 2000-01 budget. Of last year's underspend, about £250 million was due to slippage in capital projects; £90 million was carried forward to finance the Glasgow stock transfer scheme; £65 million was planned to carry forward before the McCrone settlement; and £55 million was retained by health boards, which allows them 1 per cent flexibility from year to year and lets them use their discretion to improve

services. Taken together, those figures account for £450 million of the total underspend. The remainder amounts to the equivalent of five days' spending by the Executive.

EYF was used to deliver the Executive's key priorities. For example, in health, £75 million went to wiping out NHS trust deficits and £11 million was taken up to meet the pressures on winter beds. In addition, £102 million of EYF included a variety of costs in education—£48.6 million for teachers' pay settlement costs, £5 million for schools PPP, £5 million for adaptations to school accommodation for disruptive pupils, £10 million for school sports facilities, £10 million for school ethos projects and £10 million for school justice projects.

EYF is not simply a mechanism that ensures that the Executive's key spending priorities are met; it also rewards bodies for their financial prudence. The Executive's determination to reward rigour in financial stewardship is evident in its allocation of an extra £2 million from EYF to Dumfries and Galloway Health Board because of its prudent management of its finances. Richard Simpson touched on that earlier.

A monitoring system has been put in place, under which we will receive quarterly outturn reports. Those will ensure that underspends are anticipated and reduced in the future. When excessive underspends are forecast, ministers will consider reallocating spend and presenting proposals for that to the Finance Committee for consideration.

16:15

I welcome questions from members of the Finance Committee and any comments that they have on the information that we are presenting. I will try to provide detailed answers where possible, but given the level of detail involved, I may want to provide some answers in writing, if that is acceptable to the committee. I commend the order to the committee.

I move,

That the Finance Committee recommends that the draft Budget (Scotland) Act 2001 (Amendment) Order 2001 be approved.

The Convener: The documents that accompanied the Budget (Scotland) Act 2001, to which this is an amendment, contained a summary. That was not provided this year. It would be helpful if we could have such a summary in future.

The main change that the Budget (Scotland) Act 2001 (Amendment) Order 2001 makes relates to the formation of the finance and central services department. Is the decrease in the budget for the development department due entirely to the

transfer of functions set out in the order to the new finance and central services department?

Angus MacKay: I ask members, where possible, to refer me to the relevant page of the document so that I can be clear what their question relates to.

The Convener: My question relates to the transfer of funds from the development department. Is the decrease in the department's budget due solely to the transfer of powers to the new finance and central services department?

Angus MacKay: That is substantively correct. There may be other marginal factors, but the decrease in the development department's budget relates mainly to changes in the structure of departments within the Executive.

The Convener: What is the rationale for the establishment of a finance and central services department? In what way will its functions differ from those of the finance group?

Angus MacKay: The restructuring is designed to give a much clearer profile to the work and purpose of the finance function within the Executive. For some time we have believed that, in the context of devolution and of the expectations that the public has of the Parliament and of the Executive, we must ensure that the resources available to us are marshalled carefully and prudently. We must also ensure that the shape of our budget matches as closely as possible the shape of our policy commitments and priorities. We want to send a clear signal that we are very serious about the way in which we manage our finances and about the way in which finance, as a central function, relates to the departments of the Executive. One of the clearest ways in which to send such a signal is to establish finance, together with central services, as a department in its own right. That gives finance appropriate status within the Executive and sends a clear signal to the outside world.

Attendant on those structural changes, we have taken a number of initiatives that relate to the way in which we conduct the budgeting process. We have also put in place additional structures that will allow us to examine budgets and areas of expenditure more closely. The most important of those is the best value and budget review group, which meets in the Executive on an on-going basis.

Brian Adam: I must admit that I found some of the documents with which we are dealing difficult to follow.

I have two specific questions. The first relates to paragraph 2(3) on page 1 of the order, which suggests that you have reduced local authorities' capital expenditure—I presume that that means

capital expenditure limits—by a marginal percentage.

Angus MacKay: Unfortunately I do not have a copy of the order to hand. Talk me through it.

Brian Adam: You have cut local authorities' capital expenditure limits from almost £650 million to about £646 million. Why?

I have another specific question, which follows on from the point that the convener made about the development department's budget.

The Convener: It may be advisable to hold that question. Mr Palmer is still looking for the point.

I am not following the usual procedure of going through the budget documents department by department. There is no indication that there are sufficient questions to do that, so I will take individual questions. Will you indicate the reference if you expect the minister or Mr Palmer to respond?

Brian Adam: It is on page 77 of "Scotland's Budget Documents 2001-02", under the heading "Other Transport". It seems to me that significant changes have been made in the moneys that are available to the British Waterways Board. Its budget has almost tripled, from a little over £700,000 to £2.2 million. I notice no particular explanation for that. Also, the liquid petroleum gas grants have been slashed by a substantial sum of money. Will the minister give us an idea of what those figures are about?

The Convener: Those are rather specific questions. It would be reasonable for the minister to write to the committee with the answers.

Angus MacKay: I think that I can answer one of them.

The Convener: I will be impressed if you can.

Angus MacKay: There has been a substantial switch in the budget for programmes under the "Other Transport" heading. The most significant element of that relates to the British Waterways Board. That focuses on arrears for a work and safety programme. It is nothing particularly momentous. It simply reflects the fact that we are shifting the money into the right place to ensure that the British Waterways Board is able to continue to develop that work and safety programme. If Brian Adam wants more information on that, I will be more than happy to write.

What was the second point?

Brian Adam: Why are you cutting the capital expenditure of local authorities?

Angus MacKay: I am sorry; that was the first question.

The Convener: The second point that Brian

Adam made about page 77 concerned the liquid petroleum gas grants.

Brian Adam: It is on the next line on the same page.

The Convener: We can anticipate a written response on that.

Angus MacKay: I think you will have to.

The Convener: That is fine. There was a previous question on local authority capital expenditure.

Angus MacKay: Mr Adam stumped us with the question on local authority capital expenditure. Again, we will have to dig the information out and write to the committee. The variation does not look enormous. I wonder whether it is an administrative or bureaucratic figure. We will need to double check that and come back to the committee.

Mr Davidson: I have two questions that relate to page four of the order rather than to the budget documents. I will wait until the minister finds the page.

There is a substantial increase in item (a)—"Scottish Administration". Have savings from elsewhere been included in that figure or is the increase a straight increase in the costs of operation? Is it a net figure? There are two questions: have you saved any money anywhere and how much extra are you spending to do the job?

Angus MacKay: My information gives a range of heads of expenditure that fall within the line for "Scottish Administration". They imply transfers in and out. There is, for example, a transfer of £199,000 to the Cabinet Office to fund fast-stream recruitment. That is a net loss from the budget. There is also an £18,000 capital transfer from Her Majesty's Treasury for poverty analysis and tax and benefit models for Scotland. A range of such ancillary heads of expenditure imply net transfers in and out. The figure is not made of any one of those.

Mr Davidson: Are there no figures for what we have lost and where we are increasing our spending?

Angus MacKay: We could probably try to total that up and write to you with the information.

Mr Davidson: That is fine.

David Palmer: The figure simply reflects movements in the underlying budgets. It will show, for instance, that if we intend to spend the £718 million, we need to increase the capital—

Mr Davidson: It is a snapshot in time.

David Palmer: It is.

Mr Davidson: My other point concerns the Forestry Commission. I raised the point with the previous Minister for Finance. There is disquiet in the forestry sector, particularly among private growers, that market aid to produce wood seems to be given through the Executive budget to the Forestry Commission. That disadvantages the sector. Can the minister give us a figure for how much goes to the Forestry Commission to subsidise its forestry operation, as opposed to its other activities, so that we have clarity on the matter?

Angus MacKay: We do not have that information to hand but I am happy to write to you on that.

Mr Davidson: That is kind. Thank you.

Alasdair Morgan: I have two points, one of which I hope is a trivial one. The order refers to the Budget (Scotland) Act 2001, but I notice that page 3 of the budget documents refers to the Budget (Scotland) (No 2) Act 2001. I take it that that is a typo and that there is not an act that we do not know about.

David Palmer: Yes.

Alasdair Morgan: The *Official Report* will indicate that that is a typo.

I notice that on page 33 of the budget documents, there is an increase in pension provision of about £2 million for the various agricultural science institutes. I think the minister will have heard Dr Simpson refer to evidence taken this morning from Dumfries and Galloway Health Board that it needed to find £1 million for extra superannuation provision. Is there a particular problem with the undervaluing of many pension funds that may lead to significant extra expenditure on the part of the Executive?

Angus MacKay: Not that I am aware of. I am not sure that we have ever carried out a pension-specific piece of work throughout Executive departments. I am not aware even anecdotally that there is a significant problem that will cause problems for the Executive budgets.

Brian Adam: Other than the graphics you referred to earlier.

Angus MacKay: But I do not think that is quite what Mr Morgan means. I see your point, though.

Brian Adam: That would be a contributory factor, too.

The Convener: The minister will be pleased to know that there are no further questions.

The question is, that motion S1M-2423, in the name of Angus MacKay, be agreed to.

Motion agreed to.

That the Finance Committee recommends that the draft Budget (Scotland) Act 2001 (Amendment) Order 2001 be approved.

The Convener: That concludes today's business. I thank the minister, Mr Palmer and the other finance and central services department officials who have been with us.

That completes a marathon session for the Finance Committee. Members will be delighted at my reminder that we reconvene at 10 o'clock tomorrow morning in the Scottish Parliament chamber for our PFI/PPP inquiry.

Before I close the meeting, I thank everybody who has been involved in a successful visit to Kirkcudbright. That includes all the Parliament staff, including the official report and everybody who has put together this visit and helped us with sound. We could not have done it without all those contributions, which are very much appreciated.

Alasdair Morgan: I have no doubt that we will hear about the replacement of Dumfries and Galloway's curtains at some stage.

Meeting closed at 16:27.

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