

# **FINANCE COMMITTEE**

Tuesday 29 January 2002  
(*Morning*)

Session 1

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## FINANCE COMMITTEE

### 2<sup>nd</sup> Meeting 2002, Session 1

#### CONVENER

\*Des McNulty (Clydebank and Milngavie) (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)

\*Mr Tom McCabe (Hamilton South) (Lab)

\*Alasdair Morgan (Galloway and Upper Nithsdale) (SNP)

#### THE FOLLOWING ALSO ATTENDED:

Professor Brian Ashcroft (Adviser)

#### WITNESSES

Mr Andy Kerr (Minister for Finance and Public Services)

David Palmer (Scottish Executive Finance Division)

#### ACTING CLERK TO THE COMMITTEE

David McGill

#### SENIOR ASSISTANT CLERK

Anne Peat

#### ASSISTANT CLERK

Gerald McNally

#### LOCATION

Committee Room 1



## Scottish Parliament

### Finance Committee

*Tuesday 29 January 2002*

*(Morning)*

[THE CONVENER *opened the meeting at 10:05*]

**The Convener (Des McNulty):** We open the Finance Committee's second meeting of 2002 in public, although I see no members of the public present.

Apologies have been submitted by David Davidson, who is in Brussels, and by Donald Gorrie, who is attending the Procedures Committee. Tom McCabe is on his way as, I believe, is Elaine Thomson. We will progress and hope that they arrive soon.

### Items in Private

**The Convener:** Does the committee agree that agenda item 2, which is a briefing by Professor Brian Ashcroft, and agenda item 7, which is a paper on possible private finance initiative/public-private partnership case studies, be taken in private?

**Members** *indicated agreement.*

10:06

*Meeting continued in private.*

10:30

*Meeting continued in public.*

### Budget (Scotland) (No 3) Bill

**The Convener:** We move to item 3 on the agenda. I welcome the Minister for Finance and Public Services for his first light toasting before the Finance Committee. I also welcome David Palmer, who accompanies the minister.

I invite the minister to make an opening statement, after which we will ask questions.

**The Minister for Finance and Public Services (Mr Andy Kerr):** I will hold the convener to his promise of giving me a light toasting rather than burning me to a crisp. The perspective sitting at this end of the table is different from that sitting at the members' end. I hope that I have a long and healthy relationship with the committee. I am sure that it will be based on the fact that we all want the best for Scotland.

I must go through some formalities in relation to the Budget (Scotland) (No 3) Bill. First, I thank the committee for the invitation to give evidence. I have a brief statement, which sets out what the budget documents are and, perhaps more important, what each of them does. There are three documents: the Budget (Scotland) (No 3) Bill with the schedules to it, the pre-Budget Bill report and the detailed budget documents for 2002-03.

The Budget (Scotland) (No 3) Bill authorises the use of resources by the Scottish Executive and the payment of cash out of the Scottish consolidated fund. The bill is split into three parts. Broadly speaking, part 1 deals with the maximum amount of resources that are payable out of the Scottish consolidated fund and the application of income that is otherwise payable into the fund. Part 1 also deals with contingency arrangements, local authority capital expenditure and borrowing by statutory bodies. Part 2 contains emergency arrangements in case there is no Budget Bill for the financial year 2003-04. Part 3 contains an order-making power, which will allow ministers to revise the numbers in the bill.

Some of the changes from the Budget (Scotland) (No 2) Bill are worth pointing out. First, the Budget (Scotland) (No 3) Bill gives ministers the power to net account for VAT. Previously, VAT was treated as an accruing resource—it appeared under that heading in schedules 1 to 4 to last year's bill. In this year's bill, section 1, on the Scottish Administration, and section 2, on direct-funded bodies, have been drafted so that VAT is separated out and given authorisation without limit. Section 1(7) and section 2(6) provide a definition of VAT.

Secondly, the Budget (Scotland) (No 3) Bill gives ministers greater powers in relation to budget revisions. The power to amend schedule 5 has been extended to apply to the whole schedule and not only—as in previous years—to the amounts specified in the schedule. That allows the bill to be amended so that an appropriate entry can be inserted where a body that is subject to a borrowing limit is set up during the financial year to which the bill relates. A good example of that is the Water Industry (Scotland) Bill, which is going through the Parliament and with which the convener and I are pretty familiar. Section 7 in part 3 of the Budget (Scotland) (No 3) Bill has been redrafted to reflect the extended powers. After the bill's introduction, the amendment went before the Subordinate Legislation Committee for scrutiny.

The bill has 10 sections, which refer to the spending that is set out in the five schedules. Sections 1 and 2 set limits on the expenditure and income of departmental and direct-funded bodies. Section 2 has six subsections and deals with the funding of the direct-funded bodies, such as the Forestry Commission, the Food Standards Agency, the Scottish Parliamentary Corporate Body and Audit Scotland. Section 3 provides the authority for, and sets limits on, the payment of cash from the Scottish consolidated fund.

Section 4 provides ministers with the powers to make contingency payments and sets out the conditions under which such payments might be made. For example, a payment might be made to meet the public interest, but only if it is required with such urgency that the public interest cannot be satisfied by budget legislation. Section 4 sets a limit of £50 million on contingency payments.

Section 5 provides for the capital expenditure of local authorities and for the borrowing of a series of statutory bodies. Those bodies are the national health service trusts, Scottish Homes, Scottish Enterprise, Highlands and Islands Enterprise, the water authorities and the Scottish Environment Protection Agency.

Section 6 puts in place arrangements in case there is no Budget Bill for the financial year 2003-04. The section applies only to cash authorisation. The emergency powers to authorise the use of resources in the absence of a Budget Bill are set out in section 2 of the Public Finance and Accountability (Scotland) Act 2000. It provides that the purposes set out in the schedules to the Budget (Scotland) (No 3) Bill are applicable to 2003-04 if there is no Budget Bill for that year. It also sets out the maximum amount that may be paid in any calendar month in 2003-04: one twelfth of the maximum amount authorised by the bill to be paid out in this financial year, or the amount paid out in the corresponding calendar month of this financial year.

Section 7 gives ministers an order-making power to amend the bill when it is enacted. That power allows for budget amendments. Section 7 specifies that the order will be subject to the affirmative procedure. Section 8 repeals part 2 of the Budget (Scotland) Act 2001. Section 9 gives interpretations and section 10 gives the short title.

There are five schedules to the bill, which set out the purposes to which expenditure may be put, the maximum amount of expenditure, the types of receipts that may be raised and the limits applicable to those receipts.

Schedule 1 sets out the purposes for Scottish Executive departments and associated departments, and the maximum amount that can be paid out of the consolidated fund to meet the specific limits on incomes. Schedule 2 sets out by Scottish Executive department and associated departments a general spending limit on a range of incomes, each of which has a specified purpose. Schedule 3 is the equivalent of schedule 1 for the direct-funded bodies. Those are the Forestry Commission, the Food Standards Agency, the Scottish Parliamentary Corporate Body and Audit Scotland. Schedule 4 is the same as schedule 2, but applies to the direct-funded bodies. Schedule 5 sets out the borrowing of the statutory bodies—the national health service trusts, Scottish Homes, Scottish Enterprise, Highlands and Islands Enterprise, the water authorities and the Scottish Environment Protection Agency.

The introduction to “Scotland's Budget Documents 2002-03” provides background on the overall public expenditure aggregates and how the system of public finance works. It also gives information on the limits on non-voted spending which is not covered by the budget documents. The budget documents contain the departmental summary, which is supported by a series of schedules and which shows the current and capital expenditure by level 2 subheading and the various categories of receipts. Where possible, further details are provided on the programmes that make up level 2, that is, level 3. In addition, we have provided the real-terms figure after each vote.

I have covered the core aspects of the documents that members have before them. Now that they have been introduced, I am happy to take questions. Unlike me, David Palmer has been steeped in the budget from the word go; I might have to use his services throughout the morning.

**The Convener:** One of the difficulties that we have had with the budget process is that the draft budget documents dealt with the budget by portfolio, but the budget documents deal with matters by department. There are difficulties in reconciling that. Can the transparency of the

process be improved? When I read the documentation, I found that the departmental format was probably clearer than the portfolio format.

**Mr Kerr:** I share that concern, given my previous role as convener of the Transport and the Environment Committee. As I have said in debates in the chamber, there is a desire to work constantly on the process. We are committed to trying to achieve objectives so that the process becomes more appreciable, not only by us, but by those outside the Parliament who also want to investigate and oversee how we manage the budget process. The work is on-going. Every time we make a decision to do something, there is an impact on the organisation of the documents. We must be cautious. Nonetheless, the concern has been recognised and is being considered.

**The Convener:** I have spoken to Mr Kerr about the possibility that the committee might reconsider financial scrutiny procedures. The matter could perhaps be included in that.

**Elaine Thomson (Aberdeen North) (Lab):** Des McNulty's point has been considered closely by the Finance Committee over the past two years. We considered in depth the information that was presented and the way in which it was presented. Mr Kerr's predecessor, and his predecessor, undertook to work effectively with the Finance Committee to move that work forward. The Finance Committee made a raft of suggestions on a number of areas, some of which were detailed in the committee's letter of December 2000. Some of those suggestions were straightforward, such as the use of plain English—we suggested that all documents should have the Plain English Campaign's crystal mark. The committee recognises that other changes will take much longer to implement, such as more effective electronic presentation of information and linking that information back, for example to health board budgets. What progress is being made on our suggestions?

**Mr Kerr:** Although I wrote back to the convener about some of those matters, David Palmer has a much more detailed understanding and appreciation of how the work is progressing, so it would be appropriate for him to respond to that question.

**David Palmer (Scottish Executive Finance and Central Services Division):** I will respond to the convener's question first. Our difficulty is that the documents must be laid out according to accountability because the budget is voted. There is an accounting officer at the head of each department—that is why the budget ends up in a departmental setting. I asked our solicitors whether there is a legal necessity for the process to take place in that way. Either the Scotland Act

1998 or the Public Finance and Accountability (Scotland) Act 2000 made it possible for us to create accountable officers and it might be possible for us to investigate whether the legislation would allow us to produce budget documents in the same portfolio format in which the draft budget and the annual expenditure report are produced.

The problem has existed for some time and we have tried unsuccessfully to resolve it. We need to get to the bottom of whether there are legal constraints on what we can put in the budget documents—that is the best way forward.

Elaine Thomson asked about the development of the documents. We took on board the Plain English Campaign's views on the previous annual expenditure report. We used a style editor, sent the documents to the Plain English Campaign for assessment and received feedback. Although the campaign did not award us a crystal mark, it was reasonably happy with what we produced. We minimised the use of jargon and standardised the chapters as much as we could. We are making progress, but we will have to continue to work on the documents for some time to get them into the desired state.

The member also asked about the electronic provision of information. Last year, we put the annual expenditure report and the draft budget on the website with links back to most of the non-departmental public bodies. This time, our ambition is to have links not only to the NDPBs but to the health trusts and the local authorities. We are developing what we tried to do last year.

**Mr Kerr:** If I may, I will add to that response. The parliamentary committees also asked us to provide information that traces the link between priorities and how the Executive commits resources to achieving those priorities. We are setting in train a series of steps that, I hope, will assist in the provision of such information. The question is how we can turn around the provision of information, given that the Executive is a large organisation. People want—quite rightly—to be able to analyse the budget appropriately, but they also want to know how we provide the resources necessary to achieve the objectives that we set out. We are considering that area quite closely to determine how best to report the information.

**The Convener:** The information would be welcome—your approach follows our line of thinking.

This is a minor point, but the budget for the finance and central services department is huge and could be broken down a little more.

**Alasdair Morgan (Galloway and Upper Nithsdale) (SNP):** I have a supplementary question on that point. The Minister for Justice has

clear responsibility for the justice department's budget, but the development department seems to exist for historical reasons—as I recall, the name goes back a long way—and at least two Cabinet ministers are responsible for different parts of it. For the life of me, I cannot see the sense in that approach.

10:45

**Mr Kerr:** History plays a big role in our approach. Devolution has brought enough pressure to bear on how we do things in Scotland. What you say makes sense, but First Ministers change portfolios and the way in which the Executive is organised. If the machinery behind those changes, we would spend more time moving office than we would spend getting the work done. On analysing the budget, the principle is that we must achieve the best fit, but I sound a note of caution. I do not think that we should change the structure dramatically. We have had a settled phase, which is why the development department is still in existence. That does not mean that we should not attempt to get the best fit for an accountable budget process.

**Alasdair Morgan:** Is that an argument for not shuffling ministerial portfolios?

**Mr Kerr:** I am sure that your party would never envisage shuffling portfolios.

**Alasdair Morgan:** In your letter to the convener earlier this month, you wrote about the £88 million extra consequential from Whitehall. We have tried to work out where that money shows up in the new budget documents. If one compares the total budget with the total draft budget, the difference seems to be a couple of million pounds rather than £88 million. Where does the £88 million show up in the documents?

**Mr Kerr:** I will ask David Palmer to respond to that point. The £88 million has not yet been allocated through the budget process, although there have been Cabinet discussions about how to use the resources and there is a general understanding about where the money will go.

**David Palmer:** Members will see where the £88 million has been allocated in the autumn revisions.

**Alasdair Morgan:** Is the £88 million additional to the resources that are in the bill?

**David Palmer:** Yes.

**Alasdair Morgan:** Are there any other available resources that are not mentioned in the bill? In other words, do the resources in the bill, plus that £88 million, comprise the total amount that is available to the Scottish Executive, bar, I presume, the expenditure of the Scotland Office?

**David Palmer:** The line that is about three quarters of the way down the table on page 6 of "Scotland's Budget Documents 2002-03" shows the total Scottish estimates—that is the total amount that is covered in the bill. We then reconcile that amount with the total for public expenditure in Scotland. Some expenditure is picked up in the bill, such as local authority net capital, which is picked up in the schedules. Other expenditure is made up of minor, non-voted amounts. For other amounts, the way in which the Public Finance and Accountability (Scotland) Act 2000 acts on public corporations means that there is a difference between the amounts that are shown on the bottom line of the table and what we vote for public corporations in the bill. The full reconciliation is shown in the table. I imagine that the £88 million is on top of the total budget of £21.122 billion.

**Brian Adam (North-East Scotland) (SNP):** My understanding of the purpose of the Budget Bill is that it gives ministers authority to spend the money that is available to the Executive. What mechanism exists to give ministers authority to spend either that £88 million or any other consequentials that may float north?

**Mr Kerr:** As David Palmer pointed out, consequentials are shown in the autumn revisions to the budget. The decisions on how to spend that money, and the authority to do so, come from the Cabinet and work their way through the system into the autumn revisions. The Parliament's consent is obtained at that point.

**Brian Adam:** Does the matter come back to the Parliament before the money is spent?

**David Palmer:** Yes. I do not have the revisions with me, but a series of lines at the beginning of each chapter in the budget documents set out the amounts and the reasons for expenditure. I believe that £20 million of the £88 million has been allocated to health—that will show up as a line under health, perhaps as pre-budget report consequentials.

**Brian Adam:** The Executive has indicated that £20 million of the £88 million has been earmarked for tackling delayed discharge, but I presume that the money has not been allocated yet, as there has been no statement of the kind that was given in June last year when the budget was revised. When will a statement be made, given that the allocation will be made now? Does the allocation have to be made during this financial year?

**David Palmer:** Yes, the allocation has to happen this year, although technically we can take the money on any time we want to. However, in order to spend it this year, the allocation must be taken on this year. That would take place through the autumn revision. If it was necessary, we could



carry out a summer revision, but we do not anticipate having to do that at the moment. We will simply take the allocation on in the autumn.

**The Convener:** I want to raise a technical issue about capital spend. You directed us to page 6 of the budget documents. Three items are hanging on page 7—they are identified in the breakdown of payments as public-private partnership spend within operational budgets. Obviously, there are other projects where repayment is operated through the operational budgets. How do you handle that?

**David Palmer:** I think that I was asked the same question last year. When I checked, I found that the projects are those that we pay for out of our budgets. Most of the other projects are paid for through local authority or health trust budgets. Payment for those three projects comes directly out of our budgets.

**The Convener:** Although the presentation of those three projects is clear, it is not entirely clear where the money to pay for them comes from. Obviously, payment for those projects falls outside the total line. How could we get a better idea of what the repayment is for capital spend in local authority matters or health matters?

**Mr Kerr:** The obvious answer is that you would need to go to the relevant authorities, whose budgets deal with those matters. It has always been difficult to try to read across budgets, because agencies and third parties deliver services from our resources. I found that particularly difficult with transport matters, because so many different players had access to the resources. I am not sure whether we can refine the system any further.

**David Palmer:** The issue probably does not sit in the budget documents, but we could perhaps think about it for the annual expenditure report. When I return to the finance division, I will ask whether we can collect the information. If possible, I will put it in the AER.

**The Convener:** That would be an interesting issue for us to pursue, because it is quite difficult to examine the balance between capital and revenue spend by looking at the present budget documents.

**David Palmer:** For completeness, the total of the payments in table 2.3 will be within the £19,594,000 that is given in table 2.2. Those payments are not in any sense additional—they are already in the budget. They are simply highlighted in table 2.3.

**Alasdair Morgan:** This is probably the best point at which to ask another question about capital. In schedule 5, you lay down the maximum borrowing limits for certain bodies. Are there any

constraints on the amounts that you set? Clearly, the amounts must be within the total budget. They are slightly different in the sense that they represent capital borrowing. Are those limits constrained by any other rules that the Treasury lays down, or are you free to increase those amounts within the Scottish Executive budget?

**David Palmer:** Some of the amounts will be specified in the statutes that are indicated in schedule 5.

**Alasdair Morgan:** In other words, if the water authorities came to you and asked to borrow four times the specified amount, what constraints would prevent you from changing that amount?

**David Palmer:** There are no such constraints. We could allow them to borrow such an amount. We would simply have to find what we call the public expenditure survey—PES—cover from within public expenditure. There would be no borrowing constraint, only an overall public expenditure constraint.

**Brian Adam:** The local government bill will come before the Scottish Parliament quite soon. South of the border, the local government bill will replace the equivalent to section 94 constraints in the same kind of way. I gather that in England and Wales the constraints on housing revenue account borrowing will also be removed. Has the Executive given thought to how it will deal with that in the future?

**Mr Kerr:** Yes, we have. We continue to give thought to the matter. Discussions are continuing with the Convention of Scottish Local Authorities on those two specific issues. I am looking at those discussions positively and I hope to bring detailed information to the Parliament in due course—not as part of the Budget (Scotland) (No 3) Bill process. Wearing my other hat as the minister responsible for local government, I can say that the discussions are continuing. I am looking very positively at a long-standing request from local government.

**Brian Adam:** You are looking at both the housing revenue account and the section 94 constraints.

**Mr Kerr:** I will deal with those matters in due course.

**Brian Adam:** That would certainly have a major impact on budget matters of this kind.

**Mr Kerr:** When Alasdair Morgan asked his question about capital, I wondered whether to mention those issues. As you asked about them specifically, I raised them. David Palmer has outlined what the impact will be once we have completed our consideration. We are looking positively at those matters and are discussing them with COSLA.

**Brian Adam:** Thank you for sharing that with us.

**Mr Tom McCabe (Hamilton South) (Lab):** On the annual managed expenditure reserve, there is a difference between the draft budget and the actual budget of about £38 million. Will you give us some information on that?

**David Palmer:** The AME reserve is a difficult beast. It is not a reserve. AME exists only within one year. It disappears at the end of the financial year. Anything that is left goes back to the Treasury. That is the case for AME within the lines as well.

We have identified areas within the departments that we think need additional AME and we have allocated the AME. I will have to examine the detail and write to you about what amounts we have given to whom. After considering its budget for next year, a department will have reconsidered its capital assets and will have decided that it needed more depreciation on the cost of capital. As a result, we will have given the department additional AME out of the AME reserve.

**Mr McCabe:** Put simply, are you saying that, by virtue of that wider allocation, you minimise what goes back to the Treasury?

**David Palmer:** Yes.

**Brian Adam:** The reserve appears to have increased by about £40 million. Where has that come from? For there to be another £40 million in the reserve, what plans will not go ahead that were originally included in the draft budget? As we are at the end of January, the minister might care to tell us whether there is likely to be planned underspend. I presume that some of the reserve could be planned underspend. Will we end up with more in the reserve because of planned underspend or projects that have fallen behind? Will you tell us a bit more?

**David Palmer:** The departmental expenditure limits reserve might have moved by a couple of hundred thousand pounds. That is a matter of margins. I thought that the AME reserve had fallen.

**Mr McCabe:** The DEL reserve is the same.

**Brian Adam:** Yes, the DEL reserve is the same.

**David Palmer:** Sorry, I thought that you said that the reserve had increased.

**Brian Adam:** The AME reserve has increased by £40 million.

**Mr McCabe:** I think that it has decreased, because it has been allocated. Is that right?

**David Palmer:** Yes.

**Brian Adam:** Perhaps I got it the wrong way round. I thought that the AME reserve had

increased.

**Elaine Thomson:** It has increased.

**Mr Kerr:** We maintain our confidence in the end-year flexibility and planned underspend system. We think that it represents a good use of resources and ensures that the allocation of money is targeted in the most effective manner, so that resources are not spent wastefully and ineffectively in a rush at the end of any financial year. That does not mean that we are not concerned about overall figures. Peter Peacock, the Deputy Minister for Finance and Public Services, has specific responsibility for ensuring monitoring. We met yesterday to discuss the state of EYF and planned underspend. That process continues. I am not able to provide any detail on that, because it is too early in the process. We have projections, but they are only projections.

I would like it to be understood that 65 per cent of EYF is managed or planned underspend. We know what we will do with the money. It is subject to the same rigour that we apply to all our resources, so it will be spent wisely. Much of that money relates to the McCrone settlement, the Glasgow housing stock transfer and other large amounts of public expenditure that have slipped but which remain necessary aspects of the budget.

I will give the Parliament further information on those matters in due course. EYF and underspends remain a focus for ministers' concern. We will continue to work with departments to ensure that the money is used wisely.

11:00

**The Convener:** I will pursue with David Palmer the discrepancy between the reserves. I accept part of the argument, but the fact is that the totals remain the same. Some discrepancy in addition to the AME discrepancy must exist elsewhere, otherwise the totals would not add up.

**David Palmer:** Movements in and out of AME are simply movements into or out of other budget lines. They are within the fixed total. The Treasury reclaims unspent AME only at the end of the financial year.

For 2002-03, we have an AME reserve of £102 million. In the autumn revisions, we will have another chance to reallocate that. It will shift, but all that will happen is that we will take the money out of the reserve and put it into budget lines. The reserve would return to the Treasury only if it were unspent after the end of the financial year.

**The Convener:** How did the shift in translating from portfolios to departments create the space for the additional reserve? Are there relative

underspends in the portfolios as they translate to departments?

**David Palmer:** I will examine the detail on the shift of the AME reserve. I will write to explain what has come in and gone out.

**The Convener:** Thank you. We will move on to specific issues.

**Alasdair Morgan:** The minister mentioned the McCrone settlement, which is not shown as a separate item—we would not expect it to be. However, how much in the budget relates to the McCrone settlement? In which budgets does that money show up? Is it all in the minister's department?

**Mr Kerr:** The money is all in the local authority line.

**Alasdair Morgan:** How much is allocated to the McCrone settlement?

**David Palmer:** The total is about £400 million. I do not have the precise figure.

**Alasdair Morgan:** Will you write to us with the figure?

**David Palmer:** Yes.

**Alasdair Morgan:** How much is allocated for personal and nursing care for the elderly?

**David Palmer:** The amount is £125 million.

**Alasdair Morgan:** The amount remains £125 million?

**Mr Kerr:** The McCrone money is the subject of some discussion and might be discussed in Parliament later this week. It is allocated via the distribution formula that was agreed with the Convention of Scottish Local Authorities. All the Executive's commitment to McCrone was fully funded to local authorities.

The same applies to the £250 million that has been allocated over two years for long-term care. That was the care development group's analysis of the required resource, so the Executive is meeting fully its commitments for extra spending in local authorities.

**The Convener:** Will that money be routed centrally or through local authorities as additional allocations?

**Mr Kerr:** It will be routed through the local authorities as additional allocations.

**The Convener:** Has the mechanism for that been agreed with COSLA?

**Mr Kerr:** The mechanism for allocating resources for the McCrone settlement was the distribution formula, which was agreed through COSLA's usual channels. That led to some

concern throughout Scotland but, nonetheless, that formula was agreed with COSLA. Nobody has asked for a change to that.

The same applies to the care development group's work on resources. The formula is being agreed through discussion with COSLA. Malcolm Chisholm is responsible for the detailed negotiations. I am not certain that the mechanism has been fully agreed, but I think that dialogue is on-going.

**David Palmer:** Dialogue is on-going.

**Mr Kerr:** However, the overall resource package of £125 million a year over two years, as suggested by the care development group, has been fully allocated.

**The Convener:** Have you established a formula to distribute the money among local authorities, or is that a matter for Malcolm Chisholm?

**David Palmer:** It is a matter for Malcolm Chisholm and COSLA. If my memory of the discussion is correct, the normal formula route will not be used because there is geographic disparity among care homes.

**Alasdair Morgan:** I have another question on one of those discrepancies. I am sure that the explanation is in the documents, but we cannot find it. If you cannot explain it just now, perhaps you could write to the committee. The question is to do with the health budget which, as far as we can see from the totals on pages 147 and 148 of "Scotland's Budget Documents 2002-03", is just under £6 billion—about £5,987,000. However, in the draft budget, the total is £6,666,000, which is substantially different.

**David Palmer:** That is the retained income figure, which reflects—if memory serves—nurses' pensions receipts.

**Alasdair Morgan:** Mmm?

**Mr Kerr:** I was about to say that myself. [*Laughter.*]

**David Palmer:** If members look at the bottom of page 152, they will see a figure for the income from national insurance contributions. That probably explains the difference.

**The Convener:** The figure is separately accounted for.

**Alasdair Morgan:** Okay. We will come back to you on that once we have had a chance to work it out.

Another question was on individual learning accounts. We note that you have targets for ILAs in both the Scottish Enterprise budget and the Highlands and Islands Enterprise budget. However, no money is shown separately for that

purpose. Given the suspension of ILAs, do you expect that there will be an underspend in next year's budget? Will there be a carry-forward from this year's budget? What has happened to the money that is not being spent? How much is meant to be spent next year on ILAs?

Are we looking at the right budgets? The targets are given in the Scottish Enterprise and HIE sections.

**Mr Kerr:** To be sure of giving you an accurate answer, it would be better if we got back to you on that. We will do so as soon as we can.

**David Palmer:** I suspect that the mechanism might have changed. The money might continue to be spent, but perhaps not through the ILA mechanism. However, I cannot say that with any confidence, so we will get back to you.

**The Convener:** I have two more questions. The first is on money for school buildings. There has obviously been a bidding round for local authorities, but how will that be taken forward within the budget framework?

**David Palmer:** If there is a bidding mechanism, I presume that the money will be paid directly to the local authorities. The money would therefore come through the local authority total allocation from the finance and central services department.

**The Convener:** A difficulty that we have—I referred to it earlier—is that, because finance and local authority budgets are so heavily aggregated, it is very difficult to identify where moneys are.

A large sum of money is being made available for school buildings; that is different from what has happened in the past. I therefore wonder about the implications for other budgets. Is that money additional?

**David Palmer:** When the money first appeared in the education budget, it was additional. The education department takes the decision and then transfers the resources to local government for allocation. I presume that the education department will have looked after the bidding mechanism and process and will then pass the resources to local authorities and tell them how much it wants to be paid and to whom.

**The Convener:** You will be aware that the committee is engaged in fairly detailed scrutiny of private finance initiatives and public-private partnerships. We would be interested in seeing a note from you that says how that process is being handled, how money is being made available and what mechanisms are attached to it. Such information would be useful.

**David Palmer:** I can provide that information.

**The Convener:** The final detailed issue that I want to raise relates to the funding of national

parks, which is detailed on pages 27 and 28 of the budget document. Despite substantial moves toward establishing the first national park authority in Loch Lomond and the Trossachs—I understand that the Rural Development Committee is even thinking about increasing the size of the park—the budget appears on the face of it to be smaller than it was last year. I wonder whether sufficient allocations have been made to take account of that change.

**David Palmer:** That is something that we would like to check and come back to you on. I know that money for waste was certainly sitting in one of those budgets and has since been moved; I am not sure whether it was in the Loch Lomond and the Trossachs budget. That is the only explanation that occurs to me immediately, but I shall write to the committee about that.

**The Convener:** It would be useful to know what is happening with those budgets.

As members have no further questions on the budget process, I thank the minister and assure him that he was only lightly toasted.

You are welcome to stay for the next item, minister. We shall simply be going through the formal stage 2 process, which I think will be very brief.

## Budget (Scotland) (No 3) Bill: Stage 2

**The Convener:** We now turn to stage 2 proceedings on the Budget (Scotland) (No 3) Bill. We do not have amendments to deal with but, under standing orders, we are obliged to consider each section and schedule of the bill and the long title and to agree formally to each. We shall take the sections in order, with schedules being taken immediately after the sections that introduce them, and the long title last. This is not just a procedural requirement—it provides an opportunity for members to debate or ask questions about any part of the bill. However, standing orders allow us to put a single question where groups of sections or schedules fall to be considered consecutively. I therefore need put only two questions on the bill, unless members want to raise questions about individual sections or schedules. Should any member want to discuss any of the sections or schedules, he or she should indicate that as those sections or schedules arise.

*Section 1 agreed to.*

*Schedules 1 and 2 agreed to.*

*Section 2 agreed to.*

*Schedules 3 and 4 agreed to.*

*Sections 3 to 5 agreed to.*

*Schedule 5 agreed to.*

*Sections 6 to 10 agreed to.*

*Long title agreed to.*

**The Convener:** That concludes stage 2 of the bill. I thank the minister and David Palmer for attending.

**Mr Kerr:** Thank you, convener. The meeting has been most enjoyable. I am sure that we shall see a lot more of each other in future.

## Financial Scrutiny

11:15

**The Convener:** We agreed at the previous meeting to identify issues that the committee could consider in its review of financial scrutiny arrangements. The clerks have produced a paper that sets the review in the context of the committee's previous and continuing work. We need to keep the review as strongly focused as possible. I would welcome any comments from members about the content of the paper and whether it describes the direction in which we want to go.

It is important that we try to conduct the review in as focused and coherent a way as possible and that we do not try to bring everything including the kitchen sink into it. After discussions with the clerks and the Scottish Parliament information centre, and once I have heard from members how they would like the review to go, I want to be able to come back to the committee with a remit and timetable. Are there any comments on the paper?

**Alasdair Morgan:** I agree with what is said in the paper. The only other thing that should perhaps be mentioned specifically is that we should try to tie the review in with our review of the legislative timetable for budget bills. It became obvious last week—when we were having yet another debate on a subject that we had basically debated previously—that we are not necessarily making the most fruitful use of parliamentary time. There might be scope for merging the committee's stage 2 report with the stage 1 debate on the budget bill.

**The Convener:** I accept that point. It is implicit in the paper, but we can make it more explicit. We should try to make more meaningful use of the committee's time.

**Brian Adam:** The stage 2 procedure that we just went through just now seems to be rather superfluous. I do not refer to our discussions with the minister, but rather to what followed. We cannot amend the bill.

**Alasdair Morgan:** Technically, if we ever had the stage 2 report and stage 1 of the bill at the same time, we would have to leave open the possibility that, as a result of that process, the minister would want to amend the bill. The committee's consideration of the bill at stage 2 would be the only occasion on which that could happen.

**The Convener:** I would want to focus the committee's attention much more on the earlier part of the budget process. What happened today

is just a safety valve. We want the earlier part of the process to be more transparent and we want committees to be given more opportunities to engage with the budget-setting process.

**Elaine Thomson:** The budget process could do with being truncated. It could also be made more meaningful, particularly at the earlier stages. Past and present members of the committee have all said that the effectiveness of the process has much to do with how the information is gathered and how it is reported and presented.

The paper by Brian Ashcroft makes it clear that the Executive accounts for its money by department, but reports on it by portfolio. That makes it difficult to see what is going on. There are areas in which we look for how much is spent across a number of different departments, but on the same thing, such as free care for the elderly. It would be useful to ensure that discussions with the minister and his officials at that stage are high on the agenda. Until that problem is resolved, we will not get much further with some of the issues that concern us. I am aware that the Executive has a nice new financial system called Oracle Financials, which should allow it to make a quantum leap in reporting.

**The Convener:** The general feeling seems to be that the Finance Committee must deal with the dissatisfactions that it and the subject committees have felt about the level of transparency and comprehensibility of the budget process. We need also to give the committees of the Parliament greater purchase on the budget-setting process, so that they understand better what is going on and have an opportunity to change budget allocations in the light of policy considerations.

Another issue that concerns us is whether we should consider matters at a more strategic level, rather than being tied up with the annual budget round, which has dominated heavily the way in which the committee has had to work. We should move to a process that ties in with the comprehensive spending review and so on.

**Professor Brian Ashcroft (Adviser):** There is insufficient differentiation in practice between stage 1 and stage 2 of the process. Stage 1 has veered away from the original objective of the financial issues advisory group, which recommended that the committee examine the strategic balance of the spend and that it deal with the political decisions between the allocations at level 1 and key areas in level 2. In the natural desire for information and transparency, the committees are being bombarded with information at stage 1, which has become a very detailed process.

However, in June, particularly in the year of a comprehensive spending review, there are

significant changes at stage 2. That tends to change much of what was decided at stage 1 and so qualifies—I will not say makes redundant—what the subject committees said at stage 1. There is much focus on detail, but the committee might want to consider the major political issues, such as the balance of spend between particular areas, which are perhaps not considered because of the detailed process that is gone through.

It might be better if stage 1 were slimmed down so that the committee could accommodate the budget consequentials and the larger changes in the year of the comprehensive spending review in detail at stage 2. The annual expenditure report is almost redundant if there is a significant change through the budget consequentials. Last year, that amounted to £489 million—it is not that much out of a £20 billion budget, but in a CSR year it could amount to more than a billion pounds.

**The Convener:** Has the Finance Committee been asking the right questions, particularly in relation to what we ask ministers to present to us at different stages? Is that something that we can change or do we need to reach agreement with the Executive about what the procedure should be?

**Professor Ashcroft:** Elaine Thomson is right to say that the Finance Committee has spent much time trying to clarify the information and the presentation of information. That diverts the committee from the more substantive issues about whether the spend is being allocated appropriately between the different budget heads at level 1.

**The Convener:** There is a proposal to involve a couple of subject committees in the review process. That would help us and might be helpful for them. We could focus on particular areas of the budget as part of that process. Do members agree that that is reasonable?

*Members indicated agreement.*

**Brian Adam:** The concerns that are identified in the paper have been expressed in the past.

**The Convener:** On that basis, do members agree that the committee should undertake a review of the financial scrutiny arrangements, paying particular regard to the financial issues advisory group? I acknowledge that such a review will have an impact on our work programme, but it is probably the most important work that we can do. Are we agreed?

*Members indicated agreement.*

**The Convener:** Good.

## Future Inquiries

**The Convener:** We move to item 6 on the agenda, which is a discussion of the committee's future work. I want to highlight certain issues, although the work that we are going to do on FIAG will be a priority for us. We also have continuing work to do on our PFI/PPP inquiry.

I understand from former members of the committee that a couple of other potential inquiries were in the pipeline, one of which was an inquiry into the future of the voluntary sector. To an extent, that proposal was subject to the proviso that any such inquiry would follow on from the Social Justice Committee's inquiry into the voluntary sector. I understand that that committee's review of voluntary sector issues has not been carried out as quickly as was envisaged. That raises the question of when it might be appropriate for the Finance Committee to inquire into voluntary sector funding. How do members wish to make progress on that proposed inquiry? I am conscious that Donald Gorrie was particularly associated with that proposal; I do not know what progress we can make in his absence.

**Alasdair Morgan:** What was the logic behind the Finance Committee's considering that issue?

**Elaine Thomson:** From memory, Donald Gorrie would have conducted the inquiry into the voluntary sector with the assistance of another member—

**Brian Adam:** The other member was to have been Adam Ingram.

**Elaine Thomson:** That is correct. The inquiry was to have been done on a reporter basis and would have been conducted in tandem with the Social Justice Committee's inquiry, rather than as a full-blown inquiry.

**Mr McCabe:** The committee would need to be careful, given that an inquiry is being undertaken by the Social Justice Committee. Although we might have an interest in that work, that interest is peripheral—we should leave the inquiry to the Social Justice Committee.

**Elaine Thomson:** Absolutely.

**The Convener:** I am content if that is the committee's view.

An investigation of the Barnett formula and related issues was also mentioned. Again, previous members of the committee particularly focused on that proposal. In my view, although it might be possible for us to consider investigating that matter, we might prefer to concentrate on "Government Expenditure and Revenue in Scotland". We could develop that report as a framework for analysing the situation.

There are two other issues that we might want to investigate: lottery funding and the way in which it is utilised; and European structural funds, which the committee dealt with inconclusively. Do members think that we should explore those issues?

**Mr McCabe:** I know that we are trying to move on, convener, but we should take some time to think about issues that might be a bit more relevant. Structural funds is an interesting issue, but there is a danger that we might die on our feet if we consider it again. There are other issues that we might examine. Last week, there was coverage of levels of debt, collection rates and so on.

**Alasdair Morgan:** It depends on which aspect of structural funds we examine. We could consider the allocation of funds or how funds are spent when they are allocated. The mechanism for the next round of structural funds will be different, although we do not know what the differences will be. I am not clear what we would examine. We might end up considering a moving target or a situation that will not be replicated, in which case criticisms would be interesting, but academic.

11:30

**Elaine Thomson:** The committee previously considered European funding; we must be careful that we do not duplicate previous work. I agree with Tom McCabe that there are a number of different areas that we might want to consider in more depth. I am sure that the Finance Committee has mentioned one or two other issues that it may or may not like to examine in future inquiries.

**Alasdair Morgan:** Perhaps the topic could be on the agenda for the next meeting, at which members could give their ideas.

**Brian Adam:** One way in which Government has delivered finance in recent years is the challenge-funding approach. That applies especially to local government, but also to health. There are concerns that that approach involves an awful lot of wasted time and effort, in both Government and lottery funding. We could broaden the idea of examining lottery funding to cover the whole challenge-funding approach. We could consider whether that approach is the best way in which to allocate funds; whether a significant amount of money is wasted through the cost of the process; and whether it is an appropriate mechanism through which to deliver finance for services. We could include lottery funding, local government challenge funding or the transport fund—whatever is in that particular pocket.

**The Convener:** We have a full programme of work that will occupy the vast bulk of our time until the summer. That programme includes budget

issues, the PPP/PFI inquiry and work on the financial issues advisory group. We might embark on other work before the summer, but I suspect that we will not get far with it. It would be useful if the clerks spoke to members individually during the next couple of weeks and produced a paper, say within four weeks, to highlight some possibilities. We can plan our programme on that basis.

I am taken with Brian Adam's idea of examining the challenge-funding framework, which involves a number of issues. For example, challenge funding is an issue in local government and there is the matter of the balance between urban-aid funded projects and service delivery. There is also an issue about money going to those who can put in the best bids, not because of the need for what they will provide, but because of their skills in producing bids.

**Brian Adam:** We know how the system works.

**The Convener:** We should discuss with members the work programme and return to it when we have mapped out what members want to do. At that point, we can take a balanced view.

Before we go into private session, it is incumbent on members to thank Anne Peat for her work during the past two years. Anne is moving to the Parliament's business team. Even after the short time for which I have been a member of the committee, I recognise that losing Anne's knowledge and ability will be a considerable loss to the committee. On behalf of the committee, I wish her well in her new position and thank her very much for her contribution to the committee's work.

11:35

*Meeting continued in private until 12:04.*



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