

# **FINANCE COMMITTEE**

Tuesday 26 February 2002  
*(Morning)*

Session 1

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## FINANCE COMMITTEE

### 4<sup>th</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)

Mr Tom McCabe (Hamilton South) (Lab)

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

\*Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD)

\*attended

#### THE FOLLOWING ALSO ATTENDED:

Professor Arthur Midwinter

#### WITNESSES

David Palmer (Scottish Executive Finance and Central Services Department)

Peter Peacock (Deputy Minister for Finance and Public Services)

#### ACTING CLERK TO THE COMMITTEE

David McGill

#### SENIOR ASSISTANT CLERK

Terry Shevlin

#### ASSISTANT CLERK

Gerald McNally

#### LOCATION

Committee Room 1



# Scottish Parliament

## Finance Committee

*Tuesday 26 February 2002*

*(Morning)*

[THE CONVENER *opened the meeting at 10:04*]

**The Convener (Des McNulty):** I open the fourth Finance Committee meeting of 2002. I have received apologies from Tom McCabe. Jamie Stone might arrive later but is delayed because of adverse weather conditions. I suggest that we leave agenda item 1 until Jamie joins us.

### Items in Private

**The Convener:** Agenda item 2 is to ask the committee to agree to discuss in private items 3 and 7. Item 3 is consideration of the lines of questioning for the Deputy Minister for Finance and Public Services. Professor Midwinter has produced a paper that highlights areas that the committee might wish to raise. Item 7 is consideration of possible future inquiries, for which Murray McVicar has produced an options paper. Does the committee agree to discuss those items in private?

**Members** *indicated agreement.*

10:05

*Meeting continued in private.*

10:33

*On resuming—*

### Interests

**The Convener:** I invite Jamie Stone, as the new member of the committee, to make any appropriate declaration of interests.

**Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD):** I will do so with pleasure, convener. It is a delight to join the committee and I look forward to working with you.

I have two interests to declare, the first of which is my membership of the Holyrood progress group—a body that some committee members might have heard of in the past. Secondly, I refer members to my entry in the “Register of Interests of Members of the Scottish Parliament”.

**The Convener:** I thank Jamie Stone and welcome him to the committee. I also welcome Terry Shevlin, who has joined the committee as the new senior assistant clerk. We look forward to working with you.

## Budget (Scotland) Act (Amendment) Order (SSI 2002/draft)

**The Convener:** We come to agenda item 4. I welcome the Deputy Minister for Finance and Public Services and invite him to make an opening statement on motion S1M-2735, in the name of Andy Kerr.

**The Deputy Minister for Finance and Public Services (Peter Peacock):** I wish to make a short statement to outline one or two key points, after which I will be happy to take questions from the committee. With the help of my colleague, David Palmer, I will seek to answer as many questions as possible.

As members are aware, the spring revision exercise is largely a technical exercise to match authorisation to spend with the expected outturn in the budget in the light of the practical experience of running the budget during the year. Table 1.1 in the spring budget revision document—which committee members have all been given—summarises the changes that are being made. The table shows an alteration in the amount of authorised expenditure of just over £200 million, which consists largely of £80 million for enterprise and lifelong learning and £105 million for health.

I emphasise that the changes are purely technical. The alteration in the budget for enterprise and lifelong learning reflects a general restructuring of accounting for student awards. As a result of that restructuring, we have adjusted the estimates of capital charges and removed the bad debt provision that is no longer required. The estimates relate to annually managed expenditure and have no impact on the amount of resources available to the Executive. The alterations are balanced by an increase in the Executive's AME fund.

The alteration in health is in net expenditure and reflects an increase in income. Gross health spending has not changed.

I will continue on the technical theme. The spring budget revision document also includes the final allocation of end-year flexibility, which is carried over by departments into the current year from the previous year, to individual budget heads. As the committee is aware, EYF is a technical provision to enable better and much more focused spending. It caters mainly for planned spending over a number of years to get round the former public expenditure annuality rules. It also includes—significantly—slippages on capital works that result from a variety of factors.

There are a couple of policy-oriented changes in the budget proposals including—as was the case last year—provision for the cost of the Lockerbie

trial. The sum involved is £17.3 million, which is spread over a number of votes: £11 million for police and prison costs; £4.7 million for court and Camp Zeist costs; and £1.6 million for Crown Office prosecution costs. The good news is that, by agreement with the Treasury, all the capital costs and 80 per cent of the current costs will be met from the UK reserve. In addition, the UK Treasury is negotiating with the American Government with a view to the latter's providing substantial compensation toward the costs that are involved. The outcome of those negotiations is awaited.

Although substantial sums of money are involved in those transactions, only a relatively small amount will fall on the Scottish criminal justice system and we have done well out of the special arrangements with the UK Treasury. In the circumstances, which are exceptional, the national reserve has been willing to pick up virtually all the tab.

That is all I have to say by way of introduction. I am happy to take any questions that members have.

I move,

That the Finance Committee, in consideration of the draft Budget (Scotland) Act 2001 (Amendment) Order 2002, recommends that the order be approved.

**The Convener:** The minister has begun to address the committee's first two questions, but I invite my colleagues to probe the issues, if they wish.

**Brian Adam (North-East Scotland) (SNP):** The minister indicated that there are a number of technical changes to the budget of the Student Awards Agency for Scotland. I think that I am correct in saying that this is the second time this year that technical changes have been made to that budget. Has the process of making technical changes to student awards been completed? Why has the change been necessary? Will the process be applied to other aspects of the budget?

**Peter Peacock:** I will ask David Palmer to address the details. It would be rash to say that any process in budgetary matters is ever finally completed. All budgets are subject to change over time and different requirements are placed on them.

**Brian Adam:** I asked the question because significant sums of money were involved in the June adjustments to the same budget head.

**David Palmer (Scottish Executive Finance and Central Services Department):** It is fair to say that we struggled to get accounting for student awards right. I suspect that, unless the rules change, we have now got it more or less right.

I will go back a step and provide a bit of history.

When the Treasury set up the accounting rules for student awards, the awards were put under AME, because there was uncertainty. The Treasury also set up a range of provisions for offsetting bad debts and so on. When student awards were originally set up in the then Scottish Office, that was done without the inclusion of offsetting amounts. We came across that problem and are now trying to address the matter to ensure that proper accounting elements exist. The student awards amount must always come to the same proper bottom line. We are now, in effect, trying to get the accounting right because, although previously the budget came to the right figure, it did not necessarily stack up in terms of Treasury accounting rules.

**Peter Peacock:** We can, if it would be helpful, provide a fuller note on that.

**Brian Adam:** Yes please.

**Mr David Davidson (North-East Scotland) (Con):** I wish to address the minister's comments on health. I think that you said that additional resources will come in, but there is no change in planned spending.

**Peter Peacock:** I said the gross spending has not changed.

**Mr Davidson:** Where do you intend to spend the additional resources? Can you clarify that, or is the money a sudden bonus that you did not anticipate?

**Peter Peacock:** No, it is not. The expenditure plans for the health department are announced, as David Davidson knows, through the normal channels. I am sure that the additional resources arise from an increase in income from the national insurance fund. David Palmer will clarify the technical details.

**David Palmer:** The resources come from increases in income from the national insurance fund, which result from higher-than-anticipated levels of employment.

**Mr Davidson:** Is there a direct connection with national insurance moneys that are collected from Scotland, or are the resources just a straight percentage of the national pool on a per-capita basis?

**David Palmer:** I think that the increase results from moneys collected in Scotland, but I am not 100 per cent sure. I would have to check.

**The Convener:** Perhaps you could give the committee information on that. It would also be interesting to find out how many employees that national insurance represents.

**Alasdair Morgan (Galloway and Upper Nithsdale) (SNP):** I have a question on the underspend on the fisheries decommissioning

scheme by the Scottish Executive environment and rural affairs department. There is also, on page 9 of the spring budget revisions, a reference to a transfer to the Forestry Commission. There is a saving of just under £15 million. To what extent are payments being delayed? How much of that £15 million is delayed payments, and how much is payments that will not be made? I am curious about the transfer to the Forestry Commission. Will it be returned later? I notice in the Forestry Commission entry that there is a transfer of £5 million to cover a shortfall in timber receipts, which I presume is because of low timber prices. Could you expand on that?

**David Palmer:** I understand that there are two factors. The first is a lower-than-anticipated cost per boat for decommissioning. The second factor is a delay in payments. The delay in payments will certainly all come back into the rural affairs budget. The lower-than-anticipated cost per boat is a saving to SEERAD, which has decided that it will—rather than carry the money over as EYF—push it towards priorities in the Forestry Commission, namely the fact that timber prices are so low that the Forestry Commission is struggling with funding.

**Alasdair Morgan:** So we are, in effect, saying that £8 million will not be spent on the decommissioning scheme because—

**David Palmer:** I do not know the split between how much is slippage and how much is a forecasting saving, but I could find out and let you know.

**Peter Peacock:** Slippage might be caught up with later, so the cash might still be required. We can examine the detail and give the committee more information.

**Alasdair Morgan:** Yes. Most of the environment and rural affairs budget is AME, so the bit with which the department has flexibility is not significant. Therefore, if £8 million were being transferred to forestry from fisheries, one would think that the money must be coming mostly from the decommissioning scheme.

**David Palmer:** I suspect that that is right. As far as I am aware, a target was set for 2002-03 to decommission 100 boats; the intention is still to hit that target. I am not sure of the split between forecasting error and slippage this year, but I could provide a note on that.

**Peter Peacock:** Undoubtedly, there is a continuing problem in forestry. The price of timber has fallen so much that the Forestry Commission is struggling to meet the income requirements for which it previously budgeted. There is therefore a requirement on us to provide from time to time short-term support for the Forestry Commission in order to allow its activities to continue. The policy

dilemma is that the Forestry Commission has many assets. The Executive has not hitherto got into the business of forestry sales to compensate, which is why we must compensate for income loss elsewhere in the system.

10:45

**Alasdair Morgan:** I suspect that forestry prices will not pick up significantly, however at least £5 million has been allocated to the Forestry Commission's operating budget. That is about 7 per cent of the Forestry Commission's total budget. In effect, that is an extra subsidy. Will the sale of assets need to be increased? I seem to recall that Donald Dewar put a moratorium on sales.

**Peter Peacock:** Notwithstanding the fact that the Forestry Commission has significant assets, the Executive is not going down the road of selling those assets. That is why money must be brought in from other parts of the system to sustain the forestry budget. If I could predict forestry prices, I suspect that I would not be in this business.

**Mr Davidson:** Can the minister clarify the budget for the fisheries decommissioning scheme? During the debate in the chamber, we got the impression that the total sum would be available for decommissioning. We know that other demands must still be made on that budget. Demands are now arising from the consequences of decommissioning on some shore-based activities, which will need to be met from the enterprise budget.

I want the minister to clarify another point. This is the third time that a finance minister has given evidence on the budget and talked about support—in other words, state aid—for the commercial activities of the Forestry Commission, despite the fact that similar support is not available for the private and charitable sectors. Will the Executive be forever bailing out forestry activities, even though few jobs are now connected to those activities? Forestry provides some important jobs in certain areas, but not many. Can the minister clarify what the future budget requirements will be for forestry?

**Peter Peacock:** On the decommissioning scheme, we have made a commitment to the sums that were announced in Parliament. If money is required, it will be found for that purpose. Short-term cash transfers between budgets to meet other difficulties do not mean—

**Mr Davidson:** Are the transfers purely accounting practice?

**Peter Peacock:** Quite so. Although there has been slippage in the fisheries decommissioning programme, cash will be found if it is required for decommissioning. We have made a clear policy

commitment to do that. The short-term transfer—which has happened because there is a short-term surplus of cash in the fisheries decommissioning budget—is in no way a long-term reduction in that budget, which is there to meet the policy requirement.

We support forestry in a variety of ways. In addition to funding the Forestry Commission, we give grants to other parts of the forestry sector. The budget as a whole sustains expenditure in both the private and charitable forestry sectors—to which Mr Davidson referred—and in the Forestry Commission's own lands.

As I said to Mr Morgan, it would be rash of me to predict future forestry prices. We can only monitor that situation over time. At the minute, the fact that forestry prices are low has an impact on our estimated income, which means that we need to balance that effect somewhere in the budget. Over time, prices might well rise so that we might have a surplus against the estimate. In that case, that money would become available elsewhere in the system for other purposes. I suspect that those matters will even out over time. Given the market conditions, it would be rash of me to predict what that time horizon will be.

**Mr Davidson:** With respect, minister, the grants are made for planting and maintenance; they are not market support in the sense that they make up for any losses that people might make.

**Peter Peacock:** I was talking about the effect that the reduction in income has on the Forestry Commission's ability to administer itself in total. The commission needs a budget for administration and if it is short of that budget, we need to support it in some way. That is not the same as providing state aid to the industry in the way that Mr Davidson described.

**The Convener:** Brian Adam has a question. Is your question about something else?

**Brian Adam:** It is in the same general area.

**The Convener:** We must be careful not to spend all our time on forestry.

**Brian Adam:** My question is not on the forestry side of the resource transfer, but on the fisheries side. I will also ask about the publicity machine.

I am still not clear about the business of the £14 million or £15 million that has been saved on the decommissioning scheme because of delayed payments. Will the minister clarify exactly what delayed payments are? Have payments been delayed because applications were not received in time, or have there been difficulties in processing the applications? Will the minister confirm that the £25 million will be available over the next two financial years?

**Peter Peacock:** Let me reconfirm that. The



Executive has committed itself to a policy whereby it has made available £25 million for decommissioning and for the range of fine detail that decommissioning contains. That policy commitment will be met. Although the short-term cash transactions in the budget revision move money around within the budget, that is a pretty normal process within any normal budgetary year. We are happy to provide the committee with a note on more of the detail.

On the question of slippage against expenditure, in any budgetary situation a budget is an estimate of expenditure for the year. At the beginning of the year, a clear judgment is made that X amount of cash will be required for that year. In actuality, things might turn out differently: a scheme might not start on time; applications might be received at a slower than expected rate; the time scales for processing applications might be slower than was wanted; and applications might be for lower-than-expected values. There is a variety of reasons why planned or estimated expenditure can slip.

However, we have made our policy commitment. If cash is required, cash will be made available.

**Brian Adam:** Will you give us a commitment to provide us with a note on why there has been slippage in the fisheries decommissioning scheme payments?

**Peter Peacock:** We will certainly do that. We will look into that and provide that information for the committee.

**Brian Adam:** I want also to ask about what is perhaps a minor point. Page 10 of the spring budget revisions document shows that the environment and rural affairs department has apparently doubled the money that is set aside for publicity and information. An additional £750 million has been made available.

**The Convener:** The amount is £750,000.

**Brian Adam:** Sorry, it is £750,000, which is a slight difference. I know that spin is not yet quite that much out of control.

I assume that the same money is identified in schedule 3.7 on page 23 of the document, under "Publicity, Committees and Information". Is the increase related to the costs of the committees of inquiry into foot-and-mouth disease? Will the minister clarify why that budget line has been doubled for this year?

**Peter Peacock:** The increase is related to the television advertising campaign, "do a little - change a lot". It is vital to increase public awareness of environmental issues.

**Brian Adam:** It certainly costs a lot.

**Elaine Thomson (Aberdeen North) (Lab):** I want to move on by asking about the moneys

relating to the Scottish Transport Group. I understand that the Scottish Transport Group is in the process of being dissolved, which accounts for the figure of £168 million on page 38. There is also a disbursement of the surplus to STG pensioners. I understand that, for a number of reasons, the process is taking longer than anyone anticipated. I notice that a disbursement of the surplus is budgeted for this financial year. Do you expect that you will be able to resolve the situation?

**Peter Peacock:** As Elaine Thomson said, resolving the administration of that situation is taking time. The budget revisions provide both for the permissions to receive the income that we are due to receive under the negotiated arrangements, and for the expenditure of that income, which will be done as quickly as possible so that it can be concluded within the time frames that are relevant to the budget. The revisions are a signal of the fact that the Executive is preparing the ground so that it will, as soon as the cash is received, be able to administer and distribute the money in the way that was announced to Parliament and which was agreed by all the parties concerned. The purpose of the revision is to set the ground rules and provisions, so that we can act quickly as soon as the matter has been concluded.

**Mr Davidson:** I am sorry that we had that little distraction earlier—although it was fairly serious, if the convener does not mind my saying so—but I want to return to the health budget. Will the minister clarify once more his response to my question about the extra NI money? Is the extra NI money that appears in the spring budget revisions a replacement for other moneys from the block grant, or is it an addition?

**Peter Peacock:** I understand that it is an additional sum.

**Mr Davidson:** That is helpful, thank you.

I also want to clarify a matter that appears on page 155, which concerns the health department's income. I notice that there is a difference between the way in which income from general dental services is treated and the way in which income from things such as prescription charges is treated. Can you say why that difference exists? Are the treatment rules different?

The minister noted that there is quite a reduction in income. Is that because of commercial activities that are hidden within the budget line? I have previously made the point that it is unhelpful to have all those different items bundled under one figure. For example, the committee previously considered the commercial activities of the blood transfusion service. I feel that the committee would be better served if the blood transfusion service's budget was given on a separate line, so that we could follow through on our previous investigations. The same principle applies for the

income from prescription charges that is collected from appliance suppliers and so on. Why will that income drop by almost £10 million?

**Peter Peacock:** We are getting into a level of detail on which I need to write back to the committee. Unless David Palmer can answer, I do not have at my disposal information on differences between accounting practices. However, I am more than happy to provide the committee with that information and David Davidson is delving down to a level of detail that I do not have at my fingertips.

**Mr Davidson:** We are talking about a revision. A change in the order of £10 million has taken place since the last revision, which means that it has taken place over a matter of a few months. That seems like a significant change.

**Peter Peacock:** I will need to confirm this, but the revision could stem from the original estimates' being out by £10 million. That is probably the most likely explanation, but I will need to come back to the committee with more detail. I am happy to undertake to do so.

**The Convener:** How will the consequences of the McCrone settlement work their way through the spring budget revisions document? Are there any aspects of McCrone that you want to draw to our attention?

**Peter Peacock:** I do not think that there are consequences from the McCrone settlement in this document. Budgetary provision has already been made and allocated through the local authority block and the money is now available at local authority level to help with the implementation of the McCrone settlement. I am not in a position to comment on the extent to which McCrone is being implemented by local authorities throughout Scotland, but I have no reason to believe that the progress that people anticipated is not being made. There is still much to be done in the coming period; the future implications of McCrone must still be fully worked out and that matter is under consideration.

**The Convener:** Is it possible to quantify for the committee the implications of McCrone? You need not do so now, but perhaps you could send us a note.

**Peter Peacock:** By "implications", do you mean how the costs will be built into future budgets?

**The Convener:** Yes. We would also like information on the phasing in of that process, as you see it.

**Peter Peacock:** We would need to go back to our education colleagues, who are principally responsible for the policy, but I am sure that we could arrange to let the committee have the details on where we understand the current cost profile is

leading. As I said, some matters must still be resolved among local authorities, the Executive and the unions. Matters of detail are still being negotiated as part of the McCrone settlement. Part of the challenge is to work out the final cost.

**The Convener:** Perhaps the closure of the individual learning accounts scheme is of less financial significance but it is, nonetheless, important. The scheme's closure just before Christmas will have had financial consequences. How is that dealt with in the budget? What payments will need to be made to the companies that were discontinued? What budgetary implications will result from restarting the scheme?

**Peter Peacock:** Again, we will need to come back to the committee on the fine detail on that. We are happy to find out that information for the committee. As members know, various matters are being considered as a consequence of the winding up of the ILA scheme. I presume that all those matters will need to be taken into account as part of the reconciliation of final payments.

On future policy, I am aware that my colleague Wendy Alexander is examining the issue closely. I am sure that policy initiatives will emerge to try to ensure that the gap that will have been created by the change in arrangements will be filled at some point. The timing of that is a matter that I need to leave to Wendy Alexander. Perhaps the Enterprise and Lifelong Learning Committee will examine the matter in some detail.

**David Palmer:** There is a transfer of £3 million into Scottish Enterprise to cover the projected overspend by Scottish Enterprise on ILAs, but as far as I can see that is the only reference in the document to ILAs.

**The Convener:** In principle there might be an underspend because of the discontinuation—

**Peter Peacock:** You will be aware that there is a degree of uncertainty about the final reconciliation because of the circumstances that gave rise to that decision.

11:00

**The Convener:** Will there be any indication of the additional administration costs associated with having to deal with the various claims in a short space of time? I understand that that was dealt with by an external agency.

**Peter Peacock:** We can certainly find that out for you.

**Alasdair Morgan:** Are you in a position to estimate what the underspend will be this year on the budget?

**Peter Peacock:** I rather suspected that I might be asked that question, but I would not care to speculate on that at the moment. I think that I have

indicated to the committee previously that a variety of factors are at work in the budget. Such is the growth and the rate of growth on public expenditure that it becomes difficult to get all the programmes in line quickly enough to spend all that, given the rate of increase. It is a well-known phenomenon in all forms of public expenditure that when one increases the budget a lag is built in until one catches up with expenditure. That is happening progressively.

I know that there has been a recent exchange between the convener and Andy Kerr in response to his comments to the committee about various budgetary matters, including end-year flexibility. If it would be helpful to the committee, we would be more than happy to spend some serious time with you—formally or informally—to go through the phenomenon of what has become known as EYF. EYF is actually a technical permission to carry forward sums of money that are arrived at for a variety of reasons, not all of which are underspend. For example, the principal purpose of EYF was to stop the year-end surge that we used to get in public expenditure, when people felt that they must spend their annual budget before a certain date, otherwise they would lose it. Thankfully, those days are now gone.

What EYF also allows us to do, and what as a consequence makes up a significant part of the EYF total, is planned provision for future peaks in expenditure that we anticipate within a two or three-year time horizon. We can plan, on a two or three-year basis, to make provision for future expenditure, then incur that expenditure when the peak occurs. That also helps the overall management of budgets.

EYF is also capital slippage. I suspect that, in Alasdair Morgan's constituency, capital programmes for roads expenditure in the current year, which were planned for areas that were affected by foot-and-mouth disease, simply could not proceed because it was not possible to get access to the land in the normal way. There is capital slippage in that; it is a perfectly understandable and natural thing. We will use the EYF facility to carry forward that money so that it can be spent in that constituency. I am sure that Alasdair Morgan will welcome that. There are capital matters, and anybody who manages such budgets over time knows that things like bad weather or planning consents can affect capital programmes significantly. Something unexpected might be discovered on a site when a road is being built, and that delays things. For a variety of reasons, there is slippage on that front.

However, within the EYF total there is also additional income. Occasionally we get more grant than we had expected for certain purposes. That can come in fairly late in the year, so there will be items of additional income. One example in the

current year is Motorola, where, in unfortunate circumstances, grant was in effect clawed back. That is extra income over what we expected; it is not an underspend. It counts against the EYF total if we do not spend it within the year.

A range of things take place within the EYF total. In other words, it is wrong to characterise EYF as just underspend. If the committee wishes to avail itself of our offer, it would be worth while spending some time going through the process in detail so that we get a much more sophisticated shared understanding of what it all involves.

**The Convener:** That is a valuable suggestion.

I am slightly cynical because—whatever statements the Government makes about EYF—we have ended up with roads repairs in the Clyde area every February and March since time immemorial. Perhaps the logic is just working its way through the system.

**Brian Adam:** It would be useful if you came to talk to us about the detail of EYF. You say that the bulk of EYF is planned to deal with peaks and troughs—that it is to do not with disease or weather conditions but with planning. If that is the case, can we have a little transparency? For example, if something that appears in one year's expenditure is really meant to be in the next year's expenditure, can we have it identified as such? It is easy to characterise EYF as underspend, but if it is planned well in advance in the way that you appear to indicate, that should be flagged up so that everybody can see that that is what it is.

**The Convener:** In that context, we might consider EYF alongside the issues of contingency and reserve. That would be a reasonable package.

**Peter Peacock:** For the reasons that Brian Adam suggests, we would be happy to do that. Our intention is to try to give more clarity in the current round. When we begin to reconcile what is happening this year, we intend to ask how much of the EYF is planned provision for future expenditure peaks. How much of it—for the reasons I have indicated—is capital slippage? How much of it is real underspend, in the sense that things are taking longer to occur than we thought? How can we improve our management in such areas to ensure that that does not happen? How much is due to additional income? It would be helpful to everybody to have more clarity on that.

Unfortunately, EYF is sometimes characterised simply as an underspend and therefore somehow the result of sloppy management. However, it is a very useful facility. The public sector must have flexibility to carry forward money, to make plans, to target resources where it wants them to go and not to fritter away resources because it thinks that

it might lose them. We must all move forward and refine our thinking. I would be more than happy to share our current thinking on that with colleagues.

**The Convener:** That would be helpful.

**Alasdair Morgan:** I have a question about article 2(4)(b), which is on the front page of the Budget (Scotland) Act 2001 (Amendment) Order 2002. I notice that it amends vote 6—or whatever you call it—in schedule 1. I wondered why those items were being deleted from the apparent remit of the justice department.

**Peter Peacock:** I do not have sufficient detail to make a sensible comment. I would be happy to come back on that point.

**Mr Davidson:** On EYF, various ministers have agreed that we will get six-monthly statements of the roll-out of programmes. Such statements would answer some of the committee's queries on where voted budgets are in the roll-out. Presumably, the matter could then be clarified as you suggested.

**Peter Peacock:** There are two points there. We are more than happy to break up the total EYF figure into its component parts so that it is much clearer how the things that I have described arise.

I am not clear about your first point on the roll-out of budgets. If you are suggesting that the committee be given a six-monthly report on the state of the budget, I would be reluctant to give you a commitment on that today, because, for management purposes, we consider the information inside the system day by day and week by week to see how our budgets are running. Much of that information is refined over time and a lot of what happens within the budget is down to management discretion and how resources are deployed in the light of expenditure patterns.

**Mr Davidson:** In effect, we have had statements of agreement. We asked for three-monthly roll-out figures, and we settled for six-monthly figures. Are you suggesting that we will not get those figures?

**Peter Peacock:** No, I am not suggesting that we would not give you anything that we have agreed to give you. I was not clear what we had agreed to give you.

**Mr Davidson:** I think that Mr Palmer was around during those discussions. Perhaps he can clarify the matter behind the scenes.

I have a simple question, which I suppose is fairly unusual.

**Peter Peacock:** For a change.

**Mr Davidson:** There are a couple of points that leap from the assessment. You have not added any money to liquid petroleum gas grants. It appears that there is nothing in the budget to

spend on that. Is that scheme at an end?

**Peter Peacock:** Can you give me a page number?

**Mr Davidson:** Page 77.

**Peter Peacock:** By definition, if we have not added anything it is not a spring revision.

**Mr Davidson:** There is nothing in the revision, so presumably the budget is static. The question was, are there still demands?

**Peter Peacock:** For that level of detail, I would have to go back and find out.

**Mr Davidson:** My other question is in a similar vein. Page 124 lists the Scottish Tourist Board figures. We have had a lot of statements from members of the Executive on support for tourism, in particular following the disasters of foot-and-mouth disease and September 11. There is no indication of any proposed change to the previous revision. I have picked up from the Scottish Tourist Board—or VisitScotland, as it is called now—that it has been reviewing its marketing plans. Are you content that there is likely to be no additional demand, or are we likely to see another revision if VisitScotland comes up with a different plan, bearing in mind the fact that it is conducting a review?

**Peter Peacock:** There is a clear commitment from the Executive to give more support to tourism in a variety of ways. Part of that commitment is in response to the great difficulties that followed foot-and-mouth disease. It is recognised that the events of September 11 had a major impact on tourism. As you rightly say, the tourism industry is reviewing its performance and future targets. Revisions were made in the autumn revision to bring the budget into line with commitments that ministers made. If there are changes with regard to tourism, they will be reflected in budget revisions or in the structure of tourism budgets. Be clear that the Executive is focused on improving support for tourism for the reasons that I have outlined.

**Mr Davidson:** So your current position is that there is no call to increase what you have already voted through.

**Peter Peacock:** That is right. If ministerial decisions had been taken to further increase budgets for tourism, they would be reflected in this revision.

**David Palmer:** May I return to Alasdair Morgan's previous question on the order? All that has been omitted is the comma.

**Alasdair Morgan:** I see. My apologies.

**David Palmer:** It is something that the lawyers do ad nauseam; they put a comma between "criminal justice" and "social work" for some

reason. The comma should not be there.

**Alasdair Morgan:** I am glad that we are debating such weighty matters.

**Peter Peacock:** It is a very expensive comma.

**The Convener:** I have a couple of questions on regeneration. Can you expand on the transfer to local government of £10 million from the local authority non-housing capital for better neighbourhood services fund, which is shown on page 224?

On a related issue, I found it hard to identify within the revisions the contingent changes associated with the changing role and functions of Communities Scotland, in particular with regard to the additional responsibilities that it is taking on in terms of monitoring regeneration services. There will be a transfer of functions from the Executive to Communities Scotland, but it is difficult to see a budgetary counterpart of that.

**Peter Peacock:** I wish to be clear about the question. You are saying that Communities Scotland is being asked to take on a greater regeneration role. Are you asking whether there is a consequent flow-through of cash from other parts of the Executive budget?

**The Convener:** Yes.

**Peter Peacock:** I am not clear that there is, in the way that you have described.

**David Palmer:** I am not 100 per cent clear, but has Scottish Homes been wound up yet? I am not clear that it has.

**The Convener:** Certainly Communities Scotland has been established.

**David Palmer:** I know that we set up a budget for Communities Scotland in the budget that we have just produced. I am not clear whether there are any financial implications for Communities Scotland this year. I would have to check that.

**Peter Peacock:** I presume that the previous budget would transfer to carry on existing activity. If your question is about the extent to which the budget has been enhanced because of the additional responsibilities for regeneration, we will come back to you on the detail of that.

On your earlier point about the transfer of—

**The Convener:** Local authority non-housing capital for better neighbourhood services.

**Peter Peacock:** I am sorry. What was the question?

**The Convener:** Page 224 refers to a budgetary revision of about £10 million.

**Brian Adam:** It is the second item under the heading "Local Government".

**The Convener:** I wonder whether that is an accounting change or a change of priority.

11:15

**Peter Peacock:** Again, I will have to come back to you on the detail of that. I suspect that the figure simply represents a reclassification of expenditure from non-housing capital to revenue for that purpose. That is probably the underlying reason. I will clarify that for you.

**David Palmer:** The amount is taken out of capital and put into the operating budget. It is simply a swap of that nature.

**Peter Peacock:** I can confirm that the figure of £10 million simply represents a transfer from the capital revenue accounts of the Executive to cover that new expenditure.

**Brian Adam:** Where is the disappearance of the £10 million from the capital budget shown?

**Peter Peacock:** On the face of the order itself—

**Brian Adam:** Should there not be a consequential change of £10 million to the relevant capital budget part of the revised position for 2001-02? On which page would that appear?

**David Palmer:** Local authority capital is voted on the face of the order. It never goes in the budget documents booklet. That is simply one of the funnies of the Budget Bill process.

**Brian Adam:** Does the fact that the figure appears on the face of the order preclude it from appearing in the detail of the budget revision, given that the revised position of not just the operating budgets but the capital budgets is detailed?

**Peter Peacock:** We can examine whether that would be helpful for the presentation. Technically, for the purposes of the order, local authority capital must be on the face of the order. Article 2(3) of the order indicates the relevant reduction.

**Brian Adam:** So the £10 million transfer is part—a substantial part—of the reduction that is indicated in the order.

**Peter Peacock:** The reduction is about £11.1 million, of which £10 million relates to the social justice matter that we have just discussed. Some other, smaller matters also relate to the total reduction. A specific transfer between capital and revenue that Argyll and Bute Council requested has been allowed. There is an additional provision from EYF for Bellwin expenditure. There is some additional income from the Treasury in relation to foot-and-mouth disease. A variety of matters make up that particular total.

**The Convener:** A question was asked about the transfer to children and young people and specific

grants on page 89. There are nearly £40 million of revisions.

**Peter Peacock:** Which figure are you looking at?

**The Convener:** The transfer to children and young people and specific grants. Significant revisions are obviously taking place, particularly of specific grants.

**David Palmer:** That reflects the fact that the education department took the EYF and plonked—for want of a better word—all of it in schools.

**Peter Peacock:** That is a technical term.

**David Palmer:** The department did that despite advice from some quarters that it should not. The department is now allocating that money.

**Peter Peacock:** When EYF was allocated to the education department's budget, it was put into a single budget line. The department is allocating the money among its budget headings. That is the reason for the sum.

**Alasdair Morgan:** I thought that departments had to make a case for EYF to be allocated to them.

**Peter Peacock:** That is true. Notwithstanding the fact that the education department made a case, it allocated the money to a single budget line and is now allocating that to the headings for which cases were made.

**David Palmer:** The department has simply put a chunk of the money in a single budget line as a holding pot, from which I presume that it is distributing the money to the projects that it made a case for.

**The Convener:** It seems difficult to reconcile that with transparency.

**Peter Peacock:** The committee's comments on that will be helpful.

**The Convener:** That has been a concern to the committee.

**David Palmer:** The department should not have done it.

**The Convener:** No members have further points for clarification, so we will go into formal debate. As members and the minister do not wish to speak, I will put the question.

*Motion agreed to.*

That the Finance Committee, in consideration of the draft Budget (Scotland) Act 2001 (Amendment) Order 2002, recommends that the order be approved.

**The Convener:** I thank the minister for coming along and for giving helpful answers.

## Budget Process 2003-04

**The Convener:** Agenda item 5 is a paper from Professor Midwinter on the budget process.

**Professor Arthur Midwinter (Adviser):** I will bring the committee up to date. I met officials yesterday to discuss the two issues that were referred to me for discussion—EYF and agency spending. They relate to the guidance that we might give committees.

I received a fairly positive response on both issues. There seems to be little difficulty with the Executive's producing the narrative that we want for EYF. On agency spending, officials will explore further with their colleagues—particularly those in the health department—whether block allocations can be disaggregated. I left the officials in no doubt that I thought that they could be. I could do the figures for local government and I am sure that, with a little effort, someone could do them for health. Officials will examine that and come back to me. They said that they were happy with both issues.

That is important, because the effort this year is to focus the budget more closely on budget choices rather than processes. The interesting point that was made in the discussion was that when committees had made two recommendations for change, ministers had accepted them readily. I think that ministers would welcome it if committees made clear recommendations. The committee's strategy is pushing at an open door. If we can get the other committees to focus on the priorities within their budgets, we will get progress.

My paper FI/02/4/2 was drafted in the light of those discussions to help the committees focus clearly on the key questions. The first page simply gives background material on what we have already agreed. In paragraph 5, I have suggested questions that will help the committees to focus more clearly on the decisions that they face.

The committee that I was involved with asked the minister to deal with three outstanding issues before the next year's budget. I do not know whether every committee does that. Indeed, I noted that that particular committee had let slip the issues that had not been addressed the previous year. At the start of each committee's process, ministers should be asked, "What have you done about that matter that you agreed to look at?"

Each committee should then ask whether the budget proposals are consistent with the Executive's strategy and objectives. We previously discussed whether the budget could include a ministerial statement on strategy. The suggestion is that such a statement could be included within the First Minister's foreword to the annual

expenditure report or budget documents. There is no reason why the documents should not have a firm statement on strategy. I ask the committees to appraise that.

The individual subject committees should consider whether they want to recommend any change in the balance of spending between the budget heads. That is what the committees are supposed to do.

Related to that, the committees should consider that they have a real opportunity for influencing what might be done with the freer resources—despite ministerial reluctance to comment on the sum—that might flow from the spending review and EYF. We should encourage the committees to flag up a priority, especially if it is based on evidence that they have taken during the budget process.

At its previous meeting, the committee discussed Norman Flynn's research on moving to outcome budgeting. I suggest that the measuring of outcomes could be dealt with in the AER. Committees should consider whether the AER provides evidence on performance and the meeting of targets and on progress towards outcomes. If individual committees could suggest alternative measures, that would be a positive thing.

Members will remember that we discussed the need to rationalise the documents by perhaps making the draft budget slimmer in size and focusing on the changes in expenditure. The Executive suggests that we do things the other way around for this year and slim down the AER, because several detailed decisions will not be taken until the spending review is known.

The suggestion is that, the following year, the Executive will then revert to the model that we have suggested. The Executive is happy to go along with the changes in that light. I think that that will mean that the AER will be more strategic in focus and will try to flag up the issues before the decisions are taken. That would assist our process.

It would be helpful to know what groups committees took evidence from. Having talked to the parliamentary staff about other committees, I know that some committees are having difficulties. One person said to me, "We have at least 40 groups that we could consult." I replied, "You will just have to take a fair sample each year." I believe that recommendations have greater weight if they reflect the evidence that committees have received.

Finally, committees should consider whether there is any other pressing budgetary issue that they want to draw to the attention of the Finance Committee.

Those are the kinds of question that I had in mind that the individual committees should consider.

**The Convener:** That is helpful. Two or three points occur to me. We will need to get the Executive to provide the committees with a clearer statement of the budgetary constraints in each area and how those relate to the bigger picture. People need to know the parameters within which they are operating. People need some kind of threshold statement so that they can work out what options they might reasonably wish to consider.

For example, although the Transport and the Environment Committee might want to recommend that half the health budget be given over to the building of roads or of a super-duper new rail link, that would not be a reasonable basis on which to expect to secure a budgetary change. The realistic parameters within which each committee is operating are probably a necessary given for them to do the work.

11:30

**Professor Midwinter:** The minister has committed himself to flag up for the committees what new resources are available within the planning figures compared with the current year, and to do the same for capital expenditure to make it clear how much is new and how much is committed. Are you suggesting that the subject committee might look at a trade-off across budget heads?

**The Convener:** That is more our responsibility. We need to encourage committees to make real choices. If they recommend shifting budgets around within transport and say that more should be spent on this and less should be spent on that, they need to know the parameters within which they are operating. I presume that, in that context, it would be helpful for them to have some equivalent of what in local government is usually called the comprehensive spending review.

**Professor Midwinter:** Does each committee get a presentation from the department concerned about the budget? They should do.

**The Convener:** It varies from committee to committee.

**Professor Midwinter:** Someone from the department concerned should explain where they are and what they are proposing. The Minister for Finance and Local Government helped to focus the decisions for the Local Government Committee. That could be a mechanism to provide what you are looking for.

**Mr Davidson:** The Enterprise and Lifelong Learning Committee has certainly taken evidence on budgets.

**The Convener:** The Transport and the Environment Committee typically does as well, but I am not sure that every committee does. It might not be relevant for every committee.

**Alasdair Morgan:** One answer that we got toward the end of the evidence from the previous witnesses exposes a difficulty that committees have. I know that the witnesses were talking about EYF when they said that money had been plonked under certain headings, but it opens up the thought that other sums of money might also be plonked under certain headings. If committees knew whether sums were committed or had just been plonked under a heading, they would have a lot more flexibility.

**Brian Adam:** You are not suggesting, by any chance, that we have a load of plonkers there.

**The Convener:** We will not pursue that point any further.

The budgetary parameters and some indication of how much is committed, how much is new and what the implications of that are would be probably useful.

It struck me that point (e) in paragraph 5 in Arthur Midwinter's paper should probably appear higher up the list—it should appear before point (c). We should ask questions about performance and targets in relation not only to outcomes but to outputs and how happy we are with them. If you go through the budgetary document, you will see something on outputs at the start of every section, but it is often difficult to reconcile the outputs with the budgetary allocation. We should flag up to the committees that that area can give them the greatest purchase on the substantive advantages of what is being proposed in budgetary terms. We should say that to the committees before we invite them to recommend changes in the balance of spending between budget heads.

Does Arthur Midwinter want to say any more about what he is asking committees to do in recommending changes in the balance of spending between budget heads? What does he anticipate coming out of that?

**Professor Midwinter:** There are two budgetary choices facing committees. The first is what their priority would be if there were additional resources to be spent. Some committees may not have additional resources and the question then is whether, within the budget total, they want to make recommendations to spend more or less on the different sub-programmes within it.

**Elaine Thomson:** The Finance Committee has previously talked about some of those issues. Committees need to be encouraged strongly, when they are not dealing with extra available resources, to identify where they want to move

money from. They must be clear about where they want to spend less. They cannot say that they want to spend more when more is not available. They must balance that.

**Professor Midwinter:** I have already seen two of the background papers that the parliamentary staff are beginning to produce. Those focus committees on the areas where they can move money around, on the basis of their work the previous year, and ask whether they want to suggest any changes.

**Mr Davidson:** My point is on the back of the question that you raise at paragraph 5(b), which I think should go further. At present, the question reads:

“Does the Committee feel the departmental spending proposals are consistent with the *Executive's Strategy and Objectives*?”

We could also ask whether the committees agree with the priorities of the Executive. That question might focus matters more tightly, as it would give the committees the idea that they could shuffle figures around within a particular budget.

I would like to roll on to another point. A lot of the new legislation that is going through the subject committees brings fairly substantial costs, and the committees have a responsibility to examine those costs and their implications for roll-out. We are beginning to see the need for the committees to consider whether those costs will require the prioritisation of resource within existing budgets to be transferred in order to accommodate the new legislation, particularly if the relevant minister has not made the exact costs clear enough.

That consideration is not just for the Finance Committee to undertake when it receives the financial memorandums that come with bills. The committees need to be given some advice on how to look at the effect of new legislation on existing programmes and on the future availability of budget.

**Professor Midwinter:** Do you mean that that consideration should take place as the new legislation is going through, or should it happen as part of the budget process?

**Mr Davidson:** I mean that the committees should consider those issues when they review the legislation.

**Professor Midwinter:** You are saying that the committees should think through the resource consequences—

**Mr Davidson:** I am thinking of the example of the Sutherland report. If a committee is going to debate with the minister the remit of and definitions in the Sutherland report, it needs to



have an idea of the costs that are involved.

**Alasdair Morgan:** That is not part of the budget process.

**Mr Davidson:** I agree, but consideration of those issues will affect the budget in the longer term and if committees took that approach, they would be tuned into the budget documents when they come to look at them.

**Brian Adam:** The subject committees have not done much of that work yet, whether or not they have been asked to do it. We may not need to dot all the i's and cross all the t's, but we do need to establish the principle that committees will look at the budget options and that they will get help to do that work.

As far as I am concerned, we should try Professor Midwinter's approach this year and see what the consequences are. Some of the committees will grab the process and run with it, while others might be a little more reluctant. However, I think that we should review the situation in the light of practice. We should not get too tied down on the detail this year, as undoubtedly the process will change in future. I am quite content with the approach suggested by Professor Midwinter. We should go ahead and issue the guidance.

**Mr Davidson:** We should bear in mind the fact that this year there will be a spending review down south. Everyone will lose the plot, given the amount of new information that will come out. People will not know whether the money is new money, replacement money or money that has been relabelled. We faced those problems during the year in which the budget process might as well have been abandoned. The situation got so complicated that the subject committees were unable to follow it. Of course, that was because of the lack of time.

**The Convener:** The Finance Committee has an opportunity to influence the process. Money is going to be allocated—that is the important point.

**Elaine Thomson:** The Equal Opportunities Committee was one of the committees that was critical of the budget process last year. It raised its inability to identify some of the gender aspects in the budgets. In our previous guidance to committees, we asked them to focus in on those aspects a little. The Executive is doing a lot of work in that area, and there is also the work of the Scottish women's budget group. Given that there was quite a lot of criticism last year, it would be helpful if we were to ask committees for their thoughts on the gender aspects of the budget and whether they believe that matters are improving.

**The Convener:** One could argue that the same point applies to the issue of sustainability.

**Professor Midwinter:** I have held discussions with the clerks who service the Equal Opportunities Committee. They have sent me material and I am working with them on preparing a background paper for the Equal Opportunities Committee. Obviously, that paper will not refer to the same functional heads, but it is clear that, even at this stage, the Equal Opportunities Committee is not sure which aspects of the Executive's budget have a direct bearing on equality issues.

I am proposing that we have a quick equality audit in which we identify those aspects of the budget which clearly target particular groups, such as those with HIV and AIDS. We would also identify those aspects of the main services to which there could be an ethnic or gender dimension and get the committees to focus on them.

A supplementary paper on that could go to the committees once I have had a chance to examine it in more detail. In the past, I have been asked to examine paperwork to see whether we are satisfied on gender issues. Very few comments have ever been made about that, because of the way in which the information is provided. The committees are now getting frustrated. Their sole comment on the budgetary process appears to be that the Finance Committee has not made any progress.

I want to focus on the practicalities for the committees this year. Some of the documents that they have been considering are more relevant to the UK. They talk about the tax consequences and welfare benefits rather than spending programmes here. I will cut through that for the Equal Opportunities Committee and make a start. The committee also needs to think about funding research to help it to make progress.

**The Convener:** In that context, is it better to leave that issue with the Equal Opportunities Committee until it gets clarification?

**Professor Midwinter:** I am hoping that we will draft a paper that will come out as guidance to the subject committees through it rather than through us.

**The Convener:** But we have to have some kind of imprint on it.

**Elaine Thomson:** I agree: the Equal Opportunities Committee can produce a paper, but the instruction to the subject committees has to come from the Finance Committee.

**Professor Midwinter:** I will draft the paper. I will leave it to the committees to work out how it gets processed.

**The Convener:** I think that the question at paragraph 5(f) in your paper should be recast

slightly to emphasise to committees that recommendations for changes will have to be supported by evidence. It is not an issue of from whom evidence has been taken; it is an issue of what evidence is available. That might include from whom the evidence has been gathered, but the real emphasis must be on making a case.

**Professor Midwinter:** That is what the financial issues advisory group hoped for.

**The Convener:** With those minor amendments, are members broadly content with the route that Professor Midwinter is suggesting?

**Brian Adam:** Including David Davidson's amendment to the question at paragraph 5(b).

**The Convener:** I suggested reordering and there is the issue of getting people to focus on the link between suggested outputs and the budget. We should bear those revisions in mind.

The other link issue that we have to consider is whether we wish to appoint reporters to subject committees and to which committees. We have already agreed in principle that we want to work closely with the Health and Community Care Committee and the Transport and the Environment Committee. Given the work that the Enterprise and Lifelong Learning Committee is doing, we might also want to have a reporter on it to report back to the Finance Committee. Are members content to have reporters?

**Alasdair Morgan:** What would be the role of the reporter, given that the subject committees report back to us anyway?

**The Convener:** The point would be to have someone from the Finance Committee participating in budgetary discussions.

**Mr Davidson:** I did that last year with the Enterprise and Lifelong Learning Committee. It was not a huge role: I provided clarification of what the Finance Committee was looking for and whether the committee should go into certain matters. That was the gist of it.

Andrew Wilson went to the Health and Community Care Committee and found that far more technical questions about the ability to change things were coming back. Answering those questions is almost an adviser's role. The message was mixed.

Perhaps you could take the matter up through the conveners liaison group, convener.

**The Convener:** The matter was discussed in the conveners liaison group a couple of weeks ago. There seemed to be a view that conveners found it useful to have Finance Committee reporters sitting in on budgetary discussions. The view from the users' end seemed more positive than you are suggesting, David.

**Mr Davidson:** When we saw the formal report to the committee, I understood who was driving which bit of the discussion, who had started to make comments before backing off and how their thoughts had been swamped. How committees proceed is up to them and their conveners, but the exercise was helpful.

**The Convener:** When a member of the Finance Committee happens also to be a member of another committee, we could get that person to liaise with the committee concerned. For example, I am a member of the Transport and the Environment Committee. I could articulate what the Finance Committee is looking for in the budgetary discussions that the Transport and the Environment Committee undertakes. Elaine Thomson is a member of the Enterprise and Lifelong Learning Committee.

11:45

**Elaine Thomson:** I support that suggestion. I have mixed feelings about the value of appointing Finance Committee reporters to subject committees. In the first year or two of the Parliament's existence, that might have been more worth while because members were unfamiliar with the budget process, but we are beginning to move away from that situation. Do not some of the subject committees intend to appoint budget advisers, at least for a short period? More support will be available to them. Where appropriate, I provide input from the Finance Committee into the discussions of the Enterprise and Lifelong Learning Committee. The convener has made a useful suggestion.

**The Convener:** We could designate points of contact or give individuals a communicating role. The Health and Community Care Committee presents us with more difficulties because, as far as I know, no member of the Finance Committee is also a member of the Health and Community Care Committee.

**Mr Davidson:** I would be happy to act as the committee's point of contact with the Health and Community Care Committee, if you think it is important that the person who does that should have a background in health.

**The Convener:** That would be helpful, particularly given the complexities of the subject.

**Professor Midwinter:** If some committees did not have a point of contact with this committee, they might feel disadvantaged. Last year, Donald Gorrie attended meetings of the Local Government Committee.

**Brian Adam:** I would be happy to attend meetings of the Local Government Committee.

**Mr Stone:** I, too, could have a go at that. I used

to sit on the Local Government Committee and I know its members pretty well.

**Brian Adam:** In that case, Jamie Stone can do that job.

**Mr Stone:** I am sorry, Brian—do you want to do it? I will toss you for it.

**Mr Davidson:** Maybe Brian Adam could act as our point of contact with the Holyrood progress group.

**Elaine Thomson:** The other committee whose remit covers major items of spending is the Education, Culture and Sport Committee.

**Brian Adam:** I do not mind which committee I liaise with, as long as its meetings do not clash with anything else that I am doing. I know that the meetings of the Local Government Committee do not. I would be happy to attend meetings of the Education, Culture and Sport Committee, if the committee would like me to.

**The Convener:** Brian Adam can act as our point of contact with the Education, Culture and Sport Committee, and Jamie Stone can act as our point of contact with the Local Government Committee.

**Alasdair Morgan:** Some committees meet on Tuesday mornings. There would not be much point in our appointing a reporter to those.

**The Convener:** The Social Justice Committee and the justice committees also deal with major items of spending.

**Alasdair Morgan:** I do not mind attending meetings of the two justice committees.

**The Convener:** They meet together to scrutinise the budget.

**Alasdair Morgan:** I can act as our point of contact with the justice committees, as long as they do not meet on a Tuesday morning.

**Mr Davidson:** The Health and Community Care Committee usually meets on a Wednesday morning, does it not?

**David McGill (Clerk):** I think so.

**Mr Davidson:** I have to avoid clashes with meetings of the Finance and Audit Committees, which take place on Tuesdays.

**The Convener:** Perhaps we can nominate Tom McCabe in his absence as our point of contact with the Social Justice Committee.

**Alasdair Morgan:** That is just up his street.

**The Convener:** We could ask him whether he wants to volunteer—let us put it like that.

**Brian Adam:** If there is a clash and members cannot attend meetings of a particular committee, I would be happy to do so, provided that I do not

have something else on. We are talking about one or two committee meetings at most. We would need to attend only for the discussion of the budget.

**The Convener:** Having members of the Finance Committee attend meetings of other committees would show that we want to work closely with the other committees. That is the message that we are trying to convey.

**Brian Adam:** If David Davidson is unable to attend meetings of the Health and Community Care Committee because of a clash, I would be happy to do so. I do not mind which committee's meetings I attend. I also served for a while on the Social Justice Committee.

**The Convener:** Maybe, in that context, we should get away from the idea of a reporter as such and talk about people as nominated contacts who would work with the relevant subject committees.

**Mr Davidson:** There is a difference between the two. Reporters can stay at meetings if committees decide to go into private.

**Elaine Thomson:** Well, we were all thrown out last time.

**Mr Davidson:** I was not thrown out.

**Elaine Thomson:** I am sure that this issue was investigated, because there were difficulties. Perhaps the situation has changed, but reporters were not allowed to stay during private committee sessions.

**Mr Davidson:** Unless they sign a confidentiality agreement.

**The Convener:** Perhaps this is another issue that we can take up with the conveners liaison group. We could tell the other conveners that we are intending to proceed in this way and ask them not to chuck us out for budget discussions if we are meant to be there.

**Mr Davidson:** The conveners can suspend standing orders for certain things, can they not?

**The Convener:** Well, we will check out the legal aspects and see what happens.

We will now move on to agenda item 6. Arthur Midwinter has prepared another paper that suggests that we examine cross-cutting issues to consider the budget from a broader perspective.

**Brian Adam:** I have a suggestion that is not in this paper.

**Professor Midwinter:** That is okay: I have included examples to illustrate the topic.

**The Convener:** We should let Arthur speak to his paper and then discuss any additional suggestions.

**Professor Midwinter:** The paper has two objectives, both of which focus on taking a different view of the budget. Rather than focus on the function of the budget, we should take a wider perspective through examining the needs of client groups and different areas of the country, for example. We also need a longer-term view that will allow us to examine and make sense of any pattern that might emerge over a number of years. The approach is very similar to the one used in what in local government are now called best-value reviews, on which I have acted as consultant for local authorities.

I am still not clear about how we might operationalise that. I thought about a working group, on which two committee members might be members. Then I thought about creating a sub-committee that would have overall responsibility for the subject. The professionals who are involved in the process would meet when the legwork is being done and clear up all the technical issues before it reached committee level.

I have an open mind about how we progress this issue. Basically, I want to take an in-depth look at a number of issues. During yesterday's training exercise, we discovered that the Executive has carried out similar exercises. I am not sure whether the documents are in the public domain or are for internal use, but I found out that the Executive has reviewed one of the issues that I have suggested—drugs-related problems.

We should involve others in the exercise. For example, important professional associations should send a representative. Furthermore, I have had a brief discussion with the Auditor General for Scotland about sending a member of his team, members of which are allocated according to portfolio. He would be delighted for someone to take part in the group, provided that that person did not have to do the work. As Audit Scotland has access to a lot of information and knows where everything is, its representatives would be very valuable.

We should also have a special adviser or researcher who would be funded to draft the report. For example, if we were considering the elderly, we could bring in the Scottish expert on the elderly—if such a person exists. The group should ask the wider questions that get missed in the budgetary process, but there should be no more than one exercise a year. This year, we should find a manageable topic for the working group's first report, because next year we will be into elections and the committee might not be able to approve a topic for next year by the time committee members get re-elected and return to Parliament.

**Mr Stone:** Or not.

**Professor Midwinter:** Or not, as the case may be.

The basic recommendation is to take a wider look at the budget, consider appropriate need indicators for the particular programmes and find out whether the balance of the spending programmes makes sense.

**The Convener:** Do members have any questions? What do you think of the general procedure?

**Brian Adam:** That is a reasonable suggestion. Perhaps we should involve a couple of committee members to find out whether we want to use that procedure. We should not be involved in too much technical detail about how best to achieve that. That is probably best left to the professionals. I served on the Audit Committee for a while and Audit Scotland people are impressive individuals who have a great grasp of what goes on and the real questions that need to be asked. They would be most helpful.

**Professor Midwinter:** It is a kicking-over-stones task, to find out what really goes on beneath the figures.

**Mr Davidson:** Having the group as a sub-committee of this committee is perhaps not the way to go. Perhaps members of this committee should merely dip in and out of the group to check in which direction it is moving. That would be more meaningful and might give more independence to the group's views and its perception.

**Mr Stone:** It would be a working group, rather than a formal sub-committee.

**Mr Davidson:** Yes.

**Professor Midwinter:** Members' involvement will be important for steering the group, so that it does not go off into areas that will not interest members. Members must keep an overall grip on what is going on.

**The Convener:** I presume that those members would occasionally report progress to the committee. That would be helpful.

**Brian Adam:** Professor Midwinter pointed out that the Executive has already indulged in—perhaps that is not the right word—has done this exercise for the drugs problem. That might mean that it has experience on which we can draw. The fact that the Executive has done the drugs issue might mean that that issue would not be the best one for us to do, but the Executive's exercise could provide a model.

Perhaps we could use the group as an avenue to explore our interest in the voluntary sector, rather than do something that would duplicate the current work of the Social Justice Committee or the outstanding remit of finishing the work that was

done by Donald Gorrie and Adam Ingram. If we considered the voluntary sector in a cross-cutting way, that would complement the work of the Social Justice Committee and not run counter to it.

The partnership approach is another area in which the voluntary sector seeks parity of esteem but does not believe that it is getting it. The voluntary sector ends up appealing for funds under all sorts of schemes to this, that and the other one. The sector gets little pockets of money from here, there and everywhere. Perhaps we should pursue that issue.

**Professor Midwinter:** I have experience of that issue because I did a review for the then National Lottery Charities Board in Scotland of the voluntary sector projects it funded. I am familiar with the voluntary sector if the committee wants to deal with it. How many Executive budgets does the voluntary sector cut across?

**Elaine Thomson:** I think mainly just two: local government and health.

**Professor Midwinter:** Some of the education budget?

**Elaine Thomson:** Probably.

**Brian Adam:** There would also be some social justice budget, because the Executive has been funding some voluntary sector bodies at national level. The advantage of the two areas that Elaine Thomson mentioned is perhaps that the Parliament does not look closely at them. Perhaps we should consider the voluntary sector across local government and health.

**Mr Davidson:** Much money comes in to the voluntary sector from donation or sponsorship from commercial organisations. I do not think that anyone has a real feel for how much that money amounts to. Voluntary sector organisations seem to have to become much more active in getting corporate support for this, that and the other, as well as having the flag days, the functions and the rest of it.

**Professor Midwinter:** The big voluntary organisations—the professional voluntary sector, if you like—have full-time professionals for obtaining corporate support.

**Mr Davidson:** That is right. It would be interesting to know how much money is coming through that route to provide core services that in the past might have been within the remit of government. The voluntary sector would like that to be clarified so that we understand it. That would tie back into—

**Professor Midwinter:** Is that a legitimate concern for us?

**Mr Davidson:** It would tie back into the budgets that are voted for local government and health.

**The Convener:** I have two concerns about that. I sat on the Scottish Council for Voluntary Organisations' major review of the voluntary sector in the mid-1990s. A big concern that arose from the evidence that we took was that there is no single voluntary sector in Scotland. There is a big difference between the professional voluntary organisations and what one might call volunteering organisations. The issue is that they operate under different constraints and pressures.

**Brian Adam:** That is what will be important to the voluntary sector—the fact that the larger, national organisations seem to be able to access support from the public purse at various levels. That contrasts with the more traditional means. The balance of funding as well as spending is important. We must establish whether the Executive is getting the balance right in respect of the various parts of the voluntary sector and where else further down the budget the money is going. Perhaps the Executive should be taking a view about how much of the local government budget should be given to the partner organisations to deliver the services. The same might be true of the health budget and other publicly funded bodies. The money comes from a variety of sources.

12:00

**Professor Midwinter:** One of the interesting findings in the work for the lottery board was the difference in the quality of the bids—some were handwritten, whereas others were carefully polished because the organisations had funding. One of our recommendations was that the board should appoint people to help the local and really voluntary organisations to make bids.

**Elaine Thomson:** I would not disagree, but I am not sure whether that comes under the heading of a cross-cutting review. Might it be better to consider it as an option for an inquiry and build on what the Social Justice Committee and Donald Gorrie have done? There are several different aspects to the issue—it would not be a straightforward review of what is spent under the different budgetary headings. I cannot help but wonder whether an inquiry would be a more appropriate vehicle.

**Professor Midwinter:** I do not see the matter as a purely paper exercise. I would expect researchers to ask questions about quality, for example, in their fieldwork. The issue is not just about the figures, but about what is behind them.

**Brian Adam:** The same argument would apply to drugs. National organisations carry out fundraising and have the capacity to make bids, whereas small local support groups do not have a clue and do not know whom to approach. They are all bidding for the same money and they all get money from the public purse. Should we have a

view on where the balance of voluntary sector funding from the public purse should come from? Should some of it come from health or local government budgets? We need to know how to strike the balance. That is why I think that a cross-cutting approach would be worth while.

**The Convener:** I would like to tie things together. Some of the topics that Arthur Midwinter identified in his first paper are too broad. If we were to do something on children, we would have to target our work on poorer or disadvantaged children, rather than on children in general, just to make things manageable. Brian Adam is clearly bidding for us to consider the voluntary sector. I suspect that today we need to agree an outline procedure for a cross-cutting review and ask Arthur Midwinter to come back to us with more focused options for a topic. We do not need to decide the topic today. We can reflect on our discussion and agree on a topic on Arthur Midwinter's further advice. Does that make sense to you, Arthur, or are you anxious to get a decision today?

**Professor Midwinter:** I will do what you wish, although a delay would knock back the time that we will have to identify appropriate people, for example. However, I am not sure whether I would be the appropriate person to draft a project on the voluntary sector.

**The Convener:** There are a number of considerations in identifying the best route to go down. I am not clear whether you are suggesting that we do just one inquiry. What are the constraints on doing more than one inquiry? Are they to do with the time, the money or the expertise that are available to the committee?

**Professor Midwinter:** To do an inquiry properly, you will need to do it in depth. You will have to have witnesses. You will have to take evidence from various people. You will have researchers out in the field gathering data. You will have meetings of steering groups. You will then have someone bringing together all the evidence and drafting a report. That is time consuming. I found that to be the case when I worked on best-value reviews.

The reason for doing one inquiry is that this is the first time that the committee has done an inquiry and you do not want to be spread too thinly. There is no reason why you could not do more than one inquiry once you have had practice, but I would be wary of doing more than one straight away.

**The Convener:** In a sense, the constraint is not the committee's time; it lies elsewhere.

**Professor Midwinter:** It is the staff.

**Mr Davidson:** I have two questions. First, is there a budget that we can inquire into? Secondly,

as far as desk research and interviews are concerned, can we link with university departments? They will be doing the work from an academic point of view, which is, I presume, what we are looking for.

**Professor Midwinter:** There are two ways of doing that. One is to have an adviser and the other is to have a contract—such as the one that I had with the committee—that draws from the Parliament's research budget. I would rather that the committee had an academic under its control than that it tried to tap into what academics do, because the committee will get the academics' hobby-horses.

**Mr Davidson:** I thought that advisers worked under direction.

**Professor Midwinter:** A committee should have under its control someone who knows the field and who can tap into the research that exists.

**The Convener:** To some extent the topic that we choose is governed by whether we have anybody who is well placed to address it. I tried to flag that up when I asked whether we must choose a subject today. Ultimately, it is crucial that we are clear about what we want to do and whether somebody can do it.

**Elaine Thomson:** When the committee has discussed cross-cutting issues, two have come up time and again—drugs and the money that is spent on rural issues. It might be worth examining drugs, given that we have never held such an inquiry before, that we are not sure how we want to progress, and that some work has already been done on drugs. Such an inquiry might help us to be clearer about what we want to do if we address an area in which some work has already been done.

**Professor Midwinter:** On the report that was done within the Executive, were decisions taken as a result of it, or was it just an internal review? At the end of such an exercise one would want a set of recommendations that should be implemented. My one concern is that the Executive might feel that it has already produced a report and made its changes, and it may ask, "Why are you coming along after the event?"

A rural affairs inquiry could be conducted jointly with the Rural Development Committee, because that committee has struggled to handle the budget. Almost all the rural affairs budget is AME. In the early 1990s the then Scottish Office produced a report on rural spending, which could be the starting point of an inquiry.

**Mr Davidson:** The Convention of Scottish Local Authorities did some work on that in 1995 or 1996.

**Professor Midwinter:** I am talking about a report by the Scottish Office.

**Elaine Thomson:** Another issue that I wonder about is modernising government. Quite a lot of money is being spent on that but—as the committee has noted previously—it is not obvious from the budget documents how the money is being spent.

**Professor Midwinter:** I confess to not knowing what “modernising” means.

**Brian Adam:** I am glad that you said that.

**Professor Midwinter:** One way forward might be for me to take two or three of the subjects and to speak to academics working in those fields and ask them to draft outlines. I do not know what constraints contracting would impose. People would be unhappy about wasting their time writing papers for the committee if someone else got the contract.

**The Convener:** The problem is that procurement must be open. We cannot make any promises.

**Mr Stone:** Could we invite institutions to make their pitches before the committee?

**The Convener:** We must decide what topic we want to investigate and then undertake a procurement process. We cannot sit in committee and decide that we like a bit of one thing, but not of another.

**David McGill:** Perhaps we could bring to the committee’s next meeting a paper listing some of the topics that have been suggested by Arthur Midwinter and members. That paper could include a précis setting out what investigation of those topics might involve and who might be available to support such work, should we decide to go ahead with it. We might find when drafting that paper that certain topics are ruled out because it is difficult to get support to investigate them, even though they look good on paper.

**Professor Midwinter:** I would feel confident about writing a précis on voluntary sector and rural spending. I would not feel confident about writing one on modernising government.

**The Convener:** Regeneration and the provision of services to poor communities are areas of huge cross-cutting interest, but I do not know how manageable it would be to investigate them.

**Professor Midwinter:** That would be a bigger issue than the other two subjects that have been suggested.

**The Convener:** Both regeneration and rural spending are big issues that have all sorts of conceptual implications.

Do we agree that David McGill, in conjunction with Arthur Midwinter, should consider possible topics for investigation and provide the committee

with a report from which we can make a selection? I suggest that we also contact the Executive to see whether it is prepared to give us a presentation on its cross-cutting review process, such as has been undertaken with regard to drugs. Such a presentation would give us insight into how the process was conducted, what issues the Executive identified through it and what benefits the process produced.

**Members indicated agreement.**

**Professor Midwinter:** When do you need the report?

**The Convener:** We need it to be ready in two weeks’ time. We are not looking for anything more than an outline of three or four possibilities. If you think that something is not worth doing, do not spend much time telling us why that is the case. We want you to come back with three or four topics that it would be feasible for us to pursue. Does that make sense?

**Professor Midwinter:** Yes.

**The Convener:** That concludes that public part of the meeting. I ask members of the press and public to leave and thank them for attending.

12:13

*Meeting continued in private until 12:22.*

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