

FINANCE COMMITTEE

Tuesday 16 April 2002
(*Morning*)

Session 1

£5.00

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FINANCE COMMITTEE

7th Meeting 2002, Session 1

CONVENER

*Des McNulty (Clydebank and Milngavie) (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 (Adviser)

WITNESS

Richard Dennis (Scottish Executive Finance and Central Services Department)

ACTING CLERK TO THE COMMITTEE

David McGill

SENIOR ASSISTANT CLERK

Terry Shevlin

ASSISTANT CLERK

Gerald McNally

LOCATION

Committee Room 2

Scottish Parliament

Finance Committee

Tuesday 16 April 2002

(Morning)

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

The Convener (Des McNulty): I open the seventh meeting of the Finance Committee in 2002. As usual, I ask that mobile phones and pagers be turned off.

We have received an apology from Jamie Stone, who is in transit to the Parliament, but is stuck between here and the airport. He will join us later. Professor Arthur Midwinter is in attendance.

I remind members that an informal briefing on cross-cutting reviews from the Scottish Executive's principal finance officer, Peter Collings, will take place immediately after completion of today's formal committee business. I also remind members that an informal meeting with Peter Peacock will take place in the Government room in the assembly hall building between 1.30 pm and 2.30 pm tomorrow.

Spending Review 2002

The Convener: I welcome Richard Dennis from the Scottish Executive finance and central services department, who will brief the committee on the 2002 spending review. He will deliver a PowerPoint presentation on the mechanics of the spending review and its likely impact on this year's budget process. In particular, it will be important to gauge opinion on the likely effect of the spending review on the figures in this year's annual expenditure report. I hope that the briefing will inform members of some of the issues that are involved in the setting and distribution of end-year flexibility reserve moneys, on which Peter Peacock will brief the committee informally tomorrow.

Richard Dennis (Scottish Executive Finance and Central Services Department): I will start by apologising for the strange symbols on the top of my slides. We seem to have a slight technical incompatibility between the Executive and the Parliament. Somehow, those symbols are there instead of "Scottish Executive" and our little logo. I hope that it will be fixed during the presentation. I am sorry that I have not had time to change it since I arrived.

It is worth reminding ourselves that spending reviews are a relatively new way of setting public spending totals for future years. The first such

review was launched in Whitehall in 1997, after Tony Blair came to power. The present spending review is only the third that we have had and only the second in which the Executive has played a full part.

Inevitably, any finance process generates jargon. Part of the spending review jargon has been a little confusing for the press and the public because only the 1998 spending review was called a comprehensive spending review. In other words, that review deliberately examined every penny of expenditure. The rationale for that was that Labour, having come to power in Whitehall after many years of Conservative rule, wanted to check that all spending was linked to its priorities. Labour has, having done that once, been fairly confident in the following two spending reviews that it has been starting from a baseline that is vaguely in line with its priorities.

The second review, which is known as SR2000, set the plans to which we are currently working. We are now in the process of the 2002 spending review. Another slightly confusing point is that spending reviews are dated by the year in which they finish rather than by the year in which they start. I will say more about that later. If the process continues, we expect that the next spending review will be SR2004. However, there can be no guarantees that Whitehall will continue to set its public spending totals in this fashion. Immediately prior to the introduction of spending reviews, we had an annual cycle in which spending plans were formally negotiated on a three-year basis, but were actually reconsidered every year.

Another confusing thing—even for people who work in finance—is that although the Treasury will allege that it is setting three-year spending totals in each spending review, in fact we have such a review every other year. The Treasury therefore never really talks about spending plans that cover more than about two years. The third year—which is always the first year of the subsequent review—is always considered again. In the pre-budget report, the Treasury finesses that: the Chancellor of the Exchequer talks about 2003-04 being the base year for the current spending review, which will set new plans for 2004-05 and 2005-06.

Different reviews have had different implications for the base year. Committee members might remember that in SR2000 the chancellor made quite a large addition to public spending in the first year. Later, I will say a little about our expectations for this year, but the basic message is that the third year is not quite as fixed as the first two.

The other change in the current review will take us a step closer to full implementation of resource accounting and budgeting. The big change that will affect all the numbers is that capital charges and depreciation are to come within departmental

expenditure limits. In the previous spending review, they were left in annually managed expenditure. Under the previous review, if an asset was revalued and the capital charges went up, the department involved would automatically receive an offsetting increase from the Treasury. However, under the new system, if capital charges go up there will be a direct squeeze on other departmental spending. There is now a direct trade-off between capital charges and depreciation on the one hand and, on the other, normal current grants and the like.

We have not yet gone all the way to full resource accounting. A number of items are still left in AME; from a Scottish perspective the biggest is the roads capital charge, which the Treasury has not yet worked out how to bring properly into its budgeting system.

I said that reviews are misleadingly named after the year in which they conclude rather than after the year in which they start. Because we must in some ways follow the Whitehall process, it is worth reminding ourselves of the kind of timetable that the Whitehall process runs to. Its spending reviews last roughly a year. The slide that is on the screen behind me shows my approximation of what has happened in the previous three reviews. I have tried to apply a standard format, although the rules for each review were slightly different. The timetable that is shown is close to, but is not exactly, what has been happening in the current review.

Last July, the Chief Secretary to the Treasury wrote to departments announcing the review and setting out his priorities and what he wanted to focus on. In early autumn, ministers down south would have gone through their own priority-setting process—I will talk about our process later—with departments having to submit their bidding documents by the middle of February. It is not a secret—I picked it up in the press, where I picked up most of the things I will mention about Whitehall—that most departments' bids were late. Many departments have done quite a lot of their bidding in public.

The February deadline is set so that the chancellor can, when he makes his budget judgments, consider tax and spending together. The system that immediately preceded 1997 was a first attempt to bring together tax and spending decisions. For a brief period, those decisions were announced at the same time, but they are announced separately again. Tax decisions are announced in April and spending decisions are announced in July. When the chancellor makes his budget statement tomorrow, he will have a clear idea of the totals for public spending. We expect him to announce the aggregates for total managed expenditure for the spending review

period—I will mention some of the implications of that later—but there can be no guarantee that he will do so.

10:15

After the budget, there is in Whitehall a process of negotiation between ministers, the results of which we expect to be announced in July. However, there is no fixed timetable, which can be a problem for us. Last time, in SR2000, the chancellor announced the results on July 14. For us, that would be in the recess, but down south it would be pushing up against the recess. This time, the budget is a month later, so it is hard to say whether the chancellor will manage to announce results by July 14. He will certainly need to take decisions more quickly this time than he did last time.

All that is important for us for two main reasons. For our spending review, the chancellor's July announcement will include totals for the Scottish assigned budget for the spending review period. That will be the first time we see that information. Unlike the chancellor, who will already know the public spending totals that he is thinking about for the UK, we will not know until July the total public spending that is available for Scotland for the spending review period. Not until then will we be able to start to have meaningful discussions on how the money should be allocated between portfolios, which is obviously awkward. The announcement will come during the recess, which is an awkward time for ministers to come back and take serious decisions about major allocations for the coming three years. It would be much nicer if the chancellor's timetable did not mean that ministers lost most of their holidays—but there we are.

The direct effect on the budget cycle for 2003-04 is also awkward. As members will know, a couple of weeks ago we published the annual expenditure report for 2003-04, which sets out the Executive's plans. It is possible that the chancellor's announcements in June and July will include additional resources for that year. I will talk later about our expectations but, last time round, there was a significant increase in the third year, which meant that the plans in the annual expenditure report had to be added to and rejigged.

Ministers have promised that they will get the draft budget document to members by September 20. If the chancellor does not make his announcement until the very end of July, ministers will have about six weeks—allowing for the printer's deadlines—to decide on their allocations. The process is therefore compressed, intensive and comes right in the middle of the time ministers would like to take their holidays. The later the chancellor makes his announcement, the less

detail we are likely to be able to give when we come to the committee with the draft budget document on September 20. At the moment, the chancellor and his officials are still saying that he might manage to make his announcement in June, which would give us significantly more time. We will have to wait and see.

The next slide—entitled “Expectations”—is in many ways the key slide. What do we expect to get out of the chancellor’s process? It is again worth reminding ourselves that the previous two reviews have been relatively generous on public spending. I use the word “generous” deliberately. I am actually a Treasury official on loan to the Scottish Executive, so I know that we do not like to give out huge sums of money. However, in the previous two spending reviews, that is precisely what Gordon Brown has done.

I have given figures for total managed expenditure, which show an annual increase of 6 per cent. That is about double the figure for a typical year in the 1990s. We are therefore coming to this spending review on the back of two very generous spending reviews. All the signs are—this is no more than reading the runes, at which committee members and their advisers will be every bit as good as we are—that this review will be much less generous. In his pre-budget report, the chancellor spoke about bringing spending back into line with the average growth rate of the economy. That will mean an increase of about 2.25 per cent, compared with the 6 per cent increase that we had last time. All the signs are also that, in 2003-04, there will not be very much money. I spoke earlier about how the Treasury has slightly finessed its language in that it talks about 2003-4 as the base year rather than as the first year of the review.

It is very hard to tell exactly what is going on. This is a great opportunity for me to make a fool of myself, because the chancellor may stand up tomorrow and say something that is completely out of line with what I am saying today. However, we do not expect huge additional resources for 2003-04. The one area on which a betting man might want to have a small wager is health spending. The chancellor announced additional health spending for 2002-03, but not for 2003-04, and we expect that he will have at least to match that extra £1 billion. Your guess is as good as mine.

The next slide relates to how the Executive might determine how to spend any extra resources that it is allocated and to reallocate the money that is in the baseline. I am sure that the committee has seen the list of the Executive’s priorities; Professor Midwinter analysed it in his paper for the next agenda item. In the past couple of months, the First Minister and the Minister for Finance and

Public Services have set out pretty consistently their list of priorities for additional spending. That does not mean that all additional resources will be spent on those priorities, but that those priorities come first. Items in portfolios will be differentiated as much as portfolios are differentiated. I will talk more about the process later.

Alongside those fairly silo-based priorities are the usual cross-cutting issues that the committee will be used to. In several recent speeches, such as his speech on sustainable development, the First Minister made it plain that all the spending in the review will be assessed against sustainable development principles. Closure of the opportunity gap and spending on children and young people remain at the heart of the Executive’s programme. The other cross-cutting issues are central to the Executive’s priority list and will be taken into account in different ways as the spending review process continues.

The committee will be used to seeing the list of principles that the Executive has set out to guide spending decisions. I think that the list was first used when the draft Budget (Scotland) (No 3) Bill was introduced in January. I will not go into the principles in detail, but they give a clear idea of the process that ministers envisage for allocating resources. Three key messages arise from the principles. The first is that ministers are interested in baseline spending and not just in additions. That is natural in a review when resources are tight. If ministers want to undertake new initiatives, but a huge amount of new money is not available, they must look to create efficiency savings to fund those new initiatives.

It is clear that ministers share the committee’s wish—expressed in discussions on the budget documentation—to improve the standard of targets, milestones and measures for what we receive in return for public funding. We can expect a push on that. I hope that the committee has noted that much work has been done in the annual expenditure report to tighten some of the targets and measures. We can expect that to be developed.

The final element, which ministers have discussed with the committee, is how far they can move towards priority and outcome-based budgeting. The process is slow. We are keen to go as far as we can toward that, but we will see how far we can take the process as it works out. Spending ministers have been asked to be clear in their bids about their priorities in their portfolios and about what the existing level of resources and the additional level that they seek would deliver in real-world outcomes. It is hoped that the process will lead to further tightening of the budgetary cycle, which should be reflected in the draft budget document in September.

I will mention some complicating factors in the spending review process. The 2003 election is a complicating factor only from an official's standpoint. The new plans that will be set in September will cover a period that extends to the other side of the election. Given that we have, at present, a coalition Government, some interesting issues are raised for us about how tight those spending plans will be and whether we will be able to announce spending plans that both coalition parties will say they will stick to when we reach the spending review period. If the committee wants to pursue that issue, it should do so with ministers rather than with officials.

The committee will be aware that when the chancellor makes his announcement in July, all his colleagues down south will immediately reel off a list of new initiatives, many of which we will not have heard about. It is not assumed that we should automatically follow Whitehall's lead, but we will want to have a chance to consider whether some initiatives are good value for money and whether they will apply in Scottish circumstances. That is tricky because of the limited window of time before we must make allocations. Officials, special advisers and commentators are trying to read the runes to establish what is going on in Whitehall. To the extent to which we can do that and to which Whitehall lets us know what is going on, we will try to build such matters into the process early.

Another issue that is worth touching on is how the Executive can take account of wider views from a range of its partners throughout Scotland and build those views into the spending review process. That has been done largely at departmental level. For example, the health department is taking into account the views of health boards and others as it works up its bid. Ministers will also hold a series of discussions with bodies such as the Finance Committee and the Scottish Trades Union Congress to identify priorities to feed into the review.

The outcome of the spending review will be included in the draft budget document that will be produced in September, which is a consultation document. It is hoped that that will provide another opportunity to bring all the ends together and to let everyone feed into the process.

Mr David Davidson (North-East Scotland) (Con): Your slide on the SR2002 priorities lists five topics. The following slide contains another eight topics and ends with the word "etc". How does your department read the weighting of those priorities? I appreciate that the First Minister probably does not consult you before he makes a speech, but it would help the committee to be given an idea about weighting of priorities, so that we can take a view on what the Executive is

doing, which we are measuring.

Richard Dennis: As far as we are aware, the five portfolio priorities have not been weighted against one another. The list of cross-cutting issues is based on information in public documents that the committee will also have seen, but our initial view is that the priorities are the closure of the opportunity gap and sustainable development, which the First Minister said recently will underpin every penny of expenditure. However, these are early days in the process. Ministers have still to take decisions on how they want the priorities to be played out.

Mr Davidson: If there is no weighting, one would expect the same percentage increase or decrease for each priority.

Richard Dennis: I am not sure whether that is right. Most of the priorities—particularly the portfolio priorities—face significant pressures that must be dealt with before we can talk about the free money. I have not seen the bidding documents but—in my view—the health, crime and education portfolios face much larger pay pressures than do jobs and transport. Once a number of unavoidable pressures and other pressures have been met, the free money might be allocated in roughly equivalent amounts. However, because health starts with 40 per cent of the budget and the percentage of the budget for jobs is much less than that, I would expect health to receive a slightly larger share of the free resources. Those are decisions for ministers to take much further into the process.

10:30

Mr Davidson: That is helpful.

Alasdair Morgan (Galloway and Upper Nithsdale) (SNP): What role does the Scotland Office have in the review?

Richard Dennis: At this stage in the process, it is a very useful channel for information. The Scotland Office is better than we are at getting Whitehall to reveal how the process is going.

Alasdair Morgan: What is the Scotland Office's role, apart from to pass notes up from Whitehall to Edinburgh? You set out a timetable, with dates for the launch of the review, for priority setting and for the submission of bids. Does the Scotland Office have a role in that process?

Richard Dennis: Yes, in so far as the Secretary of State for Scotland has a seat in the Cabinet, and priorities will have been endorsed by the Cabinet and by Whitehall.

Alasdair Morgan: Are you talking about priorities that relate to England and Wales, except in so far as they relate to departments that have a

reserved remit as far as Scotland is concerned?

Richard Dennis: Yes.

The Convener: How advanced is work by officials on the cross-cutting reviews to which you referred? We have been told that the drugs review is fairly well advanced; we will hear a bit about that later from Peter Collings. Are the reviews a reasonable distance down the track, or at least some way down the track?

Richard Dennis: It is hard to give a fair answer that would apply across the board. From reading between the lines of my presentation, members will have realised that in some ways the real hard bargaining does not start until after the chancellor has made his announcement, in June or July. At official level, we will have got out of the way as much of the preparatory work as we can before then, so that ministers can immediately start to make their decisions.

Some cross-cutting reviews—the review of sustainable development is a good example—will need to influence how each portfolio puts together its bid. The drugs review is rather different, as people are working from a clearly identified baseline—they know the limited number of programmes in which they are interested, so they can get ahead of the game.

The Convener: You have set out a timetable for ministerial input into the process. What implications does that have for input from the Finance Committee into the process? Do we have to wait until 20 September, when announcements are made, before responding? Is there a sensible time between July and 20 September for us to make an input into the process?

Richard Dennis: By July the process may be fairly closed and internal. If the committee wants to comment on the Executive's priorities or to make clear its own view of what the priorities for a future funding allocation should be, there is no reason for it not to do that before July. I expect other bodies, such as the Scottish Trades Union Congress and the Confederation of British Industry Scotland to write in with their shopping lists, which will consist of much more blatant bids for their personal interests. I do not see why the committee should not also take that route, if it wants to. The committee has the advantage of having a formal process after 20 September, through which its views can be taken into account at a later stage.

The Convener: How open is the process after 20 September? Would it be better for us to submit views before then? How does that relate to the annual budget round exercise in which we are engaged?

Richard Dennis: It is tricky for me to say, as I have not yet been involved throughout the process

in the Executive. However, I guess that the earlier that interventions are made—in particular, interventions addressing priorities—the better. I imagine that once initial announcements have been made it would become much trickier for the Executive to change allocations, if only because increasing resources in one area would then involve taking them away from another. At this stage, the additional money is sitting in a central pot. If the committee has views on where additional money should be allocated—if the chancellor gives us any—those views can be fed in at the first stage of the process.

The Convener: Our difficulty is that, as I understand it, we will not know until July what the consequentials are. The Parliament is in recess between then and September. Announcements will be made on 20 September. You seem to be suggesting that the optimum way for us to make an input is to do so in the context of our annual budget round, with half an eye towards the spending review.

Richard Dennis: That is certainly one way forward. However, although neither the committee nor we will know the consequentials until July, I am sure that the committee's advisers will attempt to guess what they will be, just as we will. If the committee has in mind one or two highest priorities for additional resources, I am sure that ministers would welcome that input at an early stage.

Mr Davidson: We will know what the Barnett consequentials are after July. Before that, is it open to the Executive to make bids for moneys that will not be affected by the Barnett consequentials system?

Richard Dennis: The vast bulk of resources will come from the Barnett consequentials system. However, we will expect departments to have finished putting together bids setting out what they would like and what they could deliver in return for a set level of resources well before the chancellor makes his announcement. If ministers are to be able to have serious discussion, all the preparatory work must be done well before the chancellor makes his announcement.

Mr Davidson: That work is internal to the Executive. Could the Executive make direct bids to the chancellor in advance of his statement? Is a mechanism for that currently available?

Richard Dennis: No. Fortunately, because the Executive is a devolved institution, the chancellor would not take any notice of our bids. The Scottish assigned budget just falls out of the allocations that he makes to Whitehall departments.

Alasdair Morgan: You talked about this being the first review involving resource accounting and effective capital charges and depreciation. Will

that affect some departments more than others? You said that the roads capital charge was not included in the system.

Richard Dennis: We deliberately left out roads because of the scale of the impact that introducing the new system would have in that area. Off the top of my head, I cannot think of any single portfolios that are massively affected relative to the others. The annual expenditure report indicates that the department with the largest charge for depreciation in 2003-04 is the health department, which has a depreciation charge of £231 million. Relative to its budget, that charge is much smaller than the charge for the environment portfolio, which is £180 million.

Alasdair Morgan: Obviously, account was taken of the fact that this is the first budget to include effective capital charges and depreciation, so that there would be no shocks. Year on year, will the fact that those charges are included make things more difficult for certain departments than for others, or should it have no impact at all?

Richard Dennis: In theory, it should have no impact. In principle, if a larger share of a department's baseline expenditure is consumed by capital charges and depreciation, and those numbers change, the department should generate a significantly larger windfall or take a significantly larger hit. In practice, that should not happen.

The Convener: A growing number of capital projects are funded through the public-private partnership/private finance initiative mechanism. How will the onset of PPP/PFI affect the depreciation charge element to which you referred? Obviously, some of it is switching capital costs into revenue costs.

Richard Dennis: Again, it is hard to generalise. It depends on the accounting treatment of individual PPP/PFIs.

The Convener: It also depends on the accounting rules that operate in the different sectors. For example, health and education are quite different.

Richard Dennis: Yes. In theory, in most PPP/PFIs, the capital asset will sit on the balance sheet of the partner rather than the Executive, so there will not be a capital charge or depreciation element within the relevant department's spending limits.

Alasdair Morgan: What happens when the contract reaches its conclusion, which will obviously be some time away? If the asset passes to the local authority or the health board, is there a sudden impact on the budget for that year?

Richard Dennis: Not if the asset were to pass to the local authority or health board, because it would score on their books rather than ours. If the

asset were to come back to the Executive, the Executive would benefit from having a large additional asset on the books and it would have to start paying a capital charge on it. Fortunately, because we are talking about assets that would be 20 or 30 years into their life, the charges should not be very significant.

The Convener: Would it be possible for us to be provided with more information about PPP/PFI, its impact on depreciation and the effect of that on resource budgeting? We would find that useful in the context of our inquiry.

Richard Dennis: Sure.

Brian Adam (North-East Scotland) (SNP): I did not find the answer to the question about the capital asset coming into the equation at the conclusion of a contract very satisfactory. My understanding is that the arrangements mean that the capital asset should have a real value at that point, which should be the same real value as it had at the beginning. If the capital charges are accruing against the asset, that ought to have a significant impact. The essence of PFI/PPP is that the onus is on those who provide the services to maintain the asset, so that it is a real asset at the end of the process. In most cases, the asset will transfer to the public sector at the end of the process and it ought to have a fairly significant impact. I know that that will happen some way down the line and there may be time to take it into account in the accounting procedures, but my point is that it is not a wasted asset; it is a real asset.

Richard Dennis: That is certainly right. Some assets, such as design, build, finance and operate roads, should come with the same whole life as they have at the start of the contract. Even 30 years down the track, the same capital charge and depreciation issues would apply as if the assets had been bought off the shelf by direct capital investment. The value of a building, for example, 30 years into its life will be significantly less than when it was constructed.

Brian Adam: Not if it has been properly maintained.

Mr Tom McCabe (Hamilton South) (Lab): The point that Brian Adam is missing is that what is a useful hospital today might not be a useful hospital 30 years down the line, as a result of medical developments. Whether the asset is useful will be open to question at that time.

The Convener: You showed a slide about the principles governing SR2002, one of which was to be clear about what the resources will buy and when. Do the principles translate into an analytical template against which you can assess bids that are made by various departments? Have the Minister for Finance and Public Services and the

Deputy Minister for Finance and Public Services given any indication to their colleagues of how allocations will be determined in the context of the application of those principles?

Richard Dennis: The process is in its early days. The Minister for Finance and Public Services has gone as far as to say that he expects to see clear statements from his colleagues about what they will deliver in return for the additional resources that they sought. He expects to see much better targets; those targets will be reflected in the draft budget document. Ministers who do not produce bids that state either exactly what will be produced or how it will be measured cannot expect to be looked on as favourably as those ministers who do. The process has not gone much beyond that so far.

10:45

The Convener: How rigorous will the scrutiny process be? Will it simply be a matter of looking at a proposal against a set of principles, or will a more detailed investigative process be put in place to examine the assumptions and how they hold up against structured financial scrutiny? There are examples within the Executive of such a systematic process being adopted. How systematic and rigorous will the tests be against the application of the principles?

Richard Dennis: Our expectation is that the tests will be very systematic and rigorous. We have set up a new team of six people, in which I work, which will work full time on the spending review from now until September. If it were simply a matter of looking at the bids and considering them against the principles, we would not be very busy. The eventual allocation process will inevitably be highly political, alongside the analytical work that is done.

The Convener: We cannot get into the business of trying to make decisions on behalf of ministers, but more information about the process and the mechanisms by which you will test the proposals against the principles would be useful to the committee.

Do members have further questions?

Members: No.

The Convener: I thank Richard Dennis for his presentation. It would be helpful if he could let the committee have a look at the two additional bits of work that we asked about.

Budget Process 2003-04

The Convener: Agenda item 2 is a briefing from our standing adviser, Arthur Midwinter, on the Scottish budget process 2003-04. Professor Midwinter has produced a briefing paper for the committee, FI/02/7/2 and a background briefing note, FI/02/7/1. I invite him to speak to his paper.

Professor Arthur Midwinter (Adviser): First, I will bring the committee up to date with developments during the recess, when we had to issue supplementary guidance.

The Executive has failed to deliver the three changes that were agreed on the budgetary information: the distinction between baseline and new expenditure, which was to be provided for each department; the proportion, by portfolio, of the capital budget that is already committed; and the summaries in output terms, which had been agreed by Angus MacKay. We are still pursuing an explanation of why that is the case.

We have been advised that we will get the capital information shortly, by separate cover. The advice that I was given was that it should be easier to achieve that after the priority-based budgeting exercise that the Executive is going through. The situation is contrary to what was agreed in letters that were exchanged with the previous Minister for Finance and Local Government. Because of the urgency, we had to take action during the recess to advise the subject committees of the developments, as we had been briefing subject committees to expect the information to be in a certain form.

I understand that a meeting has been arranged with the Deputy Minister for Finance and Public Services. The committee might want to press the minister on whether he has received an explanation of why the information was not delivered. If the information is going to be available after the spending review process and the priority-based budgeting exercise, I suggest that we ask for it in September, to inform the second stage of the process in the proper way. We cannot really have a rational discussion about priorities without it.

I turn to the report. I should warn members that one of our advisers, when checking the figures, discovered that there are errors in the real-terms data. The real-terms figures for 2002-03 and 2003-04 have been deflated using the wrong deflator price base: they have been deflated using the 2000-01 price base, whereas the figures for 2001-02 are on the 2001-02 price base. That does not affect the trends that I identified for the committee in my paper, but if members wished to look back over the figures covering the past two years, the

figures would be slightly inaccurate. I understand that we will get a complete set of accurate figures using a common price base for the two sets of figures.

Nothing in my paper is affected by that error, but if the committee wanted to examine the trends, figures with one price base would be required. The 2000-01 price base is the best one around at the moment; it is based on actuals and on outturn, and is empirically derived. The 2001-02 price base would represent only a prediction of what inflation might be over the next few years. We need to get a standard set of information in order to examine the trends, and we have been advised that that will be provided. As I said, that does not affect the thrust of the arguments. We have advised all committees of that matter in case members get confused by the figures.

In my summary, I examine some of the key issues that I think the Finance Committee, in its strategic role, is required to address. I have considered the planned changes from last year to next year and the Executive's changing priorities. The recent discussion about the extent of the priorities that the Executive now seems to have in the light of on-going cross-cutting reviews was fascinating. Basically, however, we are still on a growth trajectory.

I draw to members' attention the slight fall in capital spending. That is due to two things, the first of which is the stage that the new Parliament building has reached. Two years' expenditure are under the Parliament's belt, so that drop is not a cut in spending in any real sense. The other reason came across in evidence from the Scottish Parliamentary Corporate Body, which felt that it had sufficient funds available to reduce its bid on the public purse for this year.

A further growth in payments requires to be met. The cost of PFI contracts has now risen significantly—to £357 million—and I am not sure whether we can get an indication from the Minister for Finance and Public Services of whether and when that increase might become a problem. If the figure keeps growing year after year, it will soon account for a significant proportion of the budget.

I was not sure whether the Finance Committee or the Parliament had the power to suggest the use of the tax-varying power in either direction, but I felt that its existence ought to be drawn to members' attention. If members are unhappy about the planned total for the budget, is there any case for making use of the tax-varying power, either up or down? How does the committee feel about the balance of funding between programmes?

To help members with the second of those two questions, I listed five priorities. That was before

we received the additional list of priorities today—I was already concerned about the number of priorities that seem to exist. The priorities seem to be changing between documents. As I have shown in paragraph 7 of my briefing note, there was a different list of priorities two years ago. It seems that there is now a supplementary, overarching list of cross-cutting priorities, which makes it difficult to assess sensibly whether those priorities are being met.

In table 2, under paragraph 8, I considered the percentage increases in the portfolios—or silos, as Mr Dennis called them. The figures suggest that only two of the five priorities have had above-average increases in their budget allocation. In one case—justice—the allocation seems to have fallen. There might well be technical explanations for that, and we ought to pursue that matter when we hear evidence from the Minister for Finance and Public Services. At first sight, it seems a little strange that some areas that were not identified among the top five priorities have bigger increases than those that were identified as priorities.

I end the briefing note with a list of questions for potential discussion among members and between the committee and the minister. It is clear from the second set of priorities that we have received that social justice is still a priority, although it does not feature in the list of five. I have difficulty in distinguishing between social justice and the social justice budget, which are separate things.

In addition to the table that shows those changes, I have produced a second paper, on consultation, with a view to strengthening the process of scrutiny of the budget process. I have suggested that, in addition to receiving evidence from the normal witnesses, as it were, who tend mainly to be finance and central services department officials and the ministers, the committee might wish to consider getting outside views on the national priorities from organisations or specialists. I have produced illustrative lists of potential witnesses and of questions that we might wish to ask them.

The first two questions repeat those that we have put to ourselves, and I think that the balance between capital and operational expenditure is also worth examining if there is to be growth. Capital bore the brunt of spending cuts in the 1980s and 1990s. It is worth considering whether increases should be targeted more on capital expenditure rather than on operational expenditure, and we could consider PFI in that context.

The people from whom I thought we might wish to take evidence are listed on the paper on consultation. The list of three organisations is straightforward; the three people who are

mentioned are people whom I know, who have some expertise in the field, and from whom it might be worth getting some evidence. Members will notice that none of them is a professor.

Brian Adam: Not even an honorary one?

Professor Midwinter: There might be a visiting professor—that is a bit like a knighthood.

The Convener: A temporary knighthood.

Professor Midwinter: Yes—it is a title.

Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD): Can I ask a stupid question? Could you explain the line for European Union structural funds in the final table of the briefing note? What is happening there?

Professor Midwinter: The structural funds are determined by the EU. They include both the regional development fund and the social fund. As a result of the changes in your constituency, Mr Stone, in terms of—

Mr Stone: Objective 1?

Professor Midwinter: Yes. Those changes are reflected in a decline in the share of the funding, which is likely to continue as the qualification criteria are revised and as the number of countries in the EU increases. Such decisions are outwith the control of the Executive; they are passed on by the EU. The Executive's role lies in determining how to make best use of the funding.

Mr Stone: If the trend for those figures was going the other way, it would nevertheless assist the Executive to have those live chunks of money in the budget. The issue may be local to the Highlands, but should one be further polishing up and re-presenting the arguments in order to get objective 1 funding and funding from other, similar budgets back into certain parts of Scotland?

Professor Midwinter: You might wish to raise that point with the Minister for Finance and Public Services. I would be surprised if the Executive were not considering the matter already, but you might wish to get assurances from the minister that that is the case. Other areas of Scotland have benefited as the Highlands has been going into decline. I would be fairly confident that the Executive is looking for ways to maximise the Scottish share of EU funding.

The Convener: A couple of weeks ago I heard about a report from a prominent person in the Highlands, saying that the Highlands is booming, with lots of jobs and so on.

Mr Stone: That is not a very helpful comment.

Mr Davidson: Perhaps that applies only to Inverness.

Brian Adam: The suggested questions about

the social justice budget are perfectly valid, but can you give us some idea about the impact that the Glasgow housing stock transfer will have on that budget, particularly in the coming financial year? I would have thought that the transfer would be included in the figures, which would therefore be exceptional this year, and that if the transfer was taken out of the equation, the position of the social justice budget would be even worse than you suggest.

11:00

Professor Midwinter: Or even better, perhaps. There is already provision within the social justice budget for the stock transfer, as there has been for a couple of years. Because of the delay in the stock transfer vote, there has been an underspend, which has been carried forward. I have not examined the detail of any budgets, because I am conscious of possible conflicts with other committees and their right to examine those matters. There is above-average growth in the social justice budget, despite the fact that social justice appeared not to be in the first list of priorities, which is why I noted it. My memory is that the social justice budget is rising.

Brian Adam: By £64 million.

Professor Midwinter: Yes, by 9 per cent. That will include—

Brian Adam: My question was whether the delay in the Glasgow housing stock transfer resulted in a roll-forward this year and whether that is distorting everything. Alternatively, are there other underlying reasons why the social justice budget appears to be more generous than the latest priority list might indicate?

Professor Midwinter: My understanding is that end-year flexibility should not affect the percentage increase from one year to the next, because it is retained within the budget for spending. Only the moneys announced in June—the reallocations—affect the budget.

Brian Adam: So you think that there are other factors.

Professor Midwinter: Yes, but I will happily examine the matter and send you a note on it, if you wish. I guess that other elements of the social justice budget are rising.

Brian Adam: My recollection is that in the early stages of the budget last year there was a generous increase in the social justice budget, which disappeared when we got to the end of June. There were reallocations, which resulted in a substantial chop.

Professor Midwinter: My information from last year is that large elements of the underspends

were from capital programmes, so it is perfectly possible that the Executive reallocated some underspend in capital. However, the regulations state that 75 per cent of an underspend is kept automatically.

The Convener: There is an issue about the impact of mainstreaming on the social justice budget. A lot of that budget consists of discrete items, whereby funding is allocated on the basis of challenge funding. When challenge funding comes to an end and programmes are mainstreamed, that may lead to budgetary distortion, because the money might go into a different budget head. We should ask the Scottish Executive about the mainstreaming of projects that appear under the social justice heading but that might appear elsewhere in the budget.

Mr Davidson: We have had an interesting three years in relation to the Executive's view on the treatment of the reserve, whether official or not. Have you picked up on any significant changes in thinking about the reserve? There have been no significant financial changes, but it is interesting that previous ministers have had different views on the reserve.

Professor Midwinter: I have not picked up on anything about the reserve. As I understand it, the reserve is like a contingency fund that the Executive keeps in case of unforeseen events that require money to be spent. I am not sure whether any of it has been spent in the past year.

I have just had a quick look at the figures for social justice. The big increase is in the housing element of the budget. I will chase up the matter and send the committee a note. The increase is only £60 million, so it will not be due to the Glasgow stock transfer, which amounts to £300 million or £400 million a year.

The Convener: There is an issue about the new role of what was Scottish Homes and the way in which it binds together housing regeneration expenditure.

At the end of your briefing note, you include a table on real growth in total managed expenditure from 2002-03 to 2003-04. I am particularly interested in the headings of children and central Government education, with a percentage change of -3.9 per cent, and justice, with a change of -1.7 per cent.

Professor Midwinter: That is why I said that there are technical explanations. The decline in total managed expenditure on children and central Government education is a result of the transfer to local authorities of the former nursery care moneys.

The Convener: When we quiz the Minister for Finance and Public Services on these issues, it

would be useful to have a background note on the significant sources of variation.

Professor Midwinter: When will the minister be here?

David McGill (Clerk): I cannot recall offhand.

Professor Midwinter: I can do what you request in time for the meeting. I can examine the significant changes and find explanations for them.

The Convener: The minister will be here to discuss PFI soon, but I am not sure when we will discuss the budget with him.

Alasdair Morgan: You said that figures will be reissued to take account of the different deflator. Will that apply to every table in the Executive's report?

Professor Midwinter: Yes. The first set of figures, which are those for 2001-02, are the ones that will have to be revised to a 2000-01 price base. That will mean that the increase will be slightly bigger.

Alasdair Morgan: That will apply throughout the report.

Professor Midwinter: Yes. The figures for 2002-03 and 2003-04 were done on the 2000-01 price base. The 2001-02 figures are current prices—the cash figure—so once the figures for 2001-02 are converted, you will be able to perform a precise comparison.

Alasdair Morgan: Will the Executive just issue a set of tables?

Professor Midwinter: Yes, I expect the figures to be presented in a set of tables. A further briefing will be provided when the figures are issued. I do not expect the figures to be affected much, but the increases will be greater in real terms and in cash terms than the figures in the report show.

The Convener: The table that you have produced on the total estimated payments under PFI contracts is interesting. We can incorporate it into our PFI inquiry. How were water PFIs, as opposed to health and education PFIs, treated? Were they included in the table?

Professor Midwinter: The table shows the running cost subsidy for PFIs.

The Convener: I presume that the running cost subsidy for water and waste water treatment plant PFIs will be met through the charges that will be paid.

Professor Midwinter: If the costs are met through charges, they will not show in the table.

The Convener: I just wanted to be clear about that.

Professor Midwinter: The table shows the

public money element. Anything that is funded through a charge will not appear in the report. The unit that handles such matters has an up-to-date list of every PFI project and its running costs, so if you want any particular figures, it is easy to get them.

The Convener: No, I just wanted to check.

Professor Midwinter: Charges will not be included in the table, however.

The Convener: If we assess the total implications of PFI, you might want to do more work on the moneys that do not appear as charges in the table. In other words, there may not be a match between the table and the total number of PFIs.

Professor Midwinter: The table does not provide the total cost of PFI. It gives the annual subsidy rate on PFI contracts—the extent to which the Executive steps in to provide a level playing field. The total cost of PFIs is not provided.

Alasdair Morgan: In other words, the sum total of local authority payments under PFIs will be much greater than the figure for central Government support.

Professor Midwinter: The figure that is given is the annual subsidy.

The Convener: Is it possible to obtain a figure for the total public contribution to PFI?

Professor Midwinter: Yes, although that depends on how you define the total contribution. It is possible to obtain a figure for the total cost of all PFIs.

The Convener: Is it possible to work out the total annual cost—the revenue budget cost—of PFIs?

Professor Midwinter: No. Each project ends up with a total cost, which is in the public domain. We are talking about the annual revenue subsidy.

Alasdair Morgan: By examining the accounts of each council and health board, we must be able to work out what those bodies pay to PFI projects each year.

Professor Midwinter: It would be impossible to look at every council and every health board.

Alasdair Morgan: That depends on how they construct their accounts.

Professor Midwinter: I can have a chat with the people who run the PFI system, to identify what we can obtain.

Brian Adam: We will have to obtain the total annual cost of PFIs in future. If we continue at the present rate, choices will be severely restricted for the Scottish Executive, let alone for individual local

authorities or health boards. If such information is not available, people will not be able to make informed judgments. As PFI is one of the Executive's key methods of delivering services, the financial information must be available for us to be able to scrutinise PFI properly.

Professor Midwinter: Has the committee considered that issue as part of its PFI inquiry?

The Convener: We have looked at such issues, but I am not sure that we have the same information that you have produced. I am anxious that we establish the revenue element of PFI expenditure that comes from central Government funding and the money that comes through other routes—in other words, the real revenue costs.

Professor Midwinter: Local authority budgets contain elements—such as direct payments—that are additional to the figures in the table. Those payments are funded out of normal local authority budgets.

The Convener: I would be grateful for more information on the projected cost of McCrone in relation to education budgets, which we have touched on before in the context of the expenditure report, and on the budgetary implication of care for the elderly, which will be coming on stream shortly. The Finance Committee would want to have information about the Executive's projection of the revenue costs of those measures and an indication of the impact of their implementation on the education, health and local government budgets.

Professor Midwinter: There is no great difficulty about the costs of McCrone, which have been worked out pretty accurately. The Executive does not necessarily need to produce those costs in a document of this nature. I understand that the figures for McCrone are already accommodated within the budget, although I do not know what they are in detail. The authorities are disputing what their share of the money that has been set aside should be and they have requested additional Executive money so that they can all meet the costs of McCrone. The total amount of money is right. At issue is the formula that was chosen for the distribution of awards among authorities. There might be over-awards or under-awards depending on authorities' locations in Scotland.

There is also a dispute about the costs of care for the elderly. If the costs are greater than the figures that were given in the report that the Executive received, the Executive will have to revisit the budget. Whereas the figures for McCrone were worked out fairly precisely, the figures on care for the elderly represent the best guess of Professor Bell, who did some of the work on that. However, I know that figures that were

produced last week in the Fraser of Allander Institute for Research on the Scottish Economy's "Quarterly Economic Commentary" suggest that the cost will be higher. Provision has been made to meet the official figures that were given in the review group's report.

The Convener: As you say, the figures given for care for the elderly were a guesstimate. However, I presume that some of the assumptions that were made will be tested out as authorities provide more realistic projections of the costs.

11:15

Professor Midwinter: I am not sure what will happen between the Executive and the local authorities this year. In the past, an expenditure committee considered such matters in detail. I do not think that those regular meetings are taking place, because of the three-year budgets. They will take place in the aftermath of the spending review when there is a picture of what new resources are available. At the moment, the regular monitoring that the Convention of Scottish Local Authorities and the Executive used to attempt to agree to is not happening, to my knowledge.

The Convener: It would be useful to get some harder information on that as it becomes available.

I agree that the Executive has probably costed the McCrone settlement fairly tightly. However, it is in the nature of major structural changes, such as those in the McCrone settlement, that unanticipated consequential issues emerge and develop. I am interested in having a second look at those estimates as they begin to pan out as we move into year 2 of the settlement, if that is possible.

The other issue on which I picked up was pensions. Your table for real growth in total managed expenditure for 2002-03 to 2003-04 shows a significant percentage increase in expenditure for the Scottish Public Pensions Agency. I know that there are a number of pensions issues, particularly in the local authority sector.

Professor Midwinter: The two big items of pensions expenditure are those for teachers and those for health service workers. I do not know the reason for the increase. Pensions are controlled within annually managed expenditure. I felt that Mr Dennis's answer to David Davidson's question about whether the Executive can bid for moneys outwith the Barnett consequential system ignored the fact that we get around £2 billion a year outwith that system. The Executive has a right to open a case with the Treasury if it thinks that items of expenditure are exceptional and are not capable of being accommodated within Barnett

consequential. That is what I was trying to establish in the questioning. Last year, the Welsh received additional funding to meet their commitments under European social fund spending. We receive a fair bit of money outwith the Barnett formula. We did not really get an answer on that.

Mr Davidson: Mr Dennis specifically said that there is no mechanism for doing that. In the days of the Scottish Office, it was up to Secretaries of State for Scotland to negotiate with the Cabinet and Treasury, which they did with varying degrees of success over 30-odd years. Mr Dennis was obviously saying that there is no official mechanism for doing that. In other words, it presumably happens at the behest of the First Minister and/or the Secretary of State for Scotland.

Professor Midwinter: A way of getting additional moneys must exist: we got money for the cost of the Lockerbie trial in the Netherlands outwith the Barnett system. I was trying to put across the idea that examining the portion of the budget that is outwith the Barnett system is a strategic opportunity, rather than just an ad hoc annual process. Perhaps we can clear that up with Peter Peacock as well.

The Convener: Let us discuss the issues that are identified at the end of Professor Midwinter's paper. It is not necessarily for the committee to make a decision on whether the tax-varying powers need to be used. That is a political decision that will be made by the political parties and ultimately by the electorate, I suppose, should anybody suggest that the powers be used. However, it might be interesting for us to carry out the technical exercise of trying to identify how much revenue would be generated or lost as a result of the use of those powers. That might be a useful calculation for us to ask Professor Midwinter to make.

Professor Midwinter: I will have to do it again after tomorrow. At the moment, the figure is £280 million a penny either way, but that will differ from tomorrow if certain adjustments are made.

Brian Adam: Is that £280 million the net or gross figure, and does it include administrative costs?

Professor Midwinter: I understand that such costs are agreed with the Treasury. If the Parliament had decided in the past couple of years to use the tax-varying powers, that amount would be delivered.

Brian Adam: So the Treasury will bear the administrative costs.

Professor Midwinter: That is my understanding. The Treasury agreed a figure, which it put into the public domain. I think that that

happened to help with budgeting. Because the amount could fluctuate from year to year, the Treasury was hoping to provide the Parliament with certainty.

Brian Adam: Perhaps we could get a definite answer to the question.

Professor Midwinter: Tom McCabe would be the man to ask.

Mr McCabe: I think that we are in a little danger here. Although it is sometimes enjoyable to ask academic or “what if?” questions, the committee is busy and the paper raises other important issues. If political parties decide that they want to run the issue past the electorate, the committee might wish to turn its attention to it. However, at the moment, we would be well advised to leave the matter and get on with discussing other more important issues.

Brian Adam: That is Tom McCabe’s view. However, it is legitimate to point out that we should be aware of the matter if we—or any committee—were to decide to recommend changes to the budget process that might mean a decrease or increase in expenditure. I just want to know the net figure and who would bear the administrative costs. As I said, the question is perfectly legitimate. We cannot assume that any change will mean a zero-sum budget. Unless we have certain information to hand, we will be as hamstrung as we have been over the first three years in providing alternative budgets. Indeed, some of Tom McCabe’s colleagues have taken great pleasure in pointing out that so far no changes have been proposed to any of the budgets. If we do not have all the information before us, it is perfectly legitimate to ask questions including how much it is possible to raise and whether we will have to bear the administrative costs if we choose to take that route. Such questions are not just academic; even the previous convener of the committee suggested that it was a good idea to ask them.

The Convener: Yes, but it is not up to the committee to make such recommendations, certainly not at this stage.

Mr Davidson: I agree totally that whether to raise the issue is a political decision. Indeed, this is the wrong part of the budget round in which to raise the matter. We have to help committees through the budget process and try to pull together their suggestions about priorities and how to allocate the predicted amount of the budget before the budget goes before Parliament. It is not our role to be up-front with the committees about how we can increase the budget.

Professor Midwinter: I agree. That was my intention behind raising the matter at this stage. The Scottish Parliament has been given tax-

varying powers and perhaps the time to reach any judgment on that matter is when the committee receives the budget reports from all the other committees. I am not urging the committee either way on the issue.

The Convener: Okay. So the information at one level is available and can be adjusted.

Professor Midwinter: Yes. I will chase the matter up after the budget.

The Convener: As for the second issue that your paper raises, I would have thought that the committee would want to pursue the new Minister for Finance and Public Services to ensure that he honours his predecessor’s commitment on changes in budgetary information. We could address the paper’s remaining three points in the work that we carry out over the next two or three months.

Mr McCabe: It might be useful to give some context to the third issue that the paper raises, which is on the

“absence of social justice as a stated priority”.

Without intending any disrespect—I know that professors can sometimes be sensitive—I think that we could get involved in a chattering-classes definition of social justice. As the previous presentation highlighted, the Executive has outlined a number of priorities such as health, jobs, transport, crime and education. If we took a cross-section of 500 Scots and asked them for a definition of social justice and to describe how it would improve their lives, we might get a blank stare. However, they might be more receptive if we asked them how policies on health, jobs, transport, crime and education would improve their lives. We have to keep that in mind before we start using phrases, as the paper does, such as a “radical change in ... priorities”. The five priorities that I have mentioned will achieve improved conditions in social justice for millions of people.

Alasdair Morgan: The priorities are suggested by ministers, who periodically tell us what their new priorities are or rebadge priorities. I do not know whether those priorities are new or are just massaged for a press release. However, if ministers open up a debate, we are entitled to participate in it.

Professor Midwinter: I raised the issue because social justice was in the document two years ago. The definition is not an academic one. Indeed, I am not sure that academics could define accurately what the Executive means by the term “social justice”. However, the term was in the document two years ago and it is not there now. We then had a second presentation that considered the issue to be an overarching priority. The committee ought to pursue clarification of all

those points.

The Convener: That is useful. We note Professor Midwinter's paper. Do members agree to his proposals on witnesses? There is a range of organisations and names. Perhaps members could give the clerk and Professor Midwinter some flexibility to add to those suggestions as appropriate.

Members *indicated agreement.*

Financial Scrutiny Review

The Convener: Item 3 is on the financial scrutiny review. The committee requested a more focused version of the paper on the review of financial scrutiny arrangements. Professor Midwinter has now produced a concise paper in four sections, with recommendations. Arthur, do you want to speak to the paper?

Professor Midwinter: I was grateful to David Davidson for suggesting that I should, during the Easter break, write a new version of the paper. I have tried to focus the original paper. I have defined the four categories as terminology, budgetary procedures, accounting issues and research support.

The committee has made progress in its attempts to have documents provided in plain English. The Scottish Parliament information centre glossary of public finance is a good short paper. If you wish to pursue the issue further, you should consider the production of a plain person's guide to the Scottish budget. It should not be written by accountants or specialists; it should be written for lay people or members of the public.

On budgetary procedures, the paper was drafted before I realised that there was a delay in implementing the changes. The scoping report mentioned strategy, which had already been raised in discussion with the Auditor General. I confess that I am not sure what is meant by a strategic approach to scrutiny; I am pursuing that in correspondence with the Auditor General. At this stage, it would be preferable for the committee to consider the budget strategy for spending priorities rather than a strategic approach to scrutiny. However, that could not just be agreed between the Finance Committee and the Audit Committee, as it involves all the committees of the Parliament, particularly the subject committees. We need clarification about that, which is why I have asked for the issue to be referred to David McGill and me to pursue through the year—we can then come back to the committee with ideas about strategic matters.

That leaves a number of straightforward accounting issues. I have grouped those together and suggest that it could be useful to focus on them in an inquiry. The committee might want to consider an appropriate adviser with an accounting background—either an academic or someone who has retired from practice and might be available to help the committee.

The fourth matter is the research support that you were seeking to draw comparisons with scrutiny arrangements elsewhere. It was said at one of the meetings that I attended that we might

not learn a lot from looking elsewhere. If the committee wishes to pursue that course of action, we could conduct a comparative study in scrutiny practice, but it is important to make sensible comparisons and not to examine systems in which the bulk of the budget is spent on subjects that are not within the Executive's power. Different approaches are required for considering proposals for taxation, welfare spending or social security benefits than are required for considering the spending on public services that the committee can consider. I have suggested examining comparisons with devolved and regional Governments elsewhere. The committee can consider funding that research and the production of the general guide, for which some research support might be needed.

11:30

The Convener: Are members happy enough with that?

Mr Davidson: I noticed from reading one of the papers for the Audit Committee's meeting this afternoon that the convener of that committee has been in conversation with other audit committees in the United Kingdom and is looking to go to Europe to examine some of the ways in which scrutiny is carried out there. In some countries, there is a combined audit and finance function. I wonder whether the clerk, wearing his other hat, might co-ordinate that research if we ever get that far. Members of the Norwegian audit committee visited four of us in the first year of the Parliament. They wore both hats at the same time and were questioning whether it was right to do that. If we are going to go down that research route, it would be interesting to hear how finance and audit committees operate, particularly as the Finance Committee and Audit Committee have the same support system within the clerking team.

The Convener: David McGill can certainly take that on board and liaise with Andrew Welsh.

I am happy with the idea that we seek research support for the development of a guide to the Scottish budget, which would be useful for members and for people outside the system. That could be combined with streamlining, which we discussed previously, and reconsidering stages 1, 2 and 3. The guide would not just give a description of what happens; it would be linked to streamlining the budget process. That would be useful.

On Professor Midwinter's third point, I do not think that the issues that he identified are simply accounting issues, because there are also accountability issues. We have to bear in mind that dimension as well. For example, we considered financial memoranda, which are not

simply an accounting issue. When the Executive, or anyone else, introduces legislation, we have to scrutinise the assumptions on which estimates of the financial implications are based and whether they are sound or can be contested.

Do we agree broadly to proceed along the lines of Professor Midwinter's recommendations?

Members indicated agreement.

Item in Private

The Convener: Members are asked to consider whether we should discuss an options paper on potential advisers for our cross-cutting reviews in private at our next meeting. Do members agree to do that?

Members *indicated agreement.*

The Convener: The next meeting of the committee will be on Tuesday 23 April in committee room 2. I ask the clerk to remind members of the need to get accommodation sorted out for our visit to Orkney.

David McGill: We have been advised that the accommodation in Orkney is going fast. Those who have not already booked places should do so quickly. We are going on 23 May.

The Convener: We need to co-ordinate our accommodation, because a limited number of places are available. We also have to arrange transport.

Meeting closed at 11:35.

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