

# **FINANCE COMMITTEE**

Monday 18 November 2002

Session 1

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## FINANCE COMMITTEE

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

#### CONVENER

\*Des McNulty (Clydebank and Milngavie) (Lab)

#### DEPUTY CONVENER

\*Elaine Thomson (Aberdeen North) (Lab)

#### COMMITTEE MEMBERS

\*Brian Adam (North-East Scotland) (SNP)

\*Mr David Davidson (North-East Scotland) (Con)

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

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

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

#### COMMITTEE SUBSTITUTES

Ms Wendy Alexander (Paisley North) (Lab)

Mr Keith Harding (Mid Scotland and Fife) (Con)

Mr Keith Raffan (Mid Scotland and Fife) (LD)

Andrew Wilson (Central Scotland) (SNP)

\*attended

#### THE FOLLOWING ALSO ATTENDED :

Mr Jamie McGrigor (Highlands and Islands) (Con)

Professor Arthur Midwinter (Adviser)

#### WITNESSES

Hugh Allen (Mallaig and North West Fishermen's Association)

Dr Norman Gillies (Sabhal Mòr Ostaig)

Malcolm Iredale (Highland NHS Board)

John MacDonald (Highland Council)

Lachie MacDonald (Lochalsh and Skye Housing Association)

David Palmer (Scottish Executive Finance and Central Services Department)

Peter Peacock (Deputy Minister for Finance and Public Services)

Bill Ross (Highland Council)

#### ACTING CLERK TO THE COMMITTEE

David McGill

#### SENIOR ASSISTANT CLERK

Terry Shevlin

#### ASSISTANT CLERK

Gerald McNally

#### LOCATION

Highland Council Chambers, Tigh na Sgìre, Portree



# Scottish Parliament

## Finance Committee

*Monday 18 November 2002*

[THE CONVENER *opened the meeting at 11:35*]

### Budget 2003-04

**The Convener (Des McNulty):** Welcome. I now open the formal session of the 22<sup>nd</sup> meeting of the Finance Committee. For the record, I thank everybody who has been involved in the workshops this morning for their participation. Other members of the committee who were in the same group as I was enjoyed it and found it to be worth while. I am sure that members who were in the other workshops felt the same. The aim of the workshops was to allow us to have informal dialogue that would better inform us about the issues that affect people in Skye and Lochalsh.

In this part of the meeting, we will get some feedback from members who were participants in the groups. There will be an opportunity for people from the community or the organisations who were involved in the groups to make supplementary points if they feel that anything has been missed out or if there are issues that they want to amplify. On that basis, I invite Tom McCabe to speak for workshop group 1.

**Mr Tom McCabe (Hamilton South) (Lab):** Good morning, ladies and gentlemen and thank you, convener. A fairly good cross-section of interests from the Skye community was represented at the workshop, including the Federation of Small Businesses, Skye and Lochalsh Enterprise, tourism interests, individuals who have strong views about the Skye bridge tolls, representatives from Highland Council and representatives from the community council.

People would probably think it remiss of me if I did not start by addressing the issue of the Skye bridge tolls, which seems to thread its way through into any conversation that people have in this area. There is obviously a strong feeling about the negative impact that the tolls are having on the economy here. Some figures from recent studies about the annual cost of subsidy were quoted, and we heard some figures that had come out of a recent study into the buy-out costs of the private finance initiative scheme. It is fair to say that there is a strong body of opinion here that the bridge tolls have a negative impact on the economy and should at least be reduced or—ideally—removed. That issue has threaded itself through into many of the conversations and representations that I have

heard. Let us lay that issue aside for a moment—although it is never really laid aside here because it is such a big issue.

We also heard from the local enterprise company, which spoke about the large impact that tourism has on the community and the difficulties that some businesses have in coping with seasonal swings. It is clear that the tourism market has peaks and troughs and, although we heard evidence that the season is now longer than it was, there are still issues around seasonal swings, staff retention and the difficulties of keeping businesses viable during the troughs.

We heard a fair bit of evidence on infrastructure, as we might have expected in an area such as this. We heard that Skye is further from any established air link than any other place in Scotland and that, although there has been a benefit from some of the low-cost air carriers' flying to places such as Inverness, anything that could be done to improve the ways in which visitors can access Skye would be of considerable assistance.

We also heard evidence about the disproportionate costs of infrastructure provision. Another thread that runs through conversations here is the idea that infrastructure is very important. There was a plea for a more strategic view to be taken of the way in which infrastructure that is a considerable distance from Skye can be of significant benefit here. There is a feeling that a wider view should be taken of infrastructure in Scotland, with more lateral thinking about the way in which provision of infrastructure at a distance from places such as where we are meeting now can be of benefit to the area.

We heard about the economic impact of tourism on the community; £62 million was quoted as being the kind of expenditure that is generated here. We heard that the visitor profile is changing, in that the market here is moving away from being an international visitor market to becoming a UK visitor market, although not exclusively so. That is to some degree understandable in the light of recent events around the world. As the visitor profile changes, the short-break market is growing in areas such as this. Nevertheless, concern was expressed that, although various agencies—the LEC, the local council and the tourism agencies—are doing their best to improve the overall situation here, they all have different strategies. There was a plea for greater synergy between those strategies to secure a bigger overall impact from the efforts that are made.

We also heard representations from the small business community, who have concerns about business rates, water rates and—perhaps surprisingly—the cost of public liability insurance. There is a feeling that there is a need for some

kind of assistance scheme, because the cost of such insurance is becoming disproportionately high in areas such as this. Small businesses are also concerned about the impact of the bridge tolls.

Mention was made of the reduction of the post office network and the fact that that could have a significant impact in rural areas. It is felt that a more substantial regime exists in urban areas than exists in rural areas. I do not know enough of the detail of that, although we know some details—some issues concerning the post office network are reserved and some are devolved. However, there is clearly concern about the overall impact of the reduction of the post office network.

The Skye bridge tolls aside, the thread that ran through all the evidence was concern that there is a need for improvements to be made in infrastructure. People also mentioned the need for anything that can be done to help communications, especially through improvements in information technology, such as a more comprehensive provision of broadband and ADSL. We heard evidence—as the committee did in Orkney—that although there is a satellite link, it is not dependable and people are not confident about it. Anything that can be done to improve information and communications technology will be of considerable assistance in broadening the base of the local economy.

That is about it, although some of the people who spoke in the workshop might want to re-emphasise or restate some of the points that they made. The facility is available for them to do so.

**The Convener:** Before we do that, we will see whether Alasdair Morgan has anything to add.

**Alasdair Morgan (Galloway and Upper Nithsdale) (SNP):** I have one or two points to make. It is refreshing to be in a rural area where, contrary to much of the evidence that we hear throughout Scotland, the population is growing. As Tom McCabe mentioned, it was refreshing to hear people accept the point that improvements that have been made elsewhere in Scotland rather than in their own immediate area might bring benefits to the local economy. I am thinking of improvements to the A82 up the side of Loch Lomond and to transfers at Prestwick airport. I forbore from trying to persuade them that improvements to the A75 from Stranraer to Dumfries might be of benefit; we will leave that for later.

11:45

One statistic that I found interesting—I would like to get the precise figures behind it—was that since the bridge has been built there has been only an 8 per cent growth in traffic. That statistic is astonishing and, if it is true, it represents an

opportunity that has been totally unexploited, which I presume is a result of the bridge tolls. Anyone examining the kind of investment in infrastructure that was made in respect of the bridge would expect to see growth in traffic of much more than 8 per cent.

As Tom McCabe said, many of the main issues that were raised were the issues that we have picked up in our meetings at Kirkwall and Kirkcudbright.

**Brian Adam (North-East Scotland) (SNP):** I would like to ask the Highlands MSPs and the people who participated in the workshops what developments in niche tourism markets have been achieved in the area. Tom McCabe said that there had been a significant shift from overseas visitors to UK visitors and that there has also been growth in the short-break market.

I have an interest in family-history tourism. Has that had an impact on Skye? In the workshop that I attended, there was some evidence that the Gaelic college, Sabhal Mòr Ostaig, has attracted visitors to the area. Whether people regard that as tourism or business is another matter. Have there been increases in particular niche markets in the area?

**Mr McCabe:** I think that we heard about developments in food tourism, which capitalises on the facts that there is an enormous amount of fresh produce in the area and that the gourmet diner market is expanding in this part of the world.

**The Convener:** Do any of the workshop participants have points that they want to add? I see from their expressions that they are all happy with the reports that have been made.

In that case we will move on to hear the report from workshop 2.

**Mr David Davidson (North-East Scotland) (Con):** Amazingly, the bridge was not mentioned at workshop 2. The participants were composed of members of the National Farmers' Union of Scotland, Scottish Natural Heritage, the Mallaig and North West Fishermen's Association, the Scottish Crofting Foundation and the local council.

The opening comment described vividly one of the main issues, which is that although the area has—unusually for a rural area—a growing population, that population is also aging and there is a serious problem of younger people either leaving or having nothing to come back to when they have left the area to acquire skills. Although it is usually possible to access central support for areas that have declining populations, there seems to be a problem—or the Government has not yet got round to thinking about it—in relation to the sort of increasing population that exists here; demography is important.

Some of the comments that were made early in the workshop were about the development not only of social infrastructure but of, for example, broadband, which Tom McCabe mentioned. Piers, harbours and jetties were also mentioned because they can offer spin-off benefits in respect of the yachting, boating and tourism fraternity. Although technology is being used as a means with which to expand the economy, 60 per cent of the local gross domestic product is based on service industries and the council is a major employer. Participants felt that there was a need to diversify the local economy.

That led to the issue of match funding, which was mentioned by a number of participants who talked about the difficulty of putting together baskets of funding for different projects. There is also a need to be able to access funding in order to capitalise on the existing skills base. There was general agreement that the son of ABIS—that is, the successor to the agricultural business improvement scheme—seems to offer better support than was available the first time round.

Quite a lot of time was spent considering the inshore fisheries and the fact that the financial instrument for fisheries guidance—FIG—is dependent on match funding. The poor take-up of the Scottish Executive's decommissioning scheme was also mentioned. It appears that the primary industries face a lot of bureaucracy in accessing different funding systems, which puts people off. A recommendation was made that there should be a one-stop shop "maritime enterprise agency"—that was the phrase that was used—which would make things more user-friendly.

An important message for the committee to take back is that, in much of Scotland outside the central belt and away from the seat of Government, people are not always next door to a Government office. People need to be able to access the different systems on a fair basis.

Comment was also made about integrated coastal zone management. Part of the solution to the problem is planning, but one must also balance the different demands within the sector. The interests and income of the Crown Estates also arose during that discussion.

On agriculture and crofting, there was discussion about the less favoured areas support scheme. The LFA scheme is not particularly favourable to Skye and has apparently disadvantaged many people. It seems that the rules are currently too black and white and there is a need for different thresholds. At the moment, a small difference in stocking density can mean that the support that is received for one piece of ground can be almost twice the level of support that is received for a similar piece of ground only half a mile away. There is a need for a smoother

transition between the different thresholds in the scheme. The principle behind the recent changes was a move from a headage-based system to a land-based system.

A common theme that emerged from all the presentations was the need for an approach that is based on quality rather than on quantity. We need to add value to what we have rather than just play a numbers game. That said, a direct bid for £6 million was made for upgrading Broadford airport, but it was admitted that that might not happen next year.

Success in getting grants for footpaths was mentioned, but there was a general plea about the roads—particularly the A855—which are in a bad way and are deteriorating. Cars are obviously essential to people here on Skye and although public transport has improved, there is a feeling that the larger buses and vehicles are tearing up poorly maintained roads in some areas. That seemed to be a fairly common concern.

On the more positive side, there was a general belief that greater emphasis should be placed on adding value to food. That ties in with the comments that were made in the workshop that Tom McCabe attended. Value could be added to fishing, because a lot of fishing produce is currently shipped away without necessarily being ready for the final market place, where value and quality can be added. That is an important point.

We also received a straight proposition, which is a fair challenge that we can take back to the Executive. We were asked whether the Executive would we be interested in providing match funding for a food and drink officer for five years. That is a positive suggestion and we are here to listen to what people have to say. I presume that the suggestion follows what we heard at our meeting in Orkney about the Orkney food brand. Some central co-ordination and stimulation is required, which comes back to the point about match funding.

The general problem that was picked up on throughout the workshop was the distribution of, and access to, central funds for peripheral communities, and the bureaucracy that is involved in that. Obviously, it is not for the committee to take a view on what the Highland Council or the LEC does, but we are happy to listen to what the local people want to tell us. We have had some very positive suggestions as to how we can take a better and more inclusive approach to the budget process.

**Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD):** Everything that David Davidson said about the LFA regime is true. Despite the fact that the Executive is putting more money in, it is those who have the poorest land

who are the losers on the spectrum of grant assistance, which we have heard is hitting this part of the world pretty hard, just as it is hitting the west of my constituency. I flag that up strongly and believe that the Finance Committee should re-examine the matter. There are questions about where Executive cash is going and why it is not hitting the targets that we would like it to hit.

We heard the point—eloquently put—that fish farmers' sheds that contain nets are not subject to rates, whereas fishermen's sheds that contain nets are subject to rates. That is a small but interesting contradiction. It was a most constructive workshop.

**The Convener:** Would any of the participants in the workshop like to add to what has emerged?

**Hugh Allen (Mallaig and North West Fishermen's Association):** I am secretary of Mallaig and North West Fishermen's Association. I want to correct something that David Davidson said. The decommissioning scheme has not had poor take-up, but the FIFG scheme for different types of grant assistance has. The FIFG scheme's take-up has been so poor in the Highlands and Islands because of its centralised administration and the enormous bureaucratic barriers that exist.

The great benefit of the old PESCA scheme—I am sure that similar schemes also applied to other industries—was that it was administered locally. Because administration was devolved, the people who were involved, including the LECs, councillors and industry representatives, knew exactly how the funding should be targeted, especially where individual needs were concerned. They knew whether or not somebody had a genuine need for assistance. The fundamental strategic point that I am trying to make is that there should be much greater devolution to local areas of the responsibility for administering funds.

**Mr Jamie McGrigor (Highlands and Islands) (Con):** The lack of flexibility in the grants system was mentioned. A lot of the money is already laid down for paying rangers and so on. A person who has a good idea must go through a very fixed process to get money; the system is not flexible enough to deal with the needs of different areas.

**The Convener:** I was struck by the difference in policy between Scottish Enterprise and Highlands and Islands Enterprise. It was claimed that Highlands and Islands Enterprise gears its money towards areas that are in difficulties and that it is less receptive to giving resources to areas that show increasing population or some other form of economic regeneration. Scottish Enterprise does not do that. It is interesting that there is a difference between the approaches of the two economic development agencies.

A linked issue is how the parameters of the initiative at the edge are applied in this area as distinct from other areas of rural and island Scotland. As a committee, we initially concentrate our attention on identifying what is allocated to which budget. However, we are not so interested in how much money there is under different schemes; rather, we are interested in the issues that emerge from the way in which that money comes in, or is seen to come in, and in the constraints that that imposes on the effectiveness of local spending. The view of the committee might be that the more we can simplify and make more flexible the way in which resources are distributed so that they can be spent effectively and efficiently, the better. A number of situations in which money has not come in the most efficient way and has therefore not been spent effectively in the interests of the area have been highlighted. We want to pursue that in a broad way in relation to how the budget operates.

12:00

**Elaine Thomson (Aberdeen North) (Lab):** In the third workshop, a range of organisations representing many of the public and voluntary sector groups—including the Highland Council, Highland NHS Board, Skye and Lochalsh Council for Voluntary Organisations, Sabhal Mòr Ostaig and Lochalsh and Skye Housing Association attended. The themes that arose at the workshop are similar to those that Tom McCabe and David Davidson reported.

First, we heard from the finance manager of Highland NHS Board, who said that the Arbutnott formula has had positive effects in the Highlands. The formula has catered for the fact that not only is the area's population in general rising, but the area's elderly population is rising more rapidly than is the case elsewhere in Scotland. He said, however, that we must ensure that the extra money that is provided by the Arbutnott formula is distributed on time—concern was expressed that there has been some slippage on the time scale.

The board's finance manager said that although the money that is coming into the health service is increasing, much of that money is already required to deal with the increase in the drugs budget and various other areas. New GP budgets are being negotiated at the moment, but the Arbutnott formula is based on the old GP contract formula, which means that there must be some flexibility or thought given to how that money will feed through. As in Orkney, we heard about the difficulty of recruiting and retaining adequate numbers of medical staff in a number of fields.

The housing association told us that an estimated 45 per cent of council housing stock in



the area has been sold and that there is a shortfall in the provision of public sector housing. Concerns were expressed about the implementation of the Homelessness etc (Scotland) Bill, which is going through Parliament at the moment, because it will place extra demands on local councils and housing associations in terms of provision of housing. A particular problem is the length of time that it takes to plan and develop new housing stock. There are a number of reasons for that, including the lengthy planning process and the fact that Scottish Water and the Scottish Environment Protection Agency must be negotiated with. Communities Scotland must also allow enough time for local housing providers to plan properly and it must take on board the fact that more time is required in areas such as this.

Although three-year budgeting, for example, is generally welcomed, budgeting could be more definite and conducted over a longer term. One matter that was discussed in conjunction with that was the way in which Communities Scotland works. Many of its targets are based on providing units of housing, but the requirement in areas such as Skye and Lochalsh is to buy land in order to build up a land bank for future housing needs. The funding mechanism does not cater effectively for that.

As for the Gaelic college, the point was well made that Gaelic is too often considered a problem, despite its being a benefit in several ways; for example, because it enhances tourism and because of its cultural aspect. Perhaps the college is slightly unusual, so identifying the correct source of funding for it can sometimes take up disproportionate amounts of time. It is not always clear whether the provision that the college makes means that it should tap cultural funds or educational funds. We discussed how the college could work within the UHI Millennium Institute and with universities elsewhere to expand its provision of courses, such as those in teacher training, on which the UHI is to build a strategic arrangement with the University of Aberdeen. At the moment, the Gaelic college is not directly involved in teacher training.

The point was made that the local budget for the voluntary sector has been at a standstill for the past nine years, despite the fact that the level of activity of voluntary sector groups has doubled. That imposes constraints and causes difficulties. It emerged that village halls are important to remote and rural communities and require a fair amount of support. Funding has been provided effectively through the community access fund, but the Highlands and Islands is no longer a priority area for that fund, so accessing money to support village halls is becoming more problematic. It was also said that some voluntary sector projects could not be progressed because match funding could

not be obtained from other voluntary sector providers.

The impact of phasing out water charges relief for charities was discussed. Charges relate less to the volume of water that has been used and more to roof surface, so charities pay for management of surface water, rather than the volume that has been used.

We also heard from the Highland Council, which generally welcomes the move to three-year budgeting and some of the initiatives that can be developed through the modernising government fund and through the joint future agenda. The council raised several issues. As has been said, the Highland and Islands is a growing economy that has all the problems that many growing economies have. It requires more infrastructure, more houses and better transport—particular difficulties relate to maintaining roads and bridges. The Skye bridge was mentioned, which Tom McCabe talked about at some length. Development of Broadford airport was discussed as being a benefit to tourism in the area and to other matters.

**Brian Adam:** Elaine Thomson has covered most of the points that were raised. The implications of the general practitioner contract for the rolling out of the Arbutnott settlement to general medical services were covered, and the same point that was raised with us in Orkney was made.

The suitability of the target for housing units, which Elaine Thomson talked about, was raised. It might be that the Executive has not got that right in its target setting. In an area such as Skye and Lochalsh, someone who can buy 40 acres on which to build 200 houses will not necessarily build them within the time frame target that is set. However, unless the land is bought, we will not be able to address the housing need. Perhaps the Executive will want to reconsider that in developing appropriate outcomes.

Points about the problems of success were raised with us. Various funds appear to be available, which goes back to what the convener said about HIE's outlook being different from the Executive's outlook. There does not appear to be a fund available to address the infrastructure problems in areas of growth. There are significant constraints to growth that are not just related to planning issues, but are to do with some of the changes that have taken place in the financing of public water and sewerage and infrastructure costs such as buying the land. As well as special funds to address deprivation and regeneration needs, funding has to be available to reinforce success.

Points about the Skye bridge were raised with us. Highland Council said that although some of the areas, such as education, on which the Executive has focused are important, the Executive does not have the balance right in terms of the infrastructure investment that is required for transport in its broadest sense. There ought to be more funding available for roads, bridges and transport infrastructure in general.

**Mr Davidson:** I want to tease out more information. Was there discussion about tensions within the funding to cope with the extra demands that are made on the health service by the fact that the population is aging rapidly?

**Elaine Thomson:** As I understand it, the proportion of elderly people in the population has increased by 4 per cent in the past 10 years and in Highland, particularly where we are today, the proportion is up by 12 per cent. The finance director of the NHS board said quite clearly that the Arbutnott formula, as constituted, caters well for that growth. His concern was largely about ensuring that the Arbutnott formula was rolled out according to the original timetable so that the extra funding to cater for that growth would be in place in an adequate period of time.

**The Convener:** I give the members of the organisations that were involved in workshop 3 the opportunity to add or highlight points.

**Brian Adam:** I discussed a wide range of issues with the Gaelic college—I will not attempt the Gaelic name. The college might well be a suitable candidate for the Executive or us to look at in future in terms of cross cutting, because it covers higher and further education, culture and general education. The funding for that range of areas comes from a variety of Executive sources.

**The Convener:** I give Norman Gillies the opportunity to speak if he wishes to.

**Dr Norman Gillies (Sabhal Mòr Ostaig):** I am the director of Sabhal Mòr Ostaig—the Gaelic college on Skye. The people of Skye were wise enough to welcome infrastructure in other areas and acknowledged the beneficial impact that that could have on them. Investment in Sabhal Mòr Ostaig in the south end of Skye is investment in a national institution, so I hope that people in other areas will recognise the benefit. So that is really turning things on their head.

**Mr Stone:** Given what has been said about Sabhal Mòr Ostaig and all that you do, to what extent can Sgitheanach cultural tourism be built on Sabhal Mòr Ostaig? I can see that tourists are visiting, but is there a wider link into fèisean, music, art or drama?

12:15

**Dr Gillies:** There is indeed. Brian Adam raised the question of niche tourism markets and it is recognised that we attract a range of people throughout the year who wish to engage meaningfully with the Gaelic language and culture. We also attract a lot of conference business, because we happen to be in an attractive area and have accommodation that we can let out. The question is again infrastructural: how do things mesh? We have good relationships with other organisations, and we are involved in the training of tutors in Fèisean nan Gaidheal for example. It is a circle that feeds on itself, and is beneficial in a variety of ways. We want to do more and would love to be involved in teacher education. We just need the investment to allow us to do that.

**The Convener:** Our adviser, Arthur Midwinter, wants to ask a question while we have some of the experts in the room.

**Professor Arthur Midwinter (Adviser):** My question relates to the link that has been drawn between the population change and the infrastructure investment. Both local government and health budgets will see automatic reflections of population change in the revenue grant allocations. However, the committee has been doing work on several other services. For example, I have discovered that in the housing capital allocations to local authorities, rural authorities have in the main been receiving significantly higher levels than the Scottish average. I do not have information about the housing associations and whether that is reflected in the way in which Communities Scotland weights for rural areas compared with the allocations to councils.

I do not know the capital position on roads or health, but if we intend to raise issues with the minister, we need more than just the perception that you think that your infrastructure needs are not being met. Is it that the total cake for Scotland is too small? Is it that your share of the Scottish cake is too small? Is it that the Skye share of the Highland cake is too small? What point can we make? I do not know the position on roads and health, but I know that on the revenue side, the formula will tend to take account of population changes.

Finally, the committee raised the GMS issue after the Orkney meeting. We have had an assurance that the formula will not be altered until the GP contract issue is settled and then examined in light of the changes. It could be some years before they change that formula.

**The Convener:** Lachie MacDonald may be able to help us on the Communities Scotland issue.

**Lachie MacDonald (Lochalsh and Skye Housing Association):** I am the director of Lochalsh and Skye Housing Association, so I cannot speak on behalf of the council. In response to Professor Midwinter's question, nationally the Scottish Federation of Housing Associations will argue that the total resources given to housing associations through Communities Scotland are not sufficient. The federation will produce figures to prove that. I cannot compare the figures available to local authorities and Communities Scotland. In a climate of stock transfer and community ownership the picture is complex.

The rural lobby will argue that given the population in rural areas, the resources that go to housing investment there are disproportionate. We can prove that simply by a straightforward calculation of how many people live in what are defined as rural areas and how many people stay in urban areas. However, the issue is more complex than that, and we accept that such direct comparisons are not always very useful.

In Skye and Lochalsh—the area on which I am able to comment—we are delighted with the resources that we receive. We would like more resources because we can see difficulties on the horizon. The Homelessness etc (Scotland) Bill, in particular, will put further pressure on our already stretched affordable rented housing market. We cannot see how we and our partners in the council and other agencies will be able to fill the gap.

**Professor Midwinter:** Could you provide us with something on paper? Tomorrow we will consider the Social Justice Committee's stage 2 report on the budget. It is expressing concerns about the effective standstill in the housing budget in Scotland, compared with the growth in other areas. It would be helpful if you could send us some documentation.

**Lachie MacDonald:** We can certainly do that. The Scottish Federation of Housing Associations has prepared a position paper on the budget announcement. Gary Coutts of Highland Council submitted a paper to the Social Justice Committee on the effect of the Homelessness etc (Scotland) Bill. Today I gave a copy of the paper to Jamie McGrigor; I would be happy to pass it on to the committee.

**Professor Midwinter:** Does Bill Ross have any information on roads?

**Bill Ross (Highland Council):** I am the area works and community works manager for Skye and Lochalsh in Highland Council. There has been an on-going decline in the roads budget, starting in 1992. The roads maintenance budget and capital allocation have declined significantly since then. The roads maintenance budget is 45 per cent of what it would have been if inflation-related

increases of 2 per cent a year had been added from a 1992 base. That is a huge reduction.

**Professor Midwinter:** Are you talking about your roads grant-aided expenditure?

**Bill Ross:** I am talking about the roads allocation to Skye and Lochalsh. However, that reflects GAE.

**Professor Midwinter:** Are you talking about current expenditure?

**Bill Ross:** Yes. Capital allocation has declined from the days of Highland Regional Council, when around £18.5 million per annum was allocated to roads, piers and other infrastructure developments. Today the baseline figure is about £4.5 million. The situation is worsened by the fact that the council has decided that some of the capital allocation must be used for maintenance.

The council spends up to its GAE on roads maintenance. Funding for routine maintenance is allocated on the basis of road length. Thank goodness it is not allocated on the basis of population. If it were, we in Skye and Lochalsh would be poor.

The capital funding that is given over to maintenance must be spent on certain types of maintenance. We cannot use it for cyclic and routine maintenance: it must be used for works such as resurfacing. The money is allocated on the basis of need, following visual surveys of our roads that are carried out by an independent organisation. So far we have surveyed 40 per cent of our road network. The estimate for what is required to restore our roads to an appropriate level has risen from something like £82 million in the first year of surveys to more than £90 million. Another £80 million to £90 million is required for works such as bridge strengthening.

**The Convener:** Is that the figure for the Highland Council area?

**Bill Ross:** Yes. It will be informed by work that the Society of Chief Officers of Transportation in Scotland is undertaking. Over the coming year, high-speed monitor surveys will be carried out on all roads in Scotland. I suspect that the requirement of between £80 million and £90 million will be mirrored throughout Scotland. There is a huge problem. I hope that those comments are helpful.

**Professor Midwinter:** They are indeed.

**Brian Adam:** Before Mr Ross goes, I would like to ask what requirement there is with regard to piers and harbours. We have been advised informally that there may be some difficulties with the budget allocations.

**Bill Ross:** Piers and harbours are funded from the same capital allocation. There is a £4.5 million

baseline figure, but I hope that there will be some exceptions. For example, there is an immediate need for a new ferry facility in Raasay, which we hope will be funded by a special allocation from the transport grant. Community-led projects are often developed in the area. For example, there is a community-driven project to improve Portree harbour and its environs and other projects for a small new marine facility in Stein and one in Glenelg. There is, as yet, no prospect of those projects appearing on the council's capital programme. Because those projects are community led, people feel that the community's aspirations are not being fulfilled and that they are being badly let down. The difficulty with capital funding extends not only to roads but to other kinds of infrastructure.

**Mr Stone:** From 1995 to 1999, the Highland Council budget working group used to divvy up the cash. Politically, the transport department had no input into that, as no one from that department had a seat on the group. Is the situation different under the present council?

**Bill Ross:** My recollection of the regional council days is that, in terms of maintenance revenue expenditure, we always used a long-standing formula based on road length and road type.

**Mr Stone:** With respect, that was not my question. Is there now a councillor representing your department on the budget working group? That was a problem in the past.

**Bill Ross:** I could not answer that.

**Mr Stone:** If you do not know, that is okay.

**The Convener:** That is really a council question.

**Professor Midwinter:** Does Malcolm Iredale think that there is anything on the capital side on health that we need to consider?

**Malcolm Iredale (Highland NHS Board):** I am director of finance at Highland NHS Board. Until the current year, capital was allocated directly from the Scottish Executive to areas. That was done on the basis of business cases submitted by local health communities. This year, the process changed, and each health community—that is, each NHS board area—now receives capital.

At the moment, we are in an interim phase. Because of the length of time that it takes to plan capital schemes that are already in the system, we will eventually work to a formula that will probably be the Arbutnott formula rolled out. In the current year, Highland NHS Board is getting an increase in revenue from Arbutnott of about 4.5 per cent, but the figure for capital is somewhere just under 4 per cent. That recognises the schemes that are already in place, including capital schemes in other areas that need funding in the current year.

**Professor Midwinter:** Is there a formula for allocating the Highland share?

**Malcolm Iredale:** Between areas of the Highlands?

**Professor Midwinter:** No, I mean the Highland share as part of Scotland.

**Malcolm Iredale:** Yes, there is. As I said, if we move towards an Arbutnott formula, that would automatically pick up the elderly population weighting as well as some mortality weighting.

**Mr Davidson:** Is Arbutnott picking up your wage bill adequately and leaving scope for other activity?

**Malcolm Iredale:** I do not think that Arbutnott was intended to pick up the wage bill, as all areas are picking up a wage bill. Our problem is that the indicative allocation that we got last year is being held this year, even though there have been incredible increased pressures, such as consultant contracts, increased prescribing and increased pay claims from ancillary staff. The pay pressures are in the system regardless of Arbutnott. It is wrong to say that Highland NHS Board should be funding such pressures from Arbutnott. Some areas do not get Arbutnott funding, but we are just lucky. We should be investing in services for Highland through Arbutnott, not meeting national demands.

**Professor Midwinter:** All the boards are expected to pick up pay costs.

**Mr Davidson:** I was just extending something that we discussed earlier. That was all.

**Brian Adam:** I would like to ask about the outcomes that the Executive has set for health. Are the mechanisms for measuring the inputs to different areas realistic? The Executive has targets for improvement in coronary heart disease and a wide variety of other health areas. Is it possible to identify the inputs in the health budget that will lead to the desired outcomes? If not, is that something that is realistic or desirable?

**Malcolm Iredale:** We can identify some of the inputs. For example, we can identify some of the consultant episodes at Raigmore hospital. However, if someone visits their GP, the GP does not necessarily code out what the time has been spent on and we do not always allocate the drugs from primary care against specific conditions, such as coronary heart disease or cancer. Little bits of expenditure are spread throughout the programme, and the cost of collecting the data on that might make it not worth while to do so. It is 80:20—if we can identify 80 per cent of the inputs, we must spread the other 20 per cent, otherwise we are wasting money on administrative costs rather than spending it on patient care.

12:30

**Brian Adam:** I do not think that anybody would want to waste money on administrative costs rather than spend it on patient care. However, if you set targets but have no way of properly relating the input to the outcome, it is just a wish list.

**Malcolm Iredale:** It is in some ways, but in relation to other targets that we are being set at the moment—targets to reduce coronary heart disease and to improve cancer care—there are some specific measures, regarding the incidence of cancer or treatments, which we can quantify.

**The Convener:** Do you think that the measures that are set across Scotland as core targets accord precisely or imprecisely with what you, as a local manager, regard as the most appropriate targets? Is the big pitch dragging you in a direction that you do not regard as the best way in which to go locally?

**Malcolm Iredale:** I see Professor Midwinter looking through the draft budget. The NHS board welcomes the move towards health improvement. For too long, the health service has been concerned just with treating people with ill health when we should be moving a step upstream to try to intervene before people have ill health. We welcome the emphasis that is now being placed on preventing coronary heart disease and a number of other conditions. We do not have a good record of preventing those conditions in Scotland. In the Highland region, we have a better record than the rest of Scotland on the incidence of heart disease, but it is still not good in comparison with European targets. Prevention of disease is where we need to target health expenditure.

At the same time, we must keep funding the curative services that we currently fund. There is a dilemma for the local boards. Mr Davidson asked whether there is enough money in the system. We are trying to divert more money into the health improvement programme, to try to buy ourselves improvements in the future. That is difficult, as we are investing today in things that might improve health and reduce costs in five years' time; providing lipid-lowering drugs instead of coronary heart disease interventions is a good example. As an accountant, I will have to fund that work for five or seven years before the benefits will start to emerge, and that is challenging.

**The Convener:** I want to ask you about an issue that arose in Orkney. To what extent is community care provision—which you provide jointly with the local authority—affected by rurality and the distances that carers have to travel between patients? How are such dimensions taken account of in the budgeting arrangements?

**Malcolm Iredale:** I am sure that I speak for my local authority colleagues, some of whom are sitting in the public gallery, when I say that the cost of providing most of the services in the Highlands—education, health services, or whatever—is an issue. There are large distances between clients. Pre-Arbutnott, the only recognition of that in the funding formula was recognition of the costs incurred because community nurses needed to travel a long way between clients.

In connection with the joint future agenda, the agencies will have to work even closer together. It would make sense—and we discussed this in the group—to put occupational therapy provision on a joint basis for the council and the health service, rather than employing people separately throughout the area and potentially duplicating the lengthy and expensive rural distances that they have to cover.

**The Convener:** A lot of press attention has focused on Highland Council's reported problems regarding the provision of free personal care to the elderly. Do you have a perspective on that?

**Malcolm Iredale:** We work with Highland Council through a number of joint committees and there are good working relationships between the NHS board, the health trusts and the council in considering care for the elderly and for children. That work involves not only officers, but elected members and directors of the NHS board.

**The Convener:** Do members have any other questions?

**Mr McGrigor:** I am only a visitor to the Finance Committee so if my question is a stupid one, please shoot me down in flames. It seems rather odd that, apart from discussion of Sabhal Mòr Ostaig, education funding has not been discussed either at the workshops or during the meeting and yet I receive many letters about the funding of the McCrone settlement in relation to rural schools.

The Convention of Scottish Local Authorities' distribution is unfair to rural areas. It is based on population rather than on the number of teachers who are needed for schools in rural areas. Would anyone like to pick up on that point or speak about education funding?

**John MacDonald (Highland Council):** I cannot answer in detail, other than to confirm the point that Mr McGrigor made. Highland Council is finding it difficult to implement the McCrone settlement in full. Part of the problem is that, because we have a number of small schools, we have a higher number of teachers.

Last Friday, Councillor Andrew Anderson, the chairman of the council's education, culture and sport committee, met Peter Peacock, the Deputy

Minister for Finance and Public Services, to discuss the issue. The council is a bit unhappy that the Executive seems to be passing the buck to COSLA. I do not know the result of Mr Anderson's discussions with Mr Peacock, but we might find that out later this afternoon. Education funding is a problem.

**The Convener:** Those of us who have served on COSLA recognise the difficulties.

**Mr Davidson:** I want to follow up on the point about rural schools. Given the declining youth population, are you finding it difficult from a monetary point of view to keep some schools open?

**John MacDonald:** The council has a policy of not closing schools, although we have had to do so in certain cases. Last week, a school at Altnaharra in Sutherland closed because its last pupil moved to Farr High School at Bettyhill. In the Highland area, we undertook a rationalisation of schools 10 years ago, closing a number of the smaller schools and providing more central, modern facilities. That seems to have gone down well with parents and pupils.

At the moment, the major issue in Skye and Lochalsh is funding for the new Portree High School. We have one high school that serves the whole of Skye. We hope that the new school will be built as part of the public-private partnership programme that the council is about to embark on.

**Mr Davidson:** Just as a matter of interest, what kind of figures are we talking about for that project?

**John MacDonald:** I have heard a figure of £14 million mentioned for a completely new community secondary school.

**Mr Davidson:** That sounds cheap.

**John MacDonald:** The school will accommodate about 650 pupils. It is proposed that it will be built with a library and sports facilities and that it will serve the community.

**The Convener:** Thank you. In drawing the session to a close, I want to thank all the participants and the members for the useful meeting that we have had this morning as a result of the workshop sessions.

In response to Jamie McGrigor's last question, we get input from the Education, Culture and Sport Committee, the Rural Development Committee and the Enterprise and Lifelong Learning Committee. The education dimension in the considerations of the Finance Committee comes to us from a variety of routes.

We are at stage 2 of the budget process. At this stage, we begin to see a much clearer picture of how next year's budget is to be allocated among

different departmental headings and among different uses under those headings. This afternoon, we will begin to move on that process by taking evidence from the Deputy Minister for Finance and Public Services. We will ask him a series of questions about how the allocations are made; why changes are taking place; what the meaning is of different decisions; and how those decisions are played through in financial terms. That is the core job of the Finance Committee.

The morning's workshops and meeting have given us additional ideas and themes for our general consideration of the budget process. As I said, they will help us to inform some of our discussions with the Deputy Minister for Finance and Public Services today and those that we will hold with other ministers in future. The sessions today have formed a useful learning experience and have allowed us to hear the concerns of local people.

One aspect of the process that is particularly useful is that members have had to feed back to the meeting the concerns that were expressed in the workshops. Participants can shout at members if they get it wrong. I hope that we have taken on board the ideas and concerns that were expressed by participants and that we can use them in our consideration of this year's budget and in future.

Thank you very much for your attendance. Participants are welcome to stay and listen to the committee interrogate the minister this afternoon. That said, I quite understand if people have other things to do.

12:40

*Meeting suspended.*

14:22

*On resuming—*

**The Convener:** I welcome the Deputy Minister for Finance and Public Services, the press and the public to the meeting. We will put questions to the minister on the draft budget and the budget revisions. I invite him to make an opening statement.

**The Deputy Minister for Finance and Public Services (Peter Peacock):** I have not been in Skye for a political purpose for some time, so it is a pleasure to be here. It is also a pleasure to see the committee here, on its continuing journey around Scottish islands.

As members are aware, the draft budget document is part of the cycle of budget documents that we publish in the lead-up to the budget bill, which will appear early next year. It follows the

publication of the annual expenditure report and provides more detail of numbers and objectives than does the document "Building a Better Scotland", which we published on 12 September. That document was produced following the spending review process that took place in the first half of the year and over the summer.

The draft budget document sets out spending in greater detail. It provides figures down to level 3 and additional objectives and targets for areas of spend that are not covered in "Building a Better Scotland". On 12 November we published substantial technical notes to "Building a Better Scotland". I hope that the committee has found them a big help in getting behind some of the figures and objectives that we have published.

The notes set out how each target is defined. They give information on past trends, state how targets will be measured and set out proposed milestones on the way to achieving objectives. The primary purpose of the technical notes is to set out clearly how we will monitor targets and measure whether those have been met. I hope that the notes address a range of concerns that the committee has expressed and suggestions that it has made about baseline performance, milestones and measurement. We look forward to receiving feedback on them. We believe that the information represents a significant step forward and provides greater transparency than has ever existed previously in Scottish Government's budgetary affairs.

In the draft budget document, we have taken the opportunity to cut out some of the more superfluous detail and focus on the essential elements—the resources and what we will do with them. As a result, the document is shorter, more focused and, I hope, more user friendly. I trust that the committee agrees that we have made substantial progress, although undoubtedly we can improve further. We will look for constructive feedback, which we have received in previous years.

Recently, we have had discussions about grant-aided expenditure totals and the Arbuthnott formula and have tried to find the right balance between on the one hand identifying national priorities and determining associated spending and on the other hand allowing for local discretion to spend. My officials have met the committee's adviser, Professor Midwinter, in recent discussions and I gather that those discussions have been fruitful in the attempts to make progress in that area.

The health objectives that are set out in the document, in "Building a Better Scotland", and in the technical notes clearly set out our national priorities for health—we hope that that is helpful. The detail should give the Health and Community

Care Committee a strong basis on which to scrutinise health expenditure plans. Again, we would be interested in feedback on that approach.

I will now deal with local authority spending. As many committee members are aware, local authority GAE is a long-standing and transparent system that helps local authority grant distribution. GAE helps to establish the relative spending needs of Scotland's 32 local authorities and are part of the complex grant distribution formula. I fully appreciate the committee's desire to identify and link high-level priorities and spending.

The Local Government Committee has raised questions about how the adequacy of local government allocations can be ensured. Following Andy Kerr's appearance at the Local Government Committee at stage 2 of the budget process, he provided that committee with information on how increased allocations within the 2003-04 local government settlement were reached, including support for existing services and new policy initiatives. It is right that the Finance Committee should have the same information and I am happy to provide that to the committee. I am also happy to go further and agree that, when we provide the Local Government Committee with any information on budgetary matters, we will automatically copy it to the Finance Committee for scrutiny. That new information, together with the data in the budget document and the technical annexes, will provide a strong basis for scrutiny. Again, we would be interested in feedback from the committee on how we can deal with such matters and develop information flow over time.

Before I talk about the content of the budget document, I want to address a final practical issue—whether to publish a new annual expenditure report before the next Scottish parliamentary election. Issues relating to practicality and principle are involved. We are scrutinising the draft budget today. If we were to publish an AER in the early part of the coming year, there would be a little over four months between the two documents. In practical terms, given the nature of the draft budget document following the spending review process, there would be little that is new in that AER. Furthermore, as a point of principle, I am reluctant to start the process of consulting on the 2004-05 budget immediately prior to an election. Notwithstanding that we plan to win the next election and are confident of doing so, some would regard publishing the budget as at least presumptuous. We ought to consider that factor, but we would welcome the committee's views on the procedures that we should follow.

If we are not to go ahead with the AER, it would be useful next year to bring forward the publication date of the budget document to the start of the

autumn term rather than 20 September. In effect, next year the budget process at stages 1 and 2 may be combined. Again, I am interested in the committee's views on that matter.

Two major themes run through the budget document—growth and opportunity. Those areas are the focus of the £4.1 billion increase in public expenditure in Scotland by 2005-06. Over the next three years, we will see massive investment in Scotland's people and infrastructure. That investment aims to improve educational outcomes and create better health and a safer society. There will be investment in transport infrastructure, schools, hospitals, housing, the water industry, waste management and prisons. The investment will drive forward our agenda to improve public services, which is at the heart of the budget document.

The budget will kick-start the largest ever school-building programme and start a step change in the quality of our schools. There will be a £1.15 billion investment package to build or refurbish 300 schools throughout Scotland by 2008-09. That package will benefit more than 80,000 children. The people of Skye will directly benefit by the building of a new secondary school in Portree. We will provide additional resources to increase the nutritional value of school meals, to tackle behaviour issues and to improve the school environment. Our aim is to deliver a sea change in the quality of school life.

Our investment in young people goes wider than infrastructure. By 2005-06, we will invest an additional £300 million a year in young people's opportunities and futures. In the next three years, we will provide a new £40 million package of investment in vocational training and enterprise education in our schools. The budget also provides for increasing the number of modern apprenticeships to more than 25,000. By extending the education maintenance allowance schemes throughout Scotland, we will ensure that every young person can continue to learn and improve their prospects. That will directly benefit about 40,000 young people. In addition, we will provide an additional £110 million for the early-years intervention programme.

The budget will deliver much-needed improvements directly in front-line health services. Among our objectives are delivering a 20 per cent reduction in the number of deaths from cancer and a 50 per cent reduction in the number of deaths from strokes and heart disease. Those targets are to be achieved over several years.

14:30

To achieve those and our other health objectives, the budget will make available more

than £8 billion of funding to the health service by the end of the period. In addition, that investment will provide 1,000 community places for older people who are leaving hospital, train more nurses and midwives and increase the number of national health service consultants. The budget doubles the money that will be spent on health improvement, as the committee recommended earlier this year.

As we all know, an effective transport system is essential to a thriving economy. The budget increases investment in transport to more than £1 billion per annum by 2005-06. That massive investment will progress a new 15-year Scottish passenger rail franchise and deliver our top-priority rail projects. It will also progress investment in new rail lines throughout the country, including the development of connections to Glasgow and Edinburgh airports.

The investment will allow construction of the final part of the M74 into Glasgow to begin and deliver transport programme improvements throughout central Scotland, which will ease congestion and promote more sustainable transport. It will allow preparation to begin on the A8 and A80 upgrades to motorway status, which will complete the motorway network in central Scotland. It will also continue to improve the existing trunk road network and tackle congestion problems in Aberdeen.

The draft budget document highlights commitments to sustainable development and environmental justice. We have provided for an unprecedented increase in spending on waste management and we will invest an additional £170 million to implement our national waste strategy in the next three years.

We plan to invest an additional £180 million in our quality-of-life programme. We started that programme this year with a £95 million funding boost to local authorities. I know that the committee consulted people in Skye and Lochalsh this morning. Skye and Lochalsh will benefit from the quality-of-life fund to the tune of £250,000 in the current year, which will allow projects to proceed for a play area in Portree, the Edinbane footpath and the Elgol township road, with £45,000 allocated to various village improvements throughout the area. That will give the area tangible benefits that will continue to flow through increased funding in the draft budget for the next three years. We are giving a three-year commitment to make our streets safer and cleaner, to reclaim our parks and open spaces and to tackle vandalism, graffiti and dog fouling throughout Scotland, to name just a few of the things that affect people's daily lives.

Also fundamental to a good quality of life is freedom from the fear of crime. The budget



document contains the detail of how we will continue to invest in the fight against crime. To maintain front-line police effort, we will provide £270 million over three years and we will provide £25 million for a modern communications system. The budget document also includes significant new investment to improve our prosecution and court services, to detect crime, catch criminals and speed up the prosecution system.

An additional £33 million over the next three years to deliver our agenda on youth crime also features in the budget documents. Action will be taken on youth courts and secure accommodation, and investment will be made to reduce the number of persistent young offenders. An additional £30 million is included to tackle the scourge of anti-social behaviour.

I could say much more about the detail of the budget, such is the scale of the new investment that the budget brings, but I will resist that temptation. The draft budget develops our plans and aspirations into solid and detailed expenditure proposals. It uses effectively the resources that we receive as part of our devolution settlement as a continuing and committed part of the UK.

I am happy to answer any questions, along with David Palmer from the Executive's finance and central services department. As the committee will appreciate, the budget is colossal. If David Palmer and I do not have every last penny or pound at our fingertips, we will be more than happy to follow the normal protocols and supply the committee with the requested information. This is David Palmer's last appearance before the committee, as he is moving to a secondment to the Strategic Rail Authority. I hope that he will back me up in his last performance as fully as he did in previous performances.

**The Convener:** On behalf of the committee, I pass on our best wishes to David Palmer on his secondment. The SRA's gain is our loss.

I welcome what you said about local government information automatically being made available to the committee. We have wanted that to happen for a while. We will read the technical revisions with interest, but we have not yet had the opportunity to do so.

**Peter Peacock:** They will be an exceptional read.

**The Convener:** Quite. My instinctive response to your comments on the AER is that we probably should not publish the AER next year as there will not be time for this committee or the subject committees to do anything with it. During the questioning, we might be able to decide on the best way forward. I am sure that members of the committee will have views to contribute.

We will raise some questions with you that arise from our earlier discussions with representatives of various organisations in Skye. However, we should probably start by dealing with some of the more technical issues.

**Brian Adam:** The minister is right to say that, over the period of the Parliament's existence, the Executive has refined the presentation of the documents, but I hope that he will forgive me if I return to that issue again. In the BABS document, cumulative accounting was used. That clearly overstates and exaggerates the budgetary spend. Perhaps the minister could explain why he thinks that it is helpful to use cumulative accounting.

An example might concentrate the minister's mind. The BABS document tells us that further education spending will grow by £120 million over three years but, in fact, by the end of the year 2005-06, the increase will be only £84 million above what was spent in 2002-03. Surely the document is misleading. Does the minister agree with the committee that the practice of using cumulative accounting should stop?

**Peter Peacock:** We have rehearsed the arguments before. On a purely factual point, since we last met to discuss these issues, Arthur Midwinter has met Richard Dennis and David Palmer on the committee's behalf and there has been an exchange of correspondence. That has tidied up the vast majority, if not all, of the technical points about whether the sums of money are correct. If there are any particular sums that you think are inaccurate, we would be more than happy to consider them, but I gather that most of the points have been tidied up.

We have made strenuous efforts, both in Andy Kerr's statement to Parliament and in the BABS document that supported it, to ensure that the figures are accurate in all respects. Inevitably, mistakes will creep into big documents, but the figures should not overstate the position in an arithmetical way, which you suggest they do. Please feel free to point out any particular places where you think that they do. We are more than happy to make corrections if we have to.

There are two ways of looking at increases in funding. One can look at the underlying, baseline, year-on-year increase to see whether the baseline in year 3 is higher than the one in the year that we are just leaving, which is a perfectly legitimate way of expressing the annual impact of that expenditure. Equally, as I have argued in the committee before, it is not irresponsible or wrong to state the total additional investment over the three-year period if one wants to give some idea of the scale of additional investment. For example, the investment in communications equipment for the police over the three-year period is £25 million. That seems to be a fair description of the volume

of expenditure, notwithstanding the fact that it is spread over a three-year period.

**Brian Adam:** The bulk of the expenditure of that nature, particularly in the example that I gave, relates to revenue expenditure. When you accumulate that, you give the impression that the service level is going to be raised as a consequence. I accept the point that you made on capital expenditure—you are going to get the given piece of equipment, which you are funding over three years. It might take that long to get it operating. On service delivery, when you accumulate expenditure in that way, you give the impression that you are spending an awful lot more at the end of the period than you actually are spending.

**Peter Peacock:** With respect, we are meticulous in trying to ensure that we always state that a certain amount of additional money is to be invested over a three-year period. That is not inaccurate. Equally, the budget document and the BABS document—as it has become known—reveal all the figures. There is no question of inaccuracy. I understand that, from where you sit, you might not wish that kind of approach to be taken, but I do not believe that the approach is illegitimate. The Executive would always reserve the right to present information in the way that it chose, provided that that information is always accurate, which is what we seek to ensure. However, we listen to what people say about presentation—we always have regard to that. I could not say that, as of today, the practice will end automatically, because on some occasions it is right to present figures as the level of additional investment made over three years and to accumulate them.

**Brian Adam:** Do you agree that the example that you gave is the exception to the way in which you present figures? Your example was of a capital spend over a period of time, which is not the norm. You are using the technique of cumulative accounting to deal with revenue expenditure and that has the potential at least to mislead.

**Peter Peacock:** The intention is not to mislead; it is to give a clear interpretation of the volume of extra cash over a three-year period. We give figures on both bases in presentations, as the minister did in Parliament recently. The detailed figures, line by line, are broken down annually. There is no intent to mislead people. In certain circumstances, that way of presenting figures gives a fair representation of what we do. I accept completely the point that there should not be inaccuracy in that—we would always seek to alter and correct any such inaccuracy. Considerable time is spent before statements are made in Parliament to try to ensure that there is no inaccuracy.

**Alasdair Morgan:** I want to clarify a supplementary point that relates to what Brian Adam said. On page 13 of the BABS document, you say:

“Where spending is shown as increasing, for example, by £10/20/30 million, this means that spending in 2003-04 will increase by £10 million, spending in 2004-05 by £20 million”.

Those increases are compared with the base year. They are not year-on-year increases.

**Peter Peacock:** No.

**Alasdair Morgan:** The document does not say that, however. Somebody coming to the document cold would not know whether the increases were compared with the base year or whether they were year-on-year figures.

**Peter Peacock:** I am more than happy to make that explicit in future documents. I do not have a problem with that, because the clear intention is not to mislead people in any way. The issue is one of presentation and interpretation.

**Alasdair Morgan:** Non-domestic rates income is shown on page 170 of the draft budget in table 10.02. According to my arithmetic, the Government revenue from non-domestic rates will go up by 4.9 per cent, 7.8 per cent and 7.6 per cent. The figures are not cumulative; they are year-on-year increases. That gives a total of just under 22 per cent over the three-year period. Will you explain where the increased income will come from?

**Peter Peacock:** I will try, but I would also like to submit explicit evidence, because we are conscious of a recent newspaper article that was written by someone who I have to say is an otherwise professional journalist, but on this occasion came to the wrong conclusions from the figures. Given that, it is important to put the conclusions right. I want to make two points. First, we have made it clear to Parliament—and I make it clear again today—that there will be a freeze next year on the rate poundage for business. That will be maintained. We are also committed to not increasing business rates over the period of the spending review by more than the rate of inflation.

**Alasdair Morgan:** That is the poundage?

**Peter Peacock:** Yes. The impact on—

**Brian Adam:** Is that also the total take?

14:45

**Peter Peacock:** I am just coming to that. As I have said, the impact on an individual business—if we assume that the nature of the business does not change and that the valuation does not change substantially—will be that there will be a freeze on rates next year, with increases of no more than the

rate of inflation into the future, with the one proviso, which we always make, that that will apply unless there is a massive change in the economy that we cannot anticipate.

There are a number of reasons why the figures in the budget documents could be interpreted as showing the take from non-domestic rates rising faster than would be suggested from what I have just said. One factor is that the rate of inflation on the business rate is calculated into the figure, so that including the 2 per cent—or whatever the rate of inflation is—is part of the process. However, there are two technical issues. The first is the fact that the number of appeals in the cycle that we are in, following the last revaluation, is going down. Because the appeals are now coming to an end—in fact, following the next revaluation, there will be no appeals during the period that we are talking about—the figures are, on the face of it, more buoyant than they would be in another cycle of the rates collection period. The other main factor is that the transitional relief scheme from the last rating revaluation is unwinding during the period. Those factors principally give rise to the changes.

I appreciate that that is hugely complicated, because it requires one to look at the whole cycle of cash flow over a revaluation period and at the impact of transitional relief schemes on how we calculate the figures. One must also take into account the impact of the unwinding of such schemes relative to the next revaluation period kicking in. Hence my comment to the convener that we would like to set out those points to the committee so that everybody can clearly understand the process. I have not yet had time to analyse the whole thing, but we want to set out those points for the committee so that there is absolute transparency about what the figures mean.

The important point for individual businesses operating in Scotland today is that the policy remains intact, that the take from individual businesses will be based on the rate poundage freeze next year and that there is a commitment not to increase rates by more than the rate of inflation thereafter.

**Alasdair Morgan:** Let me get this clear. No individual business—if we assume that nothing changes, such as the valuation—will pay anything more than the freeze plus inflation up to the end of the period.

**Peter Peacock:** Absolutely. That is absolutely firm. Beyond that, there is also the small business rates relief scheme, which will be introduced in the next financial year, so some businesses—in fact, a lot of businesses—will pay less. The relief is calculated on a sliding scale for those businesses with a valuation of £10,000 or less. In rural Scotland—in particular, in this part of the world—

70 to 90 per cent of businesses will benefit from that.

**Alasdair Morgan:** Of course, a considerable number of hotels—those that are over the threshold—will pay more where extra is paid to provide smaller businesses with relief.

**Peter Peacock:** We have seen reports on that and we have asked for information from the Forum of Private Business on the matter. In fact, last week, when Andy Kerr met businesses in Scotland to discuss the rate poundage, he specifically asked for that evidence to be produced so that we can examine it. As I speak to you now, we are not in full possession of the facts on that matter.

**Alasdair Morgan:** When in this cycle is the next revaluation due to take place?

**Peter Peacock:** You are free to ask that question, but I will have to get the information to you, because we are in the midst of the cycle.

**Alasdair Morgan:** Are the figures in no way influenced by the prospect of the next revaluation?

**Peter Peacock:** As I understand it, they do not anticipate a revaluation, other than to the extent that following a revaluation there is usually a year's period before appeals start to be heard, so there is no change in income during that year over what was projected. That is exactly why I want to spell out all these points to the committee.

**The Convener:** Arthur Midwinter wants to give us information on that.

**Professor Midwinter:** When the issue was raised in the committee, the article that was referred to contained a quote from an Executive spokesman and mentioned revaluation. That is what concerned us, because the Confederation of British Industry said in the papers the next day that it had been assured that rates bills—not rate poundage—would not rise. I understand that the revaluation will take effect on 1 April 2005, so some bills could rise.

**Peter Peacock:** They would not rise because of an increase in the rate poundage. That answers the point that Alasdair Morgan made.

**Professor Midwinter:** Transparency and clarity are needed, because people think that what has been said means that their bills will not rise.

**Peter Peacock:** The purpose of any revaluation is to assess the rental values of the overall market for non-domestic organisations and businesses at a particular point in time. The purpose of a revaluation is never to increase the total yield, but the revaluation inevitably moves values between sectors. For example, the retail sector or the manufacturing sector might pay more or less depending on the state of the economy. The total yield does not change as a result of revaluation,

but the burden within it shifts. That is why some businesses end up with slightly lower rates and some with slightly higher rates after a revaluation. The important point of policy, which is what the Executive controls, is that the rate poundage that we apply to the valuation is as per the policy that I have just enunciated to Alasdair Morgan.

**Alasdair Morgan:** Will the minister confirm that, if the Executive is still in power when non-domestic rates are revalued, the poundage will be adjusted from that day so as to make the overall take no greater than it would have been had no revaluation taken place?

**Peter Peacock:** Inevitably, one would need to see the outcome of the particular revaluation, but the policy remains exactly the same: we will not increase above the rate of inflation and there will be a rates freeze next year.

On whether we would make any further reduction, some within the business community would argue that part of the reason for our rates freeze for this coming year is the factors to which Alasdair Morgan alluded. We would need to look at that after the revaluation, but there is no intention over the period of the spending review—or thereafter, I might add—to alter the policy that we will not make an increase. The potential therefore exists for compensating the other way, but not for rising above a certain level.

**Alasdair Morgan:** So the policy is not to increase the poundage above the rate of inflation. However, that was not my question. I asked about the total take. Given the reason why the take is rising, it must be incredibly difficult to know what the total take will be, but is it the Executive's intention that, to the best of its ability, it will not increase the total take beyond the rate of inflation?

**Peter Peacock:** That is exactly right. The revaluation should be neutral in terms of the total yield. The question concerns how the balance shifts between sectors. There is no policy intention to increase the yield as a result of any revaluation.

**Mr Davidson:** This morning, we were told about an anomaly in the non-domestic rates system, which is under the direct control of the Executive. The fisherman who goes to sea and who has a shed in which to store his nets is charged rates on that shed, whereas the guy who has a shed for similar nets that he uses in a fish farm does not get rated. The system contains a range of such anomalies, which can cause some difficulty. Will the minister examine those anomalies in the next review?

**Peter Peacock:** Ministers are not allowed to get involved or to interfere in the valuation process. That is why we have valuation officers, who are very independent, to do the valuation. I am sure that people will raise specific points with the

assessors about apparent anomalies in local circumstances and about how certain properties and subjects are treated. I would be happy to hear more about the example that David Davidson has given so as to understand what the situation is, but ministers would not normally get involved in the valuation process unless some fundamental statutory change was required.

**Mr Davidson:** I think that the rates relief schemes for small businesses that the minister mentioned are also part of that issue.

The minister said that he wanted to make the budget process and the budget documents “more user-friendly”, to use his phrase. We have discussed the budget annually since the Parliament started and improvements have slowly taken place. However, given the interest in enhancing the reporting of finance and performance to the public, why are so many proposals for new spending uncoded, despite the fact that they are highlighted in the documents? Is the minister prepared to move to distinguishing new spending from baseline spending, as Angus MacKay promised the committee in his previous life as Minister for Finance and Local Government?

**Peter Peacock:** As I have pointed out, and as David Davidson has acknowledged, we have made and are continuing to make progress on that issue. We want to make the process much more transparent and much more visible. Part of the purpose of devolution and having a Scottish Parliament is to enable proper scrutiny to be given to such things. We have made enormous strides forward over the past three years, and I am sure that we can go further.

In relation to new spending and the point that Brian Adam and Alasdair Morgan made earlier, I draw members' attention to the document “Building a Better Scotland” and the draft budget document. We have tried to set out the new spending in the “What we will do” sections of “Building a Better Scotland”, most of which is new spending of the kind that Alasdair Morgan described. The document talks about a £10 million, £20 million and £30 million increase over the period. That is new money. Equally, that new spending is much more visible in the draft budget document than it has been in the past. We will always try to refine the way in which we present the figures and continue to bring them to the fore, to allow people to see the new spending. I might argue, in political terms, that it is very much in our interest to ensure that the spending is highly visible. If it is not as visible as it could be, we will always try to improve its visibility. I hope that David Davidson will agree that we have made progress on that.

**Mr Davidson:** I have acknowledged that over the past three years. I do not wish to appear cynical, but the new spending often appears as a lump sum and we are not told what we are going to get for it. We are not told what will be seen on the ground—how many new policemen, how many nurses, how many ambulances, or whatever the money happens to be for. A lot of people ask about statements that refer to a lump sum being given. We need to know whether the lump sum is new—that subject has been covered by my colleagues—and what specifically we are going to get for it. That is what we mean by costed.

**Peter Peacock:** The way in which the draft budget document is set out ensures that much more information is given about what is new. Where we have added new resources, we have tried to do that. The conversation between Arthur Midwinter and my officials, following other discussions that we have had on such matters, was intended to pin down precisely what was new and what was not, because there was ambiguity in some of the wording. We are making progress.

I acknowledge what the convener said about people not yet having had time to read the technical notes that accompany the draft budget document. The notes are published on the Executive's website and I have them with me. They are enormously detailed and set out, for the first time in the Scottish budget process, very clearly what lies behind the new spending and the targets and objectives that we have set. They set out in detail the milestones that we plan to hit and when we plan to hit them, so that people can hold us to account. That is a substantial move forward, and I recommend that members have a look at those notes. They give the kind of information—

**Mr Davidson:** With respect, minister, although the notes are there for the anoraks of this life and for the technicians who will take such things apart in detail, the man in the street—the small businessman or the local community councillor—will go by the basic budget document, not by the technical notes. What proposals do you have for a compromise?

**Peter Peacock:** To some extent, all of us sit between the public and the Executive; therefore, part of our job is to be anoraks and to help people to interpret the figures. The point that I am making is that there is no shortage of information in the public domain about what we intend to do, what we are trying to achieve and what resources are being used to achieve that. This takes us back to the earlier discussion with Alasdair Morgan. We try to present the figures in the simplest way possible to get the messages across about what we are doing in health and education. We want to show people the new resources that we are committing and what they are intended to achieve. We are

seeking to bring all that information into the public domain, and we have been quite successful in doing so.

**Mr McGrigor:** David Davidson mentioned fishermen paying rates for buildings while fish farmers are not paying rates for similar buildings, and the minister said that he would like to know more about that. I asked a question about that in the Parliament and received a fairly negative reply.

I would like to ask a question on behalf of the crofting workshop that I attended this morning. We heard from the crofters and the regional representatives of the National Farmers Union of Scotland that the administration of the latest less favoured area proposals by the Scottish Executive is making money that is meant to go to less favoured areas go instead to areas with better land, in better farming areas. That seems wrong. We also heard that the stocking density bands are far too narrow. Those representatives told us that they have given evidence to the Scottish Executive on those issues, but they appear not to have been listened to.

**The Convener:** Strictly speaking, that is not a question for the Deputy Minister for Finance and Public Services.

**Peter Peacock:** I would love it if the convener ruled it out of order.

**The Convener:** Although we can make the minister aware of those concerns, it would be better to address them to the Minister for Environment and Rural Development.

**Peter Peacock:** Mr McGrigor mentioned valuation and the situation with the fishermen. I would be happy to receive more information and to review the answer that he was given. There are always anomalies in valuations—valuation is a hugely complex world. There is always a desire to resolve such issues, to the extent that that is possible.

On crofters and the NFUS, I would be happy to pass on to Ross Finnie the crofting workshop's views. He could produce a considered response not only for the committee, but for the people who attended that session. When I was in Ross Finnie's company recently, he explained the less favoured areas scheme in great detail. The issue is hugely complicated and everything is not always as it first appears. It would be helpful to get information on that into the public domain by relaying it to the crofters concerned.

15:00

**Mr Stone:** That would be helpful. It would be a slight concern to the minister if a well-intentioned, increased budget were missing some of its targets.

**Brian Adam:** We are concerned that it is sometimes difficult to distinguish between what is baseline and what is new. Some new items appear to be uncoded. When we discussed how information would be presented in the Parliament's first budget bill, some members asked for percentage changes to appear in the budget document, so that we could track what changes had taken place. For example, an annotation could be made in the event of a budget line transfer from local government to transport. Such changes can sometimes appear large even though they are merely accounting changes, and a percentage change relative to baseline would be helpful in explaining any change in the programme.

**Peter Peacock:** We will consider that. In fairness to the Executive, as well as providing the new spending positions for 2003-04, 2004-05 and 2005-06, the draft budget document provides the 2002-03 position. It is possible to see our present position and to identify the precise cash increase in a particular budget. I would be in favour of making things even more straightforward, if that were possible. However, it is not true to say that the information is not in the draft budget—it is.

**Brian Adam:** I am not suggesting that the information is not there; I am suggesting that the presentational improvement that I proposed would be helpful.

In your opening statement, you referred to the big changes in the transport budget. The part of the draft budget referring to transport gives your key priorities. Ten key priorities are listed, which appeared in the previous Minister for Enterprise, Transport and Lifelong Learning's budget. I find it difficult to relate some of the specific measures that are mentioned in the key priorities to the objectives and targets and to the "What we will do" section. The objectives and targets and the "What we will do" section do not cover all the 10 key priorities. You mentioned transport problems around Aberdeen, but the draft budget document contains no indication that there is any money for them, and there is no mention of the Aberdeen problems in the "What we will do" section. Is it unfair to say that that key priority is uncoded and that there is no commitment of funds to it in the draft budget document?

**Peter Peacock:** Probably.

**Brian Adam:** In that case, will you tell us how much will be allocated to the transport problems around Aberdeen and when that will happen?

**The Convener:** The answer is no.

**Peter Peacock:** I want to explain the position in relation to the coded and the uncoded bits of our programme. We have a three-year time horizon. We seek to set expenditure plans within totals that we know. In the short term, we have great visibility

on the things that we need to do immediately. As one goes further out, there is less visibility about the fine detail of particular proposals. That has to be worked up over a period of time.

Part of the spending review process is dialogue and debate between finance at the centre of the organisation and the spending departments. We need to ask precisely what a department plans to use a particular dollop of expenditure for and to seek more fine detail. With some programmes that is easy, because one is dealing with tangible things—increasing the number of classroom assistants, running specific behavioural programmes, or recruiting nurses and doctors—and it is possible to cost such programmes very precisely.

The same does not apply to big capital items. Take the example of the growing congestion problems in Aberdeen. We must have a feel for the broad costs of work to deal with those over the spending review period. Everyone knows—Brian Adam more than most—that there is no prospect of building a western peripheral road around Aberdeen in the next three years; that is not possible. Land would have to be acquired, planning processes would have to be undertaken and statutory instruments would have to be laid. The budget document does not and could not provide for that. However, it indicates that all the preparatory work that is required during the spending review period to make progress on Aberdeen's congestion problems will be funded—once we have received the consultants' reports that have been commissioned and decisions have been made about the right way forward.

I cannot tell the committee what the expenditure will be to the last penny. That is why some sums are less visible. Because some big capital projects move forward faster than others, it is necessary to make constant adjustments. That is why most resources are allocated globally, rather than to specific projects. However, the Executive's commitment is clear—funds will be available to cover expenditure on whatever work needs to be done in the spending review period to make progress towards achieving Aberdeen's infrastructure objectives, once we have agreed what those objectives are.

**Brian Adam:** It is also clear that you have not agreed what those objectives are. You have not provided the first penny—let alone the last penny—for the western peripheral road. This example may be of interest only to some of us, but it highlights the fact that there is a discrepancy between your key priorities and your objectives and targets.

**The Convener:** Brian Adam is rather out of line. The Transport and the Environment Committee takes a different view from the one that he has put

forward. There can be systematic spend on major infrastructure projects only when it has been demonstrated that what is to be done will deliver the expected outcome and that the problem diagnosed will be dealt with by the solution suggested. Neither of those things has been demonstrated fully across the full range of programmes. It is intended that the issues should be explored in the future.

The reports that we have received, particularly on the opportunity gap, have been useful. Is there an equivalent report on sustainable development? If so, we have not yet seen it. Is it possible for spending totals on the priorities that have been identified to be included in the documentation?

**Peter Peacock:** Are you talking about "Closing the Opportunity Gap"?

**The Convener:** Yes, and any document that we may receive on sustainable development.

**Peter Peacock:** If the committee highlights the areas on which it would like to receive further information, we are happy to consider providing that. I will check the position on sustainable development. I know that the committee is interested in the expenditure flows that support the priorities.

**The Convener:** In your opening statement, you mentioned that this year the spending review took place and next year the election period will coincide with stage 1 of the budget process. It has been suggested that next year the Executive should publish a consolidated single budget document at a significantly earlier stage. That would allow us extended time to consider the budget. Is such a step feasible from your point of view?

**Peter Peacock:** What do you mean by a significantly earlier stage? In my opening statement I said that next year, rather than dealing with the draft budget at this time, we could do so immediately after the summer recess—at the end of August.

**The Convener:** I was thinking about the third or fourth week in August, which would give our advisers a chance to look at the document.

**Peter Peacock:** We are in the same territory. The question is how we can refine the process and get some precision about what might be possible. David Palmer may want to comment, as he is much more hands on when it comes to the practical details.

**David Palmer (Scottish Executive Finance and Central Services Department):** The end of August is probably the best date to go for, simply because if you were to go for an earlier date, the document would be published in the recess, which seems pointless, but that is up to the committee.

**The Convener:** I do not think that the recess is the issue. It would be helpful if the document could be published around the middle of August or just after that. The document needs to be digested. It would be helpful if we were geared up to start straight away when we return in September.

**Peter Peacock:** As I said, we are in the same territory. Perhaps the best way to progress the matter would be for further discussions to take place between Arthur Midwinter, the committee clerks and members of the Scottish Executive finance and central services department, just to see what might be possible. I understand that you want to hit the ground running after the recess and that the more time you have to consider the documents, the better.

**The Convener:** It would be useful for us to be able to co-ordinate briefings for committee budget advisers.

**Peter Peacock:** This is the first time that we have been in such circumstances, but the same circumstances will obviously arise in a predictable way in a fixed-term Parliament. We must consider how to handle the budget process and learn lessons from experience.

**Professor Midwinter:** That would be helpful. The problem this year was that some of the committees had pencilled in their dates for stage 2 before the document was published. They were left dealing with BABS and there were some rumblings of discontent that they were going through the whole exercise without being able to influence what was going on. Given the more limited choice that will be available next year, the process could be streamlined. That would also make it easier for new MSPs.

**Elaine Thomson:** I would like to raise some of the issues that have often been raised by the Local Government Committee on how we scrutinise local government budgets for specific policy areas such as transport and education, for which the GAE figures are not split out. I am sure that other members would join the convener in welcoming the extra information that you have given the Local Government Committee and will give the Finance Committee in future.

The figures for local government finance continue to be difficult to scrutinise. In this year's report, some GAE figures—specifically for the police and the fire service—have been split out. Why were those figures split out? Would it be possible to do something similar in other areas, such as education, roads and transport? At one of this morning's workshops, people raised the issue of necessary investment in local roads, bridges and piers. That is all covered by the local government settlement, and the provision of specific GAE figures would undoubtedly help this

committee and the Local Government Committee to scrutinise that area.

A related issue arises in the health budget. Different parts of the health budget are split out, but it is very difficult to work out how much is being spent on maternity services, for example.

**Peter Peacock:** On GAE figures for the police and the fire service, I have to say that it was not a conscious policy decision that those figures should appear and that others should not. Those figures were there when the document was compiled and printed, if I can put it that way. In fairness to those in the police and fire divisions who no doubt included those figures to be helpful, I suspect that the availability of the figures had something to do with how the police grant interrelates with GAE, which is different from the way in which GAE interrelates with almost every other service.

I would like to put that issue to one side and concentrate on the wider questions in relation to scrutinising local government and health spending.

This comes down to a fundamental point of principle in the system of how we administer public services. Elaine Thomson mentioned the comments that were made this morning about bridges, piers and harbours in given areas, but it could be argued that it is right to scrutinise expenditure on those structures at the local level because local councils and councillors make choices about how they spend their budgets. Most of the finance that flows from the Executive to local authorities comes through unhypothecated grants. Authorities are given grants based on a range of calculations that is not designed to include judgments about levels of specific spending; the calculations are simply ways of deciding how to carve up a particular cake in the right proportions.

15:15

Once that block of money has been given to a local authority, the essence of local democracy means that residents and citizens can hold the council accountable for its decisions. That brings us to the role of Parliament. I indicated earlier that we are happy to give information to both this committee and the Local Government Committee on what underlies our broad policy assumptions about the total amount of money that we put into the system. I do not think that the Local Government Committee wants Parliament to scrutinise allocations of unhypothecated grant to specific councils. Parliament's role is to consider whether the totals are broadly right and sufficient money is invested to cover what people argue should be covered either by the local authority or by the Executive.

There is a dilemma at the heart of the matter, and I am not clear if there is a right answer to the

questions that it raises. The Parliament is a scrutinising body and we have to feel our way forward and to find the right level of information. We have been reluctant to publish individual GAEs, which brings us back to my comment about the police and the fire service. We are moving away from that in the local government world too, because GAEs are sometimes seen as a proxy for the actual expenditure that should take place in any given council at any given time, although that is not the intention. It is up to councils to decide their priorities, having considered the total resources that they have at their disposal and how much they are prepared to tax. Although we are more than happy to keep trying to find the right level of information to allow the appropriate level of scrutiny, we are not persuaded that giving detailed GAE calculations would be terribly helpful.

**The Convener:** I will pick up two points. One issue that is constantly raised in my area—it was raised forcefully by people in this area this morning—is the deterioration of roads and the poor quality of road infrastructure. The pattern throughout Scotland has been that councils have not spent up to their GAE target on road maintenance—I do not know whether that also applies to Highland Council. That is largely because of the way in which councils receive the money and the degree of flexibility that they have in different budgets. GAE is a pot that can be raided. I would guess that if you asked most ordinary people whether they wanted more money spent on road maintenance, there would be a high level of support for spending up to the limit and perhaps beyond. However, that does not necessarily work its way through into how local authorities organise themselves. How public priorities can be forced into local government financial management is an issue of both scrutiny and policy effectiveness.

My second point is about capital investment. One positive thing that I want to come out of the process of developing community planning is better refinement of the idea of capital planning or capital infrastructural investment planning for areas. The argument that it is up to each local authority to make its own decisions is not necessarily adequate. There are leverage issues with, for example, getting European money and access money from different sources for investments, so there should be some engagement between the Executive and local authorities to ensure effective and efficient infrastructure planning.

**Peter Peacock:** I have no difficulty with what you say on general planning for infrastructure. Local authorities should have long-term investment plans. When the Local Government Committee considers the Local Government in Scotland Bill at stage 2 tomorrow, I will move an



amendment to abolish the expenditure controls under section 94 of the Local Government (Scotland) Act 1973 and switch to what we call a prudential regime for capital planning partly to achieve just that. We have been overly restrictive in the past about capital planning, which was governed by central Government diktat. We want to pass more responsibility for making choices about capital planning from the centre to local bodies and to support that level of spending by new regimes. We are not far apart on that general proposition.

However, your point about GAE illustrates the dilemma. We are anxious to avoid a situation in which the published GAEs become the spending targets for each service. Throughout local government, councils in aggregate spend above GAE, although that varies dramatically among services. Although councils may spend below GAE on roads, they spend above it on many other services. Those are local choices—the settlements are about allowing those local political choices, for which local councils are ultimately accountable to their electorates.

I suspect that, if we go further than that, we will get into difficulty, because we will start to send out from the centre hypothecated grant streams—ring-fenced grants—and to say, “Here is the GAE for such-and-such. We expect you to spend that.” That would create a terribly rigid system. At the minute, we ring fence just under 10 per cent of the money that flows to local authorities. As you are aware, local authorities condemn us roundly for tying up that amount of money. The danger of the approach that you described as being one way forward is that we might end up with much more rigid, hypothecated sums. The centre would then begin to dictate to the local level decisions that might be entirely inappropriate. As I said, we are anxious to avoid that situation. We are trying to allow local authorities the freedom to make their own decisions and choices, for which they are accountable locally.

The central dilemma is the balance between the centre dictating and local discretion. I am sure that that balance will shift over time. However, we are not sure that publishing GAE would be helpful.

**Mr McCabe:** I hear what you say, minister. We are entering a bit of a touchy-feely world. That is all very well—as I was involved in local government for a number of years, I appreciate the sentiments that you are trying to apply.

It is perhaps appropriate that we are meeting in the Highland Council area, because the council has just announced that it does not have enough money to pay for the provision of free personal care for the elderly. I am sure that you think that the Executive has provided enough money for that policy. It could be that the council has decided to

spend some of the money that you provided for free personal care on different social work services. It could even be that the council is ideologically opposed to providing free personal care for the elderly. A range of reasons could be behind the council's announcement.

How will you resolve such situations, minister? We are all politicians and we all like making big announcements, but there is a dilemma. Some of your colleagues will make grand announcements in Parliament but, according to what you have just told us, they will have no control over the eventual outcome.

**Peter Peacock:** Tom McCabe puts his finger right on the heart of the problem. A tension exists between the potential move towards much more rigid hypothecation, for which a clear case can be made, and the freedom of local authorities to make such decisions locally and be held accountable for them. Until now, the balance has always been to allow the local discretion to flow and to try to provide enough grant support for local authorities to operate.

In that sense, the free personal care illustration is a good one. I have been involved in discussions with the Highland Council and ministerial colleagues about that issue. For the record, there is no suggestion at all that the council has spent the money elsewhere or that it is ideologically opposed to the policy—I have been given firm assurances that it is committed to the policy.

**Mr McCabe:** So you have not given the council enough money.

**Peter Peacock:** Remember that the issue that the council is raising sprung up from a report by an official. The councillors rejected that report, because they thought that it was not a good one. Council officials—for all the right reasons, I suspect—tried to say that, if current trends continue, funding issues might result, which they wanted to flag up to their councillors. The position is that if anybody is assessed under the Community Care and Health (Scotland) Act 2002 and qualifies for free personal care, they will get it. There is no question about that whatever.

However, we decided to give out the free personal care money as an unhypothecated grant to local authorities. That money was not ring fenced because it was part of the framework that we are trying to create to allow local authorities to make the right choices locally. Local authorities should not be bound by decisions that are taken at a distance, because those decisions can never take full account of local circumstances, priorities, service delivery requirements and imperatives.

Fundamental democratic questions would be at stake if we were to move from the present position of trying to give local authorities more freedom. No

doubt, as Tom McCabe indicated, it could be argued that there is merit in more central direction. However, the Executive was elected to ensure that we deliver on the promises that we made to the electorate. If we do not have the absolute power to deliver on those commitments at our own hand, that brings into question our ability to deliver on our promises.

For the most part, we are highly successful. Free personal care is a good example of that. An unhypothecated grant to local authorities has been administered superbly across Scotland and the authorities have done exceptionally well to get to where they are. Some authorities are beginning to flag up concerns about the future and Malcolm Chisholm has indicated that he is happy to sit down and talk to them about that. As far as free personal care is concerned, it is unusual that COSLA is saying that there is no overall funding problem.

**Alasdair Morgan:** A fundamental democratic question is involved, but it is not about the difference between GAE on the one hand and hypothecation on the other. I assume that any Executive is quite capable of saying, "Here is your GAE figure and you can spend it on whatever you want", as the Executive has done. Allegedly, we are in—or moving into—an era of more open government. How can we be open and also say that the way in which local authority grants are calculated is that all the inputs are put into a black box and out pops the answer? We cannot be open without telling people the content of the analysis. We cannot start the process by basing the reason for withholding information on the fact that some people may misuse the information, or misuse it as the minister or I perceive it to be misused. Can you withhold such information given the provisions of the Freedom of Information (Scotland) Act 2001?

**Peter Peacock:** I would have thought that the answer to your last question is probably no, although I do not think that we do that. When I was in local government, I spent a lot of time poring over the budget and working out how I could persuade the then Scottish Office to change the formulas to give my authority more money. Every local authority did that.

We used to get what was called the green book, which contained all the detailed GAE calculations. Every director of finance in Scotland knows precisely what is going on in respect of GAE—there is no hidden world. That said, for most of the population, the budget process probably is a hidden world; it is one of the darker recesses of public life. A torch is occasionally shone on it, but because the budget process is so complex, very seldom does the torch illuminate much. That said, the information exists.

The point that I am trying to make is that I am not clear how your point will take forward scrutiny. The question is not about withholding information; it is about where the discussion will lead us. Will it lead us down the road of saying that GAE is a spending target and that authorities will be assessed locally on whether they meet precise targets? That debate begins to cut across the principles that we have just touched on. We are entering into fundamental territory. I am not at all clear that there is consensus that to go down that road would be the right thing to do.

As I said, the Executive is keen to give local authorities as much local discretion as possible. It wants to do so for all the reasons that have been argued out in the public sector over the past 20 years, about why local authorities have been constrained in a variety of ways. There is a genuine attempt to change that situation, but that leads to the question of accountability at local level.

**Brian Adam:** Surely it is possible to give local discretion and local choice as well as high-level GAE across the board. In most subject areas, the overall figure for GAE will be the figure that is spent cumulatively, although that might not always be the case. Social work is one area in which there will be a genuine gap between what is allocated and what is spent. I do not see what damage is done to accountability and local democracy by giving out the national figures so that scrutiny can take place at national level.

**Peter Peacock:** The further information with which we will provide the committee gives the underlying assumptions and the reasons why we are feeding money into the system for certain policy areas. That should help the debate. I am happy to reflect on this conversation and consider where the issues might lead us. I will think about how we present the figures to local government. I am extremely anxious that we do not set out on a road that will lead to central direction of local expenditure in a way that becomes difficult to make sense of locally.

15:30

**Mr McCabe:** No one is suggesting central direction, but if you are genuinely interested in local accountability, the general public should be able to have a feel for what is an objective assessment of the requirements for expenditure on a particular service so that they can judge whether that service was allocated cash properly. Surely it follows that there should be a guideline figure. You have said before that these matters are unbelievably complex and I know from experience that people will not involve themselves in such complexities as they go about their everyday lives. However, a ballpark figure would be useful.

**Peter Peacock:** I understand the point that you are making but I also recall from my time as a council leader—as you, no doubt, recall from your time as one—that the director of any service that got an increase in GAE in a particular year would be knocking at my door, asking for that increase. The trouble is that GAE moves about over time, and never once did a director knock on my door to ask me to take some of their money when their GAE went below their expenditure level. We have to be careful about tying ourselves to certain figures.

**The Convener:** That point is taken, but I am sure that we will return to it.

We are a bit behind time, so I ask members to implement a self-denying ordinance.

**Mr McGrigor:** I will try to keep my question in order if possible.

I am delighted to hear the minister's announcement about the Portree school. That is wonderful news.

Is the minister aware that, in Highland, COSLA's administration of the McCrone settlement is viewed as being unfair? It is perceived that Highland is being badly treated because the settlement is being administered on the basis of population rather than on the basis of the numbers of teachers, extra staff and schools in the area. In fact, it is being found that the extra money is able only to cover the increase in teachers' wages; it is not able to cover the extra initiatives that McCrone suggests, such as extra staff to look after administrative duties.

**The Convener:** To be fair, I do not think that that question is in order, as it relates to an arrangement between COSLA and the Scottish Executive, which the committee has dealt with well at earlier meetings. I am sure that the minister is aware of the views of Highland Council about its allocation, but I do not think that we can go into the system of allocation at this point, unless the minister has anything to add.

**Peter Peacock:** No, you have largely covered the point. For the record, I state that the Executive and COSLA are still discussing the level of resources that is to be allocated to the McCrone settlement. We have made it clear to COSLA that, if it wishes to make a case for distributing the cash on a different basis, we are prepared to listen. So far, COSLA has not made that case and has indicated that it would rather not do so. It must be remembered that the McCrone deal was precisely costed and that those precise costings and the distribution were agreed by COSLA. All the local authorities are signed up to deliver McCrone and we expect them to do so.

The point about distribution is not as simple as

Jamie McGrigor makes out. An allocation of more than £3 million a year is made to Highland Council to cover the fact that there is a distribution of small schools in the area. I could also make the argument—although I will not bore members terribly with it—that if funding was allocated on the basis of teacher numbers, Highland Council could lose more money, because other authorities might have the capacity to grow their teacher numbers faster. They would attract more grant, which would take grant away from the Highlands.

The matter is not as it first appears. The McCrone deal was negotiated between COSLA—of which Highland Council is an active member—and the Executive on the basis of firm figures and a fixed distribution, which has been used for all previous education allocations.

**Mr Davidson:** I will follow up Tom McCabe's point. The minister agreed to think about a national policy of non-hypothecation for free personal care. In the north-east, a discussion is being held about the difference between Fife Council's schedule of assessment to qualify and Aberdeen City Council's schedule. The problem is national. Will the minister tell us how the assessment to enter the system is affected? Great concern is being created among the public that they will not be able to enter the national scheme because of their postcode. I hope that that is part of the deliberations.

**Peter Peacock:** All that I can say is that I will pass on that point to Malcolm Chisholm.

**Mr Stone:** Pages 131 and 132 of the draft budget document deal with transport and note 4 to the table entry "Other public transport" on page 131 says that it

"Includes provision for Public Transport Fund previously shown in the Local Government Spending Plans."

Will you tell us a little more about that? How much was transferred and from where? How did that work?

**Peter Peacock:** I presume that the reference is to taking resources that were in the local government line and putting them into that line. To a significant extent, that is just a change in administration. I am happy to write to you with the reasons why we did that, unless David Palmer can answer the question.

**David Palmer:** The amounts were £35 million in 2002-03 and £40 million in 2003-04. The money was in local authorities' lines for transport and people felt that it would be proper to show it under transport. The change is no more than that. I can check and make sure of that.

**Peter Peacock:** We will check and come back to the member.

**Mr Stone:** If there is anything else, I am sure that Mr McGrigor would be interested—he must have left the room to write a press release.

**Brian Adam:** Will you explain to us why the public transport fund is being wound up and replaced by the integrated public transport fund? What is the background to that?

**Peter Peacock:** I cannot do that offhand, because that is not my direct policy responsibility. I will be happy to clarify that later.

**The Convener:** I will pick up the figures that David Davidson mentioned. The figure that was announced last week from the public transport fund was £59 million, so it might be worth checking the accuracy of the other figures.

**Mr McCabe:** At stage 1, we reported on a list of spending recommendations from the subject committees. Does the minister have information on how they were dealt with and on the eventual outcomes? I am sure that the minister is aware that the Finance Committee has not received a written response to its stage 1 report. When might that appear?

**Peter Peacock:** Now that I realise that, the response will appear very quickly.

**Professor Midwinter:** Will that be after David Palmer leaves the Executive?

**Peter Peacock:** No. I think that he will draft the response before he leaves.

I will deal with the subject committee recommendations. The AER is published, we receive feedback on it and committees feed in evidence. We have also held public meetings about the budget and picked up comments from them, too. Part of how we dealt with the spending review process internally was to use some of the data that committees generated and some of the questions that had been asked about priorities to ask questions of spending departments.

As I do not have in front of me a list of the recommendations, I cannot enunciate off the top of my head what we will be able to respond to. As I have said, the Finance Committee made a recommendation about health improvement, which features heavily in proposals in the draft budget document. We have also tried to reflect among our priorities the issues that committees raised with us. If it helps, we will spell those out more carefully on the back of reviewing what the committees said and what is in the documentation.

**The Convener:** It would be helpful if we received a written response to our recommendations. It might be useful to have an informal meeting in two or three weeks to discuss what happened to the spending recommendations.

**Professor Midwinter:** Some departments respond precisely to the subject committees, but

others leave their responses vague.

**David Palmer:** I put my hand in the air and say that the lack of a formal response is entirely my fault. I take the blame. The committee will receive a response shortly. Most of the recommendations on individual chunks of money are the responsibility of other departments. We copied to the committee those departments' responses. I presumed that those responses dealt with the individual bits and pieces, but I will check that.

**The Convener:** The departments' responses have been routed back to the committees, who will tell us whether they accept them. That is why an informal meeting in two or three weeks might be helpful.

We also seek clarification of the presentation of data, but it is probably better if Arthur Midwinter asks the question.

**Professor Midwinter:** I want to ensure that I fully understood the discussion that we had about the health budget. Peter Peacock said that 2002-03 is used as the baseline. My memory of the discussion is that we were told that the sums of money in the text differ from those in the tables because the sums in the text are based on the post-budget consequentials. Is that correct? Did one set of figures refer to the health department's position after it had received the additional money in April?

**David Palmer:** Yes. To illuminate the matter, I advise the committee that there is a slight distinction between how the draft budget document is laid out and how "Building a Better Scotland" is laid out. The baseline year for the spending review was 2003-04. That alludes to the earlier question about the baseline for 2004-05 and 2005-06. The simple answer is that the 2003-04 figures are rolled forward and form the baseline. The committee did not realise that the additional money is added on top. We assumed that everyone would understand that, which is our fault again.

When we carry out a spending review, certain amounts of money are excluded and taken out of the totals, such as the capital modernisation fund, which is a separate bidding mechanism. We then establish a baseline, which is rolled forward. When we go from the spending review document to the budget document, the excluded amounts must be put back, which is why there is a slight difference. In effect, the draft budget document is a pre-budget bill consultation, so it should reflect the amounts of money that Parliament will vote on in the bill.

**Peter Peacock:** There was correspondence on the issue between Richard Dennis and Arthur Midwinter, although I am not sure of its status. We will firm up those points.

**Professor Midwinter:** I was not sure that I understood the point fully and I wanted the matter on the record. It would be helpful if the text corresponded to the tables. It is obvious that different people produce different sections of the draft budget.

**David Palmer:** That is correct.

**Professor Midwinter:** We spent a lot of time chasing up the figures, which could have been avoided.

**The Convener:** The issue is one of consistency. We have questions on budget revisions, but before we come to them, it might be worth asking some of the questions that arose from our discussions in this morning's workshops. I invite Tom McCabe to begin.

**Mr McCabe:** I am sure that, given the region that Peter Peacock represents, he is well aware of the strong concerns about issues such as the Skye bridge tolls. He will also be aware that, as part of our visit to Skye and our consideration of the budget, committee members met a wide cross-section of community representatives this morning. Threaded through those discussions were concerns about the Skye bridge tolls. Mention was made of a report that Napier University produced recently, which includes an economic assessment of the impact of different levels of tolls, from the present level down to abolition. I think that the report has been presented to the Executive and I understand that there are continuing discussions on it. How are those discussions progressing? I might be pushing things a bit, but can you say where they might end up?

Secondly, this morning a claim was made that the contract could be bought out and tolls abolished for £23 million. I do not know how accurate that figure is, but will you comment on it?

Finally, local people continue to press on the general principle of abolishing tolls, but considerable concern has also been expressed about the administration of the existing scheme, the purchase of bulk vouchers and restrictions on payment methods on the bridge. The general feeling is that, with little effort, the overall scheme could be made much more user friendly for locals and, importantly, tourists. Does the Executive have any thoughts about that?

15:45

**Peter Peacock:** Obviously, I am keenly aware of the bridge's background. I understand that Lewis Macdonald, who is the Deputy Minister for Enterprise, Transport and Lifelong Learning, has asked for a copy of the report that you mentioned and will consider it. I am not clear about what stage the matter has reached, but I can easily find

out and respond to the committee. I understand the points that have been made about the administration of the scheme and will be more than happy to raise the matters that have been raised today with Lewis Macdonald.

I have come to Skye for many years. There used to be colossal congestion at Kyle and Kyleakin, particularly in the summer. With the overall increases in traffic volume, those areas of congestion were crippling Skye. People waited for many hours to go back and forward to Skye and there was an impact on local services. That said, Skye is one of the most remarkable parts of the Highlands and Islands. Unlike many other parts of the Highlands, its population has grown for the fourth decade in a row, I think. It has performed extraordinarily well, particularly in the south-west of the island and on the Sleat peninsula, where there have been huge developments.

The bridge has removed all that congestion and has brought huge benefits. There are no queues and there are huge time savings for businesses and individuals and better access for medical services, notwithstanding all the controversy that surrounds the bridge, which I fully understand. It must also be remembered that, nowadays, it is cheaper to cross the bridge than it was to cross to Skye on the ferry. When the Labour Government came to power in 1997, one of the first things that it did was to halve the toll for locals and frequent users. Wearing a previous hat, I was party to discussions with the then Secretary of State for Scotland, Donald Dewar, on that matter. After the 1999 election, the Executive froze tolls at the 1999 level so that their real value will wither on the vine. That was a deliberate attempt to ease the situation. However, members will be aware that there has been a European ruling that value added tax should be applied to tolls on bridges. The Executive is working with our colleagues in Westminster to try to find the most appropriate way of ensuring that that will not impact on individual travellers.

Members will detect from what I have said that the Executive is aware of the sensitivities that are involved. Wherever it has been possible to make movements within the available resources, we have sought to do so and we have tried to make an impact locally to help local people.

I will come back to the committee on the report to which Tom McCabe referred and the administration of the voucher scheme.

**Brian Adam:** Given the real benefits that are bound to come from a fixed link between the island and the mainland and the real benefits to which you referred, why has post-bridge growth in traffic been so modest relative to pre-bridge growth? Is that modest growth directly related to the level of tolls?

**Peter Peacock:** I am not familiar with those particular—

**Brian Adam:** Evidence that we heard this morning suggested that the level of growth has been only 8 per cent, which is unlikely to reflect even the natural growth in road usage, let alone the growth in the population of Skye. It is much easier to get across to the island now, and there is no congestion, so we would have expected there to be much more significant growth. That is something that you might wish to consider—or you could have the Minister for Enterprise, Transport and Lifelong Learning consider it.

**Peter Peacock:** From what I can work out, I rather imagine that those subjects are covered in the report that has been produced on the Skye bridge tolls. I will be happy to reflect on the figures in that report and to get my transport colleagues to consider the matter. I do not have the data in front of me to be able to make a reasonable comment.

**Brian Adam:** I accept that.

**Mr Davidson:** During the workshop that I attended this morning, match funding and the difficulties that there have been with it were raised several times. As was the case when we heard from people up in the Orkney Islands, the last time we met outwith Edinburgh, we heard about a big push to add value to the food and hospitality industries. A desire to appoint a food and drink officer was expressed in the workshop. Some local organisations have already got together to agree on some of the funding—I believe that there is private sector input. What mechanisms would you recommend be put in place, or are you considering changing, to enable organisations to get central support for such ventures in peripheral areas?

**Peter Peacock:** There are umpteen types of match funding, and I am not clear exactly to which aspect Mr Davidson is referring. At times, the Executive makes resources available for all sorts of initiatives on the basis that other parties will match the funding. That is a way of leveraging in cash to make a bigger pot than any one individual organisation could afford. There are also occasions when organisations have money available and approach the Executive for match funding. European funding has to be matched locally. I am not clear that we have any particular policy changes in mind in that area. Match funding covers a wide range of circumstances, and I suspect that different policies in different policy areas are designed to meet particular circumstances.

**Mr Davidson:** Match funding was a theme in the workshops, so I was just wondering whether the Scottish Executive produces a publication, such as a guidance manual, to cover it.

**Peter Peacock:** I am not clear about that. If we are talking about the voluntary sector, we can check with the Executive's voluntary sector unit. A lot of guidance flows from that unit. Mr Davidson was, I think, also referring to local enterprise company work. By their nature, local enterprise companies have a huge degree of flexibility in their resources. We will look for what Mr Davidson asked about and ascertain whether any such publication exists.

**Elaine Thomson:** I have a question about the current mechanisms for distributing European funding. Hugh Allen, who represents Mallaig and North West Fishermen's Association, spoke this morning about the change from PESCA to the FIG. The PESCA arrangements seemed to make it relatively straightforward for fishermen and fish processors who met the rules of the various schemes to access the funding available. Now, under FIG, it seems to have become incredibly difficult for them to access funding. The system has become much more centralised and bureaucratic.

**Peter Peacock:** I am not familiar with the detail of that—it is not my policy area—but I will happily look into those points. As it happens, I do deal with structural funds as part of my job, and there have been a lot of recent discussions about them with the European Commission. In fact, I was in Brussels three or four weeks ago for a simplification meeting—which was a treat to attend.

There is genuine recognition that the way in which structural funds and other funds around the European scene are administered is less than helpful at times. For small organisations, access is a particularly convoluted and difficult matter. Genuine efforts are being made to find simplification mechanisms.

Much of the problem with European funding flows from the big audit difficulties that the Commission had just a few years ago. The reaction to that was to ensure that everything is auditable. It is now recognised that the pendulum has perhaps swung too far. Although we must have visibility and accountability, and proper audit trails, there are perhaps much less complex ways of achieving that than are currently used. There is a drive towards simplification in that area.

**Brian Adam:** This morning, we heard from a housing association representative that the number of housing units is perhaps not the best target that might have been chosen, and that it might have been more appropriate to have targeted the amount of land bank that is held, for example. To what extent has the Executive consulted interested parties on the objectives, outcomes and targets and on whether the one-size-fits-all approach is an appropriate route to

take, which may well have been the case for the Communities Scotland target?

We also had discussions with the Gaelic college. Might you—perhaps jointly with the committee—consider a cross-cutting review of the finances for the college? There is higher education money, further education money, cultural money, and all sorts of money there. You might consider the best way to go about things.

**Peter Peacock:** I do not have at my fingertips the details of Communities Scotland's approach to the housing targets, but we will find the information and feed it back. It would be helpful if we could have a detailed note of the point that was raised.

The convener and I exchanged some friendly words about Sabhal Mòr Ostaig before today's meeting. I know that the committee is undertaking a series of cross-cutting reviews. If you want to use Sabhal Mòr Ostaig as a case study, I would be happy for you to do so. I leave it to the committee to come back to us on that, if you wish to do so.

**The Convener:** We could consider that and see where such a review might fit into our programme.

## Budget (Scotland) Act 2002 (Amendment) Order 2002

**The Convener:** Item 3 is consideration of the Budget (Scotland) Act 2002 (Amendment) Order 2002, which concerns budget revisions. I invite the minister to make a brief opening statement. The debate must last no longer than 90 minutes, but I hope that it will be concluded considerably sooner.

**Peter Peacock:** I am reassured to hear that. I shall try to be brief.

The autumn budget revision is a regular piece of Government business whereby we seek parliamentary authorisation for a range of in-year changes to our estimated spending. There are three types of changes: the allocation to budgets of end-year flexibility; internal transfers between budgets; and other Whitehall transfers to the Scottish budget.

As we have discussed many times, EYF is about managing our resources to ensure that every penny of the Scottish Executive's finance is used for maximum impact. Any budget is an estimate and it will always be difficult to spend a budget of £20 billion to the penny on the last day of the financial year, especially as the penalties for overspending are quite severe. The flexibility that EYF offers us is very welcome.

We have discussed many times with the Finance Committee the five elements to EYF. First, there is finance that is put aside for future, planned spending commitments, of which the Glasgow housing stock transfer has been the biggest example. Secondly, there is slippage in the implementation of some—mainly capital—projects; for example, there may be delays in roads expenditure due to bad weather, land acquisition difficulties, planning delays, construction management, and so on. Thirdly, there is fluctuation in demand-led budgets such as regional selective assistance. Fourthly, there are other variances, including our contingency reserve; delayed project implementation; and additional in-year income—for example, money that is returned to the budget due to industrial closures. A recent example of the latter is the potential return of RSA following the closure of the Chunghwa Picture Tubes factory. Fifthly, there are budgets controlled by other bodies, such as water authorities and the health boards, which count against the Scottish budget for accounting purposes.

The total carry-forward from last year, under our direct control, was £443 million, of which more than £250 million is managed budget provision for future spend and capital slippage. Those figures include almost £100 million that was brought

forward from the financial year before last for stock transfer—demonstrating how EYF gives us flexibility for good financial management.

In a parliamentary statement prior to the summer recess, when members had the opportunity to question him, Andy Kerr announced how we would use EYF. We focused EYF where we thought that it would do most good: for example, on front-line services, including money to buy the Health Care International hospital in Clydebank; on the economy, to support tourism; on the environment; and on additional resources for the prevention of youth crime.

16:00

There are a range of internal transfers, but I want to draw the committee's attention to three of them in particular: the £95 million that has been transferred from water to local government; the £9.3 million transferred from the reserve to Parliament; and the £450,000 transferred to bòrd Gàidhlig na h-Alba.

Let me try to illustrate what those transfers are for. Scottish Water is seeking to deliver its £1.8 billion investment programme over the next four years and has set its charges on that basis. Because Scottish Water has succeeded in meeting its target due to improved efficiency as compared with past plans, the Scottish public will have that additional necessary investment from Scottish Water at no cost to the customer and taxpayer. That means that we can make available another £100 million of public spending this year. Not only will that benefit other spending priorities, it means that Scottish Water's debt burden will not rise as much. Had it done so, there would have been knock-on effects for charging in the long term.

In line with the Presiding Officer's letter of 2 October to the convener of the Finance Committee, we are providing the Parliament with the next tranche of funding for the new Parliament building. That will come from the reserve.

Finally, I want to highlight a transfer that is relatively small in financial terms but which is of huge significance in this area of Scotland—I refer to the £450,000 transfer to bòrd Gàidhlig na h-Alba, which is the new Gaelic development agency. Those resources will meet the bòrd's start-up costs and part-year running costs. They will also allow more urgent elements of expenditure on Gaelic-medium education to be progressed in the current year: the training of teachers at Lews Castle College; some investment by local authorities in pre-school education; and the preparation of teaching materials for primary schools.

The autumn budget revisions also include £1

billion of resource transfers from Whitehall to Scotland. Of that sum, £920 million is transferred to allow the repayment of Glasgow City Council's housing debt at the point at which the stock is transferred to Glasgow Housing Association. I am sure that I need not point out to the committee the enormous significance of that transfer of resources. The transfer is part of the process of transforming housing conditions in Glasgow that will release huge new investment into Glasgow's housing. The enormous scale of the transfer is possible through the benefits that we obtain through the devolution settlement because of our firm place as part of the UK, in which we will remain.

I am happy to try to answer any questions that members may ask at the convener's discretion.

I move,

That the Finance Committee recommends that the draft Budget (Scotland) Act 2002 Amendment Order 2002 be approved.

**The Convener:** As the minister mentioned, the most significant transfer sum is the housing support grant of £920 million. Does that transfer count as public expenditure in Scotland? If there were slippage, would EYF apply to it?

**Peter Peacock:** My understanding is that the transfer has gone into the annually managed expenditure line rather than into the departmental expenditure limit. Therefore, if there were slippage—currently, we plan to deliver on the housing transfer in the time scales that have already been indicated—the money would not show up in EYF in that way. However, I defer to David Palmer's technical knowledge.

**David Palmer:** What the minister has said is perfectly correct. The transfer is in AME, so it is not subject to EYF rules, which apply only to the DEL.

**Alasdair Morgan:** So in the case of any slippage, would the money be returned to the Treasury?

**Peter Peacock:** No. It would remain available for the purpose, when housing stock transfer occurred.

**The Convener:** So it would carry over.

**Alasdair Morgan:** What is the difference between that kind of carry-over and EYF?

**David Palmer:** Technically, the £920 million would go back to the Treasury at the end of the year, but the Treasury would simply make the money available to us again.

**Professor Midwinter:** Does that money count as public expenditure?

**David Palmer:** Yes. It counts as public expenditure.



**Brian Adam:** A similar item appears on page 74 for the community ownership programme, where an entry of about £70 million appears for "Transfer Debt". To where or from what has that item been transferred? Was the item transferred from local authorities to the Executive or is it EYF money?

In a similar vein, an entry of £35 million appears for "Feasibility and Transfer", whatever that might be. I thought that the bulk of stock transfers had now been dealt with. What is the balance between feasibility costs and transfer costs in the £35 million that appears in the budget table on page 74 of the budget revisions?

**Peter Peacock:** I will try to locate that information.

**Brian Adam:** The £69,587,000 is the "Transfer Debt" referred to in the first part of the question, and the £35 million is under the heading "Feasibility and Transfer". Where has that money come from and where is it going?

**Peter Peacock:** I will have to come back to the committee with the detail on that. I do not have an immediate explanation of the detail at my fingertips.

**Brian Adam:** That is perfectly acceptable.

**Alasdair Morgan:** I am not criticising but, given that the document has 300 pages, there is not very much information in it—there are just lots of numbers.

One particular number caught my eye. On page 168, which refers to the enterprise and lifelong learning department, there is an increase in expenditure of approximately £44 million. Of that £44 million, £14 million comes under the heading "Miscellaneous" and almost £11 million comes under the heading "Unallocated". Will you give us some more detail about those figures?

How can we be increasing the budget to provide unallocated money? It does not seem to be rigorous cost control.

**Peter Peacock:** Again, I will come back to the committee on that. I take Alasdair Morgan's point, but I will not speculate.

**Alasdair Morgan:** You will accumulate.

**Mr Davidson:** I will give the minister another chance to add clarity. On page 172, there are two headings that mention NHS capital trust charges. Under those headings, there appears to be £315,380,000 coming in and going out. Is that just resource accounting and budgeting in action so that something shows up on an audit trail? It is not new money, is it?

**David Palmer:** No, it is a technical accounting change.

**Mr Davidson:** You could have let the minister answer that.

**David Palmer:** Sorry.

**Brian Adam:** When are we going to get a cut of that technical accounting?

**David Palmer:** I would be quite happy if we got a cut.

The increase in funding is an increase in the income of NHS trust capital to reflect the revised treatment of NHS trust capital charges. I suspect that RAB has changed the way that the capital charges, or the 6 per cent of the assets, work within the health service. The adjustment is a technical adjustment.

**The Convener:** It is an accounting price under RAB.

**Mr Davidson:** That poses questions for other departments about the application of the notional 6 per cent as a management tool.

**David Palmer:** In what sense?

**Mr Davidson:** If the money is going in and then out and it does not appear to make any difference, how does that affect other departments? Does it affect other departments at all or is it simply a technical issue?

**Peter Peacock:** It is just a technical issue. The reassuring thing is that it balances.

**Mr Davidson:** You get points for that comment.

**Elaine Thomson:** Under the heading "Police Central Government", there is a sub-heading for draw-down of April budget consequentials.

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

**Elaine Thomson:** It is on page 198. The amount is £2 million. Apparently the Barnett consequentials are not marked in that amount.

**Professor Midwinter:** We were under the impression that the April budget consequentials all went to health and we were a bit puzzled by why they are included under "Police Central Government".

**Peter Peacock:** You are quite right, but there was a small amount of money allocated for other purposes and this amount is part of that. Can we come back to the committee with the detail of all the other purposes? All the public attention inevitably went to health but I think that something in the order of 7.4 per cent was allocated to other purposes.

**Elaine Thomson:** On page 200, under the heading "Courts Group", there is a withdrawal to windfall funding EYF.

**Professor Midwinter:** What does “windfall funding” mean?

**Peter Peacock:** Are you talking about the top line in the table?

**Elaine Thomson:** Yes.

**Peter Peacock:** I think that that is a rather loose description of what the justice department regards as a windfall but is actually EYF.

**Professor Midwinter:** It is extra money that the justice department got through the EYF process on top of its 75 per cent retention.

**Peter Peacock:** That is what it appears to be. I think that the department simply looks on it as a windfall.

**Professor Midwinter:** It is not another windfall tax.

**Peter Peacock:** There is no other form of taxation in the figures. I think that it is loose drafting by the justice department.

**The Convener:** Our final question refers to page 329, which is about the Scottish Parliamentary Corporate Body budget revisions. There is an interesting heading in the table: “Adjustments for Non Consumption of Cash”. We are mystified by that heading.

**Brian Adam:** That heading occurs in other departments.

**Mr Stone:** It is also on page 296 in relation to the Crown Office and Procurator Fiscal Service.

**David Palmer:** The way in which the budget now works is that there is a resource element that economists and accountants tend to view as the proper stuff of public expenditure. There is then cash, which is just the stuff that sloshes around elsewhere. Schedule 1, on page 329, shows the cash consumption associated with the resource consumption in the rest of the document.

To get to the cash consumption, you have to take out from the operating capital budgets those things that are non-cash, such as depreciation cost capital.

**Professor Midwinter:** Wow! So that is better budgeting.

**Peter Peacock:** If the committee would like further explanation, we will put it in writing.

**The Convener:** Can we get the answers to our queries relatively quickly? Obviously we are working to a timetable.

That is the end of our questions and as there are no further debating points, I will put the question.

The question is, that motion S1M-3567, in the name of Andy Kerr, be agreed to.

*Motion agreed to,*

That the Finance Committee recommends that the draft Budget (Scotland) Act 2002 Amendment Order 2002 be approved.

**The Convener:** We will report that decision to the Parliament.

### Item in Private

**The Convener:** Item 4 is to agree to take the draft report on the financial memorandum for the Homelessness etc (Scotland) Bill in private at our next meeting. Are we agreed?

**Members** *indicated agreement.*

**The Convener:** It remains only to thank Highland Council for its hospitality. We have enjoyed being here. Our thanks also go to the minister and members of the public, who have almost all gone now, but we are grateful to them for turning up to the meeting. I also thank David McGill and the other clerks for organising the meeting.

*Meeting closed at 16:12.*



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