FINANCE COMMITTEE

Tuesday 25 February 2003
(*Morning*)

Session 1

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FINANCE COMMITTEE

5th Meeting 2003, Session 1

CONVENER

*Mr Tom McCabe (Hamilton South) (Lab)

DEPUTY CONVENER

*Elaine Thomson (Aberdeen North) (Lab)

COMMITTEE MEMBERS

*Brian Adam (North-East Scotland) (SNP)
*Mr David Davidson (North-East Scotland) (Con)
Alasdair Morgan (Galloway and Upper Nithsdale) (SNP)
*Dr Richard Simpson (Ochil) (Lab)
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:

Murray McVicar (Scottish Parliament Information Centre)
Professor Arthur Midwinter (Adviser)
Peter Peacock (Deputy Minister for Finance and Local Government)

WITNESS

Richard Dennis (Scottish Executive Finance and Central Services Department)

CLERK TO THE COMMITTEE

David McGill

SENIOR ASSISTANT CLERK

Terry Shevlin

ASSISTANT CLERK

Emma Berry

LOCATION

Committee Room 2

Scottish Parliament

Finance Committee

Tuesday 25 February 2003

(*Morning*)

[THE CONVENER *opened the meeting at 10:39*]

The Convener (Mr Tom McCabe): Good morning and welcome to this meeting of the Finance Committee. I give a particular welcome to the members of the public and the press—we do not have such a large turnout at every Finance Committee meeting. I hope that, even if they struggle to find the meeting interesting, they will at least find it informative.

I have received apologies from Alasdair Morgan and Jamie Stone.

Subordinate Legislation

Draft Budget (Scotland) Act 2002 Amendment Order 2003

The Convener: Our first agenda item is to hear from the Deputy Minister for Finance and Public Services about alterations to the budget. I think that the minister wants to make an opening statement before we move to questions, so I invite him to do so.

The Deputy Minister for Finance and Public Services (Peter Peacock): This is the final meeting of the Finance Committee in this session of Parliament, so this is the last time that I will appear before the committee in this session. I thank the committee for the constructive relationship that we have developed in the past few years and for the genuine improvements in the budget process that have flowed from that. As we have discussed previously, there is still a long way to go, but the constructive dialogue has been helpful in the process. I record my genuine thanks to the committee.

To pick up on the convener's comments to the students who are in the public gallery, I point out that I am accustomed to students walking out of finance debates after a short time, so they should not feel offended if they feel the need to do so. I am sure that today will be the highlight of their education.

I hope that we can deal comparatively briefly with the revision to the budget. I will say a few words about some of the main changes that are covered in the revision, after which I will be happy to discuss any points that members raise.

The most significant changes to the numbers in the revision are technical accounting changes that have little real-world impact on expenditure in the Executive. The committee and I have found the gradual move to resource accounting and budgeting during the life of the Parliament to be frustrating because it has not been easy to compare figures from one document to the next. I hope, now that we have moved fully to RAB, that greater transparency and consistency and improved financial management incentives will bring more than offsetting benefits in the future.

Members will be relieved to know that, once the changes to capital charges that we discussed previously have been made—they will be implemented in the next revision—we do not expect significant further changes to the financial regime in the coming period.

The present revision involves three significant accounting changes. First, members will note that we are using the revision to move £270 million of loans that relate to the water industry from the Scottish consolidated fund to voted loans. There are no DEL consequences or any changes in spending; the measure is simply administrative tidying in order to simplify the financial flows that are involved in repaying the loans in due course. If the committee is interested, the reason why we have loans from two sources goes back to the start of devolution, when we could not provide voted loans until after the passage of the Finance and Public Accountability (Scotland) Act 2000. As I said, no real-world changes arise from the measure.

The second significant accounting change relates to the Edinburgh royal infirmary. As we announced last month, the impact of HM Treasury's technical note number 1 on the application note entitled "Amendment to FRS 5 'Reporting the Substance of Transactions': Private Finance Initiative and Similar Contracts" was that the new Edinburgh royal infirmary has been brought back on to the Executive's balance sheet. That is a technical accounting change that has no impact on patient care or the project, but it will increase the overall resource budget by £189 million for this year; the Treasury has adjusted our totals to reflect that. As members will know, the Edinburgh royal infirmary is the only public-private partnership or public finance initiative that is affected by that Treasury note.

My third point is about our presentation of European receipts. Following discussion with Audit Scotland, the spring revision shows European receipts as a separate source of funding in table 1.2 of the supporting document. At the same time, in the changes to the Budget (Scotland) Act 2002, we have increased the amount of accruing resources that may be used without limit for the relevant departments. Again, there is no practical difference from the previous treatment, whereby receipts were not accrued but were instead surrendered to the Scottish consolidated fund. We will now not surrender the receipts, but will instead reduce the amount of cash that we draw from the Scottish consolidated fund by a matching amount. For members who, like me, are struggling with the issue, I am told that accountants regard the changes as making the figures significantly more transparent.

I said that I would raise three points, but there is a fourth significant accounting change, which accounts for £116 million and relates to the health department. Again, the change follows a request from Audit Scotland and relates to the treatment of national health service trust receipts and their use in repaying capital debt. Again, it has no real-world impact in respect of the Executive's expenditure.

The committee might be more interested to know about the changes that do have a tangible real-world impact. I will highlight the three most significant of those changes. There has already been some public rehearsal of matters relating to the costs of the fire service dispute. The provision includes the transfer from the reserve to the justice department of £18.5 million to cover the costs of the fire service dispute. We will not know the actual costs until after the end of the financial year and when the dispute has been resolved. However, because of the move to accruals, the costs will score this year, regardless of when we know the final bill. Therefore, we have made provision that is sufficient to cover the cost to the end of the year, should that be necessary. At least some of that provision will be offset by a reduction in authority wage bills during the strike, from which the Executive will benefit next year. That might cover about half the costs of the dispute.

10:45

I turn to European structural funds. As the committee knows, the structural fund programme runs for seven years to 2006. We know the total provision for the whole seven-year period, but the spending that will take place in any one year can vary significantly. Therefore, we have been able to reduce cover in this year in the spring revision by £46 million. However, the change to the ESF budget is just a timing adjustment—the spend over the seven years remains the same—that simply reflects the cash-flow requirements of the current programme and the commitments that have been drawn down against decisions that have been made.

Spring revisions are the usual vehicle for taking account of transfers from Whitehall. This year's revision includes net transfers that bring an increase of some £224 million in our budget. The largest single element is the accounting adjustment for the Edinburgh royal infirmary, to which I referred. During our earlier Budget Bill discussions, the committee showed particular interest in that area.

I will list in full the other changes from Whitehall. There is £4.35 million from the Home Office for asylum seekers; £26.1 million from the Department for Transport for the ScotRail franchise; £137,000 to the Department for Education and Skills as a contribution to the SOCRATES information technology project; £1.1 million from the Department for Work and Pensions for training to work; £2.4 million from health departments in England, Wales and Northern Ireland to cover the costs of treatment of their residents in Scottish hospitals; £183,000 to the Department of Health to fund our share of the cost of the royal colleges; £10,000 to the Department of Health for our share of the beta interferon/glatiramer acetate risk-sharing scheme; £11,000 to the Department of Health for our share of the paediatric HIV survey scheme; and £1.4 million from the Treasury to cover Lockerbie-related costs.

I confess that I do not have the fine detail of individual transfers at my fingertips, but I will do my best to answer members' questions. I might have to resort to writing to the committee if we do not have information to hand, but I am happy to try to answer any questions that arise from the spring revisions.

The Convener: Thank you, minister. Although you have introduced a degree of clarity, members have questions to ask. For the benefit of visitors, the minister has been very good in that whenever he has used an abbreviation, he has expanded and explained it. However, I should say that DEL stands for departmental expenditure limits, in case anybody failed to pick that up. Finance discussions are normally littered with such abbreviations and few people remember what they mean. Anybody who is in any doubt about what abbreviations mean should ask—a good few people around the table probably do not remember what they mean, either.

There was a lack of clarity within the information that was supplied to us about whether money was departmental money or could be used for another purpose, and there is concern that the explanatory note failed to explain to committee members exactly what the amendments related to. Perhaps that ties in with our previous discussions about examining the production of information and how it can be presented far more clearly in the future. This is a good example of a situation in which the committee's advisers and clerks could sit down with the Executive and consider better ways of presenting information.

Peter Peacock: I am happy to take your comments in the spirit in which they are intended, convener. We are producing huge volumes of information, but it is difficult to say how much that assists people in gaining real insights. One thing that is noticeable about the supporting documentation and the size of the statutory instrument is that the instrument mentions figures and the supporting documentation attempts to deal with those, but relating one to another is sometimes slightly difficult. The Executive is happy to consider that with the committee—the committee's advisers and Executive officials can work on it together.

The Convener: I know that members have a range of questions. I shall first ask Richard Simpson to pose questions on the overall—

Mr David Davidson (North-East Scotland) (Con): I have a supplementary question to what the convener just asked. For the official 2003 document, what is the chance of producing a document that is expanded to include a line-by-line explanation?

Peter Peacock: Are you referring to the statutory instrument?

Mr Davidson: Yes.

Peter Peacock: Could you explain your question?

Mr Davidson: Very simply, there is a list of changes. I appreciate that that must be the format of the official document, but is it possible to have a second document to accompany it, which gives, line by line, a brief explanation of each change?

Peter Peacock: I am happy to consider whether that would be helpful to the Executive and the committee. I am all for aiding clarity on such matters. That can be picked up during discussions between our respective officials.

The Convener: Richard Simpson has some questions on overall cash authorisation.

Dr Richard Simpson (Ochil) (Lab): There is an increase of £2.5 billion, or 13 per cent, in the overall Scottish Administration—article 2(2)(a) of the order refers to an increase from £18.285 billion to £20.738 billion. Can you explain whether that is attributable to a change in accountancy systems, or it is part of an additional allocation? I should like a general view of how that substantial increase pans out.

Peter Peacock: I think that you will find that it is attributable to a combination of factors—Richard Dennis will have to help me with detail. The spring budget revision picks up changes that could have been made in the autumn budget revision; it covers two periods of time. The document covers the period of the stock transfer from the Treasury to Glasgow, which alone amounts to virtually £1 billion. I imagine that the overall total that Richard Simpson quoted will also include the draw-down of approximately £600 million of EYF—end year flexibility—money. The total will also include some of the things that I mentioned in my statement such as the Whitehall transfers, which constitute a net transfer of about £290 million.

Other things that we have dealt with in the revised budget were rehearsed during the Budget (Scotland) Act 2002. When we discussed changes in student loans in 2002, we said that we would introduce changes in this year's budget. The spring revision covers a range of issues, some of which are technical accounting changes, and some of which are changes that happened earlier in the year. There are different treatments of different figures. We can pin those figures down in detail but, as I said, the stock transfer alone makes up about half of the increase. Many other sums are involved that would quickly make up the £2.5 billion figure.

Dr Simpson: As my colleague David Davidson said, it would certainly be helpful to have the increase analysed. If the change were listed in the explanatory note as attributable to X, Y and Z, it would allow us to understand what is going on. I appreciate that the document is against the background of changes in accounting procedures, which confuses the rest of the picture. However, if we understood the headline figure, we could begin to understand the rest.

I shall move on to talk about one of the major increases, which I think is attributable to a technical change. It is the increase of £10 million, or 27 per cent, for the Forestry Commission. Its budget has risen from £38 million to £48 million, and that is outlined on page 300 of the revised budget. It seems to me that that might be because of changes in the cost of capital, but it is such a sizeable chunk of money that it is very difficult to explain. The outcome is an increase of £10 million, but the change in cost of capital is minus £43 million.

There is obviously a major change in the capital, which is not the result of depreciation, because that is in a different column—it is £3.7 million in the column headed "Adjustments for Non Consumption of Cash". It is all quite unclear. Within a £10 million change—which is massive in itself—there are actually very big shifts in budget allocations and in the way in which the budget is being treated.

Peter Peacock: In relation to the overall £10 million shift—the net change, if you like—a significant part of that will relate to the application of EYF that was approved but not drawn down. I think I am correct in saying that. That amount was very close to £10 million. There are other smaller amounts, for example almost £1 million from transport to cover the cost of shipping timber by sea instead of hauling it by road.

I suspect that the wider point that Dr Simpson is making, apart from those particular points, is that within a net change of £10 million, there might be many other changes that are balancing themselves out and netting themselves off, such as shifts from capital charges to revenue and vice versa. Once again, we will be happy to correspond with the committee on the detail of those changes but overall, most of the changes that Dr Simpson referred to will, I imagine, net themselves off internally. The big change in cash terms will be the drawing down of EYF and the transport change to which I referred.

Dr Simpson: You addressed the principle well, as opposed to the particular example of the Forestry Commission, which just happened to be the example that I chose.

Audit Scotland also has a 12 per cent increase, which admittedly is a smaller amount in real terms, at £652,000. However, it is a 12 per cent change in the Audit Scotland budget. When we get changes of that size, it would be helpful to at least have an indication of how they have occurred.

Peter Peacock: I am looking to see whether I have sufficient notes on Audit Scotland to be able to explain the situation. I suspect that the bigger part of the increase—Richard Dennis may be able to help me with this—is an RAB adjustment. There is also an adjustment in relation to a VAT liability of £200,000, and an adjustment in relation to speeding up a backlog of work on particular audits that had to be completed, and therefore additional resource is being brought to bear on that. I would have thought that that covers the make-up of the £650,000 that you mentioned, but we can confirm for the committee the actual figures against each of the headings that I have just outlined.

Dr Simpson: When you referred to speeding up a backlog, is it new money or EYF that is being brought forward?

Richard Dennis (Scottish Executive Finance and Central Services Department): It is genuine new money of about £400,000 this year for Audit Scotland. I should say, of course, that Audit Scotland's budget is not directly under the Executive's control; it is scrutinised by another committee.

Dr Simpson: From where within the global sum has that £400,000 been moved?

Peter Peacock: Again, as with all such things, there will be a combination of circumstances. Some the money could be EYF that is drawn down and applied to that particular purpose, but there might have been other internal adjustments. We can track that and give the committee a note on it.

Dr Simpson: If I may, I will finish with a general point about EYF that I have a bee in my bonnet about. We should have a much clearer division in EYF between funds that are capital funds that will continue to be allocated—in other words, there is simply a delay in the allocation—funds that are for short-term contracts, where once again there is simply a delay in spending them, and funds that are genuine EYF, which are continuing revenue programmes, where a delay in the start actually does produce real money. If we had that, we would have a much clearer understanding of EYF and of your intention to use it.

Peter Peacock: It might have occurred when Richard Simpson was not on the Finance Committee, but we have done exactly that. In the course of the past year, we have split EYF into what comprises it in a much more refined way, and we plan to do further work on that to make it even clearer. That breaks down Richard Simpson's point about having capital that is committed for a particular project. A project might be delayed because of weather or whatever, but the capital is still required for the following year. It is important to say that it cannot be used for any purpose other than short-term cash-flow.

11:00

There is genuine slippage in situations in which nurses and doctors cannot be recruited sufficiently quickly and a real saving is therefore made and such savings can be applied to other purposes. We have begun to debate that, and we will continue to work on it. I agree that clarity is necessary as we proceed.

Brian Adam (North-East Scotland) (SNP): The minister said that £1 billion of the £2.5 billion rise was for Glasgow, presumably to write off the capital debt in Glasgow's housing stock. That is clearly a one-off, non-recurring item. What proportion of the £2.5 billion is for one-off payments, either to repay loans of that kind or for other capital items? How much of it relates to on-going expenditure? I am following up on what Richard Simpson said; I am not talking just about the EYF.

Peter Peacock: By definition, the Glasgow housing stock transfer costs will occur only once. In a sense, the EYF is also a one-off transfer because it is not guaranteed to recur. There will be a certain amount of end-year flexibility in any given year, but it might vary in subsequent years. Therefore, it may be applied to short-term projects. I also mentioned changes in the treatment of student loans. The accounting treatment is shifting and that will continue, because the continuing expenditure is there. Therefore, there is a mix.

Equally, I would have thought that a significant number of Whitehall transfers will be for one-off costs for things such as Lockerbie. For years we have had a series of payments that should come to an end because the trial is over.

Brian Adam: Some of those funds are on-going, for example, the supporting people fund, which accounts for £245 million or something similar.

Peter Peacock: Those costs will recur. It would be comparatively easy for us to analyse which items are one-off and which will shift into the baseline, for recurring purposes. We would be happy to do that.

Brian Adam: That would be helpful.

Perhaps you could give us a flavour of the impact that moving from a 6 per cent return on capital to a 3.5 per cent return on capital using the RAB arrangements will have on the documents for next year. Will we be able to have a proper comparison next year, when there will appear to be a big change?

Peter Peacock: I said a few weeks ago when I was talking about the Budget Bill—now the Budget (Scotland) Act 2003—that we did not proceed with all of the detailed changes then because there will be many changes across the system, principally in relation to capital charges. Again, those changes will not be an immediate real cost to our budget one way or the other, but the underlying assumptions will change, which will change all of the figures.

On whether one will be able to make a strict comparison, that ought to be possible because decisions have to be made and the resources must be applied to particular budgets, so there will be visibility.

We have considered the documents over many years, so the member and I know that the changes will not necessarily leap out of the page. Again, the department is more than happy to discuss how the information is presented and to consider how to make it as clear as possible.

The important point is that once the changes are through, which should happen this year, the department will work on a consistent basis. Then we ought to be much more able to make comparisons between years, in a way in which we have not been able to do in the recent past because of RAB and the other changes that the member just talked about. Those have caused difficulties in making comparisons, although none of us can do anything about that.

Richard Dennis: Because this is a resource adjustment, it will reflect the resource DEL and annually managed expenditure but will not reflect the overall cash or funding requirement of any particular body. Therefore, it will be immediately apparent where those changes are having an impact.

Professor Arthur Midwinter (Adviser): I will clear up a technical point that arises from Brian Adam's point about the £1 billion for stock transfer. At the committee meeting in Skye, I recall that David Palmer said that if the transfer from the Treasury was not used in the current year—and there has been slippage in the stock transfer programme—it would simply go back to the Treasury and then return to Scotland later. The amount does not affect the Executive's performance on underspend because, if we do not use the money this year, it does not count as underspend. If it were counted as underspend, the Executive's performance would be considerably inflated.

Peter Peacock: I am acutely conscious of that, but I do not think that it will arise.

Professor Midwinter: The money will be used this year.

Peter Peacock: As I said, I do not think that the question will arise.

Professor Midwinter: That is helpful.

Mr Davidson: I take Richard Simpson's point about giving clarity on EYF. I remember Angus MacKay discussing in Kirkcudbright, I think, the proposal that the Executive would consider giving the Finance Committee statements throughout the year about how money came out of the EYF system. That refers to money that is held back for a reason and which is flagged up to us as it comes through. Has the minister picked up on that point? If not, will he consider it?

Peter Peacock: I remember Mr Davidson making a similar point about a year ago. We checked the records then, but could not find any record of Angus MacKay's having made the commitment to which you refer. Nonetheless, we have moved forward in giving clarity on EYF in the way that I described to Richard Simpson. We will continue to do that. I have made the point before that, unless we say otherwise, the committee can assume that our budgets are on target. However, the committee should keep in mind Richard Simpson's point about things that occur naturally in any big organisation, such as capital projects or individual revenue projects slipping and extra resources appearing late in the year. We will keep the committee advised of such matters at the appropriate times.

Mr Davidson: I refer you to your answer to the convener's first question, when you broke down the £2.5 billion. You said that there was £600 million in EYF from last year's underspend, for whatever reason. Does the Scottish budget get any benefit from leaving the money with the Treasury, for example in interest payments or anything that accrues?

Peter Peacock: I am not aware of anything like that. The key benefit is that we get the EYF money. In past years, under previous financial systems, the money would have reverted to the Treasury. One of the great advantages of the changes that Gordon Brown made to the financial management systems is that we have been able to introduce EYF, which means that we are allowed to carry money across a year-end. As we all know, there used to be the phenomenon of a year-end surge in spending to get money out the door in case it reverted to the Treasury. EYF's purpose is to prevent that from happening by allowing flexibility over a year-end, so that we can apply the money to our political priorities. We can ensure that the money is spent on high-priority matters and not just on matters that get the cash out the door. Such spending has huge benefits for Scotland.

We are now making the spring revisions and regularising the draw-down of the cash that has been available—and which has been spent—for a sizeable part of the year. That is simply part of the Executive's cash-flow position. It is not a question of us taking the £600 million and rushing off to lend it overnight somewhere at high interest rates—it does not work like that. This is part of the overall financial system. As members will know, we draw down cash for our various cash-flow requirements. The figure is simply part of that calculation. As soon as we know and make decisions about EYF, it is available for the department to spend. What we are doing now simply regularises the position.

Mr Davidson: The minister will know that I support the principle of EYF and of not wasting money at the end of the year on another coat of paint or a new carpet for a minister, for example. If the money is in the Executive's books, is there any notional allowance for it under RAB?

Peter Peacock: No.

The Convener: I am sure that the minister will note Mr Davidson's support the next time that EYF is announced.

Peter Peacock: Yes, indeed.

Mr Davidson: I will support it only if we get a clear statement.

Dr Simpson: I have a technical point on the return on capital going from 6 per cent to 3.5 per cent. That will not make any difference to most departments because they have not moved to RAB yet, but the move has occurred in the health department, and that will surely have an effect on the health budget in real terms.

Peter Peacock: I do not think that it will, for reasons that Richard Dennis will explain.

Richard Dennis: It will have no effect on actual spending. Across the Scottish DEL as a whole, we expect that the change will reduce the numbers by between £300 million and £400 million. However, there will be no impact on spending and delivery, because it is purely an accounting adjustment.

Peter Peacock: We must remember that, when the original RAB adjustments were made, the Treasury equalised our expenditure up to cover all that. There was no real effect either way. The long-term benefits of the move will be that people's minds will, I hope, be focused on the real costs of deploying capital—including the opportunity costs—and the alternatives that are available. That discipline has yet to kick in fully because the accounting changes are only just coming through. The spending power of the health department has not been reduced in any way; the adjustment is purely an accounting one.

Dr Simpson: I accept that concept in relation to everything other than health. However, health has been under RAB for five or six years now and, supposedly, has been subject to that discipline. Health boards have had to make repayments to the Executive if they have not managed their capital account effectively. If that has been the case and money has been flowing between the Executive and the health boards on the basis of the capital account and the capital charges, making an accounting adjustment in the centre will have great implications. If not, the process is not worth while.

Peter Peacock: I hesitate to argue with a doctor about the health service. Notwithstanding the fact that health might have been under RAB for longer than other areas, I am not clear that, in an accounting sense, any difference is made to the resources that are available.

Dr Simpson: Would the change be nominal?

Peter Peacock: Yes, in the sense that there would be no real adjustment to the spending power. Of course, other disciplines come into force, in the way that you have suggested, but I am not close enough to the detail of the health department to know precisely what those dynamics have brought about in terms of changed behaviours and better deployment of capital resources and so on. However, if there have been such changes, I think that they would represent a gain to the health service, as money could be reapplied in other places.

Dr Simpson: I agree that there would be a gain rather than a loss, but it would reduce the drive to get rid of capital assets that are not being used. If you are sitting with an empty hospital and you are dealing with a 3.5 per cent capital charge against your budget, you are less likely to get rid of unused assets than if there were a 6 per cent capital charge. If the change is nominal, that is fine, but if it is real, which I understood that it was in health—and only in health—there will be an increased availability of money, as some money will not now be applied to capital charges.

Peter Peacock: In the same way as adjustments were made upwards to ensure that introducing the accounting change was at no cost to the system, changes in the opposite direction would adjust out without there being any real impact on the health system. No real change in expenditure power will arise from that.

I understand what you are saying about discipline. If the notional capital charge is less than it was, there will be an incentive to deploy property in a different way. However the figure settles out, decisions will still have to be made about how property is deployed. Someone much more technically skilled than I am in the real effects of RAB in that narrow sense would have to examine the situation closely to see whether there had been an impact in real terms on behaviour in the health system.

The Convener: We are pressed for time, so we must move on.

Mr Davidson: In the four years in which I have been on this committee, I have seen in the draft budgets lists of notional amounts that state what the Executive expects to get when something is sold off or written off. Those sums have been quite small. However, the amendment to schedule 1 shows a huge jump in the sale of surplus land and so on in relation to the Scottish Executive environment and rural affairs department, from £5 million to £60 million. Is that a result of a tidying-up exercise at the end of the first four years? Theoretically, where will that money go?

Richard Dennis: That is the result of a quirk in the way in which we report the numbers. It is all to do with short-term loans being taken out and repaid by Scottish Water to manage its cash flow and borrowing. It has a large number of short-term loans, some of which mature and are taken out again in-year. Loans that we were not aware of at the start of the year were taken out and repaid during the year and are now being refinanced. In effect, so that the money that was used to repay the first loan can be accrued to us to fund the second loan, we need to show it in the receipts column. The matter is purely a question of Scottish Water's cash management in relation to the short-term loans. There is no change to its expenditure plans; there is no extra money at all I am afraid.

Peter Peacock: As I understand it, that is about—believe it or not—giving more visibility to the shifts in the cash and recording that differently from how it has been recorded in the past. There is no real-terms effect.

11:15

Mr Davidson: I have a quick comment on the first part of the question. We have had in the budgets the notional amounts that you expect to get from surpluses, which have always been tiny sums. Do you just stick in a figure to balance the books? Is no real attempt made to say how much you predict you will get for certain things within a department?

Peter Peacock: Are you talking about the sale of assets?

Mr Davidson: Yes.

Professor Midwinter: Some of the amounts are £100.

Peter Peacock: Richard Dennis will give you much more detail about this, but the convention is that when we are not clear about a particular figure or about what the outcome will be, we put in a notional figure and adjust it to the real effect later on. I am not clear whether there are many such instances of that in this revision. Perhaps Richard Dennis could explain the background to the convention.

Richard Dennis: Because we give only a single figure for each department, there will usually be a combination of elements. If we take out the water loans from the SEERAD number, about £1 million will be left, which is about what the department would genuinely expect to get from the sale and disposal of surplus assets. That number has been there since round about the start of the year. There are a lot of receipts where the exact take-up of service might be uncertain at the start of the year.

As the minister said, we always fill in £100 or £1,000 at the start of the year and put in the real estimate in the spring revision. There is a biting limit. If we were to put in a number that was too low and a department got in more receipts than it had taken authority to keep, it would have to surrender them to the Scottish consolidated fund and we would lose the spending power.

Mr Davidson: So they do not go into the EYF; they go into the consolidated fund.

Richard Dennis: If we exceeded the limit set, basically we would lose the receipts.

Mr Davidson: So the skill of the minister and his department is to ensure that they get the figures as close as is possible, so that the money is not lost from the EYF or from the departmental budget.

Peter Peacock: Yes.

Mr Davidson: Thank you. I move on to Scottish Enterprise and article 2(4)(m) of the order. There appears to be an increase in the repayment of voted loans by Scottish Enterprise from £2.7 million to £31.5 million. Will you give us an explanation of that?

Richard Dennis: There is another amendment in the spring revision to change the purpose of the section. Once amended it would read, "repayment of voted loans by Scottish Enterprise and the repayment of student loans." I am sorry that "student loans" is the answer to every question that the committee has asked about this revision of the budget.

Mr Davidson: Student loans have become a new accountancy term. I accept that. I move on to article 2(4)(q). Under item 5, on sales of buildings and so on in the health department, there has been an increase from £12 million to £128 million. Can we have an explanation of that 10-fold increase?

Peter Peacock: I touched on that in what I said in my earlier statement. As I understand it, it follows a request from Audit Scotland. When national health service trusts were set up in the early 1990s, the property owned by the health boards was transferred to the trusts, although no money changed hands and originating capital debt was set up, which represented the value of the transferred assets. The NHS trusts make repayments on the debt to the health department and it is treated as public dividend capital. The department then uses the receipts to fund the repayments on the originating capital budget. Those are simply the technical changes.

Mr Davidson: So it is a consolidation of branch business accounts into the boards. It is a tidying up within the boards themselves.

Peter Peacock: I am not sure that I follow your point.

Mr Davidson: If the trusts are now part of combined boards, the debt from the trust to the board is now in a consolidated account form. I see the minister nodding. Is that a yes? It is helpful for the record to hear the words.

Peter Peacock: If I understood the question correctly, I think that that is right. We are trying to reflect the changes that have taken place since the original arrangements were set up in the 1990s and all the accounting changes that are now necessary to tidy up these matters. Perhaps Richard Dennis can answer that point at a more technical and detailed level.

Mr Davidson: It would be helpful if a note could be sent to the clerk to clarify the matter.

Peter Peacock: We are happy to do that.

Elaine Thomson (Aberdeen North) (Lab): I would like some more detail on a number of points. Article 2(5)(b), which applies to the Scottish Executive environment and rural affairs department and relates to schedule 2 to the act, shows an increase from £21.4 million to £431 million, which is obviously very substantial. I note that the reason for that might tie in with some of your earlier remarks about changes in relation to Scottish Water, but will you expand on that increase?

Peter Peacock: As I understand it, the particular changes involved are the treatments that I referred to in my opening remarks, which relate to the interplay between the Scottish consolidated fund and the use of European Community receipts. Richard Dennis can perhaps go into that in a bit more depth. If you refer back to the *Official Report* of my opening remarks once it is published, that should cover the point. I invite Richard Dennis to deal with the detail.

Richard Dennis: I will explain how we used to treat EC receipts. As you will know, we get all the money from the common agricultural policy and other European Union schemes via the rural payments agency of the Department for Environment, Food and Rural Affairs. In effect, we asked the Scottish Parliament to authorise that resource spending, drew it down from the Scottish consolidated fund and paid out the grants. When the receipts came in from the rural payments agency, we surrendered them back to the consolidated fund, so there was no net change to the fund.

Now, rather than asking for the cash from the Scottish Parliament and the Scottish consolidated fund in the first place, we are accruing the resources from the rural payments agency and using them directly to fund the grants. In effect, the change is simply in how we record the same financial flows.

Elaine Thomson: I hope that that will make things more straightforward and easy to follow.

Peter Peacock: I can confirm that the recommendation to make that change came from Audit Scotland. Audit Scotland is seeking generally to make things more transparent, although sometimes it might not appear that way at first.

Elaine Thomson: I am pleased to hear that.

There is an increase under article 2(5)(g) from £5 million to £250 million. That relates to the Scottish Executive development department.

Peter Peacock: The principal amount relates to the Scottish Transport Group pensions arrangements that have been arrived at. That accounts for £176 million, which is the vast majority of the change. Also included in that overall figure are the receipts relating to the residual value of the housing stock in Glasgow and the Borders, where stock transfers have taken place. That comes to about £50 million. Together, those two would account for the bulk of the change from £5 million to £250 million.

Elaine Thomson: Article 2(5)(o) shows an increase from £633 million to £816 million. That applies to the finance and central services department.

Peter Peacock: That relates to exactly the same point that Richard Dennis covered in relation to EC receipts and their interplay with the Scottish consolidated fund. The other bit of the Executive has to reflect the same changes.

Brian Adam: I expect that this will turn out to be another minor technical point. Article 2(6)(d) relates to schedule 3 to the act. There is a decrease in the Audit Scotland allocation from £50 million to £5 million. What is the technical explanation for that change?

Peter Peacock: The decimal point was in the wrong place.

Brian Adam: That is the most interesting thing that I have heard today—ye cannae get the decimal point in the right place. Now we want to know why you did not confess to that in your opening remarks.

Peter Peacock: We were setting a test to see how closely members had scrutinised the figures. The important thing is that the error has been noticed.

Mr Davidson: Who signed the accounts off?

Peter Peacock: The accountable officer.

Richard Dennis: The important thing is that, thanks to the spring revision, the figures will be right before the end of the year, so the accounts will be right.

Brian Adam: I have a more general question. Many of the revisions are for income from charges and asset sales and so on. The remarks that we have heard suggest that departments have an incentive to get those figures pretty accurate, otherwise the increased income from accruals will go to the Scottish consolidated fund rather than to departmental expenditure limits. Given that, why do the changes come to about £1 billion? Would it be right to interpret that as suggesting that the departments did not quite get their figures right?

Peter Peacock: As I set out earlier, the spring budget revision contains some substantial changes that are mostly of a technical nature, so the £1 billion is not real new money that could be used for additional service provision or for any other purpose. I have already covered the sorts of things that appear in the changes. In total, EC receipts, which Elaine Thomson just asked about, account for almost £600 million of that £1 billion. The Scottish Transport Group pension fund accounts for another £176 million. Stock transfer receipts for the residual value of the stock from Glasgow and the Borders account for £50 million. The changes in health board receipts that we mentioned earlier are £116 million.

Brian Adam: My question is whether the fact that we do not have accurate figures to begin with has an impact on the individual departmental expenditure limits. Obviously, there is no impact on the Scottish consolidated fund, but is there an impact on the control that individual ministers or departments have over their expenditure?

Richard Dennis: In reality, that is why we always take the spring budget revision right at the end of the financial year. Once the instrument has been sitting for 40 days, we are in effect right up against the end of the financial year. We always lay the instrument as late as possible so that the numbers can be brought up to date with our latest predictions for the year-end. If the numbers were wrong, there would be an impact on departments' DELs. We do our best to ensure that that does not happen.

The Convener: Do members have any other questions?

Brian Adam: I have one last question, which arises from the fact that I have not been on the committee throughout the past four years. Is the scale of change in this revision typical of what has happened over the past four years, or is it exceptional, because of resource accounting and budgeting?

Peter Peacock: The changes are significantly bigger this year because of the elements that I have indicated. For stock transfer, £1 billion is coming from the Treasury. There are other technical changes in the system, such as the change in the treatment of structural funds and so on. It just so happens that those changes have arrived at this particular time. The £1 billion that is coming from the Treasury for stock transfer is a huge and unprecedented sum of money. That is part of the benefit of being part of the UK, of course.

Brian Adam: Aw, never.

The Convener: That is what Brian Adam gets for asking an extra question.

Mr Davidson: It is nothing at all to do with the elections.

Professor Midwinter: The discussion has been fascinating. We have spent over half an hour considering technical changes that account for big sums of money. Our discussion stresses the need for us to find a way to present these things in the simpler language that members have been asking for over the past year. If we could do that, it would benefit both the Executive and the committee, and would save so much time.

Peter Peacock: I completely accept that. We are always looking for ways to deal with these things. As Deputy Minister for Finance and Public Services, the spring and autumn revisions are one of the most difficult things to deal with, because they deal with changes that range from pennies to literally billions of pounds. Not having at one's fingertips all the detail that is required to answer the committee's questions is a continuing frustration. I am all in favour of simplifying the process and the ways in which we respond to the committee's questions.

Because we were conscious that we would be considering many big changes today, we have been able to look in more detail at the range of changes than would normally be the case. I suspect that we have had more of a dialogue today than we have had on previous occasions, when we have simply said that we would write to the committee. I am more than happy to consider whether we can find sensible ways of simplifying things, as that would aid everybody and be in everyone's interest.

I move,

That the Finance Committee, in consideration of the draft Budget (Scotland) Act 2002 Amendment Order 2003, recommends that the Order be approved.

Motion agreed to.

Cross-cutting Reviews

11:30

The Convener: Our second agenda item is on cross-cutting expenditure reviews. Murray McVicar will say a few words of introduction on the paper that is before the committee.

Murray McVicar (Scottish Parliament Information Centre): I am joined by my colleague Simon Wakefield, who is a principal research specialist in the Scottish Parliament information centre and who will shortly be taking over my responsibility for public finance. We thought that it would be helpful for him to attend the meeting.

Members will remember that, last year, the committee agreed on operational practices with regard to future cross-cutting reviews and asked SPICe to scope some options for future reviews, with a view to recommending a topic to the successor Finance Committee, although, obviously, that committee will not be bound by any recommendation. The paper on cross-cutting expenditure reviews offers some general options and ways to proceed. If members agree on a topic, a more detailed paper with a draft remit, methodology and list of participants can be prepared for early in the new session. The aim is to enable the new committee to hit the ground running with a cross-cutting review, if that is what it decides to do.

I am not an expert on all the topics that the paper covers; it was produced with the assistance of my SPICe colleagues, whom I thank. In identifying options, we focused either on areas on which members have previously expressed an interest in doing a cross-cutting review or on areas that are major Executive cross-cutting priorities.

We came up with six topics. Drug misuse has been suggested previously as a cross-cutting option. In November, the committee also expressed an interest in a review of expenditure in rural areas, and the Rural Development Committee's stage 1 report on the budget requested that the Finance Committee carry out some kind of cross-cutting review on the issue. Economic development and youth crime are Executive priorities. Sustainable development is a cross-cutting priority that has a budget document attached to it. Finally, the Gaelic college on Skye has been identified as an area in which some members are interested.

I hope that that outline of the paper is helpful.

Mr Davidson: I have two favourite areas to recommend, but I wonder what would be involved in such a review. My first suggestion is a review of economic development. There are difficulties with the economy and we must examine the available tools. I presume that the basis of a review is to answer the questions of who does what, where, and whether there is overlap and room for improvement. What time would be required to run such a review?

Murray McVicar: We suggest that, if a recommendation goes to the successor Finance Committee and is accepted, we will carry out preparatory work during the summer. The committee work could then be done in the autumn and early in 2004, although the timetable will depend on which review is chosen because when we get into a review, we might end up with more information than we expect. We are aiming for all the reviews to report by spring 2004, but there might be slippage.

Mr Davidson: I am not sure whether you have had requests from committees other than the Rural Development Committee, but I know that other committees are interested in some of the proposed subjects. For example, the Audit Committee is keen on the drugs issue and has discussed it in various ways. As I recall, the Rural Development Committee asked for a review not only last year, but previously. I am not sure whether it made a formal request through the budget process, but the Rural Development Committee certainly became interested in a review once it realised that it was not just about agriculture and fishing but was concerned with the totality of expenditure in rural areas. Has your department done any preparatory work in conjunction with the clerking team for the Rural Development Committee?

Murray McVicar: No. We did not want to go too far without getting committee approval for the topic. The purpose of the paper is to identify the options. Once we have the feedback, we will develop a more detailed paper for the next committee, if it decides to go with rural expenditure.

Brian Adam: It is interesting to have the selection before us, but would it not be more appropriate for the new committee to make choices for itself than for us to make suggestions? Of course, the officials might find it helpful so that they can do some preparatory work, but that work might be wasted if the new committee chooses to go down a different route.

The Convener: We will certainly refer the paper to the new committee. We have previously indicated that the present committee would prefer to give the new committee a steer. Members are at liberty to change their view and simply refer the paper.

Brian Adam: The drug misuse review is of considerable interest, but the Executive has had a good look at that issue. If we have to make a choice, I would not necessarily want to pursue that one.

I was intrigued by the sustainable development suggestion. That might be well worth pursuing. I do not think that any committee has done a lot of work on that so far. Also, following our trip to Skye, we are almost duty-bound to advise the new committee to look at the Gaelic college.

The Convener: To say duty-bound is a bit strong, but I understand your point.

Elaine Thomson: It would be helpful for us to make recommendations, but it will be up to the new committee to decide what it wants to do.

I suggest the economic development option and also potentially the sustainable development one. I have sat on both the Finance Committee and on the Enterprise and Lifelong Learning Committee. There are several aspects of the economy that the Enterprise and Lifelong Learning Committee has not dealt with and perhaps they need to be dealt with at a slightly different level or in a slightly different way. It might be useful for the new committee to do work on that which could inform work going on elsewhere.

We could also consider the sustainable development proposal. Again, it is not clear which of the other committees might focus on that subject. The subject requires a substantial mind shift that might impact considerably on policies and the way in which many different departments might operate. We are talking about the priority areas that have been identified under "Meeting the Needs"—resource use, energy and travel. Those issues are all critical. It would therefore be useful for us to consider that area.

Dr Simpson: I am broadly in agreement with Elaine Thomson. Economic development and sustainable development are the two options that I would recommend.

On drugs and youth crime, one possibility is that if another committee takes the lead on those issues on a reporting basis, a member of the Finance Committee could be allocated to that committee, rather than the Finance Committee taking on the issue. We might have to think more about structure. Equally, if the Finance Committee is reviewing economic development, it might seek involvement from some members of the Enterprise and Lifelong Learning Committee. That is just an observation.

The Convener: So far, the economic development, sustainable development and Gaelic college options have been suggested. Do members agree that we should rank them in that order?

Members *indicated agreement.*

Financial Scrutiny Review

The Convener: The next item is the financial scrutiny review. There are two papers for the item and Arthur Midwinter is here to answer any questions on the second paper. I invite members to ask any questions or make any points of clarification on the papers.

Mr Davidson: I have a point to reinforce about the quality of financial memoranda. The committee has made its view clear. The points in the draft report on the financial scrutiny review are well made.

There is concern among the subject committees about the quality of the financial memoranda that are published with bills. The topic is important for the Parliament, not only for the committee. At one stage, there was a move for the committee not to deal with financial memoranda, but it is essential that we do and that we have a proactive relationship with bill teams to ensure that the clerk or the convener gives and exchanges advice.

We need to be robust on financial memoranda in future. Typical examples are the Mental Health (Scotland) Bill and the Homelessness (Scotland) Bill. In their original forms, the financial memoranda for those bills contain staggering inadequacies. The committee will be worth its salt if it can sort that problem out.

Elaine Thomson: I am looking at the proposal for the spending review in paragraph 31 of Arthur Midwinter's paper. Am I right in thinking that you are proposing that, instead of a fairly intensive stage 1 and stage 2 under our three-stage budget process, the bulk of the subject committees' work should take place in March and April, when they would consider the strategy documents, and that the work in September and October, which is currently stage 2, should be a relatively short and snappy review?

Professor Midwinter: The criticism from the financial issues advisory group meeting was that the strategic dimension was not strong enough. As I looked back over the year, it became pretty clear that FIAG reported before we knew about Gordon Brown's reforms and before we knew that there was going to be a spending review system.

We have a two-year budget cycle, but a three-year planning period, because we begin by revisiting the final year of the previous process. I felt that there was a huge overlap between the annual expenditure review, which is really not playing the strategy document role that FIAG envisaged, and the draft budget. FIAG initially thought that the committee would make its detailed recommendations at the draft budget stage, but they are being made in June and July because they need to be made at that point in a spending review year to influence the spending review.

My proposal is an attempt to rationalise the process to bring out a more strategic dimension in line with the committee's experience over the past few years. The beginning of the process should be a strategy document, accompanied by a new performance report to end the previous process. That would be progress.

At the moment, the budget is not dealt with systematically. We have "Building a Better Scotland: Spending Proposals 2003-06: What the money buys", "Closing the Opportunity Gap: Scottish Budget for 2003-2006" and "Building a Sustainable Scotland: Sustainable Development and the Spending Review 2002". None of those is scrutinised—they are only published. Committees go on and use "Building a Better Scotland" as the basis of their discussions of the draft budget, although it does not have level 3 figures. There was a fair degree of confusion this year. The process could be rationalised and focused much more on the choices.

Elaine Thomson: So, in the spending review year, the March/April strategy document would be the primary part of the two-year process and would drive everything else, because it would drive all the discussions.

Professor Midwinter: It would be a combination of the initial information that is currently in "Building a Better Scotland"—produced to lay out the budget strategy with the key priorities highlighted—and the existing plans right down to level 3 for the final year of the current process. We could then focus on the committee's recommendations for change and submit the recommendations, as we did this year. The committee needs to recognise that October is not the time to get recommendations from the subject committees—which is what FIAG wanted—because by that time, it is too late. The draft budget part of the process could be truncated.

As yet, ministers do not explain fully what they have done with the committee's recommendations. The FIAG report suggests that the Executive should do so in the final stage of the process. That ought to be formally recorded in the draft budget; the Executive needs to say, "This is what we have done in response to the committee's recommendations."

We are talking about the need for the Executive to make a simple record of the number of changes that it has made. We are not asking for a word-for-word regurgitation of the changes to a document of some 200 pages.

11:45

Elaine Thomson: By September or October, committees will be able to see clearly whether the recommendations have been adopted.

Professor Midwinter: This year, some of the committees are still waiting for an answer. In July, they were told that the matter was being dealt with in the spending review. However, the spending review happened and the documents were published, but they were not scrutinised and we still do not know what happened to around four of the committee's recommendations. The suggested approach would tighten up the process and give it a better focus.

I am looking for the committee to agree broadly to the approach. We can then take the matter forward with officials during dissolution and try to get something for the new committee that both sides would find helpful in the rationalisation of the process. I know that the current ministers are keen to rationalise the process, but the outcome of the election might change that.

Dr Simpson: I have a number of specific points to make, but before I do so, I have a general point to make about the format. I do not have a problem with it, except to suggest that it should be set in the context of much longer goals. At least once in every parliamentary session, consideration needs to be given to 10-year objectives. That point takes us back to our discussions of about three years ago on the Oregon budget, in which everything was set in the context of 10-year plans. At the moment, I think that 2010 targets are discussed only in respect of health targets, as everything in that area has to be seen in the context of those longer-term targets.

Given that Professor Midwinter sets out in his paper that we can shift only a small amount every year, we have to look to long-term goals to achieve a major strategic shift. I suggest that somewhere in the document, we should say that a strategic overview should be taken of the whole process and that, ideally, it should happen at an early stage of every parliamentary session.

Professor Midwinter: Before Richard Simpson returned to the meeting, we were having all sorts of problems with the long-term goals. We were looking at them and asking how we could monitor how they were to be achieved. We felt that a number of health goals could not be identified in the budget and that we could not see where the money was coming from that would contribute to those long-term goals.

My instinct is that we should think about that point in relation to either the strategy document or the performance report. I would like to have time to think about it and to talk it through with Executive officials. Part of the difficulty relates to the performance information that we receive. We do not get the outturn figures until about two years after the budget has closed. The most relevant social indicators that are used are also about two years old. I need to think about that point.

Dr Simpson: My other point relates to paragraph 30 of our draft report and to the question of targets. Not only are the annual targets not meaningful against long-term strategic objectives, but they are often beyond the scope of the Executive department, agency or local authority to achieve.

One example is the target for the reduction in violent crime. It might be a perfectly appropriate Executive target, but it is counter-productive to set it as a police target. When I was Deputy Minister for Justice, I tried to change it. If we really wanted to meet a target for reducing violent crime, the way to do it would be not to arrest people for carrying offensive weapons—that measure would reduce the figures for violent crime overnight. What we should be saying is that we want to arrest many more people for carrying offensive weapons. If that leads to a rise in the numbers for violent crime, as it has done, that is entirely appropriate. To do so would prevent the spurious debates that we can have in the Parliament about violent crime.

Mr Davidson: Agreed.

Professor Midwinter: It was pretty clear from the feedback on the outcome budgeting exercise that a number of professions, including the police and the prison service, were worried about the use of such targets, because they would be held accountable for something that they could not control.

Dr Simpson: There are process targets that are entirely appropriate, and there are some quality targets that are appropriate. I wanted to have a bit in paragraph 30 saying something like, "Targets should be meaningful. Too often they do not fall within the operational control of the Executive department or agency, and we recommend that there should be a review by subject committees of targets as part of the budget scrutiny." At some point, there should be a review of the whole basis of targeting, and subject committees should really take that on board.

The Convener: Of course, that depends on political parties taking an objective analysis of the outcomes of those targets, rather than using it as a method for criticism.

Dr Simpson: That is right. If the targets are meaningful, that should prevent some of the spurious debates that we have been having. I can see Mr Davidson nodding; I hope that he will say "Yes," loudly.

Mr Davidson: All I am saying is that I am defining that as scrutiny.

Dr Simpson: I have one suggested change to paragraph 24, on written guidance on announcements, which says:

"We welcome the clarity that this will bring."

That is still aspirational. I suggest that we change that to recommend that our successor committee should repeat the analysis contained in the annexe to ensure that the clarity anticipated by those new guidelines is actually achieved. Maybe I am being cynical.

The Convener: No, no. In the spirit of optimism I shall accept that change.

Mr Davidson: I have a question for Arthur Midwinter. In looking at the review of how the process works, do you intend to do any work with representatives of the subject committees, whether through their advisers or through their clerking teams, on where they want to feed in and what they want? If that is done, a collective view could be given before you speak to the Executive.

Professor Midwinter: At the moment, I have been asked to do a review document, rather than to think about the mechanics of how we would do it. The only clear message that we got from the committees was a worry about overload, as they felt that they were getting too much information and detail. A year ago, when I was first appointed, I had a collective meeting with the clerks and conveners of the different committees, and I suggest that we should probably do that again. The Executive is keen to have a discussion about it to find a way that meets the objectives of the committees and those of the Executive, but it would make sense to have those collective meetings before we meet the Executive.

Mr Davidson: My point is that we have had written agreements with ministers in the past about procedures, and I find it a bit strange that we can come to an agreement without those who have to play the game having a say in the rules, the timing or the work load. It is important that we tidy that up.

David McGill (Clerk): Our feeling was that, at the moment, we have a remit at official level to go away and start discussions, but we must then bring them back to this committee and to ministers in the first instance. We also felt that we would need to get that buy-in from the subject committees; the forum for doing that would be the Conveners Group, and we would do that before we sought to finalise a new system.

Professor Midwinter: We could talk them through the papers.

The Convener: The first thing that we must do is to seek agreement on the draft report on the financial scrutiny review. It is not quite the same as a normal report, as it does not contain a great number of recommendations. It is more of a commentary on the work that we have done. Are members quite happy to accept the report?

Members *indicated agreement.*

The Convener: The second paper is the one from Arthur Midwinter on suggested changes to the current budget process. Are members quite happy to go along with the suggestions in that paper and allow further work to be done?

Members *indicated agreement.*

The Convener: Arthur, do you have any further comments before we sign off the report?

Professor Midwinter: No, not at this time. I have been pleased with the response that we have had from the Executive on previous attempts to improve the process, and I am sure that it will continue to behave in a positive way.

Committee Annual Report

The Convener: The fourth item on the agenda is the committee's annual report. It is in the normal format, with the limitations that are placed on such things. If members have no comments on the contents, are they quite happy to sign off the report?

Members *indicated agreement*.

The Convener: Before we move into private session for the next item, given that this should be the last meeting of the committee—barring unforeseen circumstances—before Parliament moves into the recess, I take the opportunity to thank the members who have been on the committee for longer than I have been and who have overseen the work of the Finance Committee. By any objective measure, the Finance Committee has made a contribution to the Parliament and has slowly but surely tried to improve the processes that the Parliament employs. We all know that that is a long-term process, so I thank members for the work that has been done.

I also thank Arthur Midwinter, who has been our adviser. During my time on the committee, I have certainly found the advice and papers that he has provided to be very useful. They have added a good deal of clarity, and I am personally grateful for that, as I am sure other members are. Thank you very much, Arthur.

Finally, I thank the staff who have served the committee. The Finance Committee is perhaps seen by some as being not the most exciting committee, but we have been well served by the clerking staff, so I thank them very much indeed for all their help.

11:56

Meeting continued in private until 12:28.

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