

# **FINANCE COMMITTEE**

Tuesday 30 September 2003  
(*Morning*)

Session 2

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## FINANCE COMMITTEE

### 8<sup>th</sup> Meeting 2003, Session 2

#### CONVENER

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

#### DEPUTY CONVENER

\*Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP)

#### COMMITTEE MEMBERS

\*Ms Wendy Alexander (Paisley North) (Lab)

\*Mr Ted Brocklebank (Mid Scotland and Fife) (Con)

\*Kate Maclean (Dundee West) (Lab)

\*Jim Mather (Highlands and Islands) (SNP)

\*Dr Elaine Murray (Dumfries) (Lab)

\*Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)

\*John Swinburne (Central Scotland) (SSCUP)

\*attended

#### COMMITTEE SUBSTITUTES

Mr Adam Ingram (South of Scotland) (SNP)

Gordon Jackson (Glasgow Govan) (Lab)

Mary Scanlon (Highlands and Islands) (Con)

Iain Smith (North East Fife) (LD)

#### THE FOLLOWING ALSO ATTENDED:

Professor Arthur Midwinter (Adviser)

#### THE FOLLOWING GAVE EVIDENCE:

Dr Kate Adamson (Scottish Association of Health Councils)

Neil Campbell (Argyll and Clyde NHS Board)

Richard Dennis (Scottish Executive Finance and Central Services Department)

Alexis Jay (West Dunbartonshire Council)

Mr Andy Kerr (Minister for Finance and Public Services)

Alan McKeown (Convention of Scottish Local Authorities)

John Mullin (Argyll and Clyde NHS Board)

John Wright (Scottish Association of Health Councils)

#### CLERK TO THE COMMITTEE

Susan Duffy

#### SENIOR ASSISTANT CLERK

Jane Sutherland

#### ASSISTANT CLERK

Emma Berry

#### LOCATION

Committee Room 1



# Scottish Parliament

## Finance Committee

*Tuesday 30 September 2003*

*(Morning)*

[THE CONVENER *opened the meeting at 10:00*]

### National Health Service Reform (Scotland) Bill: Financial Memorandum

**The Convener (Des McNulty):** The bell has rung for 10 o'clock, so I welcome members, the press and the public to the Finance Committee's eighth meeting in session 2. I remind people to switch off their pagers and mobile phones. We have received no apologies from committee members.

Agenda item 1 relates to the National Health Service Reform (Scotland) Bill, which the Minister for Health and Community Care introduced on 26 June. We have several witnesses to assist our consideration of the financial memorandum that accompanies the bill. From NHS Argyll and Clyde, we have John Mullin, who is the chair, and Neil Campbell, who is the chief executive; from the Scottish Association of Health Councils, we have John Wright, who is the director, and Dr Kate Adamson, who is the convener; and from the Convention of Scottish Local Authorities, we have Alan McKeown, who is the health and social care team leader, and Alexis Jay, who is the director of social work and housing services, at my local council—West Dunbartonshire Council.

Members have copies of the written submissions from NHS Argyll and Clyde, COSLA and the Scottish NHS Confederation. I welcome all the witnesses to the meeting. I am not sure whether we require opening statements, unless anybody is anxious to make one. We will press straight on to questions. Did the Scottish Executive consult health boards when drawing up the financial memorandum?

**Neil Campbell (Argyll and Clyde NHS Board):** We were not consulted in a significant way. As a chief executive in NHS Scotland, I have been involved in general discussions at meetings of chief executives with the chief executive of NHS Scotland, but I am not aware of a specific consultation.

**John Mullin (Argyll and Clyde NHS Board):** General discussion has taken place in the chairmen's group of NHS Scotland, but a specific consultation was not held.

**The Convener:** Paragraph 33 of the financial memorandum claims that community health partnerships can be created without additional expenditure, but I am a bit concerned about the extent to which that is possible, because many local health care co-operatives are not up to speed. Are present funds sufficient to sustain the current locality structures and to develop new structures when communities need them in addition to larger and fewer CHPs? Will the funds meet the infrastructure needs of enlarged representation on CHPs?

**Neil Campbell:** The structure and organisation of LHCCs is diverse between different health board areas. In some areas, significant opportunities will be presented to consolidate organisation and management arrangements upwards into community health partnerships. In some parts, opportunities are likely for financial savings on the basis of that consolidation upwards. At the same time, a strong and cohesive set of organisational and management arrangements can be created to deliver for communities what community health partnerships can do with local authorities. As that consolidation upwards will link with local authorities, I am sure that it will open a door to the better use of joint local management resources by health services and local government. Those opportunities will vary throughout Scotland.

In areas where LHCCs cover significant geographic areas with large populations, that consolidation upwards might not be as straightforward, because the need to maintain close contact with local communities at a more community-sensitive level will cause community health partnerships to consider how to devolve those relationships to local community areas.

**The Convener:** As a health board manager, you recognise that establishing CHPs will cost money.

**Neil Campbell:** Yes.

**The Convener:** How many CHPs can Argyll and Clyde afford?

**Neil Campbell:** We hope to form three partnerships that have co-terminous boundaries with our local authorities and two that are in partnership with Glasgow and the local authorities whose areas straddle Argyll and Clyde and Glasgow. We will need to contribute towards the cost of two partnerships with Glasgow and our local authority partners and three partnerships directly with our local authority partners. We are looking for a relationship with five partnerships in Argyll and Clyde.

**The Convener:** How much will that cost?

**Neil Campbell:** We are working on the assumption that we will have to manage the cost within the costs of the seven existing LHCCs.

**Dr Kate Adamson (Scottish Association of Health Councils):** Health boards will be responsible not only for community health partnerships, but for public participation forums. I would be interested to hear from Neil Campbell about that, because funding for such a purpose is not currently part of a health board's remit and would be in excess of the funding for a local health care co-operative or community health partnership.

**Alan McKeown (Convention of Scottish Local Authorities):** The question has been raised whether managing public consultation should be the sole responsibility of CHPs. Our policy response strongly suggests that considerable added value would be created if we used the mechanisms that have been developed for community planning, which is a statutory responsibility. That is not highlighted. We suggest that we should make those links as a matter of policy, to benefit from the advantages and to make the potential savings.

Perhaps it is a bit early to tell whether enough money is available for CHPs. We can all accept that cost savings can be made. However, in the short term, it is unlikely that those savings will be realised, so an additional early hit might be needed. We must consider resources to support the formation of CHPs and all that accompanies them to make them effective on the ground with communities and partners.

**Alexis Jay (West Dunbartonshire Council):** There is a parallel with the joint future agenda, which involved integrating older people's services. In our case, that was across two NHS boards and one local authority—such integration has happened throughout Scotland. That experience showed that there must be investment in development time to allow such changes to happen effectively. Although the costs of the joint future agenda were transitional, they were absorbed entirely by the partners.

We were supportive of the agenda and glad to undertake it, but there were hidden costs attached to it and nobody has calculated them. Those costs related to secondments, which nearly every partnership developed to ensure that the work progressed, and to staff training. We need to invest in front-line staff. Local leadership is needed with such a major change to ensure that the system is as effective as possible.

**John Mullin:** I concur with the comments of colleagues in COSLA about the role of community health partnerships in public involvement and about the community planning process. As members will know, we in Argyll and Clyde became a single system on 1 July. We have been keen to avoid unnecessary duplication. We believe that community planning can play a crucial role in

the development of the health service not only locally but nationally. We are keen to see whether we can work with our local authority colleagues to take advantage of some of the positive work that has been done in Scotland to involve the public. I have a local authority background and I feel that the health service can learn a lot from how local authorities have engaged with the public over many years. We are keen to explore that avenue and to cut out any unnecessary duplication.

**The Convener:** There is a point about which I am not clear and no one is giving me an answer. Are there savings from the LHCCs that could move across into the community health partnerships? If not, how can the partnerships operate without additional resources?

**Neil Campbell:** It is difficult to say exactly how we will align the management arrangements in partnerships that do not yet exist. We have not received formal guidance on what the partnerships will be like or on the nature of their work. From work that we have done to develop LHCCs and from work that has been carried out over many years to develop relations with local government—through, for example, community planning—we have a good general idea of what CHPs will be like and of the kind of opportunities that they will present. However, we have not yet received any detailed guidance on the establishment of CHPs or on exactly the sort of work that they will do.

In Argyll and Clyde, the organisation and management arrangements relate to seven LHCCs. We have general managers, lead clinicians and some administrative functions in place. We will have five CHPs, two of which will be shared with Glasgow because of the cross-boundary organisation of the local authorities. Therefore, in establishing management arrangements, there will be a shared cost with Glasgow. In Argyll and Clyde, we will be able to redeploy the resources from seven LHCCs into three CHPs in our area and two that are shared. Standing back to consider that from my perspective as a manager, I see an opportunity to redeploy costs. In addition, by creating a single system, we change the whole nature of the work of a health board, which will also give rise to opportunities. We can consider how some work can be conducted more locally. Through CHPs, some resources can be redeployed from what was the health board work force.

If I understood it correctly, the question was whether that redeployment would fit with the cost of CHPs. It is very difficult to say. There will be hidden costs. I expect that the management of CHPs will be of a higher calibre, with higher skills, than that of LHCCs. CHPs will have wider responsibilities and will be more accountable. Their work responsibilities and their relations with

local authorities will require a higher calibre of manager. We have to identify those people. What do we do with people in existing LHCCs who have yet to achieve that level of competence—if they ever can? Do we make them redundant? Do we wait for them to move to other jobs? Do we carry them as excess in the system? As a manager, I have to recognise that there will be hidden costs.

My impression is that, in the short term, the establishment of CHPs will have a cost for the NHS that is above the cost of LHCCs. However, over time—a couple of years—that cost will be taken out of the system as we take the opportunities that arise. In making that comment, however, I am making assumptions. I do not have hard evidence. It is too early to be precise because the exact nature of CHPs has yet to be worked through. The detailed work that will be required with local authorities will have to be worked through and, in Argyll and Clyde's case, there will also be detailed work with Glasgow.

10:15

**The Convener:** So you are saying that there will be an initial cost that might fade away over time but that you cannot quantify it.

**Jim Mather (Highlands and Islands) (SNP):** Reform is at the core of the bill and the Scottish NHS Confederation is about to launch a major project to help to define and shape the CHPs. How will you focus on value for money, on improved effectiveness and outcomes and on avoiding exporting costs on to patients? I am thinking particularly of the delivery of services in the community—close to the patient wherever possible. How can we play a full role in energising communities and making them more attractive places for people to live in—to invest their lives in, if you will?

**Neil Campbell:** I will comment on that first; COSLA may want to comment after. We have good experience of working with local government, both in community planning and in joint future work. Bringing together expertise from local government and the health service creates opportunities for better cross-boundary working between professional groups. Sharing expertise and skills among work forces creates real opportunities for services and local communities. CHPs will be a vehicle for that kind of work. We have not yet been provided with the exact details of what would be expected of us, as an NHS board, in that work. However, our experience to date of working with local authorities has been positive. It has enabled the kind of integration that creates opportunities for communities and it has allowed for substantial scrutiny of cost-effectiveness and value for money.

**Alan McKeown:** I will pick up on a point from that and then Alexis Jay will perhaps talk about the Chartered Institute of Public Finance and Accountancy guidelines. We have to consider more than simply value for money. Added value has to be seen in improved services—not only must we be able to say that there are improved services, but the people who use the service must be able to see a direct benefit. I am not saying that that has to happen immediately; it would be naive to suggest that. Partnership working with local government and joint future work take time and a lot of continued effort. We are not just changing services; we are changing culture in the way that two fairly monolithic organisations come together to work. That will take time. We have to consider more than just value for money.

**Jim Mather:** That is why my question was multifaceted. The key point was on improved effectiveness and outcomes and on the avoidance of exporting costs on to patients. The bill gives you an opportunity to be new brooms. How are you stepping up to the plate to address all the issues?

**Alan McKeown:** The bill represents a real challenge, but it has to be seen as an opportunity. It is a chance for us to start, right at the beginning, to work on the structure. We have to work through the guidance, get the culture right and get the key messages across. What we do has to be about partnership. We have spoken about community planning and the role of consultation. There is no point in twin-tracking things and then, at some point, saying that we need to bring them together. We should bring them together right here, right now. We should move forward collectively. That is a strong part of the COSLA response.

**Dr Adamson:** I absolutely concur with what has been said on cost-effectiveness. In rural areas, there is no doubt that the economy of scale that can be achieved through amalgamating LHCCs will be significant. However, as for delivery close to the ground, there is certainly a perception in Highland, where I come from and which is a very rural area—the most rural area—that services are being taken away from local areas. That is the perception among the professionals and local people.

**Dr Elaine Murray (Dumfries) (Lab):** I want to explore some of the fears expressed by Argyll and Clyde that the costs of the powers of intervention are not correctly calculated. You have said that the costs may be higher than the Executive suggests. Given the financial difficulties previously experienced by some health trusts, what would be a better estimate of the costs of those powers of intervention? I know that that is difficult to get a feeling for, as intervention would happen only under particular circumstances.

Are you concerned about the fact that the costs of intervention had to be borne by the trust when the problems might have arisen in the first place because of financial pressures? Are you concerned that intervention might make the situation worse rather than better?

**John Mullin:** I will start and Neil Campbell will follow with more detail. This time last year, I had to approach Trevor Jones, the chief executive of NHS Scotland, and ultimately Malcolm Chisholm to ask for support because I believed that, at that point, we had a major systemic management failure in Argyll and Clyde. We can therefore comment in some detail on the cost implications of the task force that was put into Argyll and Clyde. The task force spent a couple of months in Argyll and Clyde and prepared a report that has led to our taking a series of actions to ensure that we recover the system and finances of Argyll and Clyde and consider clinical recovery and clinical redesign.

To me, the suggested figures seem to bear no relation to the figures that we had to address within Argyll and Clyde. I will ask Neil Campbell to have a stab at specifying what those figures were and to comment on what they are likely to be in the future for other authorities.

I can perhaps answer the last part of Elaine Murray's question. I agree that, in many cases, intervention will probably happen when organisations have experienced major financial problems. I have mentioned Argyll and Clyde, but members will also know about the problems that occurred in Tayside. For health boards such as Argyll and Clyde, which has to save £35 million over three years, any costs on top of that will be a considerable additional burden.

**The Convener:** Before Neil Campbell responds, I want to mention an issue that arose in relation to the Beatson intervention, which took place to address a specific example of service failure rather than to address issues across the health board. If NHS Quality Improvement Scotland identified other service failures, could there be further demands for ministerial intervention? Would not that also be a cost within the system?

**Neil Campbell:** I cannot see how intervention can take place without substantial cost. I believe in intervention. Intervention is an important tool that needs to be available to the Scottish Executive Health Department in order to secure safety, quality and development of services for local communities, but it is a costly option. It requires people to be available to intervene. However, what do those people do while they are waiting to intervene? That is an issue, which must have cost implications.

Intervention requires people who are competent to carry out a variety of roles to be available to

intervene. Such people are often at a significant point in their personal career development, so they are expensive. There may well be other work that those people can do while they are waiting to intervene, but it is unlikely that we can have any number of those people ready at the drop of a hat to go anywhere in Scotland to provide the necessary support.

In addition to the financial costs, the system of intervention involves a significant cost by the very fact that it displaces people who are carrying out certain roles. Often, no management decision can be taken to remove people from the system without cost. In the case of Argyll and Clyde, four chief executives were removed, at significant cost to the NHS. There was also the cost of the intervention team, which has only now, with effect from 1 September, come to an end. That was nine months of cost. Including salary costs, living costs and so on—the people were drawn from across Scotland—the intervention team probably cost in the region of £300,000.

**The Convener:** That is considerably more than the estimate that is given in the financial memorandum.

**Neil Campbell:** There is a cost to intervention.

The intervention team also brings other people in its wake. In Argyll and Clyde, there were three people in the intervention team, but other people with expertise had to be brought in to do the other work that needed to be done. On behalf of the board, I commissioned work to validate financial data, because the system was in crisis and needed that kind of support. For all those reasons, intervention is a costly process, but I believe that it is a necessary process.

As I said, not all the costs are financial. There is a need to have available within NHS Scotland a high-quality group of people to be deployed. Those people will not be available to do other things.

**Mr Ted Brocklebank (Mid Scotland and Fife) (Con):** The dilemma for the lay observer is that, although the financial memorandum assures us that the cost implications of the reform are negligible, that is not what we have heard from the witnesses so far. How can we—and you—reassure the public that the outcome of the reforms will be a better health service? How can we reassure people that the reforms will not simply be an exercise in diverting scarce public money away from front-line health provision and into yet more health board management?

**Neil Campbell:** The consequence of not having the ability to intervene in an NHS system that is failing is disaster for that system, which affects not only the management or the board but front-line services—the disaster strikes the people who need those services.



Let me describe Argyll and Clyde's circumstances before intervention. Crucial front-line services for surgery and maternity services were not able to move forward to a position where they could be sustained for a large proportion of the population in Argyll and Clyde. The knock-on implication of our not being able to sustain surgery was that we were unable to sustain accident and emergency services, medical receiving and high-dependency unit and intensive-treatment unit facilities and services. That lack of decision making and inability to move forward as a system had a consequential impact on a diverse set of services. In mental health services, we were unable to recruit and retain staff in part of the patch. There was an impact on the continued development of community infrastructure and reprovision programmes. In rural services, there was an impact on recruitment and retention in primary care.

System failure has a massive knock-on ripple effect on front-line services and care. There is a need to invest so that opportunities are developed to deal with such failure through a power of intervention. That is crucial for the services that the public require and to which they have a right. I believe that intervention is an important aspect of the bill and that it should be developed. However, I am saying that there is a cost to it.

**Mr Brocklebank:** Are you refuting the guidance that we have been given, which is that the cost implications are negligible?

**Neil Campbell:** I am taking a view, which is based on my experience in Argyll and Clyde, that intervention involves a very significant up-front and on-going cost.

**Ms Wendy Alexander (Paisley North) (Lab):** We have opened up an important issue that we will need to explore with the Executive next week. Neil Campbell has highlighted that there are reservations not only about the costings that have been given for the power of intervention but about the scoping of that power. Perhaps between this week and next, the clerks could develop a line of questioning that examines the benchmarks. I am struck by the fact that we have experience of central intervention in schools. The Accounts Commission for Scotland might offer benchmarks for intervention in a single school, but that kind of intervention cannot be compared with intervention in health boards, which have budgets that run into hundreds of millions of pounds. I think that the proposal is neither scoped nor costed appropriately. It would be helpful to develop that line of questioning before we discuss the matter with the Executive next week.

10:30

I am aware that time is pressing, but I have one more question to ask. The bill raises the matter of public involvement in the NHS. In the evidence from Argyll and Clyde NHS Board, it is noted that many parts of the service are undergoing considerable redesign, and that the pressure for public consultation is, therefore, perhaps stronger now than it was in times past. Ted Brocklebank pointed out the dilemma in the balance between trying to direct as much resource as possible to front-line services and making the public aware of service redesign in their areas. With a view to the discussion that we will have with the Executive next week, do the witnesses have any observations about public involvement in the NHS and the associated costs, given the need to keep as much resource as possible for front-line service delivery?

**John Wright (Scottish Association of Health Councils):** First of all, I apologise to the committee for not submitting a paper earlier. The request to attend the meeting coincided with our association's annual conference last week. However, I gave a paper to the clerk this morning.

The association is the membership organisation for health councils in Scotland. Members are aware that there are currently 15 local health councils, which are the statutory bodies. I clarify that for reasons that will be important later.

Although we are unable to determine whether the implementation of the National Health Service Reform (Scotland) Bill will be cost-neutral, we have some concerns about the statement in paragraph 37 of the financial memorandum, which says that existing budgets that have been allocated to health councils in Scotland will be sufficient for the new Scottish health council. Our reasons for that assertion of concern are based on feedback that we have requested from all the member health councils.

I will go through some of that feedback. First, the increased importance that has been given by the Scottish Executive to public involvement in planning, delivery and monitoring of health services was mentioned. The new Scottish health council will be fundamentally different from the organisations that exist at present. We are talking about an organisation—

**The Convener:** Perhaps we are straying into matters that are the subject of the submission. We are looking for a response to Wendy Alexander's question.

**John Wright:** Okay. In paragraph 37 of the financial memorandum, it is stated that the existing financial arrangements are adequate. We believe that there are likely to be significantly increased costs for the new organisation.

One of the areas about which we are concerned is that, in addition to the budgeted figure of £2.1 million that is quoted in that paragraph, the 15 existing health councils are currently dependent on funding in kind from NHS boards. That funding varies from health council to health council, but it typically covers costs such as property rental, rates and IT expenditure. If the new organisation is to be truly independent of health service providers, we argue that those costs should be refunded directly to the Scottish health council and that the current in-kind funding arrangements should not continue. However, we do not suggest that that money should be taken away from NHS boards. Suffice it to say that funding must continue to be provided to the new Scottish health council. Although I cannot quantify the amount at this stage because I do not have the information from local councils, the funding from the existing budget of £2.1 million could be significant.

**Alexis Jay:** If we are serious about public and patient involvement, there must be some commitment to enabling and supporting people to participate. That means investment in capacity in communities; not just in formal organisations, but in groups that represent the different interests of patients so that we avoid making the initiative tokenistic.

**Alan McKeown:** I hope that I understood the question about public consultation correctly. As the bill is drafted, there is an issue about accountability of CHPs; we are concerned that they would be accountable only to NHS boards. That would be an opportunity missed to examine ways in which to marry accountability with communities through local government. I recommend strongly that the committee reflect that. COSLA takes the view that we should try to ensure that, rather than be accountable only to the local health board, CHPs are accountable to more people than that board. That goes to the heart of ensuring that local government and the NHS work more closely in order to deliver better services.

**The Convener:** You refer to what is primarily a policy, rather than financial, issue.

Before we move to the health boards' responses, I will pick up on a question that Wendy Alexander asked. Can we do any benchmarking for consultation processes? We have examples of a number of major consultation processes in various health boards. Is it possible to quantify what a major consultation process costs in time involved and associated staff time?

**Neil Campbell:** There will be an opportunity to benchmark. We could track significant changes that the public has been consulted on throughout Scotland. Whether that would be helpful is a matter of individual opinion. Much of what happens during consultation is discussion and

provision of information. It is often a one-way process rather than a two-way process and it is not that good. It is not that intensive effort is not made and it is not that the intention is not good. Such a consultation process is not what the Finance Committee would expect of the health service and it is not what I expect as a chief executive with accountability for proper engagement with communities on major issues. Any figures that a benchmarking exercise came up with would not necessarily tell us what was effective.

The major challenge that consultation presents is to move beyond the process and into proper engagement with communities about the sort of issues that we face. In Argyll and Clyde, we must deliver a major reform programme in order to sustain our health services during the next five to 25 years. Engagement will be a major issue among the challenges that we face. Our challenges are similar to those that are faced throughout Scotland, but we have a set of acute circumstances on which we in Argyll and Clyde must engage now. That will mean a heavy draw on our resources over the coming years.

We are beginning to decide how we will undertake that process; there will be a cost of doing it effectively. That cost will not be for a brief process that concludes with a submission to the minister for approval of plans for change; rather, it will be a continuing process. When we have approval for plans to change, the education process of engagement needs to continue in order that we ensure that we get the best from that service change in whatever form it takes. That is a continuing responsibility of boards that goes way beyond the conclusion of formal consultation of the public and ministerial approval's having been given for changes.

**John Mullin:** I agree with everything that Neil Campbell said. I also voice my support for the comments that were made by Alexis Jay. There is a need for community capacity building. One can see from a number of consultations that have taken place the length and breadth of Scotland that some people still feel totally disenfranchised.

Whatever debates relate to—whether they are on maternity services or the west of Scotland secure unit—many people feel that some people are better able to register objections or to speak in public meetings and are therefore at an advantage. We are losing opportunities to engage with communities in the way in which Neil Campbell mentioned.

If we want people to get involved in the health service—or in any other service that is provided by a public agency—we must also support people's desire to become involved. That means that we have to invest in capacity building at local level.

Argyll and Clyde NHS Board has started to speak to its local authority partners in that regard because we see this as a win-win situation. We must work on capacity building. Speaking as the chair of that health board, the kind of consultation that currently exists is not the kind of consultation that I want.

**Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP):** Our task is to find out how much the bill will cost. The financial memorandum does not say that the cost will be negligible; it says that it will be zero. However, we have learned from you that there might be far greater costs than are included in this paper.

My understanding is that, essentially, the bill replaces trusts with community health partnerships—that is to say, it replaces one sort of administration with another. I am struck by what constituents of mine have told me. For example, a husband and wife in my constituency, both of whom are waiting for operations, view the bill with some scepticism because they had hoped that the proposal would lead to less money's being spent on administration and more on ensuring that the waiting lists that they are on are cut. That is not to criticise the health professionals; those whom I know in the Highlands are wholly committed to their task. However, having set that scene, I ask two simple questions. First, can each of you suggest what efficiency savings can be found in the administration that currently exists? Secondly, have you been asked by the Executive to volunteer such proposals in the context of the bill?

**The Convener:** Those are probably questions only for the representatives of the health boards.

**Fergus Ewing:** Not really. All of our witnesses have relevant expertise; I am interested to know what proposals they have for efficiency savings that would turn money that is spent on administration into money that is spent on front-line medical services? I would also like to know whether the Executive has asked them about that.

**Neil Campbell:** The overall changes that will be brought about by the partnership for care system under the National Health Service Reform (Scotland) Bill are much more far-reaching than it would be simply to replace trusts with community health partnerships. In fact, trusts will not be replaced by community health partnerships at all. There will be integrated NHS systems with one board of governance and an accessible organisational arrangement with one chief executive and a tier of management under that.

The configuration will differ across board areas but the principle is that trusts will disappear entirely. Community health partnerships are a stepping up of local health care co-operatives, which are not statutory organisations. I understand

that CHPs will not be statutory organisations, either.

10:45

There will be significant efficiency savings as a result of creating an integrated system. In Argyll and Clyde, we have four separate finance functions—one for the health board and one for each of the three trusts. After the changes, there will be one finance function with devolved components, which we expect to result in a saving of between £600,000 and £700,000.

Similarly, hiring and recruitment, which currently has three and a half distinct parts, will become one corporate function; we have taken the same approach to planning and to other corporate functions such as facilities management. To configure such matters in one organisation, rather than in four, will present opportunities for savings, which will put into the system money for some of the changes that are envisaged in the bill. However, it is too early to say whether the additional costs that I have described today will be met by those savings.

We have to ensure that in creating a single system in order to gain efficiency savings, we do not create a centralised bureaucracy in the image of the health boards of the 1990s. The thrust of the partnership for care system is to create at community level devolved organisational arrangements that are connected to local authority partners. The community health partnerships will be a key driver in that regard.

**The Convener:** Thank you. I ask for brief replies from our other witnesses because we are keeping the minister waiting.

**Alexis Jay:** I am not aware of the Scottish Executive's having asked us specifically about efficiency savings. There are examples of people trying to ensure that efficiency savings are made, however. In my area, for example, we would examine first-line managers of specific health and community care services, local health care co-operatives and social work teams to examine where there is overlap and duplication. Where the overlap means that it would be possible to have one manager instead of two, we will do that, to the extent that it would work best for the people involved.

**Dr Adamson:** I do not think that I can answer the questions that were asked.

**The Convener:** I apologise to the witnesses for having to cut off our discussion at this stage, but I thank you all for coming to the committee today. If there are any further points that you would like to make following this discussion, we will be pleased to receive further submissions in writing.

## Budget Process 2004-05

10:50

**The Convener:** The second item on the agenda is our consideration of the budget process 2004-05. I welcome Andy Kerr, the Minister for Finance and Public Services, with whom we will discuss end-year flexibility. I also welcome Richard Dennis and Richard Wilkins from the Finance and Central Services Department of the Scottish Executive.

Members have a copy of a letter from the minister responding to issues that were raised at our meeting of 16 September. I invite the minister to make an opening statement.

**The Minister for Finance and Public Services (Mr Andy Kerr):** Thank you convener. I do not want to spend too long explaining the principles behind EYF. I believe strongly that most MSPs accept the need for a system that ensures that money that is not spent in one financial year can be allocated in the next. Otherwise, we end up with heavy spending towards the end of a financial year, which provides bad value for money and benefits nobody except contractors and suppliers of services.

I intend to explain three basic issues: where our EYF money comes from; how we allocated it; and what the results of our allocation process were. I also wish to touch on the broader issues around how we try to manage underspend within the Executive.

The resources that were carried forward from our previous expenditure plans can be broken down into five categories. The first category is capital slippage, for example the delays in the roads programme, which accounts for £101 million of the £394 million total for 2002-03 and includes work on the A1, the A8 and the A830 trunk roads, which was delayed by weather conditions.

The second category is future spend, which covers the occasions when departments plan to spend less in one year in order to meet future pressures. That category accounts for another £28 million, included in which is £10 million that was set aside to meet the costs of the environmental liabilities of the Glasgow housing stock transfer.

The third category is demand-led programmes, which accounts for £33 million. The main elements in that category are the continuing delays in the rural development programme measures, which have been offset by higher-than-expected demand for legal aid. The fourth category is the money that is controlled by arms-length bodies, which amounts to £62 million in EYF and includes £24 million from the health boards. The fifth category is other variances, which accounts for £170 million.

One of the major items in this category is an underspend in the European structural funds that was brought about by a delay in approval for European regional development fund objective 2 programme projects.

Of course, this year we also have two additional items of windfall income that carry over from 2002-03 to 2003-04. The first is £196 million from Her Majesty's Treasury's reclassification of the Glasgow housing stock transfer and £148 million from additional non-domestic rates income. In many ways, the windfalls have to be seen as one-off benefits.

As members are aware from a statement that I made in the chamber, it is prudent to treat those windfall gains differently in order to ensure that we make best use of the resources. We have therefore allocated the windfall money to spread the benefit across the life of the second session of Parliament. We have used the income, along with increased non-domestic rates income from this year and future years, to fund commitments that were made in the partnership agreement.

I accept that forgoing the opportunity to spend more money this year is an unusual way in which to allocate our additional money, but I believe strongly that it is the prudent way. It allows us to plan for possible future pressures and to spread our windfall over the life of the second session of Parliament rather than spend it all in one year. That is a sensible way to distribute the resources that we have at our disposal.

We have also been equally prudent in allocating the £394 million that is carried forward this year. We always try to ensure that we allocate our EYF in a manner that is efficient and which ensures value for money. As committee members are aware, we have in past years returned 75 per cent of portfolios' EYF back to them, with the remaining money's being distributed across the Executive according to our priorities. This year's process is slightly different in that it was linked to the exercise that we undertook to allocate money to portfolios in order to fund the partnership agreement.

We assessed the money that each portfolio needed to meet partnership agreement commitments, how much of that could come from EYF and to what extent additional allocations were necessary. For some portfolios, that means that our EYF allocation covers pressures from 2003-04, for which those departments might otherwise have expected to access the contingency fund.

As a result of that process, almost all portfolios have been allowed to retain 100 per cent of their EYF this year. The allocations therefore appear to match the sources of the underspend more closely than they have done in the past and more closely than they are likely to do in future. However, it is

not simply a question of returning resources to portfolios without purpose; every portfolio has significant new commitments to meet and all have been through the rigorous process of justifying how much is needed to fund partnership agreement commitments. In some ways, their EYF allocations can be seen as a down payment before consideration has been given to what central resources and funds are needed.

At first sight, the communities EYF allocation looks like an exception to the rule. The communities portfolio contributed £53 million to the EYF total, but has been allocated only £25 million. That figure is tied to the Treasury's decision to reclassify stock transfer debt-breakage costs, the effect of which is that the costs are now to be met by Whitehall. Because we had carried forward provision for payment of the debt-breakage costs, the communities portfolio included a significant amount of carry-forward to meet those costs. It is clear that the Treasury's treatment of those costs means that the need for the carry-forward will never arise. That has allowed us to reallocate some resources as part of the partnership agreement process.

I want to deal with a point that was raised at a previous meeting of the Finance Committee, which is that our total allocations are the same as our total end-year flexibility—both figures are £394 million. The sum represents 1.9 per cent of the Executive's total managed expenditure for 2002-03 and is a significant decrease from previous year's figure of £643 million. Even if the figure for water were removed from the figures for both years, there would still be a decrease from £529 million to £360 million.

I do not want to make too much of the extent of the fall in the EYF figure. As I have said in the chamber, I do not believe that there is a right level of EYF. Efforts to bring down the total to a particular target could take us back to the temptations of quick spend, which EYF was, of course, introduced to remove. In any one year, the number could be inflated by special circumstances. Committee members will remember that last year's amount—£643 million—was partly the result of more than £90 million that was carried forward to help meet the cost of the Glasgow housing stock transfer. Had the transfer date slipped from February this year to April, the figure would have been much higher than £394 million.

We have a responsibility to make the best use of all of our resources and not to let EYF get unnecessarily high. We have worked to improve our management of end-year flexibility. We now have a process for releasing during the year funds to worthwhile programmes, when we can safely do so. EYF money is not new money; it is part of a

process of making the best of the money that has been made available to us.

Because this is not an approach that we have discussed with the committee, I thought that members would welcome some detail. Every month, I receive a monitoring report of spend against budget, with forecasts for the year as a whole. It is inevitable that the forecasts are only an approximation, but they allow my colleagues and me to identify at an early stage whether there is room to redeploy resources in year and within and between portfolios.

Most of the headroom is generated by projects that slip back a few months. As projects continue to need to be funded, we cannot take resources permanently away from them. Instead, we look to whether we can bring forward any of the projects that are scheduled for the following year. Most of that happens within portfolios, but some limited moves between portfolios can be arranged centrally. Last year, a further £43 million was committed in that way.

The forecasts also allow us to consider the right level of central reserves and whether any genuinely additional spending can be committed in-year. Last year, an additional £70 million was committed. In most cases, we did not need to transfer central resources to the relevant portfolio. Instead, portfolios were able to absorb the resource that was required and thereby reduce their carry-forward. Of course, we needed to compensate portfolios this year when the costs of the projects that generated the underspends fell due. At this moment, it is too early to say whether a similar process will be necessary or possible this year.

I hope that that quick overview of where we are gives the committee an insight into the resource, how we have used EYF, the system that we have adopted and of some of the issues that surround end-year flexibility entitlements. I also hope that my statement, combined with the written information that members received earlier, is helpful in allowing the committee to scrutinise our EYF for 2002-03. I look forward to taking questions from the committee.

**The Convener:** Thank you very much, minister. There is one issue on which I seek clarification. The approach that you have adopted is to use EYF to meet some of the initial spending commitments under the partnership agreement. Although some of those might be non-recurrent, others might be recurrent. Can you quantify what elements of the money that you are putting in will have to be taken forward in budget baselines for next year?

**Mr Kerr:** In cases in which EYF has assisted with the pressures that exist in individual portfolios

outwith this financial year, we have spent time ensuring that those portfolios have the resources to carry through the full commitment until the next spending review. We are confident that the resources that we have allocated from EYF for this year will not give portfolios an additional burden in following years. Richard Dennis might want to add to that.

11:00

**Richard Dennis (Scottish Executive Finance and Central Services Department):** If members look at the tables that the committee has received about the portfolio allocations to fund the partnership agreement, they will see that the allocations for the first year are much reduced in comparison with those for the second and third years. That is because we expect portfolios to be able to make contributions from their EYF, which will remove some of the burden in the first year. Obviously, EYF will not be available for the second and third years, so the portfolio allocations are larger for those years.

It probably would be possible to do a detailed quantification. I suspect that all the information will be available to the committee in the supporting documentation to the autumn budget revisions, which will be available in about a month to six weeks. If the committee would like the information sooner, we will see what we can do.

**The Convener:** It would be helpful for our conduct of the budget process to get information on that as soon as possible.

**Fergus Ewing:** I think that I will call EYF underspend, so that the 99.9 per cent of the population that does not know what EYF means can understand my question. We had the benefit of a briefing pack from Professor Midwinter, in which he pointed out that around 20 per cent of the Executive budget is fixed, through Treasury ring fencing, capital commitments and binding service contracts, and that a further 50 per cent is based on staff costs, which are fixed by contract, entitlement and so on. Therefore, at its maximum, the discretionary element of the block budget is around 30 per cent.

My first question is about the real underspend, given that 70 per cent of the total budget is fixed. According to your statement to Parliament, the underspend is 1.9 per cent, but surely the real underspend is about 15 per cent of the money over which you had any discretion to spend.

**Mr Kerr:** I disagree strongly with your language and your use of the word "underspend". With a few notable exceptions, most commentators and, indeed, MSPs, have misunderstood what EYF is all about—deliberately or otherwise. It might be necessary to build a road in an area, but the road

does not get built because of foot-and-mouth disease, inclement weather conditions or a planning inquiry, for example. The money is not spent for good reason, not because we are unable to spend our resources, but because it is wise not to rush the money out of the door in the interest of getting the underspend—as Fergus Ewing would call it—down to zero.

When a Government seeks, intelligently and with some degree of prudence, not to splash the cash, it is quite unfair to reflect negatively on that. The Government is merely recognising that it has commitments in future years that it can resource by putting money aside and looking forward into future years of the budget. That is an intelligent way of looking after our public finances in Scotland.

I will continue to defend vociferously end-year flexibility. We have a job to do with the public and with Mr Ewing and others in relation to how we explain the underspend, but what is more critical is that we explain to the public that, if EYF did not exist, we would end up spending resources in a way that did not represent value for money and that was based on the needs of suppliers and contractors to public bodies and public agencies, rather than on the needs of the Scottish people, as set out in the partnership agreement. I will defend strenuously the use of, and will continue to use, the term "end-year flexibility".

As minister, I have written—as often as I have been able to—to individuals, including MSPs, who have corresponded with me to explain that fully, because EYF is a good thing. I do not intend to go back to the bad old days by seeking to reduce EYF to zero, which would mean that we would not get best use of our resources.

Fergus Ewing has a strange way of trying to calculate what the total percentage is. Show me a finance director in the public sector or the private sector who would give any credence to his interpretation. We have given EYF as a percentage of the total budget. That is how local authorities and businesses report their carry-forward in financial years. It would be wrong to adopt Fergus Ewing's approach, because that would increase the pressure on departments and on bodies such as local authorities and health boards to reduce the figure even more. That would lead those organisations to try to get rid of the money in a way that does not represent value for money, simply to reduce the figure artificially.

I believe strongly in EYF, which I think is a good thing. As I outlined in my opening statement, there are ways in which to try to reduce it and to make it work better, but the principle should be defended.

**Fergus Ewing:** I was quoting Professor Midwinter, not a finance director, so the minister might like to reread his remarks in that light.

**Mr Kerr:** With due respect, I think that you said that EYF could be calculated in the way that you suggested; I am not sure whether that was a quotation from Mr Midwinter. I was responding to your question.

**Fergus Ewing:** The question, which you have not answered, is very simple. You said that the underspend is 1.9 per cent of the total budget but, if one takes account of the fact that around 70 per cent—or possibly more—of the budget is fixed, the proportion of the budget over which you have any discretion to spend is 30 per cent. Therefore, the real underspend is far greater than the figure of 1.9 per cent that was mentioned. Facts are chieftains that winna ding. That is crystal clear to me.

I want to move on to another question, for which I will again rely on the comments of the budget adviser. Given that non-domestic rates income is some £500 million greater over four years, would you have set the same poundages? In other words, would you have set poundages that are higher than those south of the border and which depart from the uniform business rate, initially by 10 per cent and now by not much less than that? I gave that tax the eponymous name of “Jack’s tax”. Given the underspends of £394 million, £450 million and £643 million, do you agree that it would have been possible to give businesses in Scotland an even break and that you should have done that to help to achieve your main target now—even if it was not your main target during the Parliament’s first session—which is economic growth?

**Mr Kerr:** I will deal with that latter point first. I would contest your argument about control over the budget. The Executive could take a decision to reduce budgets for the buildings that we maintain and the people whom we employ throughout the public sector. Instead of providing an historic rise in public sector resources, we could choose to reduce those resources. To say that we have no control over such matters is not true. It would take some pretty radical political decisions for us to be able to say that we could reduce the staff in the national health service by half. The member might seek that solution, but I do not. That is the fixed element of the budget that Mr Ewing was talking about when he mentioned the Executive’s staffing and capital costs.

It is wrong to say that there is no control over those budgets. In the past, the Conservatives have argued that we should take some £20 billion out of public expenditure. I am sure that some of the items that the member calls fixed would be included within that.

On NDRI, I was not party to Mr Midwinter’s paper, so if, in the spirit of exchanging documents, I receive a copy of it, I will consider the matter and perhaps respond in greater detail. Fergus Ewing should understand that there is a five-year

forecast for the NDRI calculation and that it is the Government’s duty to ensure that we get that forecast as accurate as we can. That calculation is done over five years; it is a forward projection. We also make a projection in relation to what we expect to win and lose at appeals. Projections are made over quite a long planning horizon. There is also a degree of buoyancy in the market, and we are receiving more income from that than we expected to.

The bottom line is that the forecast has to be prudent. We should welcome the fact that buoyancy has increased the resources that we are receiving through NDRI. That is due to property valuations and improvements to existing properties. We will continue to ensure that our projections are as accurate as we can make them. If we make our projections too tight, there is the danger that we will not raise the amount of income that we have budgeted for. I must be prudent about that, because that would lead to there not being enough resources to cover the commitments that the Parliament has agreed.

There is a fine line to be drawn. There is a five-year planning horizon. A number of appeals are on-going. Some of them were big appeals, and we were unaware where we would be when we projected the outcomes. I have asked officials about that and we are working on processes to ensure that our projections will be improved if they can be.

**Jim Mather:** I am keen to see further regional and geographic sectoral analysis of where the increase comes from, because that will give us a good insight into what is happening in the economy at large.

**Mr Kerr:** We can certainly provide further briefing on that matter, but the issue arises from the twin tracks of buoyancy and appeals. That is where the variance has developed over the period.

**Jim Mather:** So can we expect to see an analysis?

**Mr Kerr:** I do not know how much effort on behalf of the Executive that will take, but I will come back to the member with a view on that.

**The Convener:** I have written to you on that issue, so perhaps we will get a response in due course.

**Dr Murray:** I want to raise two issues relating to the slides, of which you provided us with copies. First, I know that it might just be the way in which it is set out, but the table of EYF by portfolio seems to imply that the communities underspend—the EYF—went directly into the contingency fund. I am not hugely exercised by that, because the department was not going to spend the money anyway, as it had been set aside for stock

transfer, but is there an issue about how that is laid out, because it looks as if, rather than funding the partnership agreement, the money is directly topping up the contingency fund?

Secondly, on the table of EYF that is under the direct control of the Executive, you explained that the provision for future capital underspend, for example, is different this year. The "Other" line has increased quite dramatically between 2002 and 2003, from £24.2 million to £184 million. Why is that catch-all line a lot larger this year than it was last year?

**Mr Kerr:** On EYF that is under the direct control of the Executive, the increase largely results from removing the fluctuations in demand-led expenditure into the "Other" category. The resources were European moneys, so they were put into that column.

As for communities funding, the numbers are the same but there is no direct link. The money was spread across other Executive priorities and partnership agreement funding issues. We felt that the resources that were left were appropriate for the contingency fund. While the numbers are the same, there is no direct correlation between the two items.

**Ms Alexander:** I return to non-domestic rates income. I want to deal with figures that are entirely in the public domain. Perhaps officials can help me. As I understand it, last year the budget forecast the non-domestic rates income. That was the old baseline. The new baseline this year means that, fortuitously, £500 million more is coming in from non-domestic rates income than was anticipated in the budget last year. That is for understandable reasons: our rateable values have risen more than was estimated, because of the new valuation; and there have been fewer appeals.

Nevertheless, the Executive is now recording £500 million more coming in over this session than it recorded in the budget figures last year. That raises a question about how that £500 million should be spent, and whether the windfall should be spent on other services or whether a proportion of it should be returned to the business community. It is £500 million more over this session of Parliament than the Executive predicted last year. Obviously, it is implicit that the Executive has decided to spend the £500 million windfall on services. Will that decision be revisited or is it a commitment for the lifetime of this session?

11:15

**Mr Kerr:** All matters will be revisited as part of the spending review process. However, if we do something as significant as reducing the business rate, that decision is for ever. The reduction in the business rate, which was done by freezing it, cost

£28 million. If that cost were returned to the Scottish block later, there would have to be an above-average, above-inflation increase in the business rate to return income to where it might have been if the reduction had not been made. As the convener pointed out, what is done now may affect future years.

The issue is not revaluations but buoyancy in the market with regard to costs and improvements to property, and lower losses on appeal. Those are the two drivers. I have asked officials to use both those features to ensure better, more accurate forecasting. However, we must remain prudent to ensure that we do not receive less money than we expected to get. The officials may want to add to what I have said.

**Richard Dennis:** Another revaluation cycle is about to start, which will impact on the forecast revenue for the years at the end of the period.

**Fergus Ewing:** The minister said that one reason why Scottish business cannot have the same business rate level as England's lower rate is that, following the 2000 revaluation, appeals are pending. We are now in 2003. The extra £500 million that has been taken from Scottish business could have funded for the past four years the same poundage in Scotland as there is in England. The £500 million is almost exactly equivalent to the cost of doing that. Is the minister claiming that unresolved appeals could have a significant impact on the level of the business rate? I am no expert on rating appeals, but I would have thought that most appeals would have been settled by now. After all, we are three years on from the previous revaluation and, indeed, only two years away from the next one. Therefore, it is ludicrous to claim that any current decision is for ever. The minister is wrong about that. What sum is at stake in the pending appeals? What is the worst financial scenario if we lose all the pending appeals? I presume that you guys, as financial estimators, can calculate that.

**Mr Kerr:** For clarification, what I said was that a decision now on business rates would be difficult to come back from, whether the money came from NDRI or the spending review process, when all the Executive's resources are available. I was not referring specifically to the NDRI to which Wendy Alexander referred. The decision was made to freeze the business rate, at a cost of £28 million, and it is difficult to get back from that. That money is posted away for ever to continue the commitment that we made in the previous budget statement. A current NDRI surplus cannot be used for a continuing commitment because the resources might not come through again in NDRI forecasts. We seek to meet our continuing commitment through revaluation and better systems for projecting.



**Fergus Ewing:** But you used the phrase “for ever”. Surely that phrase is inappropriate.

**Mr Kerr:** A political decision must be made. You may take a different view on behalf of the Scottish National Party. However, I decided to freeze the business rate, at an opportunity cost to the Scottish taxpayer of £28 million. That is now done. To restore that £28 million to the Scottish block, next time I would have to put back any increase due to inflation. Therefore, business rates would have to increase more than they normally would given the Executive’s lifelong commitment to not increasing business rates by more than the rate of inflation. Political decisions can be made on such matters all the time, but the Executive has made a commitment to the business community that it will not raise business rates by more than the rate of inflation—unless, of course, there are catastrophic economic events that would lead us in another direction. That commitment would be unravelled by a commitment to a one-off cut in business rates, which would have to be funded in future years.

The business community’s agenda concerns issues such as skills, transport infrastructure and investment in technology such as broadband. The money from NDRI contributes to all those programmes and supports the Scottish business community. It is not fair to say that because that money comes through the NDRI process, the Executive is not supporting the business community. We have met the business community’s agenda on transport and we are meeting the business community’s agenda through our commitment to broadband, skills and training, modern apprenticeships and all the other things that the Executive is doing to support a climate for economic growth in Scotland.

**The Convener:** Do you have any further information for us about the appeals process?

**Richard Dennis:** I am not aware that that is my area. I will go back and talk to colleagues and if there is any more information, I am sure that we will be able to provide it.

**Mr Kerr:** Outstanding appeals and evaluations are handled by Christie Smith of the local government division. I will discuss with him whether he can provide the information that you require.

**Fergus Ewing:** You raised the issue. You said that one of the reasons why we could not apply the £500 million in surplus business rates during the past four years, which would have been sufficient to give the same low rates in Scotland as there are in England, was that there were undetermined rating appeals that might have a significant financial impact. Therefore, I am astonished that neither of your advisers can say what that figure is.

**Richard Dennis:** I am sorry but I misunderstood the question. For 2000-01, £90 million was set aside for appeals earlier in the revaluation cycle. That was money that might have had to be returned if appeals had been lost.

**Fergus Ewing:** What is the figure now? That figure was for 2000-01.

**Richard Dennis:** Most of the appeals have now been resolved and we have been able to release that money.

**Fergus Ewing:** What is the residue of that £90 million?

**Richard Dennis:** I do not have that number with me.

**Fergus Ewing:** It is minuscule in comparison with the £500 million that Professor Midwinter said is surplus to the estimates. That is not a reason for not giving Scottish businesses—which have been subjected to Jack’s tax for the past four years—the same deal as English businesses.

**Mr Kerr:** Fergus Ewing has continually compared business rates north and south of the border. The tax take in Scotland is exactly the same as it is in England and relates to the revaluation of properties. We can have this discussion if the committee wants to; I thought that we were here to discuss EYF, but I am happy to continue these discussions with the business community and with Fergus Ewing. The tax take from business rates north and south of the border is the same. The revaluations of properties took place at different times and the figures were published differently, but the tax take is the same. I can correspond with and further enlighten Fergus Ewing on that.

**The Convener:** Thank you. I remind Fergus Ewing that the adviser’s paper is private and not for quoting from when asking questions.

**John Swinburne (Central Scotland) (SSCUP):** One figure jumps out at me. It is for the very small problem of youth crime and antisocial behaviour. The allocation for this year is zero, but next year a sizeable £15 million will be thrown at the problem, which would seem to be getting worse because the following year, 33 and a third per cent more will be added to deal with the problem. Have you no faith in the Executive’s approach to antisocial behaviour and youth crime?

**Mr Kerr:** The figures are more to do with the fact that many of the Executive’s initiatives take time to phase in, to allow us to do more of the things we seek to do in partnership with the police, local authorities and other significant public sector partners. Whether we are talking about community wardens or more police, such things take time to roll out into the system. We cannot just say, “Let us have more police,” and suddenly they appear

on the streets the next day. Programmes have to be built up throughout the Executive. Antisocial behaviour issues cut across many portfolios.

A similar time lag is involved in much of what happens in the public sector. For example, it takes years to train consultants, doctors and nurses. The Executive has made a commitment to deal with antisocial behaviour, but some of the initiatives will take time to phase in.

**The Convener:** For the reasons that you have explained, you have decided not to approach end-year flexibility using the system whereby 75 per cent of the underspend is carried over and 25 per cent goes back to the centre. Do you intend to return to that ratio next year? Might the 2003-04 EYF be required to meet partnership commitments that you know about at the moment?

**Mr Kerr:** As I said in my statement in the chamber, we have put aside considerable reserves as we are aware of impending pressures.

With regard to the 75:25 split, my first quarterly report on end-year flexibility does not give us enough hard information to make hard decisions. The 75:25 system is good. Not only does it create an incentive for departments not to spend the cash at the end of the financial year because they can be fairly confident that, of their significant commitments, they will get their resource back, but it contains a sting in the tail in the form of the 25 per cent that returns to the centre, which reminds the departments that that resource might be lost.

I am not absolutely committing myself to using the system—that has not yet been decided—but I believe that it has worked well in the past. Unless there are some unusual departures from practice, I suggest that we might go back to that method.

**The Convener:** That is useful. I would also like to ask about the balance between where the resources for EYF come from and where EYF is allocated.

You have highlighted a number of sources for EYF, including the slippage of capital projects, which are more likely to emerge from some budget areas, such as transport, than others. Is that factor being borne in mind this year in the way in which allocations are made? Are you putting money back into areas that it is coming from or has that pattern been changed as a result of the abandonment of the 75:25 split?

We are particularly interested in the issue of communities, which you touched on when you talked about the windfall from the Treasury.

**Mr Kerr:** You are right to mention the transport budget, as the issue is more significant in relation to it than to others. The difficulties that have arisen in relation to education and the public-private partnership spend relate to a specific investment

over a period of time, whereas similar situations are almost a constant theme in the transport portfolio because work is subject to many variables in the market—planning, availability of contractors and labour, wet weather and so on.

Decisions about EYF are made when departments tell us why there is an underspend and what commitments they must still meet. The 75:25 split acts as guidance for the departments and, if they can put up a good defence—for want of a better word—and explain why they should retain a higher percentage of the money, that is likely to influence the Cabinet's decision. Therefore, the pressures that are faced by departments such as the Enterprise, Transport and Lifelong Learning Department that are in charge of large capital programmes, are reflected in the decision-making process in that way.

Richard Dennis might be able to add something about the history of the process.

**Richard Dennis:** I am sure that the papers that were prepared for the committee by its adviser point out that most EYF is not free money that can be spent on anything and that most of it falls back to the capital projects that it came from. The 75:25 rule is a rough attempt to reflect that. It would be surprising if any department could spend 75 per cent of its EYF on genuinely new areas; most of the money will simply return to where it comes from. That can be seen in the allocations.

If we had to guess how much of the EYF was free money that could be moved to meet partnership agreement commitments, I would say that the percentage would be pretty small.

**Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD):** In the slide that details by source the amount of EYF that is under the Executive's direct control, there is a category entitled "Other". Will you remind us how much of that £184 million is made up of underspend on structural funds? Was it £170 million?

11:30

**Mr Kerr:** That figure contains variances in the spends across the different portfolios. For example, the forecast underspend on European structural funds relates to a delay in the approval of objective 2 European regional development fund programmes. In the Finance and Central Services Department, local government support underspend is due to a delay in the implementation of free personal care and an underspend in the Bellwin scheme.

A series of additional variances within each portfolio and across all portfolios has led to the total "Other" figure. In essence, the category is a wide catch-all that includes, for instance, a slippage in education information and

communication technology projects for qualifications, curriculum and assessment and all the other projects that have run behind schedule but to which we intend to return.

**Jeremy Purvis:** I have two quick questions that follow on from that and I hope that the minister will forgive me for not giving him notice of them. I will understand it if he does not have the exact details with which to respond.

What happens to the expected underspend on structural funds? Last week in the chamber, someone asked what happens to the areas of Scotland that are not running the system as well as they should be. After all, we are right in the mid-term of structural funds programmes. Does the Executive retain the underspend and then divide it up? Does it go back to Brussels? Does it put a burden on Scotland as far as the future prospects for structural funds are concerned? Presumably Brussels would not appreciate any underspend in that area.

**Mr Kerr:** Last week in the chamber, we mentioned the N+2 arrangement, which ensures that certain projects do not fall foul of the rule that underspends must be sent back to Brussels. As we have a seven-year budget for those projects, we try to ensure that money is not lost to Scotland and is gained from Europe. We are not yet in the position of having to say that Scotland will lose money. Instead, we are putting pressure on 40 organisations that are responsible for ensuring that some of the projects go ahead, and the Executive has worked fairly rigorously with those partners to ensure that we do not lose that money.

Moreover, we are trying to establish arrangements which give us the room to deliver satisfactorily some of the Executive's innovative projects. For example, the Scottish co-investment fund contains quite innovative funding challenges for Europe. Before I give Richard Dennis and Richard Wilkins the opportunity to mention any additional points, I repeat that the bottom line is that budgets are managed over seven years; the N+2 arrangements are in place for certain projects; and we seek to ensure that moneys are not lost.

**Richard Dennis:** Our budget provides for people to draw down money as quickly as they possibly can so that they can get on with the projects. Inevitably, we forecast across the seven years of the programme's life, by the end of which we will probably have spent the total budget provision. Money slips forward to meet the time when claims fall due and are paid. At the moment, it is just rolling forward.

**Jeremy Purvis:** So we have not reached the stage of having to make provision for the prospect of losing European structural fund money.

**Mr Kerr:** That is correct.

**Jim Mather:** I am keen to go back—

**Jeremy Purvis:** May I ask my second question, convener?

**The Convener:** I thought that you had asked two questions.

**Jeremy Purvis:** No. My second question is about the underspend on the Bellwin scheme. Of course, the nature of the scheme means that it cannot really be determined whether the underspend is actual or forecast. A housing association in my area has had to spend considerable money because of a flood and can no longer apply for money under the scheme. Is there any prospect of Bellwin being reviewed, given the fact that many developments impact financially on what are effectively public bodies, even though they might be structured a bit differently?

**Mr Kerr:** I am always happy to consider proposals on this matter from my local authority colleagues and others. However, the operation of the Bellwin scheme is fairly tight—and for good reason. I will have a look at it and come back to you on that point, but Bellwin works because it is tight. It is hard to qualify for the scheme as qualification reflects extraordinary circumstances.

**Jim Mather:** The dialogue between Fergus Ewing and the minister on non-domestic rates income and the support for business growth has exposed the absence of what I would characterise as a virtuous financial circle in Scotland. There is an inability to make decisions that are characterised by the truism from business and other economies that we have to speculate to accumulate. I recognise the spending-only nature of the current financial management. That being the case, I refer the minister back to the convener's letter of 22 September. Would it be possible for us to be given a rolling 10-year report showing clear-cut spending patterns on a consistent basis that will allow us to form a judgment on spending and financial management in Scotland?

**Mr Kerr:** That was a simple question, but such a report would be very difficult to deliver. I do not say that through a desire not to give you the information. There is good evidence to say that the graph of investment in Scotland is upwardly moving and that presents a good political argument. I know that that is not where you are coming from, because you are asking how we spend our money in relation to our priorities and how that affects the real world.

My officials are working with the committee's officials to see what can be done. My first thought was that we would end up with half a page of text

and half a page of footnotes saying, "This figure must be qualified for that, because that moved there." It is extremely difficult, but it is our intention to be positive on this and ensure that we can meet the committee's needs with regard to the points that Wendy Alexander and Jim Mather made.

I share Jim Mather's view about speculating to accumulate. That is why we support our business infrastructure and Scottish Enterprise and Highlands and Islands Enterprise. That is why we have committed huge investment to transport, to 30,000 modern apprenticeships in relation to "A Smart Successful Scotland" and to the intermediary technology institutes. I sign up strongly to the need to speculate to accumulate and to the virtuous circle, but we need to prioritise resources. The business community's focus on spending so much time and effort on the business rate aspect, which is 2 per cent of gross domestic product, is interesting.

The business community will not dispute that I have challenged it to tell me what a cut in business rates would do for training, investment, research and development and businesses' decisions about greater employment opportunities. The challenge is on both sides. Business challenges me to reduce business rates and I have challenged business to show me what that will do for us. There is an opportunity cost to everything in life. In this case, the opportunity cost is that we could reduce the budget to Scottish Enterprise and reduce its efforts in supporting small businesses and training initiatives, such as the radical and forward-looking ITIs that are being developed. For every yin there is a yang. I will need to work out with the business community what we do and I am involved in discussions on that; I sign up to a process of engaging with business on such matters. Money does not grow on trees and we need to ensure that we spend it with regard to our priorities.

**Jim Mather:** That is a useful debate to have with the business community. The key point to recognise is that the business community in Scotland faces a rate poundage that is higher than that down south, basically because valuations in the south are higher. The presumption is that companies in the south are making bigger profits and those companies' long-term strength reflects a danger that our business community could become much more of a branch economy with burgeoning strong companies in the south and companies here finding their profits and viability heavily impinged upon.

**The Convener:** We are in danger of getting into a philosophical issue. We are supposed to be talking about EYF, but I will let the minister respond.

**Mr Kerr:** No. I meet business organisations all the time. I also meet finance directors, chief

executives and others who are not business organisations but who are from the business community. Transport is top of their list. Next on their list is training. They have a list of decreasing priorities for their individual businesses. When I meet businesses, they talk about international competitors, our position in Europe, air links, our transport infrastructure, the rail network, training and skills, getting qualified labour, and—among many things—business rates. Business rates figure somewhere on that list. They are important, and I appreciate why the business community seeks to advance this case. However, business rates are not always top of the list when I speak to individual businesses.

**Ms Alexander:** I have two points to make. In discussing non-domestic rates, I share the minister's desire to focus on the total yield. Simplistic comparisons are made between Scotland and England, whereby people seek to use either rateable values or rateable poundages—which are not directly comparable. The focus on total yield is meaningful. It seems to me that, if the total yield turns out to be £500 million more than we thought that it was last year, if the total funding of the partnership agreement enumerated over the same period is about £340 million, and if the total moneys suggested for education and enterprise come to about £150 million, that raises some interesting issues regarding the dialogue that we should be having on total yield. That was not my question, however.

I endorse the point that Jim Mather made. We are looking for a helpful steer from the minister that this is an important area to look at. In his EYF statement and the accompanying budget documents, there is a very welcome commitment to closing the opportunity gap and to sustainable development. However, as we all know, the difficulty is to enumerate the extent to which budget allocations actually reflect those priorities. I realise that the process is far from easy and that we are at the forefront of developing modern financial systems. I also accept that it will take some time for the figures to be robust enough to enter the public domain. Nevertheless, it would be helpful if the minister could indicate whether attempts are being made internally to see the aspirations around sustainable development and closing the opportunity gap reflected in the budget and whether an attempt is being made to enumerate the figures—initially internally and subsequently, years down the line, externally.

**Mr Kerr:** There is an acceptance that we can do better with regard to those points, and we seek to do that. However, it is not that easy. Does the provision of a specialist teacher in a school count as an education intervention or is that closing the gap? We are seeking to ensure that we reflect across the Executive's different portfolios the fact

that we are seeking to address those needs in policy terms. We can do better, and we will seek to do better. I hope that we will report back to the committee with positive news on that front.

**Mr Brocklebank:** You said that the £196 million windfall is to be spent over the lifetime of the Parliament. Can you give us some indication of what model you will use? Will the money be spent on the basis of proportionality over that period? Will you take into account the fact that there might be crises or problems lurking along the way? I think there might be one such crisis after the December fisheries negotiations in Brussels. How might the money be spent and over what period?

**Mr Kerr:** Resources are spent across the partnership agreement; that will use some of that resource. We are also trying to project what emergencies may arise over a fairly long period. There are big-ticket items such as the ScotRail franchise—with regard to the competition process that is going on—and the Skye bridge. There is a balance to be struck between using that resource and, as the tables in the document suggest, committing it across the partnership agreement to ensure that those areas are covered. We have some big-ticket items coming up, and it is best for us to hold back some of the resource to deal with things that may happen—such as what you mentioned in your question. There is no science involved. It is an attempt to be reasonable and responsible with public resources. If, happily, we do not pay as much for X, Y and Z as we thought we would, we will report that to the Parliament and the resources will be allocated to other priorities.

The further one goes into the budget forward look, the bigger the reserve becomes, as there are greater risks in making predictions over a longer period. I apologise for the lack of precision in my answer, but we are in the middle of some interesting negotiations and discussions. Members have referred to some of the issues that we know are coming up. Resources are set aside to deal with those.

11:45

**Mr Brocklebank:** I would like to develop that point. Prudence is very much a Labour watchword. Given the existing plans for growth in expenditure of about £1 billion per annum for 2004-05 and 2005-06 and the expectation of tight budgets after 2004, was it prudent of the partnership to agree further spending increases instead of redistributing expenditure among the various budgets?

**Mr Kerr:** No one can predict what the Chancellor of the Exchequer will do. Some of the speeches at the Labour Party conference suggest that there is now a different view of the resources that will be available in future years. However, the

chancellor has presided over historic levels of resourcing in Scotland.

In future, there will be pressure on ministers and it will be the responsibility of the Finance Committee and others to ensure that if issues are less of a priority than they were previously, questions are asked about that. If a problem has been resolved and a budget continues to be assigned to dealing with it, although that budget is no longer needed, we must take bold and difficult decisions.

There are two aspects to this issue. Neither I nor many other people can predict the direction in which the chancellor will move. However, as part of the spending review process we intend as usual to carry out a root-and-branch examination of budgets of individual portfolios to weed out spending that is not producing or making a difference for the people of Scotland. The exercise may yield interesting conclusions and resources. That is the challenge before ministers as regards the longer-term financial outlook. We await with interest the chancellor's decisions.

**The Convener:** As there are no further questions, I thank the minister and his officials for their attendance.

At our next meeting, on 7 October, we will take evidence from Andrew Walker and Kevin Woods on performance assessment in relation to health. On 28 October, we will hear from Peter Woods from DTZ Pineda and Donald MacRae from Lloyds TSB. To ensure their availability, the witnesses will appear in reverse order to that which was originally planned.

I thank members for attending.

*Meeting closed at 11:48.*



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